

# A TALE OF FOUR CITIES

## HIGH STREETS IN THE CEE CAPITALS

2<sup>ND</sup> EDITION

Property Report  
May 2016



RESEARCH



**BNP PARIBAS  
REAL ESTATE**

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## Author:

Anna Staniszevska, Head of Research & Consultancy CEE,  
BNP Paribas Real Estate

## Contributors:

Lenka Šindelářová, Associate Director, Head of Consultancy, Czech Republic  
Catalin Maruntelu, Valuer, Romania  
Szymon Dołęga, Assistant, Research & Consultancy, Poland

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# FOREWORD

High streets, irrespective of the city in question, constitute the nucleus. They mirror character as well as business and tourist attractiveness. When properly planned, executed and maintained, high streets become true landmarks for the city.

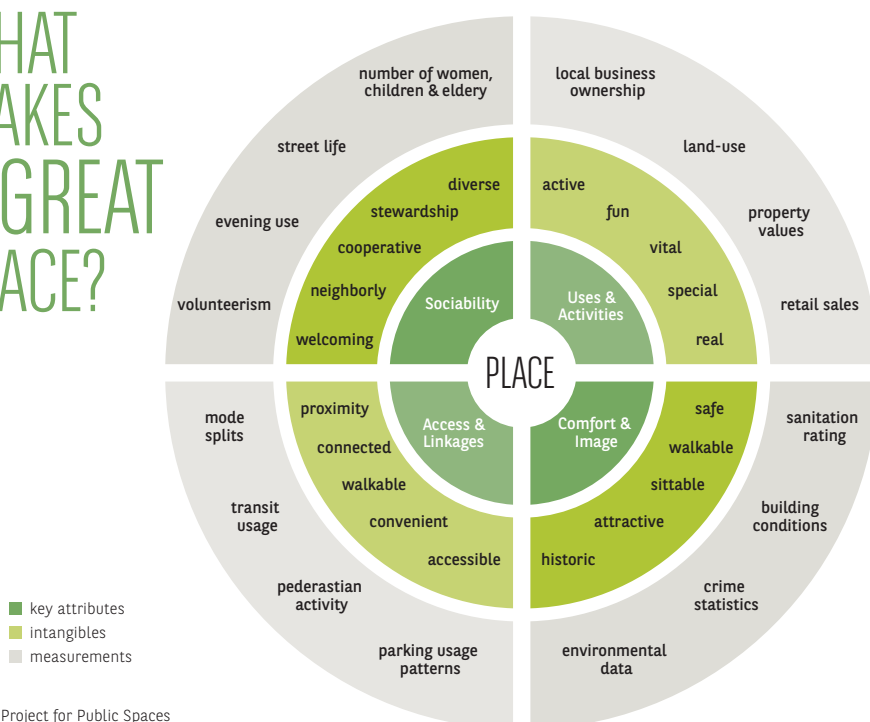


Anna  
Staniszevska  
*Head of Research  
& Consultancy  
Central and Eastern  
Europe  
BNP Paribas Real  
Estate*

It is important to remember that in the current, fast changing world they should not only be a stretch to pass by when walking to work, but a spot to linger and relax. Nowadays, properly functioning streets should be lively almost all around the clock, which is a derivative of appropriate place making, whether spontaneous or planned.

When analyzing the high streets across the CEE capitals, it is clear that there are significant differences among them, which stems from many elements. Some of them are fixed, such as the urban development, ownership structure or appeal of the Old Town area. However, other factors such as planning, design and management of public spaces are more subject to change. The strategic approach of creating multi-purpose common areas should be executed with vision. Taking care of sociability, accessibility, mix of complimentary uses as well as providing for comfort are things which can be created and implemented. This holistic, multifaceted approach supports place identity and enhances peoples' well-being, whether tourists or city dwellers.

## WHAT MAKES A GREAT PLACE?



# EXECUTIVE SUMMARY

The CEE capitals, depending on the market cycle they are in, wealth of the inhabitants, as well as their tourism and business appeal, present a very diversified structure of high street offering.

