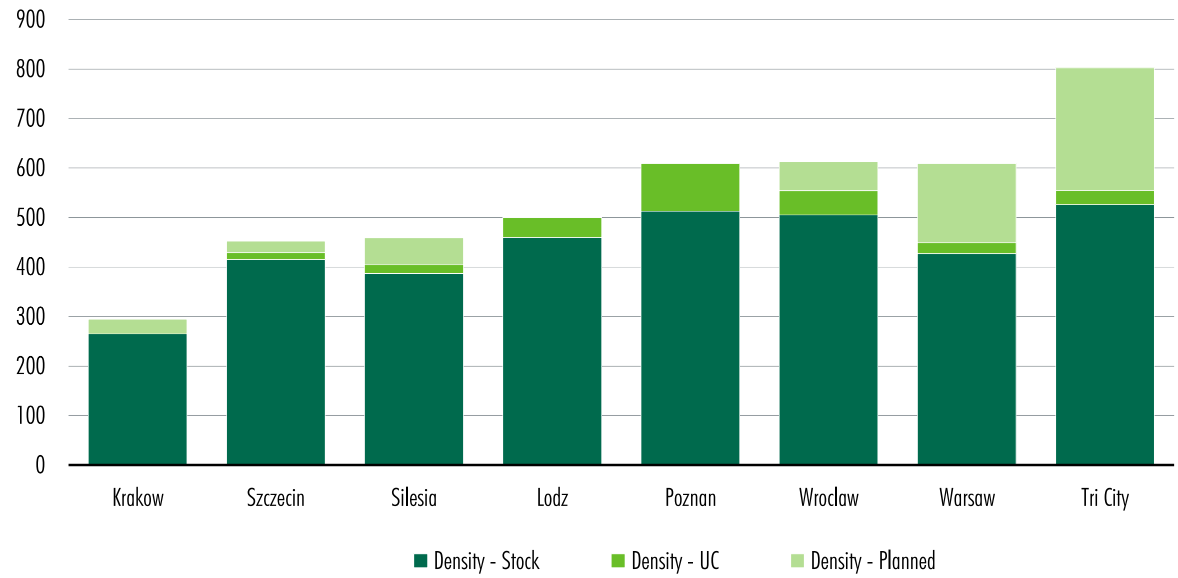
Poland Retail, Q4 2014

After a considerable number of completions in small cities, developers are back in agglomerations

New brands	Completions	2015 pipeline	Average rents
21	424,670 sq m	641,000 sq m	EUR 18-20 /sq m/mth

*Arrows indicate change from previous year

Shopping centre density in agglomerations



Source: CBRE Research, Q4 2014

HOT TOPICS

- The retail investment volume in 2014 totalled EUR 540 million, accounting for nearly 20% of the total value.
- 2014 completions are 30% lower than the previous year, however 2015 pipeline is forecasted to surpass the last five years.
- Convenience was the best word to describe 2014 completions; 70% of stock completed consisted of small schemes.
- Over 20 new retailers entered the Polish market in 2014.

Summary	
Stock	10 316,000 sq m
Q4 2014 completions	115,100 sq m
2014 completions	424,700 sq m
Under construction	790,000 sq m
Retail density for Poland	268 sq m per 1,000 inhabitants
Expected retail density in Q4 2015	285 sq m per 1,000 inhabitants

