

# 12 MILLION SQ M GLA OF MODERN RETAIL SPACE

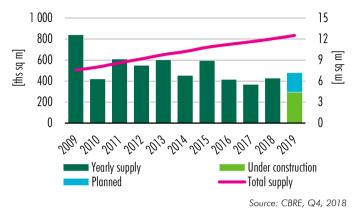
2018 in Poland saw the opening of 12 new shopping centres, 8 retail parks and 1 outlet centre.

Additionally, favourable economic conditions and growing consumer demand resulted in 15 retail scheme extensions. Consequently, Poland's modern retail stock increased to 12 million sq m GLA.

The greatest excitement was generated by shopping centre openings in cities within agglomerations. *Forum Gdansk* (62,000 sq m GLA), a joint project implemented by the city of Gdansk and Multi Development combining urban and retail space, was introduced to the Tri City market. The *Libero* shopping centre with its 45,000 sq m GLA, developed by Echo Investment, was opened in the south of Katowice. Furthermore, *Gemini Park Tychy* was launched in Tychy, being the first larger shopping centre (36,000 sq m GLA) in the city. The centre was very well received, and the investor is now considering an extension of the food and drink and entertainment zone (by approx. 7,000 sq m).

Poland's retail market is growing at a stable pace, showing an increase by an annual average of 4% taking into account the 5 past years (2014-2018), while between 2009 and 2013 the annual average growth rate stood at 8%. In 2018 Poland's market grew by 430,000 sq m GLA (3.7% y-o-y). The majority of the newly completed space (300,000 sq m GLA) was delivered to the market in cities within agglomerations. The above results from the large format of the schemes delivered in large cities. When looking at the actual number of new schemes, they are spread evenly between larger and smaller urban centres.

Figure 1. Retail space supply in Poland



# THIRD PLACE

Shopping centres seek to become the "third place" for consumers to spend their time, right after home and work. They are offering an ever greater number of increasingly interesting options as regards spending one's time, with a particular focus on the *food and* drink and entertainment offer. An important target group here are families with children, where, with them in mind specifically, shopping centres introduce dedicated parking spaces, parent rooms and interactive play areas with carers. A centre's design and the way it fits in with the surrounding urban fabric is now gaining in importance, with shopping centres turning into social hubs and meeting *places*. They are frequently developed as elements of larger mixed-use schemes, where, nonetheless, footfall continuous to be determined by an attractive retail offer.

The strong market position of the new centres and the wide variety of goods and services offered by online retailers induce older shopping centres to modernize their space. Refurbishments are most often carried out in respect of the food and drink and entertainment zones, with some work conducted in car parks and public spaces. An example here is the October opening of a new food court in Warsaw's Atrium Promenada. The introduction of "Republika Smaku" is one of the outcomes of the refurbishment carried out in the shopping centre present on the market since 1996.

In turn, *Blue City* committed to entertainment combined with food and drink: new restaurants, a multi-screen cinema run by an operator entering Warsaw's market (the Helios chain), as well as a new concept of the well-known Ikea brand in the form of a store much smaller than the two already operating in the Warsaw agglomeration (approx. 4,800 sq m vs. the traditional 30,000 sq m), yet located closest to the city centre. In addition to its location within a shopping centre, the new store is also unique due to the absence of a marked trail to guide customers, they are given the opportunity to decide for themselves which path to take around the store.

Changes are happening not only across common areas, they are also being introduced in premises occupied by individual tenants. Stores put forward new concepts that follow the latest trends and meet customer expectations, with new colour schemes and modern operational and technological solutions being introduced. An example here is the eobuwie.pl store that now provides its online goods and services to customers using the traditional format. The esize.me service enables customers to scan their feet free-of-charge and find an ideally fitting pair of shoes.

Figure 2. Retail space supply in agglomerations



Source: CBRE, Q4, 2018

Furthermore, retail chains nowadays invest in large-format LED screens, intelligent lighting systems that adjust the intensity of light to the time of the day. Traditional stores strive to become brand ambassadors as opposed to being merely a place to shop at.

# **NOT ONLY OUTLET CENTRES**

Outlet centres are changing too. At the moment they account for 2% of Poland's retail market. New schemes are being developed, while the older ones undergo refurbishments and are being extended. The aim of the work carried out is to increase their attractiveness by expanding the retail and food and drink offer. The latter factor plays a decisive role as far as the time spent by customers in an outlet centre is concerned and ultimately translates into how much money they spend there.