**P**rague, Budapest, Warsaw and Bucharest are different in quality of supply, structure of demand as well as rental levels. Still, they continue to be attractive markets for high street brands, who are enticed to these cities by change in spending patterns and growing disposal income.

Based on the success of the last report, BNP Paribas Real Estate prepared the second edition of the study *A Tale of Four Cities. High Streets in the CEE capitals*. This time, the paper was extended by Bucharest, the capital of Romania, as the municipality has a potential to develop similarly to the patterns observed in the peer cities. Additionally, the contents was enriched by three expert's opinions.

Despite of lack of unified definition, there are common basic elements of high streets (often referred as shopping streets), which remain valid across all of the analysed markets and include:

- Prominent and representative character, often part of tourist hotspot,
- Located along pedestrianized routes or in zones with limited vehicle traffic, usually with good access to public transport, recording significant footfall
- Majority of retail / service units within 50-150 sqm GLA, usually with large shop windows
- Restaurants, cafes and bars constituting a significant share of the tenant-mix
- Luxury and upmarket brands occupying a particular section or separate street, distinguished from the mid-market sector
- Dispersed landlord structure, composed of units or tenement houses owned by municipalities, private owners and institutional investors.

The purpose of the report is to present the changes that have occurred over the last year, the current state and future trends of the high streets in CEE capitals. The study also compares the factors influencing high street development, provision of stock, operating retailers along with rental patterns.

For the purpose of the report, BNP Paribas Real Estate has analysed the following streets, classified as major high streets in the selected capitals:

- Prague: Na Příkopě Street/ 28. Října Street, Václavské náměstí (Wenceslas Square), Pařížská Street
- Budapest: Andrásy Street, Váci Street, Fashion Street
- Warsaw: Nowy Świat Street, Chmielna Street, Plac Trzech Krzyży area (Three Crosses Square)
- Bucharest: Calea Victoriei, Calea Dorobantilor, Strada Lipscaeni and Bulevardul Magheru

Prague has the most comprehensive high street offer in terms of number of retailers operating and the largest group of luxury and premium brands out of the analysed capitals.

Due to its well-preserved Old Town, the capital of the Czech Republic has also substantial stock of quality commercial space, allowing for flagship store creation thus enhancing brand visibility. These factors determine the lowest vacancy levels, which oscillates at a mere 2% and the highest rents achieved for prime units<sup>1</sup>, standing at €170-200 per sqm/mth. This trend is set to continue as Prague remains the key market for high street expansion within the CEE region.

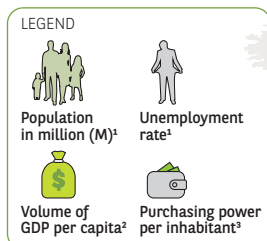
Budapest remains relatively strong when analysing presence of international brands on high streets. The availability of retail units has decreased by 1.5 p.p. year-on-year and stood below 6%. Rental rates have been gradually rising over the course of the last few quarters by 5% y/y, reaching €90-100 per sqm/mth.

Warsaw is the largest city in the CEE in terms of population and the most affluent one when considering purchasing power per inhabitant. Still, its potential remains unutilized. Due to issues with appropriate premises, many premium and upmarket brands are missing. Additionally, due to imbalanced tenant-mix and lack of proper strategy, empty units along Nowy Świat and Chmielna streets contribute to rising vacancy rate, which grew by 1.5 p.p. to the level of 6.5% at the beginning of the year.

Bucharest, the city new included in our analysis, is the least developed one when it comes to availability of high street stock and presence of international retailers as well as level of high street rents, which are in the range of €30-45 per sqm/mth.

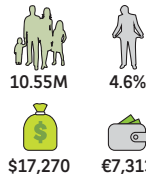
1. Prime unit defined as a 100 sqm shop unit leased to a fashion or jewellery retailer.

