At a glance Q4 2018

Modern Retail Market in Poland

Poland’s modern retail market grew by 435,000 sqm in 2018, and at the end of December it stood at more than 14.6 million sqm. Over the past three years large shopping centres accounted for a significant share of new supply, while in the coming years openings of this type of schemes will be only occasional. As far as new supply is concerned, smaller formats, particularly retail parks developed in smaller cities, will dominate the market.

### SUPPLY

**Mature market, limited opportunities to increase**

Nearly 64% of new supply in 2018 was delivered in eight main agglomerations through the openings of large shopping centres (Forum Gdańsk in Gdańsk, Galeria Libero in Katowice, Gemini Park in Tychy located within the Upper Silesia agglomeration), delivery to the market of several smaller schemes (e.g. Nowa Stacja in Pruszków located within the Warsaw agglomeration, Vendo Park in Dąbrowa Górnicza and the redeveloped Cedet in Warsaw) and completion of a number of expansions (e.g. Atrium Targówek, Atrium Reduta and Atrium Promenada in Warsaw, Platan in Zabrze and Centrum Janki within the Warsaw agglomeration).

Nearly 25% of new supply was completed and delivered in cities with a population of less than 100,000 residents, where small retail parks and shopping centres are the most frequently developed format, with examples including Galeria Stela in Cieszyn, Bursztynowa Park in Ostrołęka, Galeria Hosso in Gubin and Świebodzin, Park Handlowy Saller in Oława and the expansion of Dekada in Grojec.

### DEMAND

**Stable vacancy rate on the leading markets**

Vacancy rate in shopping centres located on the main markets re- mained stable throughout last year, and at the end of H1 2018 it stood at approx. 3%. Space vacated over the past few years by the Praktiker chain that has exited Poland’s market is now to a great extent occupied by another operator from the DIY sector (OBI). Locations that are currently being vacated by the Piotr i Paweł supermarket chain, which is facing severe financial problems, are relatively swiftly being taken over by other food retailers, such as Biedronka and Stokrotka.

More than 30 new brands and concepts from the retail, food and beverages and entertainment sectors entered Poland’s market in 2018. The newcomers now operating in Poland include Bebe, Kocca, Hunkemöller, Brax, Fissmann, Hummel, Miniso, Daft Cafe, Menya Musashi, Fit/One and Orangetheory Fitness. The discount chains TEDi, Dealz and Action are growing quickly. The opening of IKEA’s new retail concept in Warsaw’s Blue City counted amongst the more important cases, while next year should see the arrival of the fashion giant Primark to debut in the capital’s Galeria Mlociny.

### SCHEMES UNDER CONSTRUCTION

**Small schemes, small cities**

There were approx. 450,000 sqm of leasable space under construction at the end of 2018, out of which approx. 350,000 sqm is to be completed in 2019. The volume of new supply expected for 2019–2020 will be significantly lower than in the past, predominantly due to the limited number of large retail schemes being developed in the main agglomerations. Galeria Mlociny in Warsaw to be opened in H1 2019 is the only large shopping centre under construction at the moment. Among schemes under construction, small and medium-sized shopping centres and retail parks developed mainly on markets with a population of less than 100,000 residents are the dominant format, and they include e.g. Color Park in Nowy Targ, Dekada in Nysa, Galeria Chełm in Chełm, Multibox in Płock, Stara Ujeżdżalnia in Jarosław. As a result, the importance of smaller cities is growing gradually. A decade ago the retail stock located on those markets accounted for only approx. 9% of the entire modern retail market, where at the end of 2018 their share was doubled and it will continue to grow. Indeed, approx. 30% of the space currently under construction will be delivered in cities with a population of less than 100,000 residents.

The pace of growth of the market is slowing down considerably. Over 2016–2018 the market grew by approx. 450,000 sqm per annum, with the decade before that seeing results in excess of 700,000 sqm per annum. The growth forecast for 2019–2020 is approx. 350,000 sqm per annum, which is a response to the shrinking absorption capacity of the market and increasing construction costs affecting the profitability of the projects.

### RENTS

**Stable in leading schemes, under pressure in schemes of an inferior standing**

Leading shopping centres are capitalizing on their strong market position and are able to maintain prime rents within the range of EUR 110–130 / sqm / month in Warsaw and between EUR 45–60 / sqm / month in the remaining main agglomerations. Landlords of schemes that are not performing as well, particularly those that are suffering from 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 to meet their specific requirements.

