

# WELCOME BACK, RETAIL!

— a report on the Market for commercial premises in Q1 2022, AAG Retail Q1 2022

Between the pandemic, the war, rising prices and increasingly frequent warnings of recession — these are the conditions in which the retail sector operated in the first quarter of 2022. The authors of the cyclical report from BNP Paribas Real Estate Poland point out, among others: continued strengthening of the position of discount store chains and growing interest in facilities with a high potential for modernization, expansion and repositioning.

## What kind of retail? It depends...

Retail sector, similarly to other real estate sectors, is facing many different challenges nowadays. At the end of March, after two years of the epidemic, the Polish government abolished pandemic-related restrictions. Throughout this time, these restrictions acted like a pulled-back handbrake for brick & mortar retail — until 28 March, when the obligation to cover the mouth and nose with a mask in enclosed spaces, including stores and shopping malls, was abolished (with the exception of pharmacies and facilities providing healthcare services).

Tenants and owners are now hoping that the absence of restrictions and limits will quickly translate into an increased number of customers and, more importantly, into higher turnover. In particular, multi-functional centres can once again offer their full range of services. Moreover, even in the face of the spike in infections in Asia, many experts claim that there are grounds for declaring that the coronavirus pandemic is, nevertheless, coming to an end. Cautious optimism leads to the assumption that a possible future increase in the number of infections will not lead to a return to the restrictions and paralysis of retail.

- *“The definition of retail entails a high degree of flexibility and adaptability to the environment. Recent months have served as an additional test in forecasting trends, expectations and consumer behaviours, as well as in implementing bold changes. The experience of the last two or three years allows us to have an optimistic outlook on the future of retail, which — after all — is extremely open to innovative concepts and new formats,”* emphasises **Fabrice Paumelle**, the Director of the Retail Department at BNP Paribas Real Estate.

The first three months of the year were demanding for retail, with unstable economy, persistent inflation, the uncertain PLN exchange rate, restrictions on imports of raw materials and disrupted supply chains. This rearranged economic environment reduced the purchasing power of Poles. In addition, Russia’s armed aggression against Ukraine resulted in devaluation of the Polish zloty, which was weaker in the first days of March than it has been in more than two decades. Analysts indicate that the above factors, followed by a drop in demand and coupled with the risk of loss of financial liquidity and operating costs increasing



month after month, may mean bankruptcy or at least a temporary downturn for many companies which operate on low margins.

The authors of the report emphasise that in the first quarter, an important phenomenon, particularly for companies from the food retail sector, was the number of fleeing refugees from Ukraine. More consumers and increased interest in products from several categories — food, sanitary items or baby food — translated, in the short-term perspective, into the revenues for FMCG companies.

### **Retail parks dominate construction sites**

The first quarter brought us approx. 35,000 sqm of new commercial premises, including, among others: two Leroy Merlin stores — a facility of 8,000 sqm near the constructed Karuzela centre in Kołobrzeg and another one, with an area of approx. 7,000 sqm, near Galeria Andrychów. In Sierpc, a retail park Stacja Sierpc was opened along national road DK 10. It is the largest facility of this type in this area. In the last days of March, a new section of Gemini Park Tychy — the largest shopping centre in the city — was also opened. The expanded section allowed for a new type of entertainment to be introduced into the centre's offer: a cinema operated by the Multikino chain.

The authors of the report from BNP Paribas Real Estate Poland indicate that at the end of the first quarter, more than 400,000 sqm of modern commercial premises were under construction. New retail parks accounted for more than a half of those premises (approx. 60%). Less than a half — 27% — was allocated to newly constructed shopping centres. Importantly, only two of them will offer more than 20,000 sqm of space to their lessees and customers. These are Karuzela Kołobrzeg, with an area of 30,000 sqm, and Galeria Bawełnianka, of which the next chapter is being written by its new owner, GBB Invest.

- *“Due to the soaring prices of construction materials and operating costs, accompanied by the outflow of workers from the construction sector, projects based on expansion, reconstruction and various types of modernisation are making a strong entrance. The facilities with the greatest potential will be the first ones to gain a new life. For example, those which until recently were occupied by the Tesco chain,”* says **Małgorzata Fibakiewicz**, Head of Business and Consultancy Department at BNP Paribas Real Estate Poland.

The effects of redevelopment based on former Tesco stores will include, among others: DOR Plaza Retail Park in Częstochowa, Saller Retail Park in Tarnowskie Góry or Castorama in Piastów and Leroy Merlin in Głogów, not to mention about the already opened ones, like Mozaika in Kraków opened in the last quarter of 2021 or expansion of the Mozaika in Lublin. BNP Paribas Real Estate Poland supported the owner in both redevelopment projects.

In the first quarter, prime rental fees in shopping centres remained stable. However, experts point out that the increase in service costs caused by growing costs of energy and services related to the maintenance of premises may, in the short term, create pressure to reduce rental fees, as well as serve as a justification to talk about expanding the package of incentives for tenants. All in order to maintain the overall rental costs at a level allowing tenants to continue their business activity. As a result of the increased interest of tenants and investors in the retail park format - facilities that did very well in the pandemic and which do

not experience common space maintenance costs - tenants can expect that their rents, in turn, may begin to show an upward trend.

### Discount stores still on the rise

The last quarters have been very advantageous for discount store chains, which have been systematically increasing their share on the Polish retail market. Last year, this distribution channel outranked small and medium-sized grocery stores in terms of market share.

- *“Market take-over by discount store chains can easily be called a strong trend. Moreover, there is nothing to indicate that it will change in the coming quarters. The success of discount stores is not only based on the customers looking for lower prices, but also on the willingness to make comfortable purchases in one place, preferably somewhere with a parking lot. Shopping centres are more and more frequently opening their doors to such stores in hopes of attracting a larger number of customers. In addition, the current arbitration on available spending power of Polish consumers will lead an increasing number of customers to seek out discount stores,”* emphasises **Fabrice Paumelle**, Director of the Retail Department at BNP Paribas Real Estate Poland.

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