A common feature of the majority of outlet centres is their location on the city outskirts. To provide customers with easiest access, the schemes enter into collaboration with companies renting cars on a per-minute basis. An example here is the collaboration between Neinver, the company managing the Factory outlet centres, and Traficar.

Due to strong competition and changing market trends some shopping centres look for new solutions as regards their location and are transformed in line with the outlet centre format. This is now taking place in, for instance, Krakow (where *Fashion Outlet Krakow* will take the place of Plaza Krakow). Frequently, the idea behind the schemes is to combine the convenience and entertainment function with the outlet side of operations. An example here is *Pomerania Outlet* to be launched following the refurbishment of Galeria Rumia.

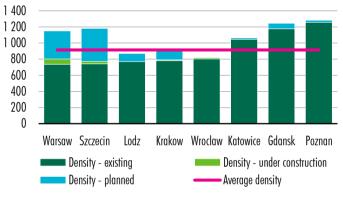
### **RENTS**

Warsaw continues to be Poland's most expensive retail market. At the same time, it is a market with the most positive ratio of retail saturation to purchasing power. Warsaw has the highest purchasing power per capita in the country, yet its retail saturation is relatively low (738 sq m GLA/ 1,000 residents vs. 1,257 sq m GLA/ 1,000 residents in Poznan and 1,177 sq m GLA/ 1,000 residents in Gdansk). Premises with the area of 100 sq m in prime shopping centres in the capital represent an average cost of *EUR 100-130/ sq m/month*. The relatively high rents result from the centres' great reputation and convenient location. The long waiting lists of potential tenants mean that landlords split larger units into smaller ones, which is an additional factor leading to higher lease costs.

At the moment, rents for prime locations along Warsaw's high streets stand at *EUR 100/sq m/month*.

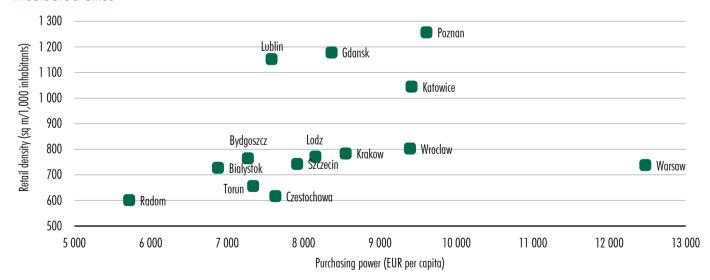
As a consequence of limiting the number of trading Sundays to only one per month as of 2019, it is expected that next year will see increased interest in high streets (mainly food and drink sector) and a subsequent increase in rents.

Figure 3. Retail density in agglomerations (on a city level)



Source: CBRE, Q4, 2018

Figure 4. Retail density and purchasing power in selected cities



Source: CBRE, Q4, 2018/ GfK, 2017

### **NEW BRANDS**

2018 welcomed further international brands on the Polish market. The majority took the decision to debut in Warsaw's shopping centres. The first ever *Chanel* boutique store in Poland was opened in Galeria Mokotow. Furthermore, the American *Bebe* fashion brand also joined the centre's tenants. Other brands to commence operations on Warsaw's market include *Fissman* (Wola Park), *Ximi Vogue* (Galeria Wilenska) and *Kocca* (Galeria Polnocna). The famous Irish *Primark* brand is planning to enter the Polish market in 2019, with the first store to be opened in Galeria Mlociny.

The Irish *Dealz* brand started its expansion into Poland with a store in the ETC Swarzedz shopping centre. The chain offers a wide range of products, including household and gardening, health and beauty, food and drink, as well as home and décor accessories. The German chain *Tedi* that debuted in Dabrowa Gornicza (Vendo Park) also offers a similar range of goods.

