Polish retail market

January 2019

Supply

Poland's total retail stock had crossed the 14 million m² of GLA threshold by the end of 2018. The nation's 419 shopping centres now offer more than 10.0 million m² of GLA, which accounts for 71% of all stock. The remaining formats include retail parks and warehouses, which offer 3.9 million m² of GLA (27%), and outlet centres, with 0.25 million m² (2%).

2018 ended with 435,000 m² of new retail space being added across all retail formats, a similar result to that of 2017, when approximately 466,000 m² entered the market. Interestingly, no retail projects were closed in 2018, unlike the previous year. Twenty nine new retail schemes opened in 2018: ten shopping centres (the largest being Forum Gdańsk in the Tri-City with 62,000 m² of GLA), ten retail parks, eight stand-alone retail warehouses, and one outlet centre. Thirteen existing schemes were extended.

The last quarter of the year has traditionally been the most active one. In Q4 2018 more than 136,000 m² of new GLA entered the shopping centre segment alone, with Libero in Katowice (45,000 m² of GLA), Nowa Stacja in Pruszków (26,800 m²), and Galeria Hosso in Świebodzin (12,000 m²) being the largest developments. Additionally, the retail market grew by 31,500 m² of GLA, in three stand-alone warehouses.

In terms of location, the shopping centres delivered in 2018 were polarised between top-tier agglomerations (82%) and the smallest cities of below 50,000 inhabitants (15%). The remaining shopping centre space (3%) opened in cities with populations of between 50,000 and 100,000 inhabitants.

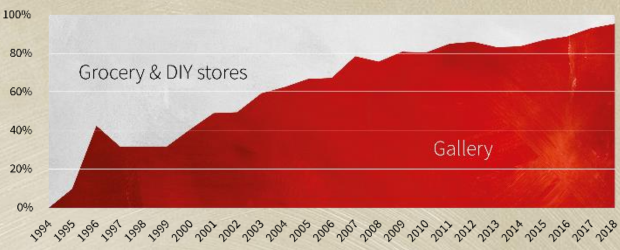
Over the year shopping centre density in Poland increased from 255 m² to 262 m² per 1,000 inhabitants, moving closer to the Western European average of 276 m². It should be noted, however, that these figures do not include high street retail, which is underperforming in Poland compared to Western Europe. If that is included in these statistics, the overall gap between retail density in Poland and Western Europe would continue to be profound.

There is currently around 269,000 m² of GLA being constructed in shopping centres, of which 73% (196,000 m²) is scheduled for delivery in 2019. That is 40% less than in the corresponding period last year. The largest scheme to be opened this year is Galeria Młociny in Warsaw (72,000 m² of GLA), followed by Color Park in Nowy Targ (27,000 m²) and Stara Ujeżdżalnia in Jarosław (26,000 m²).

Location-wise, new shopping centres are concentrated in top-tier cities. This trend is very likely to continue as approximately 60% of the emerging shopping centre stock in Poland will be located in major agglomerations.

As the retail market in Poland matures, shopping centres are seeing a steady increase in their F&B and entertainment offerings, which provides excellent opportunities for further development. This goes along with the changing functionality of retail projects, which have broadened their appeal beyond the basic shopping experience. As a consequence, owners often focus on expanding the entertainment offering by providing customers with facilities such as cinemas, fitness clubs, educational zones for children, co-working spaces and libraries. In parallel, the share of grocery operators and DIY stores in the total GLA of new supply is decreasing year by year.

Split between gallery element and grocery operators/ DIY in newly delivered shopping centre stock



Source: JLL, January 2019

Although the share of e-commerce in total retail sales is rising, visiting brick-and-mortar shopping centres is still the first choice for most shoppers (according to Statista the share of e-commerce in total retail sales in 2018 was approximately 4.3%). Additionally, we note higher interest from investors in multi-functional projects, especially those located in city centres. This trend goes in parallel with the increasing number of cities in Poland which are planning to revamp their prime retail high street. Boosting vibrancy of run-down high streets through a degree of diversification makes the areas more appealing generally.

