



Warsaw Retail: Mind the Gap!

June 2014



Five years after the first edition of the Warsaw Retail: Mind the Gap! report, three real estate consultancies revisit the analysis of retail development opportunities in Warsaw.

Introduction

This opinion-led report has been put together for a second time as a joint initiative of three leading consultants in the real estate field: JLL, GfK Polonia and REAS. Five years after the release of the first analysis, the following areas which affect the development of the retail market have again been looked at:

- the supply of retail space in Warsaw, broken down into districts, the best guide for which is retail space density;
- the purchasing power of the residents of the respective areas and MSI urban units,¹ expressed per household and as total spending power;
- short- to mid- and long-term geographic development perspectives for the residential market in Warsaw.

Over the last five years, fundamental changes to Warsaw's transport and communication system have taken place, such as the completion of the Marii Curie-Skłodowskiej bridge, the A2 highway, a large part of the S8 and the western part of the S2 ring roads, as well as the fast approaching completion of the central stretch of the second metro line, to name only the most important. Whilst all those were factored into the 2009 report, they are now reality and new plans are being made for further improvements to the road and transport infrastructure, which will influence the city's residential and retail markets.

The aim of this report is to identify those of Warsaw's sub-regions with the greatest potential for sustainable new retail floorspace.

Retail Supply in Warsaw

Stock-wise, the market situation has been fairly stable over the last seven years. Average annual retail completion stood at 20,000 m², with the peak of 78,000 m² in 2007. The most recent large (40,000–80,000 m² GLA) shopping centre hit the market in 2007; the most recent very large (>80,000 m²) centre in 2004.

The fact that Warsaw has not seen any large or very large shopping centres opening for the last seven years does not imply that the market is stagnating. On the contrary, new retail units have started trading on the ground floors of residential and office buildings. In addition, Warsaw's prime high streets, as well as premier centrally located streets and squares, are undergoing profound changes.

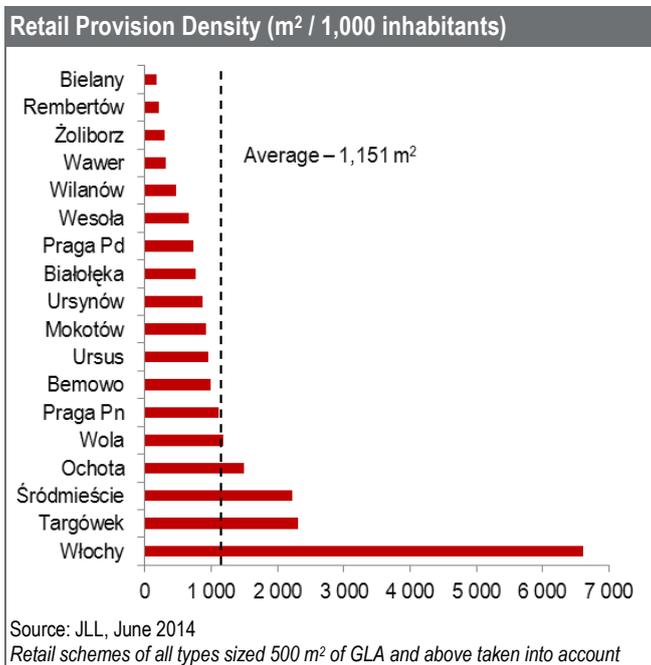
¹ MSI – Urban Information System (Miejski System Informacji)

² A shopping centre larger than 5,000 m² and more than ten units in the gallery

The 'classic' shopping centre² density in Warsaw is low (438 m² / 1,000 inhabitants) in comparison to other major Polish agglomerations. This would be even more pronounced if the real population including un-registered inhabitants were to be used, instead of the officially registered population of 1.7 million.

