CEE THE RETAIL
NOVEMBER 2018

OPEN

Real Estate for a changing world
The retail industry benefits massively from these positive economic trends. Tight labour markets and robust growth of wages resulted in rising consumer confidence which spurred consumer spending. Over the last five years retail turnover across the CEE countries has soared by over 20%, with Romania leading the group and recording a stellar increase by 36%. Although retail sales growth is expected to soften, it will still remain healthier than in the Eurozone.

Another important socio-economic factor which clearly contributes to the extensive potential of the retail sector is the rapid growth of the pool of middle-class shoppers. Aspirations of consumers have been steadily growing and now they are more demanding of products, services and brands than ever before. Although the selection of renowned, international brands in the region is good, there are still market gaps and opportunities for newcomers which remain untapped.

All these factors underline the high potential of the region as a destination for retail expansion.
With a circle of satellite towns and intervening rural areas, Warsaw has a metropolitan area inhabited by nearly 26 million people which amasses more than 10% of the country’s purchasing power.

Atrium Targówek, Atrium Reduta, Blue City and HOMEPARK Janki) serve the north and the south of the agglomeration respectively. Small, convenience shopping centres such as Galeria Mokotów, Atrium Promenada, Galeria Wileńska, Arkadia, Centrum Janki are the most pronounced examples of ongoing development, with a generation, have been tightening since customers’ have entered in the store. Planned new openings, while Primark will come on stage next summer in a new generation of the top shopping centres. Rental conditions in lower class schemes, particularly in neighbourhood discount stores.

In the southeastern, western and northern suburbs of Warsaw operate three outlet centres. Two still attract the taks of paramount importance (Sobótka, Targówek) and retail markets serve the north, the south and the west of the agglomeration respectively. Retail, convenience shopping centres have strategized in new residential areas, in the suburbs as well as in the satellite towns of Warsaw in matrimonial, financial, residential, foodstuff, professional and others.

Given the volume of retail space in the development phase the market will enlarge by a further 80,000 sq m in 2019 and by a further 100,000 sq m in 2020. In the last 5 years, prime rents trended up at the top shopping centres. Rental conditions in lower class schemes, particularly in those_hypermarkets: (Sobótka, Wola Park, HOMEPARK Targówek, Złote Tarasy and Galeria Mokotów) and HOMEPARK Janki serve the north and the south of the agglomeration respectively.

With a circle of satellite towns and intervening rural areas, Warsaw has a metropolitan area inhabited by nearly 26 million people which amasses more than 10% of the country’s purchasing power.

The high capacity of the retail market is reflected in the low vacancy rate which has been oscillating around a healthy 2% for the past 26 years. There are, however, clear disparities between locations, with a number of distressed assets suffering from extremely limited tenant demand. High street retailing is dominated by F&B facilities thus creating new leisure and F&B facilities; implementing novelty opportunities. Last year Hamleys, Newbie, Love Republic and Trespass opened new retail schemes have emerged in new residential clusters, points of paramount importance (Sobótka, Targówek) and retail markets serve the north, the south and the west of the agglomeration respectively.

The market in the Warsaw Agglomeration offers a diverse selection of formats and asset classes. At the end of Q3 2018, a volume of 10 billion sq m of GLA was recorded across all retail formats. Shopping centres of various typology accumulate over 1.3 million sq m of GLA. Large shopping and leisure complexes, such as Arkadia, Złote Tarasy and Galeria Mokotów dominate the market and meet the growing needs of the local centric and F&B offering, implementing novelty initiatives into their offer, innovating and quickly responding to customers’ demand.

The construction of modern shopping centre stock, the opening of a new metro line in the near future with major road closures in the area, will benefit greatly from enhancing changes. Wola Park, although currently suffering from limitations in the accessibility to the highway, will benefit greatly from new road connections. The high capacity of the new road networks in the suburbs as well as in the satellite towns of Warsaw in matrimonial, financial, residential, foodstuff, professional and others.

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The Prague retail market is benefitting from very strong consumer demand (fundamentals) fuelled by the positive situation in the labour market with unemployment oscillating around 2%, wages rising strongly and increasing purchasing power.

Prime rents in Prague are presently at €120 – 140 sq m per month. This has not been the case for some years as mass market brands such as H&M and Zara Home have entered into the Czech retail market last year and since then has expanded to three locations in Národní and Quattro in the city centre and more recently Clementin Chodov.

A limited supply and strong demand are reflected in an increased pressure on prime rents both in shopping centres and in the high street. Prime rents in the city centre on Na Příkopě Street, the luxury prime spot at Pullman, are in the same range as last year with Philip Plein, Roberta di Camerino, Cordita Cordilla, followed by Valentino and Furla. In 2017, Pullman restaurant entered the Prague market last year and since has expanded to three locations in Národní and Quattro in the city centre and more recently Clementin Chodov.

While mass market newcomers have entered the Czech retail market such as the Italian clothing brands Gattinoni Roma, Marina Militare, Massimo Rebecchi and Frankie Morello, as well as Italian shoe retailer Ixos, a Spanish footwear brand Hispanitas, and the outdoor brand Trespass. In Centrum Cerný Most, a well-regarded Chinese electronics operator opened its first chain across Europe.

Prime high street rents in Prague are still performing very well on the back of increasing purchasing power. A growing number of new arrivals last year such as Philip Plein, Roberta di Camerino, Cordita Cordilla, followed by Valentino and Furla. Pullman restaurant entered the Prague market last year and since has expanded to three locations in Národní and Quattro in the city centre and more recently Clementin Chodov.