GENERAL OVERVIEW

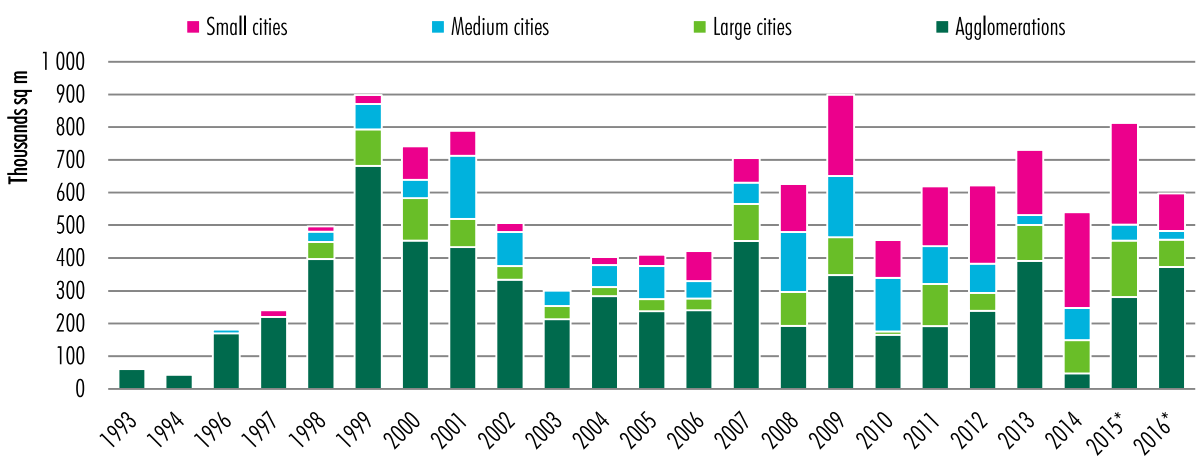
- Among 2014 shopping centre completions the majority are small traditional schemes and small retail parks that jointly account for 70% of the total number of schemes. The most prominent completions include Atrium Felicity in Lublin (73,000 sq m), Galeria Warminska in Olsztyn (41,000 sq m), Galeria Amber in Kalisz (33,500 sq m), with two schemes – Galeria Siedlce (34,000 sq m) and Galeria Bursztynowa (27,000 sq m) being the first modern shopping centres in Siedlce and Ostroleka respectively.

- Although the number of newly completed schemes is comparable to the figures from the last three years, 2014 brought only 425,000 sq m of new retail space to the market, which is 30% less when compared to 2013.

- Agglomerations remain the target of developers, however the process is gradually becoming more challenging due to the increasing quality of the existing schemes, as well as rising consumers' expectations. Therefore, only 28% of the completions took place in large cities and agglomerations, whereas nearly 70% of new investments were delivered in small cities.

- Reversely, the developments launched in 2014 are located mostly in large cities and agglomerations, the majority being large and medium-sized schemes. In total, 770,000 sq m of new retail space remains under construction in 41 schemes and 8 extensions.

Shopping centre supply in Poland by city size



Source: CBRE Research, Q4 2014

- Traditional shopping centres remain the most popular retail format, however due to the changing market conditions and schemes' ageing, the share of 1st generation centres is decreasing through undertaken renovations and refurbishments.

- High street retail remains underdeveloped, however the situation in large cities is gradually changing. Institutional and local investors create opportunities for tenants to locate their stores in the newly built or refurbished locations not only in Warsaw, but also Poznan, Wroclaw and other regional cities.

RENTS

Prime rents remain stable with an upward pressure in agglomeration prime schemes, however the average rents are gradually falling, currently reaching around EUR 25/sq m/month in Warsaw. As a result of growing retailers' demands, as well as rising market competitiveness, the average rental levels are expected to remain low. In this context, it is becoming increasingly important to balance additional costs such as service charges and marketing by introducing new solutions both in terms of technical improvements and asset management.