# SNAPSHOT OF THE COUNTRIES

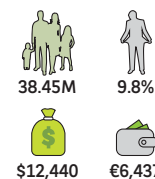


1. National Statistical Offices all data as at Dec. 2015 except for PL population as at June 2015  
 2. KPMG based on Economist Intelligence Unit, 2015  
 3. GFK Purchasing Power Index, 2015/2016

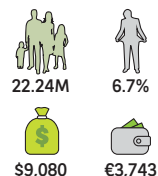
## CZECH REPUBLIC



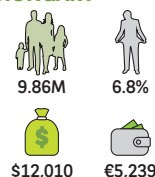
## POLAND



## ROMANIA

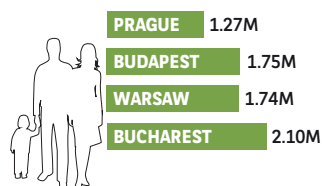


## HUNGARY

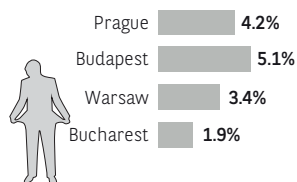


# SNAPSHOT OF THE CITIES

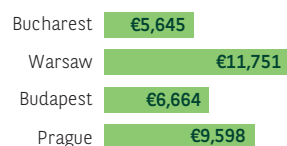
## NUMBER OF INHABITANTS<sup>1</sup>



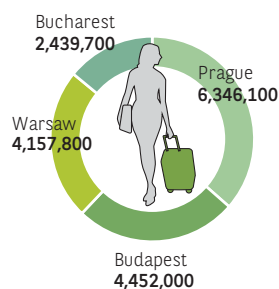
## UNEMPLOYMENT RATE<sup>1</sup>



## PURCHASING POWER<sup>2</sup>

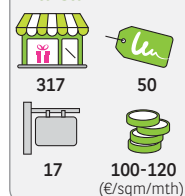


## NUMBER OF TOURISTS<sup>3</sup>



# SNAPSHOT ON HIGH STREETS

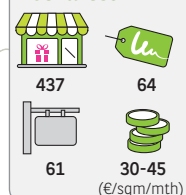
## Warsaw



## Prague



## Bucharest



## Budapest



## LEGEND



Source: 1. National Statistical Offices all data as at Dec. 2015 except for PL population as at June 2015, 2. GFK Purchasing Power, 3. Euromonitor



## SELECTED RETAILERS OPERATING IN THE CEE CAPITALS ALONG THE HIGH STREETS

	PRAGUE	BUDAPEST	WARSAW	BUCHAREST
Baldinini	X	-	-	-
Bottega Veneta	X	-	X*	-
Burberry	X	X	X	-
C&A	X	X	X**	-
Desigual	X	X	-	-
Dior	X	-	-	-
Emporio Armani	-	X	-	X
Ermenegildo Zegna	X	X	X	-
Escada	X	X	X	X***
Fendi	X	-	-	-
Geox	X	X	-	-
Gucci	X	X	X	X
H&M	X	X	X	X
Högl	X	X	-	-
Hublot	X	X	-	-
HUGO BOSS	X	X	-	-
Lacoste	X	X	-	-
Louis Vuitton	X	X	X	X***

	PRAGUE	BUDAPEST	WARSAW	BUCHAREST
Mango	X	X	-	-
Massimo Dutti	-	X	-	-
Max Mara	X	X	X	X
Moncler	X	X	-	-
Moschino	-	-	-	X
New Yorker	X	X	-	-
Paul & Shark	X	-	-	X
Prada	X	-	-	-
ROLEX	X	X	X	X
Saint Laurent	-	-	X*	-
Salamander	X	X	X	-
Stefanel	X	-	-	X
Tommy Hilfiger	X	X	-	-
The Body Shop	X	-	-	-
United Colours of Benetton	X	X	-	-
Zara	X	X	X**	-

\*Located in a multibrand unit

\*\*Located in retail complex on Marszałkowska street, close to Chmielna

\*\*\*Located in Marriott Hotel

Source: BNP Paribas Real Estate

The vast majority of retailers present on the high streets of the capitals are of foreign origin, while the catering offer has a more local flavour.