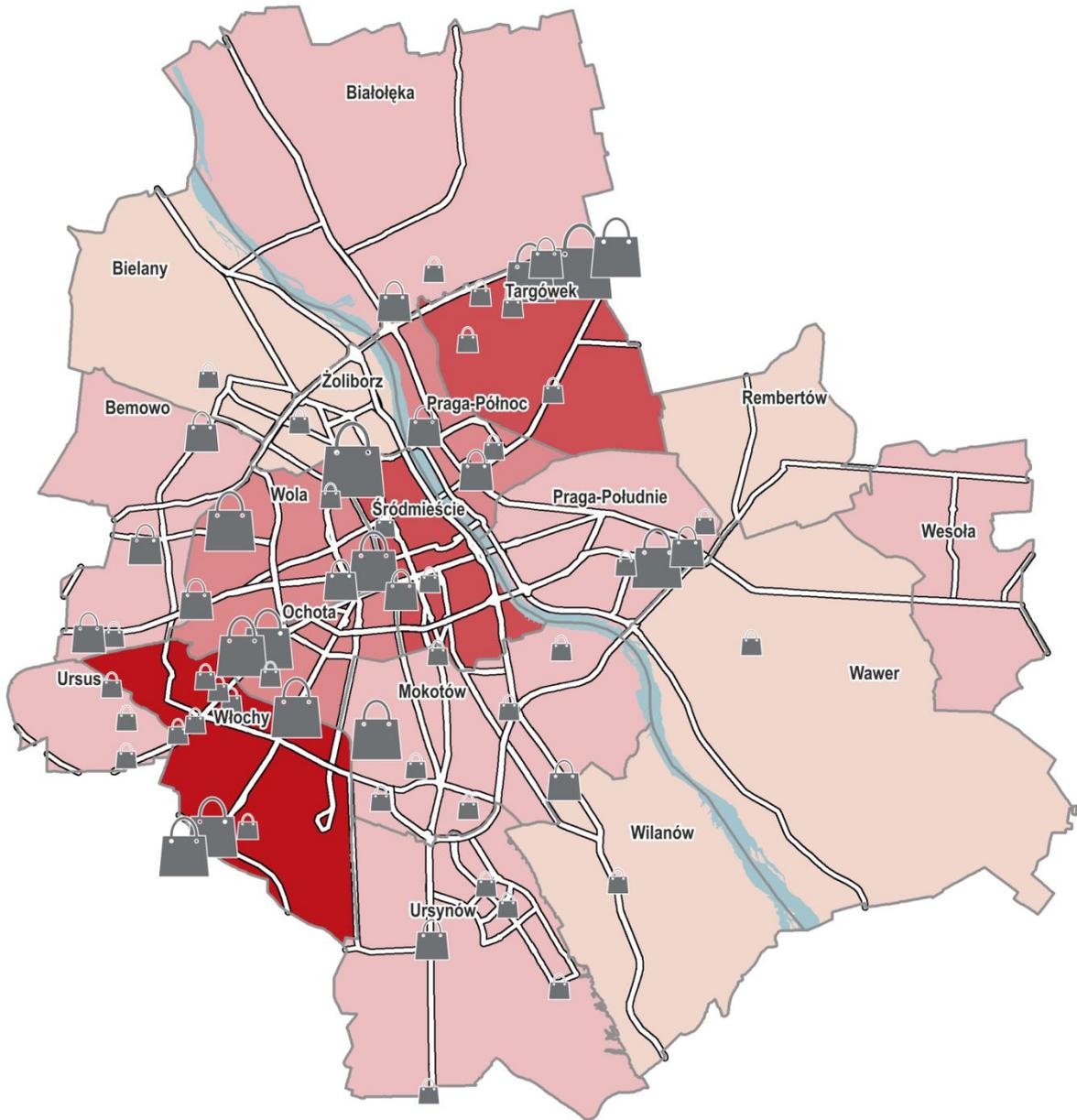
In order to best estimate the retail density in Warsaw, in this report we have looked into all modern retail assets with a GLA of above 500 m². These include stand alone supermarkets and discount stores, retail space within residential and office buildings, furniture stores, DIY units, and, finally, all centres larger than 5,000 m² which we normally track in the shopping centre density. On the top of that, we have estimated the high street retail provision in Warsaw at 35,000 m².

