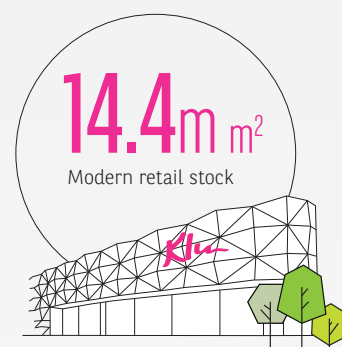




At a glance Q2 2018

MODERN RETAIL MARKET IN POLAND

In H1 2018 the modern retail market¹ in Poland increased by 191,000 sq m of leasable space, out of which 110,000 sqm were delivered in Q2. Consequently, at the end of H1 of this year the market reached a volume of nearly 14.4 million sq m, out of which approx. 73% was represented by 425 schemes operating as traditional shopping centres. It is expected that over the coming six months new supply should amount to approx. 300,000 sq m, and thus the total space delivered in 2018 will reach approx. 500,000 sq m.



SUPPLY

LIMITED GROWTH, GROWING COMPETITION

In Q2 2018 six new schemes were delivered to the market and one expansion of an already existing property was completed. The most important delivery of Q2 was the opening of the Forum Gdańsk retail and entertainment complex located on the outskirts of Gdańsk's historic city centre, which is set to change the landscape of modern retail in the city's central zone. Furthermore, Bydgoszcz saw the opening of Smart Outlet, i.e. another outlet centre located outside of the main agglomerations, while the comprehensive modernization and extension of the CEDET department store came to an end in Warsaw. At the moment CEDET is operating as a mixed-use scheme, with retail (7,000 sq m) and office components. The openings of Vendo Park in Dąbrowa Górnicza and Saller Park in Oława demonstrate that the format of small retail parks on both the main markets and in smaller cities is still the popular development pattern as they complement the already existing offer and fit in well with the expectations of local consumer as well as retail operators looking for retail formats that would enable them to decrease their operating expenses.

After the dynamic pace of growth of the market over the past decade, where the average was approx. 660,000 sq m of new space per annum, the distinctly lower volume of new supply achieved in 2017 and the volume forecast for the years 2018 – 2020 would indicate that the market is entering a mature stage now, with reduced absorption capacity and approaching imminent changes in stationary retailing.

DEMAND

INCREASING MARKET DYNAMICS AND NEW CHALLENGES

Over the course of Q2 of this year the locations vacated earlier by the Praktiker chain saw the opening of stores by another operator from the "home and garden" sector, i.e. OBI. As a result, the vacancy rate is expected to drop considerably from approx. 4% as recorded at the end of 2017 down to a result oscillating around 3 – 3.5% and similar to what had been recorded in the preceding 24 months.

15 new retail chains had their debut on the Polish market in H1 of this year. They included e.g. the American fashion brand Bebe and the discount chains TEDI and Dealz (offering mainly goods from outside of the food and beverages sector).

The introduction of the ban on Sunday trading, growth of e-commerce, increasing competition within the industry and the changing shopping habits of the new generation will be a test for the operators as regards their market position and ability to adjust to the extremely fast pace of changes occurring on the market.

RENTS

STABLE FOR RENOWNED SCHEMES, STILL WAITING FOR THE AFTEREFFECTS OF THE BAN ON SUNDAY TRADING

Leading shopping centres are capitalizing on their solid market position and are able to maintain prime rents² within the range of EUR 110.00 – 130.00 / sqm / month in Warsaw and between EUR 45.00 and 60.00 / sq m / month in the remaining main agglomerations. Landlords of schemes that are not performing as well, particularly those that are feeling the consequences of operating within a highly competitive environment and losing their market position have to face the growing pressure from tenants to decrease rents and increase fit-out contributions.

The issue that currently concerns the entire modern retail industry is the potential impact of the ban on Sunday trading on footfall and turnover, as well as the possible implications in respect of rents.

PIPELINE SCHEMES

MAIN AGGLOMERATIONS AND SMALL MARKETS, CONTINUED EXPANSION TREND

There are currently approx. 505,000 sq m of leasable space under construction on the Polish market, both within large schemes on the key markets (e.g. Galeria Młociny in Warsaw, Galeria Libero in Katowice) and small shopping centres and retail parks located on the smaller markets (Galeria Hosso in Świebodzin and Gubin).

In the short-term perspective it is expected that the trend to modernize and expand existing schemes will continue to grow, thus generating as much as approx. 20% of new supply. There is modernization and extension work currently underway at large renowned retail complexes such as Centrum Janki and Warsaw's Atrium Targówek, Atrium Reduta and Atrium Promenada, as well as small retail parks and shopping centres where new stand alone components are now being added, e.g. Dekada in Grójec and the retail park attached to the Galena centre in Jaworzno.

The volume of supply forecast for 2019 will be lower due to the smaller number of schemes being developed in the main agglomerations.

1. Modern retail stock embraces traditional shopping centres, outlet centres, retail parks and retail warehousing facilities.