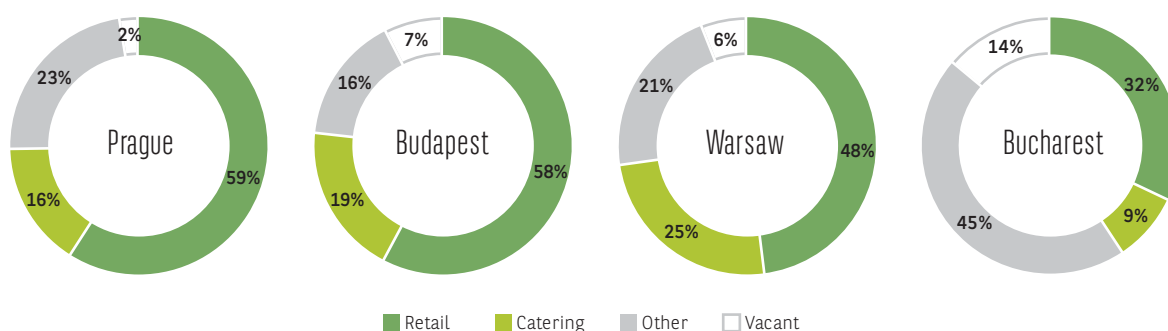
When analyzing the basic tenant-mix structure, Budapest has the largest share of retail, while Prague exhibits the most diverse offer of catering and other services. Bucharest in turn has substantial level of vacant units.

Since the last survey, the luxury and upmarket clusters in Prague (Pařížská) and Warsaw (Plac Trzech Krzyży, Mokotowska, Mysia) have strengthened their position. While Andrassy Avenue continues to be the key premium brand destination, they are also inclined to expand to Váci Street. Bucharest is not yet developed enough to see much of differentiation in retail and service offer on major high streets.

The shopping streets are also equipped with department stores, urban malls and shopping passages, providing complementary offer. In Warsaw, Wars, Sawa and Junior retail complex, located on Marszałkowska street, hosts flagship stores of fashion brands such as Zara, H&M, Reserved, TK Maxx or C&A. The retail provision in the central areas will be strengthened by development of CEDET department store as well as extended retail offer of Ethos office building, which will fit into the luxury and upmarket quadrant around Plac Trzech Krzyży.

When analysing high street yields, the capitals of CEE present a very scattered picture with Prague prime assets at the level of 4.00-4.50%, Budapest and Warsaw at the range of 5.75-6.50 and Bucharest at 7.50-8.50.

## BASIC TENANT-MIX STRUCTURE IN THE ANALYSED CITIES



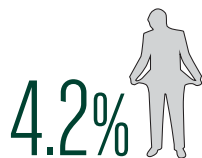
Source: BNP Paribas Real Estate, Inventory as at Feb.-March 2016

# PRAGUE

## CITY IN A NUTSHELL



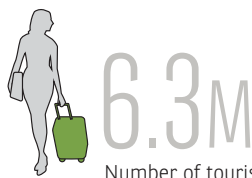
12% of the Czech Republic



Unemployment rate<sup>1</sup>  
vs 4.6% in the Czech Republic



Purchasing Power per capita<sup>2</sup>  
131% of the average for the  
Czech Republic



Number of tourists<sup>3</sup>



and Europe's 5<sup>th</sup> most attractive  
tourist destinations  
(Euromonitor's Top 100 City  
Destinations Ranking)



**ON UNESCO'S WORLD'S  
HERITAGE LIST  
SINCE 1992**

Source: 1. Czech Statistical Office, Dec. 2015, 2. GfK Purchasing Power 2015/2016, 3. Euromonitor

## FOCUS ON HIGH STREETS

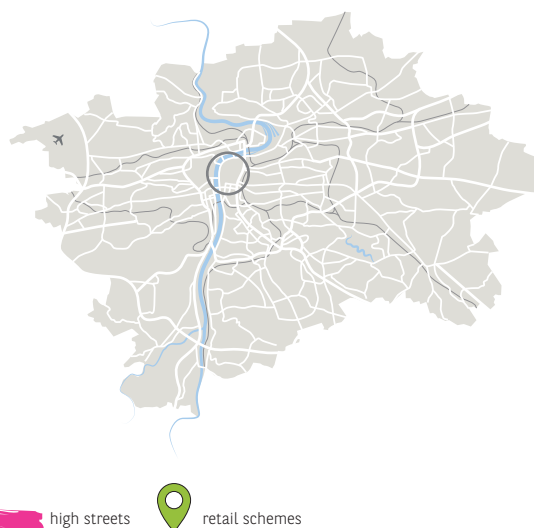
Undoubtedly Prague has the most diverse high street offer out of the analysed cities.