Taking into consideration all retail assets with a minimum 500 m² of GLA, the average retail density for Warsaw³ stands at 1,151 m² / 1,000 inhabitants. Włochy, Targówek and Śródmieście are the frontrunners in this respect, mainly due to the heavy concentration of retail properties of significant scale.



³ The analysis concerns Warsaw only, and ignores retail provision in satellite towns. Exceptions are the IKEA-anchored cluster in Janki and M1 in Marki, which draw from wider catchment areas and cater predominantly for the population of Włochy and Targówek respectively. Therefore, the centres have been accounted for in the analysis and affect the density of Włochy and Targówek.

Retail Density and Shopping Centres in Warsaw



Retail assets in GLA
(trading, above 5,000 m²)

-  Very large > 80,000
-  Large 40,000 - 80,000
-  Medium 20,000 - 40,000
-  Small 5,000 - 20,000

Retail density in GLA
per 1,000 inhabitants

-  > 3,000
-  2,000 - 3,000
-  1,000 - 2,000
-  500 - 1,000
-  < 500

Purchasing Power in Warsaw

Purchasing power serves as a gauge of regional consumption potential and is calculated at consumers 'places of residence'.

Purchasing power is the sum of all net income available to the population of a given region within one year. In addition to net income from self-employed and other than self-employed work, purchasing power includes investment income and government subsidies, such as unemployment benefit, child support and pension pay-outs. The calculation is based on income tax statistics, relevant statistics on government subsidies and forecasts from economic institutes.

GfK purchasing power as an index per household is a figure based on the national average (index = 100). For example, an index of 110 indicates that the inhabitants of the region in question have 10% more purchasing power available than the national average, while an index of 90 means that the purchasing power of the given region's inhabitants is 10% below the national average.

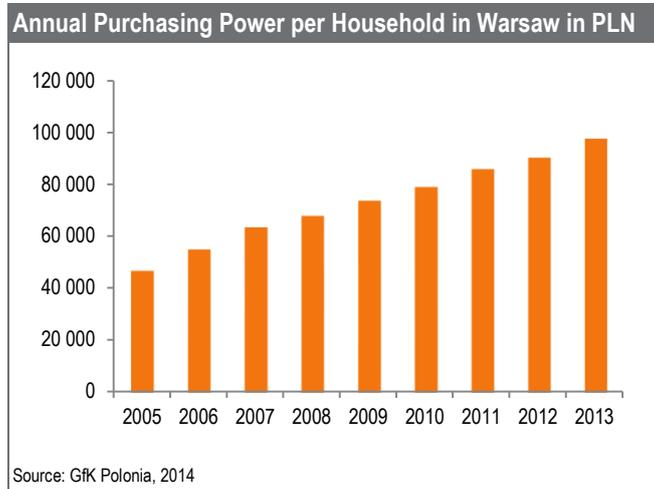
It is not surprising that the purchasing power of the inhabitants of Warsaw is higher than in the rest of the country. People living in the capital have nearly 80% more financial resources than the average Polish resident. This is the highest spending power of all the 2,480 municipalities in Poland.

At the same time, the differences in the value of the purchasing power index per household between the individual districts of Warsaw are as high as 40%.