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The Prague retail market is benefitting from purchasing power.
The retail vacancy in Bucharest remains very low, with leading shopping centres being almost fully occupied. Strong interest from prime locations has driven up rental levels. Last year AFI Palace Cotroceni bolstered its market position and expanded by 8,000 sq m GLA by adding new components.

The leading shopping schemes in Bucharest and the most popular for international tourists tend to be:

- AFI Palace Cotroceni
- Sun Plaza
- Mega Mall
- ParkLake Shopping Centre
- Băneasa Shopping City
- AFI Cotroceni
- Plaza Romania
- Fashion House Outlet
- Promenada Mall
- Liberty Center
- Unirea Shopping Center

The retail sales growth in the country (over the course of the last 5 years) reached around 90,000 sq m. In the first half of the current year, Sun Plaza improved its fashion offer through remodeling 10,000 sq m formerly occupied by a furniture store. At present, construction activity is limited, with leading shopping centres having a waiting list for new entrants.

The most attractive categories for new tenants are those currently offer a sizable market for retailers in all price segments, even in the premium and luxury products category. Bucharest with its water environment is populated by approx. 2.3 million residents having purchasing power by approx. 0.8 million households will significantly increase by 2022 providing new opportunities.

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Retail sales have been persistently growing since 2014 and the volume in the Budapest area is now above the country average. In 2017, annual retail sales in Budapest grew by 8.4% y-o-y.

A growth was boosted by two-digit real wage growth, rising consumer confidence and improving living standards. One fifth of the Hungarian population lives in Budapest and its catchment area including the surrounding parts in the Budapest area being continuously strengthening macroeconomic conditions and lack of new supply. Retailers were able to regularise their shopping centres and realise their tenant mix. Several old generation shopping centres went under major refurbishment and rebranding. The latest example, WestEnd City Center, is a brand new retail design image and renewed tenant mix opened in October 2018.

TENANT SPACE FOR HIGH STREET AND DOMINANT SHOPPING CENTRES REMAINS STRONG AND RENTS ARE UNDER UPTURN PRESSURE. Numerous new international brands entered the international market, representing both the mass market and luxury segments, such as H&M, Marks & Spencer, H&M Home, Zara Home, IKEA, Furla, Lands’ End, Mango, Manu Sanva’s, and over better brands which are already established on the market started to open new stores and expand their portfolios. As a result of a very limited new supply, well-located shopping centres are drastically reducing the availability of new space for new brand openings to enter the Hungarian market. Over the course of the last five years, the strongest occupation activity has been related to the rally of high street retailing. This is mainly challenging for the available shop units on the three main streets: Váci street in Budapest, Váci street and Andrássy Avenue in the district’s mix opens in October 2018.

HUNGARY BUDAPEST

SELECTED MAJOR SHOPPING CENTRES

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CEE CUSTOMERS
WHAT MAKES THE DIFFERENCE?

All countries in the region share the common history of being in the same communist bloc after WWII but in fact, the region is as diverse as it gets, even if they share some common values, like family and health. Each country has a unique consumer market, with different attitudes and aspirations. The only common feature is that household incomes are lower than in the Western Europe, so shoppers have a special relationship with economy brands such as H&M. However, this is the only fashion brand that is present among the TOPs in all markets – each country is different in this respect.

**POLAND**

Poland is by far the largest country in the region and the retail market is very strong. Polish consumers are fashion-conscious and budget-conscious, which makes them hard for new entrants. The top brands in Poland are well-represented (local), C&A (local), H&M (local) and Zara. The discount store Pepco is also very popular. Shopping is one of the favorite pastimes, even the recent ban on Sunday trade has not slowed shoppers’ enthusiasm.

**CZECH REPUBLIC**

The Czech market is the most affluent among the four countries presented here. However, Czech consumers do not pay much attention to fashion and spend less than 4% of their household budgets on clothing and footwear. As Czechs love to spend time outdoors, their favorite brands include sports brands such as Adidas and Puma. The Czech market is very close to Germany, so German brands C&A and Orsay are also very popular here. In addition, the Czech Republic has a relatively high share of online sales, which is over 7% of the total retail market.

**ROMANIA**

Romania is one of the least affluent markets in Eastern Europe, with the average monthly wage at the level of €400 gross. Therefore, Romanians are particularly receptive to sales and promotions and love brands that cater to the economy segment, such as Pepco. Despite low incomes, the retail market in Romania is booming, with year-on-year growth rate close to 10%. Romanians spend more than 7% of their budget on clothing and footwear, but economize on restaurants, preferring family gatherings at home to eating out.

**HUNGARY**

Hungarian consumers are very price-sensitive, with the majority of the population stating that price is more important than quality. Their favorite pastime is watching TV and browsing the internet, but they are also savvy shoppers. Having experienced a period of uncertainty, Hungarians now see their purchasing power rising. The economy is on the growth path again, with retail sales growing 8% in annual terms, increased spending is due to a strong growth of consumer confidence. Last year, the Hungarian Consumer Confidence Index has surpassed the all-time high pre-crisis level by 5 points.
One of the leading international real estate providers, offers its clients a comprehensive range of services that cover the entire real estate lifecycle: property development, transaction, consulting, valuation, property management and investment management. Our 5,100 team members, active in 36 countries, provide you with specialist knowledge of their markets and implement global real estate strategies using local solutions.

BNP Paribas Real Estate in CEE region provides the following services: Capital Markets, Property Management, Letting Advisory and Valuation for all commercial asset class whether logistic, office or retail. All departments are furthermore complemented by a Research Department providing clients with ad hoc reports and data, enabling suitable long-term business decisions.

More information: www.realestate.bnpparibas.com

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** Coverage In Transaction, Valuation & Consulting

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