2. Market rents achievable within a given period for units approx. 100 sqm in size located in the most prestigious areas of leading shopping centres and leased to tenants from the fashion industry.

MAJOR TRENDS AND CHALLENGES



BAN ON SUNDAY TRADING

The biggest challenge to be faced by all players within the retail industry are the new legal regulations (in effect as of 1st March this year) that considerably restrict Sunday trading. The first investigations show that the industry will have to expect lower footfall and adopt a new outlook on rents, in particular within the restaurants & cafes service sector.



E-COMMERCE

The significant increase in private consumption (+4.8% in Q1 of this year) driven by the decreasing unemployment rate, growing salaries and increasing purchasing power, as well as the positive attitude of consumers, means that the favourable situation in the retail sector will continue to prevail. As a result, even the ever-increasing share of e-commerce in the retail market does not have a negative impact on turnover achieved within the traditional retail sector. According to research by PRCH¹, turnover in shopping centres is increasing progressively, particularly within the services and food and drink service sectors.



GROWING COMPETITION

Significant disparities in vacancy rates between well-established retail destinations and lower-class schemes are expected to widen, mostly due to toughening competition and dwindling position of some older assets. The Warsaw market, as the strongest and most stable one, is performing exceptionally well, while landlords of retail schemes located on markets with growing competition (e.g. Poznań, Wrocław, the Tricity and Katowice) will have to quickly find solutions to a number of pressing strategic issues.



REMODELLING & REFURBISHMENT

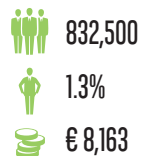
Remodelling and refurbishment of older schemes, often connected with extensions, will become one of the major triggers of the market development. Better and wider entertainment offers, recreation areas for entire families, extensive selection of catering amenities from food court stands to seated restaurants, roof gardens and other leisure facilities have been aimed at luring clientele.

KEY MACROECONOMIC INDICATORS

POLAND



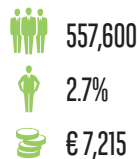
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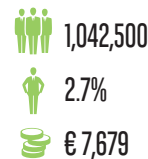
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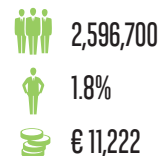
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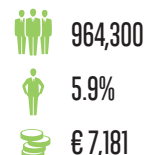
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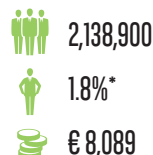
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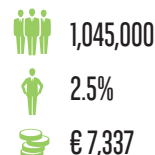
ŁÓDŹ



UPPER SILESIA



KRAKÓW



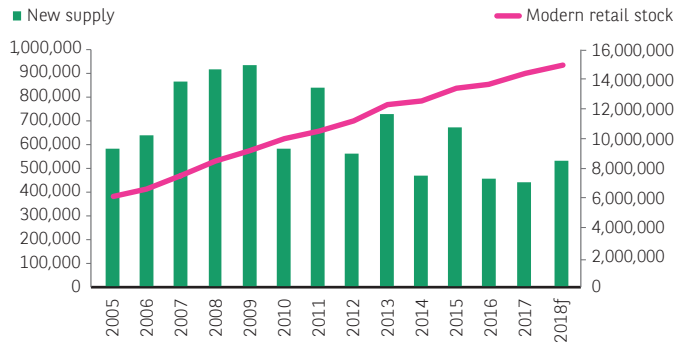
LEGEND



1. Polish Council of Shopping Centres, 2. GUS as of Dec. 2016, 3. GUS as of February 2018, data for the capital of voivodship, 4. GfK Purchasing Power volume per capita, data for the capital of voivodship.
*data for Katowice

Retail Snapshot

Stock and new supply (m²)



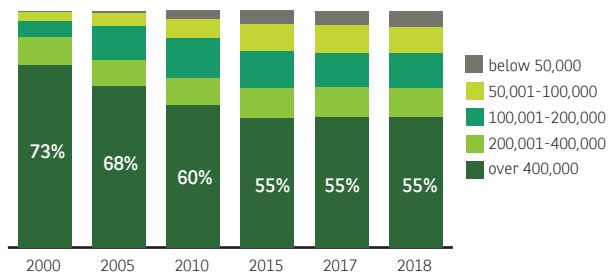
Source: BNP Paribas Real Estate, f - forecast

Prime rental ranges in 8 agglomerations (€/m²/month)



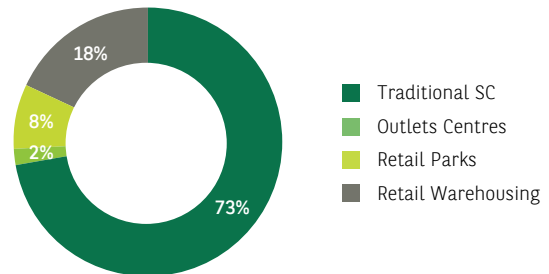
Source: BNP Paribas Real Estate

Distribution of stock by city size (m²)