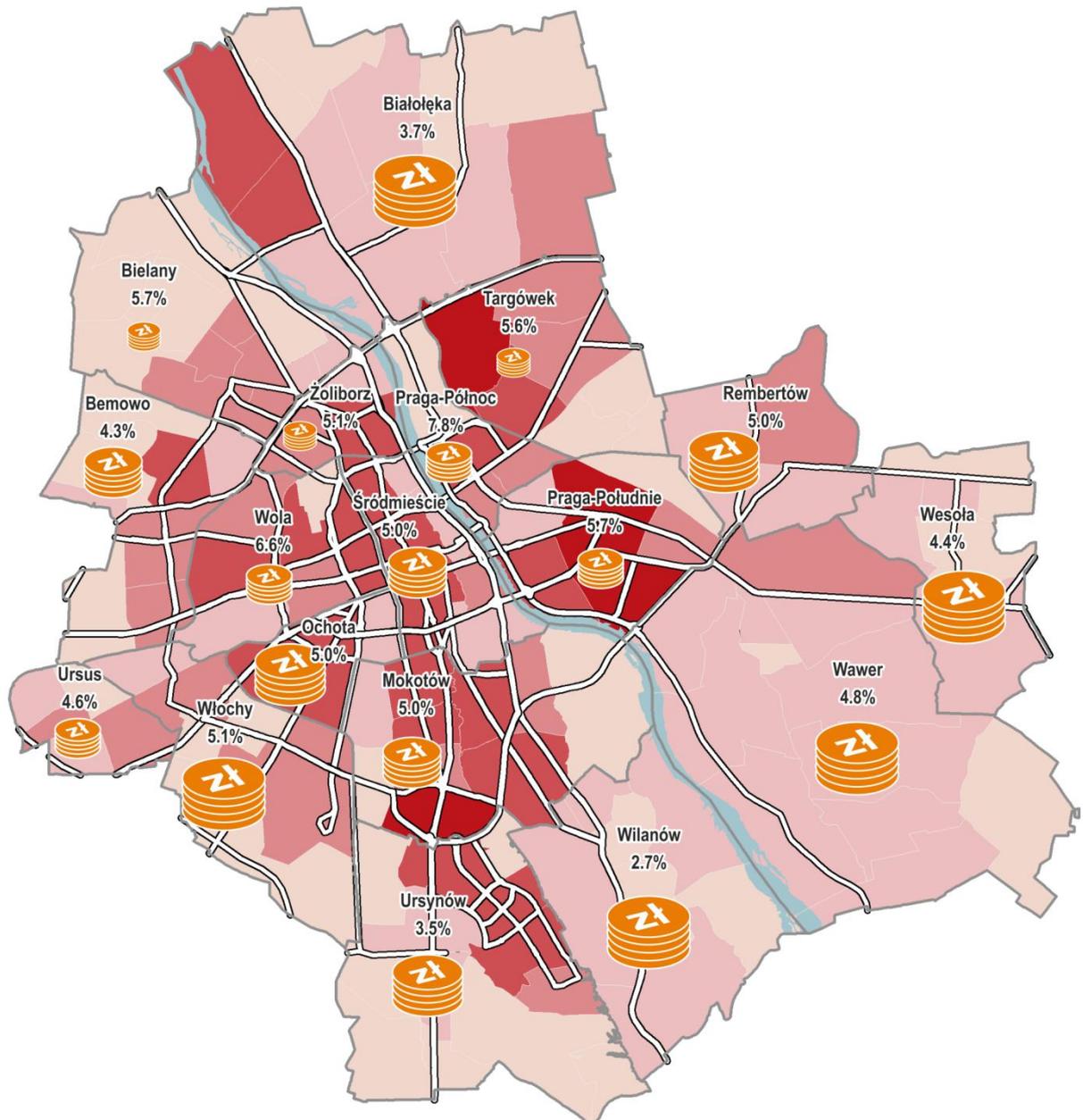
The most affluent households in Warsaw are situated in the residential districts on the outskirts: Wesola, Wawer, Wilanow, Ursynow, Wlochy, and Bialoleka – mostly in estates of single-family houses.

Mokotow has the largest total amount of purchasing power (which is noticeably connected with Mokotow having the largest population, more than 200,000 inhabitants).

With regard to the labour market, Wilanow, Ursynow and Bialoleka are characterised by the lowest unemployment rates – under 4%. Unemployment rates lower than 5% are also found in Wesola, Ursus and Wawer.