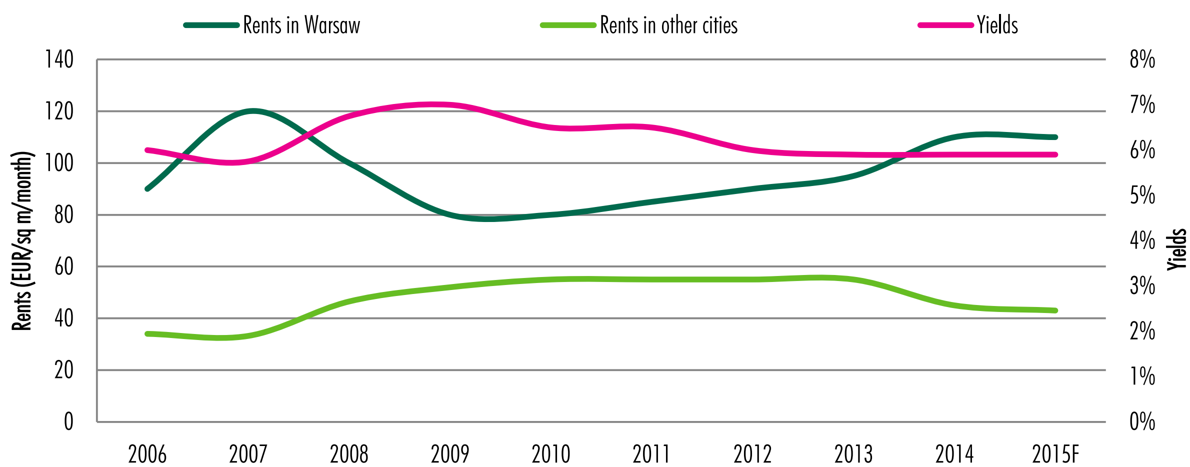
RETAIL INVESTMENT

The retail investment volume in 2014 totalled EUR 540 million, accounting for nearly 20% of the total value. The largest retail transactions included the purchase of Poznan City Center, Focus Mall Bydgoszcz, Galeria Mazovia in Plock and Galeria Pila.

TRENDS

Over 20 new international retailers entered the Polish market in 2014, 75% of them choosing Warsaw as their location of entry. Among the new brands are Celio, Kipling, Undiz, NEO, Kiko Milano and Kiehl's.

Prime shopping centre rents in Warsaw and other cities



Source: CBRE Research, Q4 2014

Despite stable prime rental levels, there is strong pressure on incentives, such as capital contributions towards shop fitting and rent-free periods, as well as turnover rents instead of set (or combined with lower) monthly payments. Tenants that are increasingly price-sensitive insist on better cost control, in particular with regard to service and marketing charges.

The rapid development of e-commerce is a significant challenge to traditional shopping centre owners and property managers. The major challenge is to integrate the e-commerce channel with traditional retail without decreasing the footfall.

Figure 4: The largest 2014 shopping centre completions and under construction

City	Property	GLA (sq m)	Developer	Anchor tenants	Completion quarter
Lublin	Atrium Felicity	73,000	AERE	Leroy Merlin, Auchan, Saturn, Zara, H&M	Q1
Olsztyn	Galeria Warminska	41,000	Libra Project	Piotr i Paweł, TK Maxx, H&M, Zara, Multikino	Q3
Siedlce	Galeria Siedlce	34,000	PB Konstanty Strus	Helios, Stokrotka, H&M, New Yorker, Calypso	Q1
Kalisz	Galeria Amber	33,500	Echo Investment	E.Leclerc, Helios, C&A, LPP, H&M	Q1
Ostroleka	Galeria Bursztynowa	27,000	Narev-Inwestycje	Tesco Extra, OBI, LPP, H&M	Q2
Pila	Galeria VIVO!	23,800	Rank Progress	Carrefour, Media Expert, H&M, LPP	Q4
Poznan	Centrum Posnania	98,000	Apsys	Carrefour, Leroy Merlin, Multikino, Van Graaf	Q3 2016
Bydgoszcz	Zielone Arkady	47,000	ECE Projektmanagement	Piotr i Pawel, Inditex, LPP	Q4 2015
Bielany Wroclawskie	Park Handlowy Bielany extension	35,000	InterIKEA Centre Polska	Helios, TK Maxx, Sports Direct, LPP, Smyk Megastore	Q4 2015

Source: CBRE Research, 2014

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