**B**oth quality of retailers and provision of suitable premises as well as rental levels achieved are top-notch. Such positioning mainly derives from the city's highly touristic character as well as relatively high purchasing power of inhabitants.

These factors determine the lowest vacancy levels and the highest rents achieved for prime units, standing at €190-200 per sq m/month.

The key high streets on Prague include Na Příkopě Street, Václavské náměstí (Wenceslas Square) and Pařížská Street. The high street offer is complemented by Palladium shopping centre, Myslbek shopping gallery and two shopping passages: Slovanský dům Černá růže. In 2014, the modern retail stock in Prague's city centre increased by 8,500 sqm within Quadrio shopping gallery developed by CPI Property Group. This mix-use scheme, is located relatively close to the analysed streets next to the department store My Tesco.

It should be noted that Prague assets along high streets are very much sought after by institutional investors. It has been confirmed by transactions, where high street yields were in the range of 4.5-5.0%, with trophy schemes on Pařížská trading even below 4.00%. At the same time prime shopping centre yields fall within 5.00-5.50%.



## PRAGUE

## NA PŘÍKOPĚ ST. / 28. ŘÍJNA ST.



Total number of retail units

Na Příkopě Street is a promenade, connecting Wenceslas Square with Náměstí Republiky Square. It is one of the most frequently visited spots in the city.

Its vast array of historic buildings of unique character accommodate commercial, hospitality as well as office functions. A prolongation of Na Příkopě is the Street 28. Října which ends at the My Tesco department store (12,000 sqm) and Quadrio (8,500 sqm). The provision of retail and service units was estimated at 81.

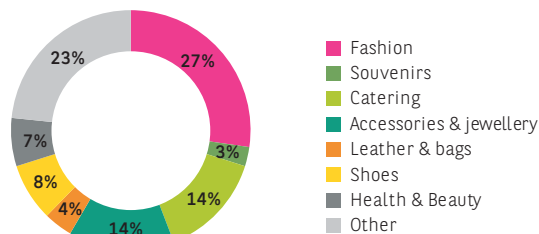
In terms of street profile, the majority of brands are within the mid-market group. In addition, some premium retailers are also present. Due to the highest footfall in the city, Na Příkopě Street is considered to be the perfect location for flagship stores. The location has been recognised by Tommy Hilfiger, H&M, Mango, Desigual, United Colours of Benetton, Zara, Douglas, to name a few. One of the major newcomers to the city, the UK-based Hamleys has opened its first store in the country there in May. With 6,000 sqm it will be one of the largest toy stores in Europe and larger than the Hamleys store in London.

In addition to the commercial space on ground floors along the street, there are some retail schemes, which accompany traditional high street. These include:

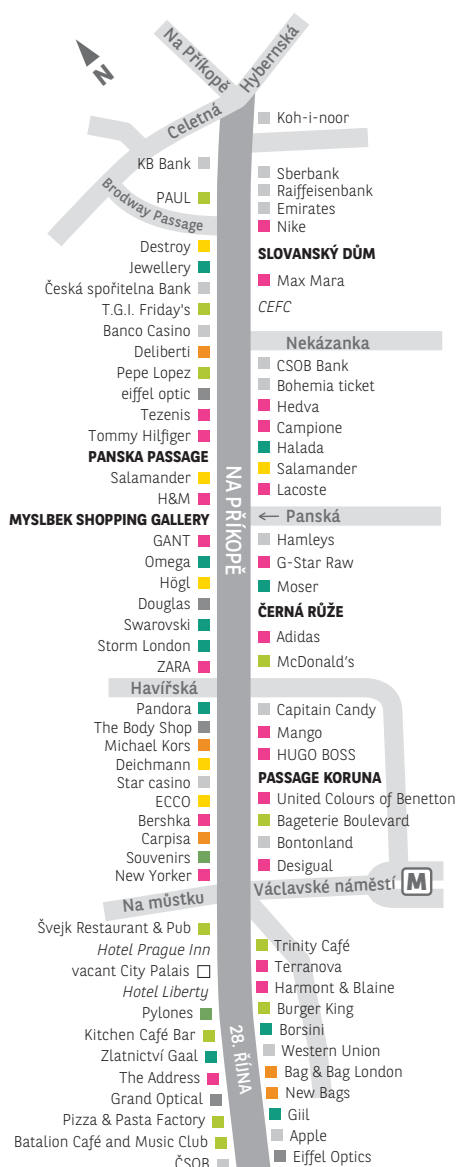
- Palladium located on Náměstí Republiky, a mix-use scheme, consisting of office and retail space. The 39,000 sqm GLA shopping gallery was completed in 2007 and hosts around 170 retail units and 30 restaurants. It targets mid-market customers and is geared heavily towards tourists, with anchors such as Marks & Spencer, C&A, H&M, Topshop, Mango, Esprit, Reserved, CCC, Deichmann, Sportisimo and Albert supermarket.
- Myslbeek Shopping Gallery opened in 1996 as one of Prague's first shopping malls. It hosts around 30 shops and boutiques (i.e. H&M, GANT, Next, Calvin Klein, GUESS, Intersport and dm drogerie as well as a few restaurants).
- Černá růže, serving as a shopping passage since 1932, has been refurbished in 1998 to accommodate 50 stores and several restaurants.
- Slovanský dům hosts brands such as Beltisimo, Nike, Cerruti, Bibelot, Weekend Max Mara as well as some catering facilities like restaurants: Ambiente Brasileiro and Kogo Café & Ristorante. There is also the Palace Cinemas multiplex theatre.

For prime units on Na Příkopě yields are around 4.75%

## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016





## PRAGUE

# VÁCLAVSKÉ NAMĚSTÍ

(Wenceslas Square)

102

Total number of retail units

Wenceslas Square stretches over 750 m. It is one of the biggest boulevards in the city. It connects to Na Příkopě Street and its lower part creates the so called Golden Cross.



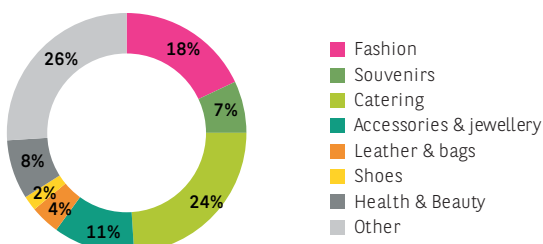
The square has significantly upgraded its appearance and there are plans to redevelop the square even further. It has attracted many international retailers. A couple of them like C&A and Marks & Spencer have flagship stores in multi-storey tenement houses along the square. In total, there are over 100 retail and service units around the square.

There are also department stores like Debenhams opened in 2004, offering an array of own-label fashion as well as a selection of franchised brands recruiting from premium and luxury segment. Van Graaf department store was opened on Wenceslas Square in 2010 across 10,000 sqm it offers a multitude of brands in women and men fashion.