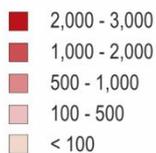
Purchasing Power in Warsaw's Districts



Purchasing power per household in PLN per district



Purchasing power in PLN million per MSI neighbourhood unit



Unemployed in population in production age

(%)

Residential Development in Warsaw

A key part of a retail analysis is the site catchment area. While status quo analyses are quite easily feasible based on available demographic data, prognoses are not. In order to estimate the future population living in a defined catchment area, it is critical to monitor the development of the residential market on a regular basis. This applies both to existing housing stock and new housing. In the case of the former, changes in the population pattern of a functioning neighbourhood are mainly due to gradual changes in household structures. A current trend in this respect is a development towards less dense living, with the number of persons within a household gradually declining. Therefore, changes in the secondary market typically point towards a decrease in the number of residents living in the existing housing stock, especially in the central parts of the city.

New housing adds a large number of new residents to certain neighbourhoods. The increase in population is derived from both migrants and the internal inner-city redistribution of Warsaw's residents. In any case, planned residential developments are a barometer for future growth areas in terms of population.

After a short-lived crisis in 2009, Warsaw's primary market has returned to a stable growth path. Despite a lower number of units being completed from 2010 to 2013, as compared to 2008–2009, Warsaw continues to be Poland's major residential market. Over the last decade, the highest completion figures in the capital were recorded in 2008 and 2009 (more than 19,000 each year), as a result of a record level of construction starts during the boom period from 2006 to 2007. The lowest number of 9,408 residential units completed was recorded in 2011, which in turn was a result of the 2009 crisis. The average annual production of new residential units in the past ten years was around 14,000, with the majority of those being flats in multi-family developments.