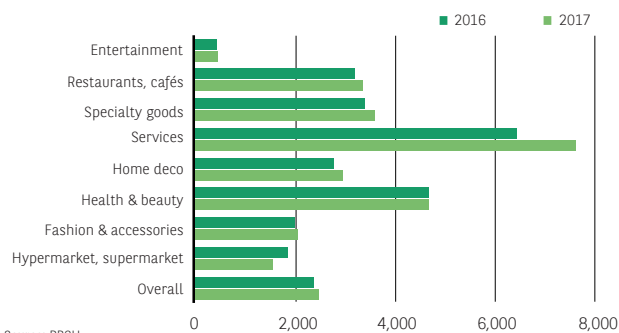
Source: BNP Paribas Real Estate

Shopping Centre Stock by Format, Q2 2018



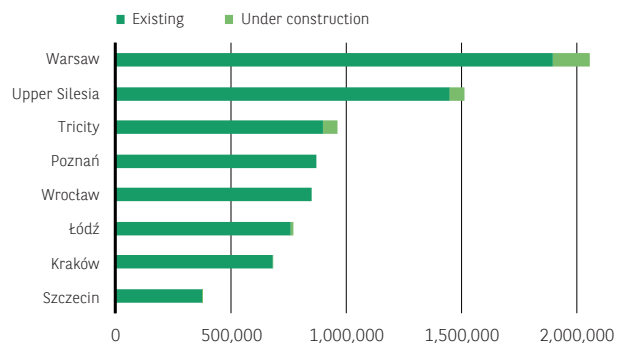
Source: BNP Paribas Real Estate

Turnover by retail category (PLN/m²/year)



Source: PRCH

Shopping centre supply in 8 agglomerations (m²)



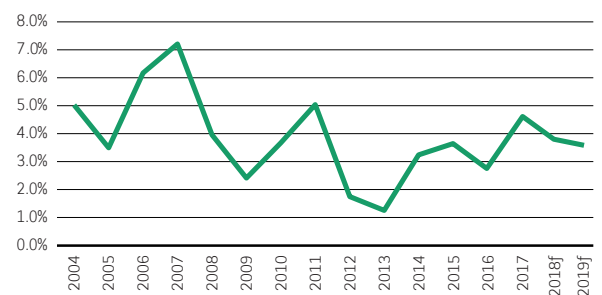
Source: BNP Paribas Real Estate

Annual Retail Sales growth (%)



Source: GUS, Oxford Economics, f - forecast

Annual GDP growth (%)



Source: GUS, NBP f - forecast

Major retail schemes completions, 2017 - H1 2018

SCHEME	TYPE	LOCATION	POPULATION	DEVELOPER	GLA (SQM)
Galeria Północna	SC	Warsaw Agglomeration	over 400	GTC	64,500
Wroclavia	SC	Wrocław Agglomeration	over 400	Unibail Rodamco	64,000
Forum Gdańsk	SC	Tricity Agglomeration	over 400	Multi Development	62,000
Skende Shopping + IKEA	SC	Lublin	200 - 400	INTER Ikea	57,500
Serenada	SC	Kraków Agglomeration	over 400	Mayland RE	41,500
Gemini Park Tychy	SC	Tychy	100 - 200	Gemini Holding	36,600
Vivo! Krosno	RP	Krosno	<100	Immofinanz / Acteeum	21,000
Centrum Galaxy (extension)	SC	Szczecin Agglomeration	over 400	EPP	17,000
Smart Outlet	OC	Bydgoszcz	200 - 400	ADV Por Property Investment	11,000
Rondo Wiatraczna	SC	Warsaw Agglomeration	over 400	Dantex	11,000

SC - shopping centre, RP - retail park, OC - outlet centre

Source: BNP Paribas Real Estate

Major retail schemes under construction

SCHEME	TYPE	LOCATION	POPULATION	DEVELOPER	PLANNED	GLA (SQM)
Galeria Młociny	SC	Warsaw Agglomeration	over 400	EPP	2019	67,000
Galeria Libero	SC	Silesia Conurbation	over 400	Echo Investment	2018	45,000
Nowa Stacja Pruszków	SC	Warsaw Agglomeration	over 400	ECC Real Estate	2018	27,000
Color Park	SC	Nowy Targ	below 50	Nowotarska Sp. z o.o.	2018	25,000
Stara Ujeżdżalnia	SC	Jarostaw	below 50	CD Locum	2018	27,000
Morski Park Handlowy (extension)	RP	Tricity Agglomeration	over 400	Liebrecht & wood	2018	16,500
Centrum Janki (extension)	SC	Warsaw Agglomeration	over 400	Valad Europe	2018	14,000
Platan (extension)	SC	Katowice Conurbation	over 400	NEPI Rockcastle	2018	11,700
Solaris (extension)	SC	Opole	100 - 200	NEPI Rockcastle	2018	9,000

SC - shopping centre, RP - retail park, OC - outlet centre

Source: BNP Paribas Real Estate

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