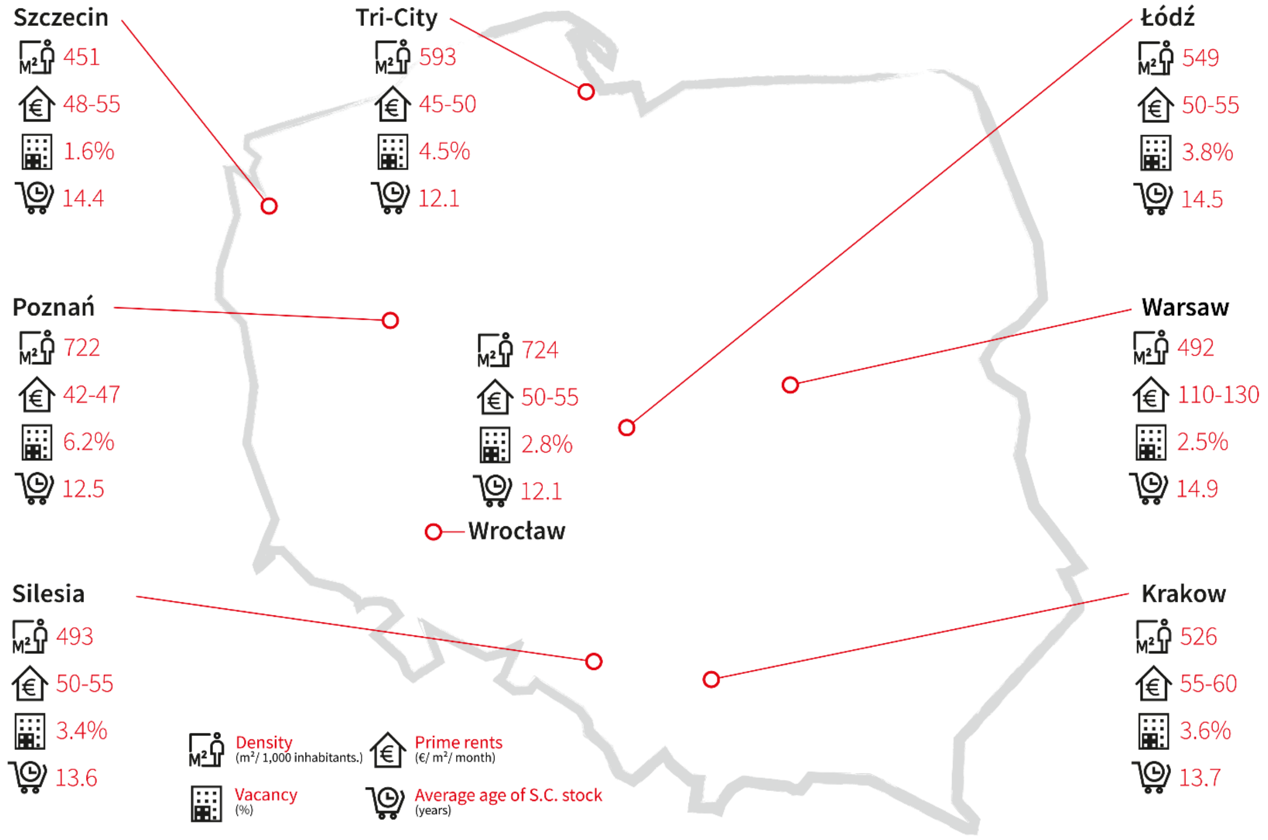
Demand & Rents

In 2018 retailers were open to stable, but selective expansion throughout the country. Twenty nine new international brands entered the Polish market last year, a slight increase on 2017, which confirms that Poland is still among the most attractive destinations for retailers. The greatest interest in the Polish market was expressed by brands from the United States (five), Germany (three), and Italy (three). Among those who market their debut in the last quarter were: Scotch & Soda, Chanel Fragrance & Beauty Boutique, Karaca, Tempur, Huawei, Mrp Home, Ramen Shop Menya Musashi, Fit/One, Orangetheory, and Thun.

2018 proved that the Polish market is heading toward omni-channel retailing. A number of new retail concepts entered the market, most often combining different distribution channels and advanced digital solutions, such as that of the IKEA store in the Blue City shopping centre in Warsaw, which is the world's first example of that concept of the company. Mergers and acquisitions proved to be a long-term trend too (e.g. OBI DIY taking a few places of closed Praktiker stores, and Carrefour in some locations of closed Piotr i Paweł delicatessens).

Warsaw traditionally features the highest prime shopping centre rents, peaking at €130/ m²/ month. Prime rents refer to shop units of 100 m² earmarked for fashion & accessories and located in the best-performing assets in a given city. Rental levels across other major cities remained relatively stable as compared to 2017, ranging from €42/ m²/ month to €60/ m²/ month.

Libero, Katowice



Source: JLL, January 2019; S.C. vacancy rate, H1 2018

The Sunday trading ban became a particularly contentious issue over 2018. The results of Sunday trading ban were unknown until recently. The main conclusion is that the ban in general negatively affected footfall in shopping centres, but to a lesser extent than many predicted. Despite drops in footfall, in general turnover grew. In 2018 trading was permitted on the first and last Sundays of each month; in 2019 the ban will expand, with trading permitted only on the last Sunday of each month. In 2020 trading will be prohibited on all Sundays except seven (those in the run-up to Christmas and the last Sundays in January, April, June and August).

Investment Market

Following the impressive result of €2.1 billion of retail space in Poland being transacted on in the first three quarters of 2018, Q4 2018 has seen just one big-ticket sale of Wars Sawa Junior, a prime retail asset in the centre of Warsaw, purchased for €301.5 million by Atrium European Real Estate from PFCEE, a fund managed by CBRE Global Investors. The other transactions seen in the sector in Q4 2018 involved considerably smaller assets, mainly retail parks.

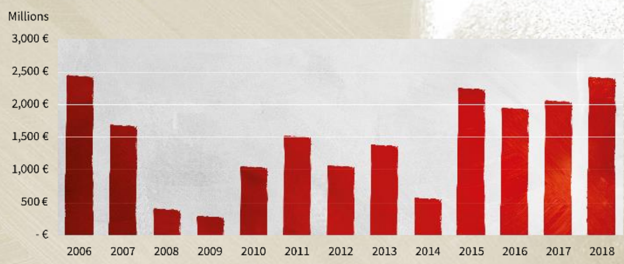
JLL estimates that the total of over €360 million have been traded in retail in Q4 2018 that pushed the annual investments in retail in 2018 to a record high of €2.47 billion (slightly above the result of the best year so far in 2006).

Moreover, 2018 annual result indicates a 20% growth in annual volumes when compared to 2017 (€2.07 billion transacted in retail). However, unlike 2017, when Q4 brought the largest deals to the market, with a total of €800 million in that quarter, Q4 2018 itself with €360 million has a considerably smaller share in the total result for 2018, with Q1 2018 being the strongest quarter of the year (€1.75 billion transacted on in retail).

The largest retail investment transaction signed in 2018 was a portfolio of 28 assets sold by ARES/AXA/Apollo Rida to Chariot Top Group for around €1 billion.

Prime shopping centre yields achievable for best-in-class, dominant, major schemes in Poland currently stand at the level of 4.9%, high street yields are at approximately 4.0%, while prime retail parks are expected to trade at in the region of 6.8%.

Retail Investment Volumes



Source: JLL, Q4 2018

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