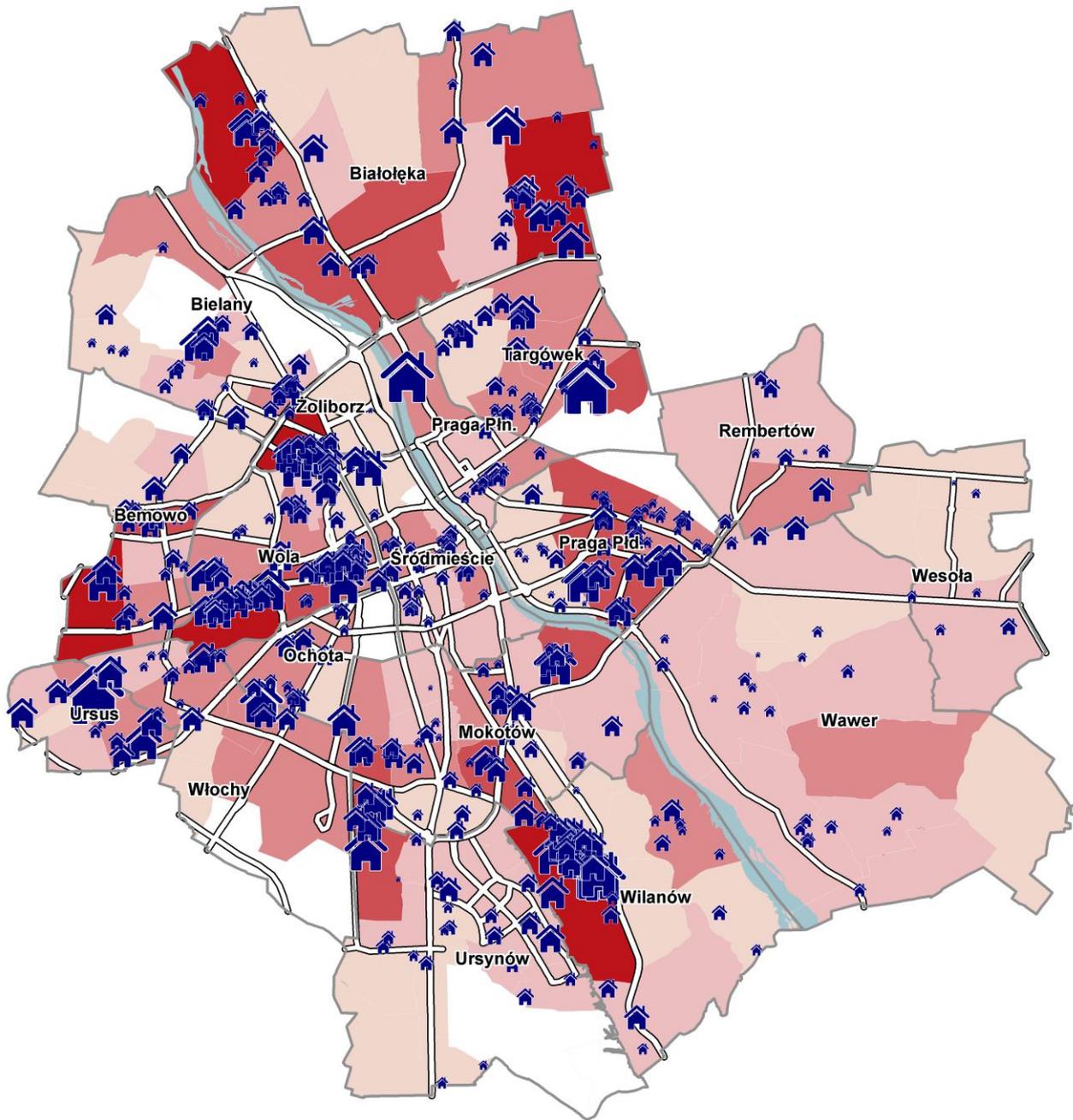
According to a market forecast from REAS in March 2014, based on monitoring of developers' plans, land transactions, planning processes (zoning plans) and market cycle projections, more than 60,000 units will be completed in the four years from 2014 to 2017. A considerable number of these projects are at an advanced building stage, under construction or just before the start of construction. A second part of the forecast relates to the period covering the eight years between 2018 and 2025. This forecast is based on the absorption potential of varying areas designated for residential construction in the municipal urban planning strategy, as well as future demographic and economic trends and projected market development. REAS estimates the number of new units to be completed from 2018 to 2025 as being approximately 110,000.

The following areas have the largest concentrations of future residential developments:

- Białołęka – in the MSI neighbourhood units of Grodzisk (around Głębocka Street), Nowodwory and Tarchomin
- Wilanów – Błonia Wilanowskie (i.e. Miasteczko Wilanów)
- Wola – Odolany (around Jana Kazimierza Street)
- Bemowo – Chrzanów
- Żoliborz – Sady Żoliborskie (concentrating in Żoliborz Przemysłowy)
- Mokotów – Stegny (specifically the Pod Skocznią area), Służewiec (both in Mokotów and Ursynów)
- In longer perspective – Mokotów's Siekierki neighbourhood and Szamoty in Ursus



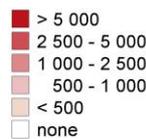
Directions in Residential Development in Warsaw



Housing projects by developers declared for completion in 2014-2025



Residential growth forecast 2014-2025 in number of dwellings per MSI unit



Conclusions – Development Opportunities

When the three aspects mentioned above are taken into account, two of Warsaw's districts look clearly undersupplied in retail terms. These are Białoleka and Wilanów.

Białoleka: this is one of the fastest growing districts of Warsaw, with one of the lowest percentage of working-age unemployed persons in the city (3.7% as of Q4 2013), second only to Wilanów and Ursynów in this respect, and with a reasonably strong purchasing power. The young population residing in both Tarchomin and Nowodwory in the western part of this district, Warsaw's second largest (73 km²), as well as in Grodzisk, Dąbrówka Szlachecka, Kobialka, Brzeziny and Szamocin in the eastern part, support the development of a large-scale shopping centre.

