

Poland Retail Market

Q4 2016



Supply

The last quarter of 2016 was a period of active development of the Polish retail market and spectacular openings. The retail market was expanded by 11 new shopping centres, with the extensions of another two also being completed. In addition, two retail parks, two stand-alone retail warehouses and two outlet centres were opened.



Posnania in Poznań

The largest new shopping centre developments in Q4 2016 include: Posnania in Poznań (99,000 m²), Galeria Metropolia in Gdańsk (34,300 m²), Galeria Navigator in Mielec (25,400 m²) and Galeria Wołomin in Wołomin (25,000 m²). The remaining projects are all below 20,000 m²: Galeria Tomaszów in Tomaszów Mazowiecki (18,500 m²), Quick Park in Mysłowice (13,000 m²), Galeria HIT in Nowy Dwór Mazowiecki (13,000 m²), Galeria Zambrów in Zambrów (12,000 m²), Galeria Gondola in Legionowo (10,500 m²), Galeria Królewska in Sandomierz (5,600 m²) and Galeria Grodova in Grodzisk Mazowiecki (5,100 m²). Eight cities gained their first shopping centres: Grodzisk Mazowiecki, Legionowo, Mielec, Nowy Dwór Mazowiecki, Sandomierz, Tomaszów Mazowiecki, Wołomin and Zambrów.

In total 336,000 m² of shopping centre stock was delivered to the market in 2016. This is less than in 2015, when the market grew by nearly 500,000 m². A slight increase is expected this year, to nearly 400,000 m² that may come to the market, of which 360,000 m² is already under construction.

There are a few projects at advanced stages of development. These include: Galeria Północna in Warsaw (64,000 m²), Wroclavia in Wrocław (64,000 m²), Forum Gdańsk in the Tri-City (62,000 m²) and Serenada in Kraków (41,300 m²).

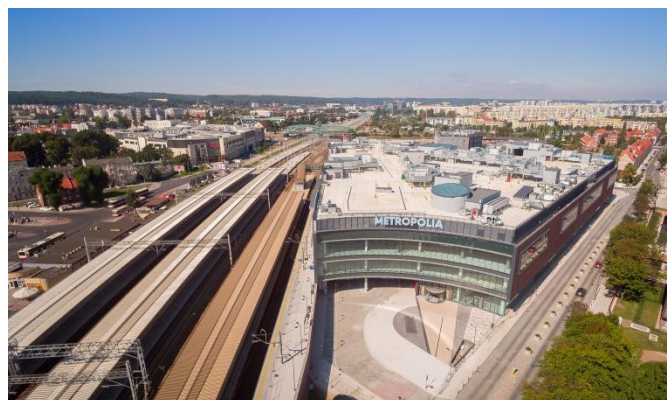
Interestingly, new shopping centre supply delivered in 2016 was polarized between the biggest agglomerations (65%) and the smallest cities of below 75,000 inhabitants (35%). Within the next two years the focus of developers

on the biggest markets will be even more pronounced. More than 90% of the emerging stock in shopping centres will be located in major agglomerations.

Over the year the retail market grew by 470,000 m² of modern retail space. The largest amount of that was in shopping centres (72%). The remaining stock came in retail parks (6%), stand-alone retail warehouses (21%) and outlet centres (1%).

Total retail space in Poland reached 13.4 million m². There are 406 shopping centres, which account for more than 9.5 million m² (i.e. 71%). The remaining formats are retail parks and warehouses, with 3.6 million m² of space (27%), and outlet centres, with 0.21 million m² (2%).

As a result of recent openings, shopping centre density now stands at the level of 248 m² / 1,000 inhabitants, which is above the European average of 206 m² / 1,000 inhabitants, but still below the average for the Western European countries (264 m² / 1,000 inhabitants). One should note, however, that these statistics take into account only shopping centre space and not retail space located on high streets, which plays a significant role in Western Europe, unlike in Poland, where its current significance is still somewhat marginal and its presence is limited to only a few major cities.



Galeria Metropolia in Gdańsk

The retail market in Poland is maturing and becoming more competitive. There are still a number of investment opportunities, although the key factors for the success of developers are market know-how and good recognition of customers' needs; however, the ability to look ahead and create new development opportunities is equally important. Interesting and unique shopping & gastronomy projects, such as Hala Koszyki, Soho Factory and Koneser, are today found predominantly in the capital city, although other cities have some to be proud of as well (e.g. Off Piotrkowska in Łódź). Such projects regenerate the urban fabric and introduce new qualities to public space. We also see an increasing trend of extending gastronomic, recreational and entertainment offers, which naturally

is a reflection of growing demand for those kinds of amenities. It is happening in both new and existing retail assets, such as Posnania in Poznań or Galeria Mokotów and Arkadia in Warsaw. Once gastronomy and leisure units occupied approximately 5-7% of shopping centre space, now this ratio has increased to approximately 10-15% with few examples exceeding 20% (in the case of leading assets in big cities). This ratio is expected to grow even further in the future. Moreover, we expect further development of the smaller formats, such as convenience centres and retail parks. Increased interest in the outlet centre format is also pronounced. Developers are actively searching for development opportunities in cities such as Bydgoszcz, Toruń, Kraków, Rzeszów and Gliwice.