Figure 5. Selected new international brands on the Polish market in 2018

Retailer name	Retailer sector	Country of origin	City of entry
Armani Exchange	Fashion	USA	Warsaw
Bebe	Fashion	USA	Warsaw
Chanel	Health and beauty	France	Warsaw
Dealz	Other	Ireland	Swarzedz
Fissman	Home accessories	Russia	Warsaw
Fraas	Accessories and jewellery	Germany	Poznan
Косса	Fashion	Italy	Warsaw
Miniso	Other	China/ Japan	Poznan
San Marina	Shoes	France	Wroclaw
Tedi	Other	Germany	Dabrowa Gornicza
Tempur	Homeware	USA	Warsaw
Ximi Vogue	Other	China	Warsaw

Source: CBRE, Q4, 2018

# **INVESTMENT MARKET**

Favourable economic situation generates an increase in spending on consumption, which in turn largely determines the success of shopping centres and their growing turnover. The high attractiveness of commercial facilities as an investment product is confirmed by transactions that took place on the Polish market in 2018. At the beginning of the year, a huge transaction of the acquisition of 28 retail properties portfolio by Griffin Real Estate was concluded. The three funds – Ares, AXA and Apollo-Rida – were the sellers.

The total lease area amounted to approx. 700,000 sq m. A part of the portfolio (12 properties) will be ultimately taken over by Echo Polska Properties. The transaction was divided into three tranches. The first of them took place in January 2018 and covered four M1 shopping centres – in Czeladz, Krakow, Lodz and Zabrze. Among the major transactions of the last year, based on a single trade act, the sale of Galeria Katowicka to the Malaysian EPF fund should be mentioned, as well as the purchase of Galeria Malta in Poznan by the Balmain Group.

In addition to traditional shopping centres, recently two major purchase and sale transactions have been recorded at *Warsaw's high streets*. The *Wars Sawa Junior* shopping complex, located in the Warsaw downtown at Marszalkowska St., was sold by CBRE Global Investors. The Atrium Group was the buyer. The owner of *Cedet* has also changed, formerly the Central Department Store, originally commissioned in the 1950s, and then rebuilt by Immobel and reopened in May 2018. Cedet is a multi-functional building combining retail and service space with office space. The facility located in the centre of Warsaw, on the corner of Jerozolimskie Av. and Krucza St., was bought by GLL Real Estate Partners.

"Poland's shopping centre market has reached maturity. Shopping centres have undergone a remarkable metamorphosis since they first made their appearance in the 1990s. Over the years they have evolved from schemes with a dominant hypermarket function, through to gradual expansion of the small store section and emergence of social hubs with a wide entertainment and food and drink offer. Now, the time has come for new retail formats and concepts. Polish consumers are becoming increasingly well-informed as well as demanding. At the same time, their purchasing power is increasing, which translates into a changing lifestyle: we tend to spend more of our free time away from home, we visit restaurants and pop into traditional shops only incidentally, while doing most of our substantial shopping online. Poland's retail market is growing in line with consumer expectations and prevailing global trends; what's ahead of us now is growth of the high street and convenience schemes."

Magdalena Frątczak Senior Director | Head of Retail Sector A&T Services | CBRE

# **CBRE SERVICES FOR THE RETAIL SECTOR**

#### Magdalena Fratczak

Senior Director Head of Retail Sector Advisory & Transactions +48 508 083 498 magda.fratczak@cbre.com

### RESEARCH AND CONSULTANCY

Agata Czarnecka

+48 500 000 053 agata.czarnecka@cbre.com

### RESEARCH AND CONSULTANCY

**Emilia Filimoniuk** 

+48 728 437 614 emilia.filimoniuk@cbre.com

### VALUATION ADVISORY

Maciej Wójcikiewicz

+48 501 746 503 maciej.wojcikiewicz@cbre.com **LEASING** 

**SHOPPING CENTRE & HIGH STREETS** 

Mariusz Majkowski

+48 692 414 591 mariusz.majkowski@cbre.com

**LEASING** 

**TENANT REPRESENTATION** 

Magdalena Kozińska

+48 606 101 545 magdalena.kozinska@cbre.com

**INVESTMENT PROPERTIES** 

**Sean Doyle** 

+48 500 070 744 sean.doyle@cbre.com **ASSET SERVICES** 

Piotr Karpiński

+48 608 658 474 piotr.karpinski@cbre.com

**BUILDING CONSULTANCY** 

**Jonathan Steer** 

+48 608 652 173 jonathan.steer@cbre.com

CEE RETAIL

Walter Wölfler

+43 1 533 40 80 97

walter.woelfler@cbre.com

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