Wilanów: clearly retail market development here has not caught up with the number of new residential units being delivered in this part of town. The lack of a proper shopping centre so evident until now has resulted in a number of retail units opening on ground floors of residential buildings. A combination of three factors, i.e. low retail space density, strong residential growth and high purchase power, support the development of a large-scale shopping centre. It would also draw from a wider catchment area of Konstancin-Jeziorna and Powsin. The catchment area could potentially additionally include Wawer following the completion of the southern ring road (officially announced for the end of 2019), provided that no competing centre is developed across the river.

In addition to the unquestionable market gaps above, we advocate considering retail market development in some form in the selected districts described below:

Wawer: the largest of Warsaw's peripheral district (80 km²), Wawer seems not particularly impressive from the residential growth point of view due to typically low-rise development. However, the remaining aspects, i.e. the very low retail space density and a reasonably strong overall purchase power, most notably in the Zerzeń neighbourhood, point to retail development potential, but in a scale adjusted to the size of the market (both in terms of geography and population figures). Also, it must be kept in mind that upon completion of the southern ring road, Wawer will be in the catchment area of the planned Galeria Wilanów.

Ursynów: with respect to a shopping and leisure centre to be developed in Wilanów, whose sustainability is unquestionable, we are of the view that this area can absorb new shopping centre space (perhaps as an extension to one of the existing centres).

The combination of overall spending power and undersupply of retail space, supported additionally by a low unemployment rate (second only to that in Wilanów), indicates further retail potential in Ursynów.

Wola: one of the fastest growing residential districts in Warsaw, at the moment growing faster than Białoleka and Mokotów, Wola is currently quite heterogeneous with regards to the purchase power of households. Despite Wola being relatively well served in terms of modern retail space, which is reflected by a retail density roughly in line with the Warsaw average, we are of the view that the fast growing residential potential here and its scale cannot be underestimated. We therefore recommend some retail development in Wola, catering for the needs of the young population of areas such as Odolany and Czyste.

Additional two districts where we see some retail potential are Bielany and Bemowo.