Demand & Rents

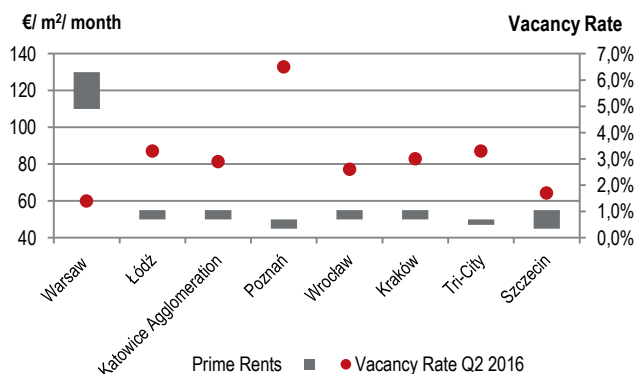
In 2016 retailers continued selective expansion and the quality of projects remained their main location criterion.

Last year 17 new international brands entered the Polish market; the same number as in 2015. This shows that Poland is still an attractive and stable market for new international chains. The greatest interest in the Polish market was expressed by brands from the United States (five), Italy (five) and France (three). The most impactful fashion debuts of 2016 were: the American brand Forever 21, Uterqüe (from Spain) and & Other Stories (from Sweden).

Other new chains that appeared on the Polish market in Q4 2016 include: Max&Co (in Silesia City Center in Katowice), L'Erbolario (in Hala Koszyki in Warsaw), Maxi Bazar (in Galeria HIT in Nowy Dwór Mazowiecki), and also Dior (health & beauty), along with Uterqüe and & Other Stories in Galeria Mokotów in Warsaw.

At the same time, we have seen some market exits, i.e. American Eagle, Mothercare, Celio, Brice, Burberry, Devred 1902, Dairy Queen and Kari. Also, Marks & Spencer have decided to close all of their stores across the country.

Prime shopping centre rents and vacancy rate in Q4 2016



Source: JLL, Q4 2016

Prime shopping centre rents, which refer to shop units of 100 m² earmarked for fashion & accessories and located in the best-performing assets in a given city, remain, as traditionally, highest in Warsaw (up to €130 / m² / month). Levels of rents across major cities remained relatively stable compared to the previous quarter. We do not expect prime rents to change in the nearest future. Falls in rents may be seen in worse performing centres which are affected by growing competition.

Investment Market

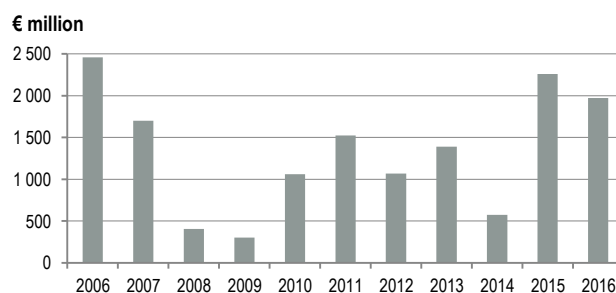
In Q4 2016, total transacted volumes in the retail sector in Poland amounted to approximately €550 million, with almost €400 million coming from the three largest sales, i.e. the Aviva retail portfolio (€161 million), Galeria Warmińska (€150 million) and Nova Park (€88.5 million).

The Aviva portfolio, acquired by Rockcastle Global Real Estate, a South African REIT, included two regional shopping centres: Focus Park in Zielona Góra (26,800 m²) and Focus Mall in Piotrków Trybunalski (35,200 m²). Rockcastle also acquired the Galeria Warmińska centre from a private Polish investor. Galeria Warmińska is the leading retail destination in the Olsztyn area, offering 150 stores with a GLA of 42,700 m². The total purchase price of €150 million represents an acquisition yield of approximately 6.0%. The third largest deal was the disposal by Futureal Group of the Nova Park shopping centre in Gorzów Wielkopolski, to a joint venture formed by MAS Real Estate Inc. and Prime Kapital Limited, for €88.5 million. The purchase of the mall was the joint venture's first acquisition in Poland. The mall, with its current GLA of 32,600 m², has 140 shop units.

The overall volume of retail investment transactions closed in 2016 amounted to **€1.972 billion**, compared to the **€2.261 billion** recorded in the whole of 2015.

Prime yields for best-in-class shopping centres in Poland remain stable at 5.0%, and prime retail parks are expected to trade at approximately 7.0%.

Transacted Investment Volume (Retail)



Source: JLL, Q4 2016

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