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

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1. Modern retail stock embraces traditional shopping centres, outlet centres, retail parks and retail warehousing facilities
2. Source: PRCH; Vacancy rate in shopping centres, outlet centres and retail parks; Markets with a population of more than 150,000 residents
3. 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
KEY TRENDS AND CHALLENGES

PLENTY OF CHALLENGES AHEAD

The ban on Sunday trading introduced in 2018, growing share of e-commerce, increased competition and changes in consumer buying behaviour, particularly as regards the younger generation, set some serious challenges for retail operators. The signals so far show that the only group not affected adversely by the ban on Sunday trading are discount grocery store operators who, as a result of running extremely intensive marketing strategies, are now attracting even more customers than prior to introduction of the ban.

EXPANSIONS AND MODERNIZATIONS

Similarly as in the past year, the immediate future will see a strong trend to expand and modernize existing retail schemes. A revamped offer and addition to the tenant mix of new brands and an entertainment element is a strategy aimed at strengthening a centre’s position implemented by owners of older schemes, small shopping schemes and retail schemes as well as large complexes with an already established position.

FOOD & BEVERAGES COMPONENT AND ENTERTAINMENT ATTRACT FOOTFALL

For the vast majority of customers shopping centres have now ceased to be places for just shopping. Adding entertainment, catering amenities and services to what is offered by retail schemes is a response to the changing expectations of customers. The new functions are additionally designed to help retail operators attract customers on the Sundays when straightforward trading is not permitted.

POLARIZATION OF TAKE-UP AND RENTS

The differences in vacancy rates as recorded for renowned retail schemes and those of an inferior standing will become more pronounced due to growing competition. The condition of some schemes, particularly those not able to successfully meet the changing needs and expectations of customers, may deteriorate significantly. As a consequence the pressure from tenants on rents and other financial lease components is set to increase.

KEY MACROECONOMIC INDICATORS

| POLAND | 38,433,000 | 5.7% | € 6,838 |
| POZNAN | 832,500 | 1.2% | € 9,449 |
| WROCŁAW | 800,300 | 1.9% | € 8,926 |
| SZCZECIN | 557,600 | 2.5% | € 7,911 |
| TRICITY | 1,042,500 | 2.5% | € 8,582 |
| WARSAW | 2,596,700 | 1.5% | € 11,645 |
| ŁÓDŹ | 964,300 | 5.5% | € 8,059 |
| UPPER SILESIA | 2,138,900 | 1.7% | € 9,741 |
| KRAKÓW | 1,045,000 | 2.4% | € 8,912 |

LEGEND

1. GUS as of Dec. 2017, 2. GUS, as of November 2018, data for the capital of voivodship, 3. MB-Research, Purchasing Power volume per capita, data for the capital of voivodship
Retail Snapshot

Stock and new supply (m²)

Distribution of stock by city size (m²)

Turnover by retail category (PLN/m²/year)

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

Shopping Centre Stock by Format, Q3 2018

Shopping centre supply in 8 agglomerations (m²)

Annual Retail Sales growth (%)
## Major retail schemes completions, 2017 – 2018

<table>
<thead>
<tr>
<th>SCHEME</th>
<th>TYPE</th>
<th>LOCATION</th>
<th>POPULATION</th>
<th>DEVELOPER</th>
<th>GLA (SQ M)</th>
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<tbody>
<tr>
<td>Galeria Pólnocna</td>
<td>SC</td>
<td>Warsaw Agglomeration</td>
<td>over 400</td>
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<td>Forum Gdańsk</td>
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<td>Skende Shopping + Ikea</td>
<td>SC</td>
<td>Lublin</td>
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<td>Inter IKEA</td>
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<td>Galeria Libero</td>
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<td>Silesia Conurbation</td>
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<td>Echo Investment</td>
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<td>Serenada</td>
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<td>Gemini Park Tychy</td>
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<td>Gemini Holding</td>
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<td>Nowa Stacja</td>
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<td>Warsaw Agglomeration</td>
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<td>Vivo!</td>
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<td>Krosno</td>
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<td>Immobilefinz / Acteeum</td>
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<tr>
<td>Centrum Galaxy (extension)</td>
<td>SC</td>
<td>Szczecin Agglomeration</td>
<td>over 400</td>
<td>EPP</td>
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</table>

### Source
BNP Paribas Real Estate

## Major retail schemes under construction, 2018

<table>
<thead>
<tr>
<th>SCHEME</th>
<th>TYPE</th>
<th>LOCATION</th>
<th>POPULATION</th>
<th>DEVELOPER</th>
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<tr>
<td>Galeria Młociny</td>
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<td>ArtN</td>
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<td>Galeria Wiślanka</td>
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<td>Galeria Chelm</td>
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<td>Chelm</td>
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<td>Acteeum / Equilis</td>
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<td>Morski Park Handlowy (extension)</td>
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<td>Galeria Srebrna</td>
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<td>Progress XVII Sp. z. o.o.</td>
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<td>Focus Mall (extension)</td>
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<td>Zielona Góra</td>
<td>100-200</td>
<td>NEPI Rockcastle</td>
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### Source
BNP Paribas Real Estate

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