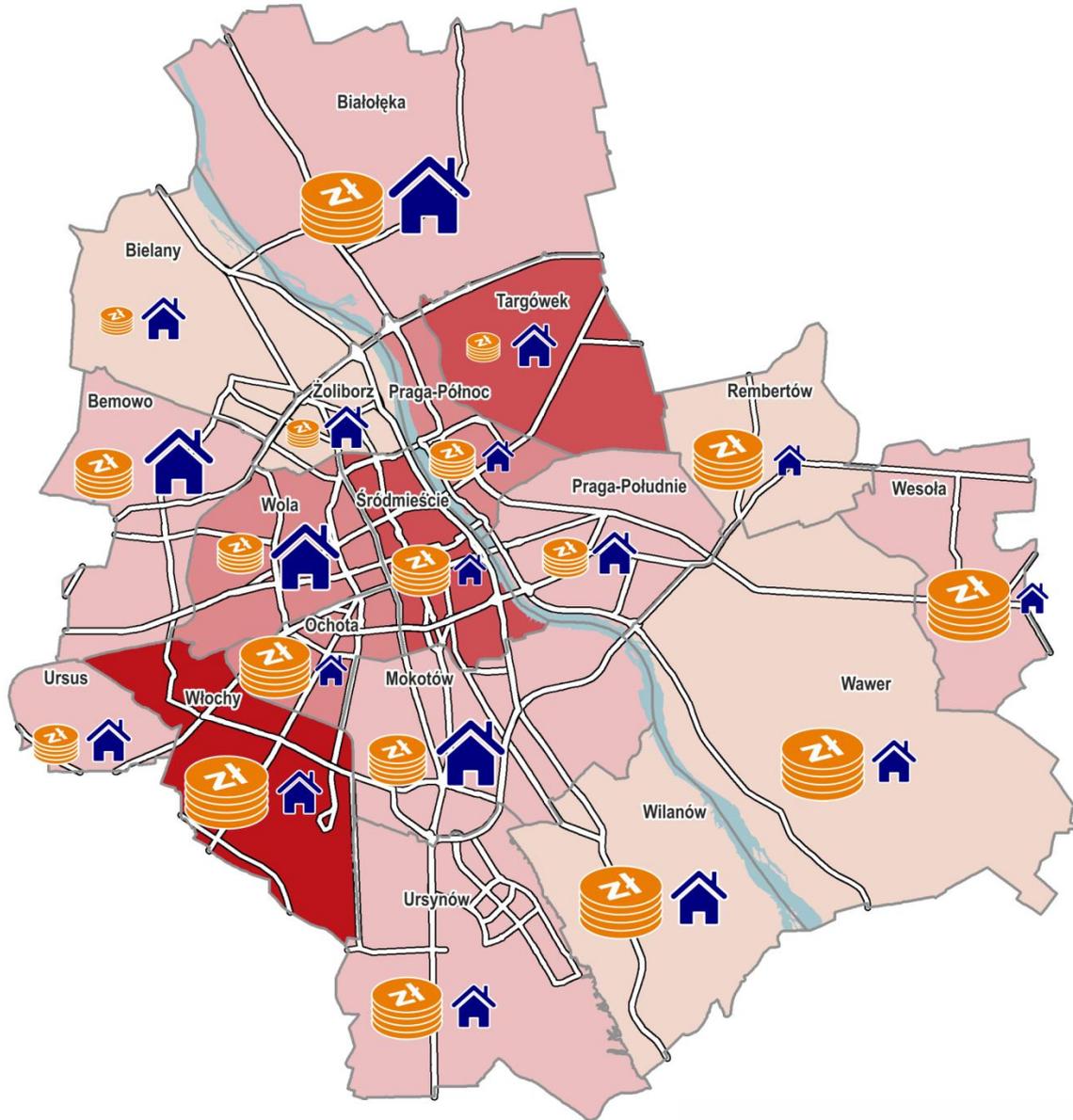
Bemowo: this is a growing district in terms of new residential units, especially in the Chrzanów neighbourhood. Still, its current retail density is rather high, which, combined with the average purchasing power per household, does not give confidence in recommending new retail space, except for a clear future potential within new residential clusters.

Bielany: although this district features the lowest retail density and relatively high population figures, it does not show great potential in terms of new residential investments, unless the Huta area will be set for redevelopment. Purchasing power here is also limited in comparison to other districts. Nevertheless, the existing retail stock is not sufficient for the large number of people living in the area. Therefore we see space for a retail centre in a suitable location within the Bielany district.

We are of the view that even though Warsaw is gradually maturing, it still offers multiple opportunities in terms of further retail development. Dynamically growing new residential clusters and increasing numbers of inhabitants, combined with the highest purchasing power in the country, generate demand for new retail projects of diversified scale and character. However, one needs to remember that appropriate selection of retail sites and concepts remains of critical importance.

It should also be remembered that the supply of sites allowing for retail use in Warsaw is currently limited. Today only 32% of the Warsaw area is covered by valid master plans, and any large scale retail development is subject to stringent regulations.

Retail Density, Purchasing Power and Residential Development Forecast per Districts



Purchasing power per household in PLN



Dwelling completion forecast in 2014-2025



Retail density in GLA per 1,000 inhabitants





Agnieszka Kowalewska

Project Manager
Customer Analytics & Sales Strategies
GfK Polonia
+48 22 434 14 73
+48 505 196 231
agnieszka.kowalewska@gfk.com

Katarzyna Kuniewicz

Director
Market Research
R E A S | Residential Advisors
+48 22 380 21 25
+48 664 088 225
katarzyna.kuniewicz@reas.pl

Anna Bartoszewicz-Wnuk

National Director
Head of Research and Consultancy
JLL
+48 22 318 0007
+48 600 303 778
anna.bartoszewicz-wnuk@eu.jll.com

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