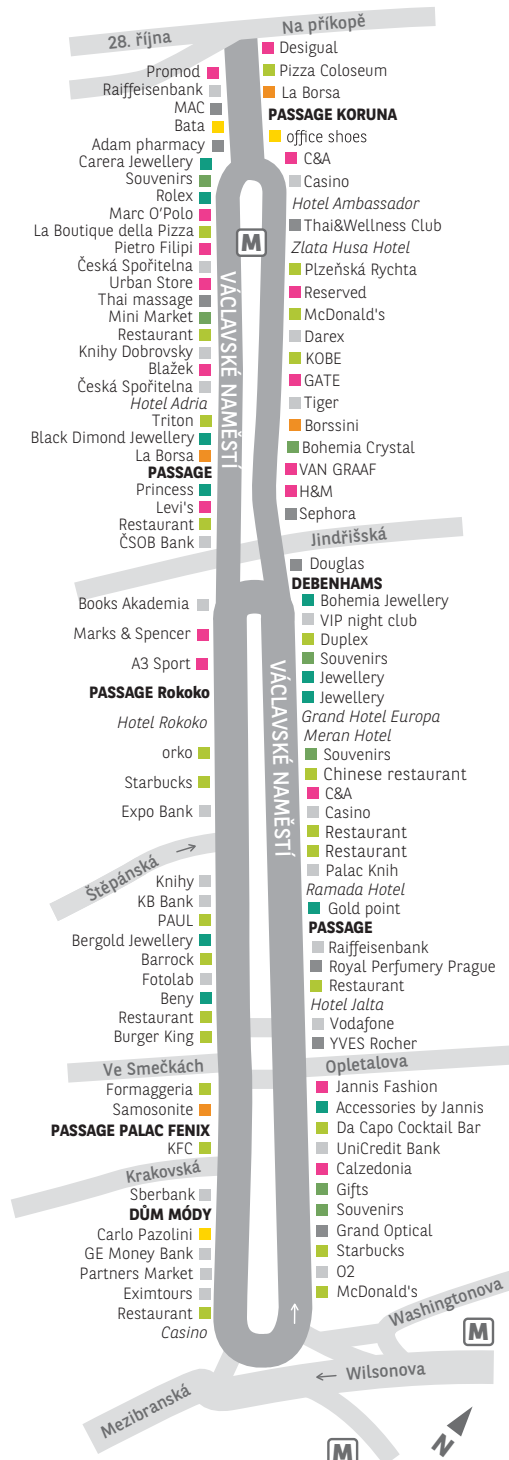
In the upper edge of the square a multi-brand and multi-storey department Dům Módy provides a range of international, such as Tuzzi, Gerry Weber, Taifun and Betty Barclay.

Prime yields for high street units in the lower part of the Wenceslas Square range around 4.80-4.90% as per most recent transactions.

## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



# PRAGUE PAŘÍŽSKÁ STREET



Total number  
of retail units

The Pařížská Street, with its unique style, is the seat of luxury and upmarket brands.

Most of the best names in design have popped-up on this street over the last couple of years with Louis Vuitton, which recently relocated to larger premises occupying 900 sqm, Hermes, Bottega Veneta, Fendi, Prada, Dior, Dolce & Gabbana, Ermenegildo Zegna, Salvatore Ferragamo, Jimmy Choo, Stefanel, Prada and Gucci.

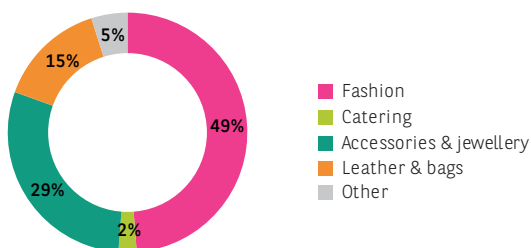
The top names in watches and jewellery are also represented, like Boucheron, Rolex, Tiffany & Co. and Cartier, all with mono-brand stores on the street. The most recent new entrant to the street is COS with its flagship three-storey retail facility with a floor area of almost 600 square metres. Other new brands recently arriving at Pařížská include Tory Burch, Brioni and Bogner. Many of the brands in Pařížská are operated by two dominant companies Luxury Brand Management and Carolinum. Given the space constraints some luxury brands have been looking for long time to open a store in Prague but were not able to find suitable space as Pařížská is the only place to be for them. Therefore for example Chanel or Ralph Lauren are not yet present in the Czech Republic.

The ownership structure in Pařížská is diverse. Many of the houses are also still in ownership of the city. Most recent evidence shows high investor demand in prime high street properties. Last year Amundi-IKS-KB acquired the property Pařížská 3 occupied by Louis Vuitton from PPF at a yield of below 4% setting a new record for retail high street yields.

Unlike other shopping streets in Prague, where the tenant-mix is relatively diverse, on Pařížská there is a clear domination by the fashion and accessories sectors.

The street has its website: <http://www.parizskaulice.cz>, which lists its retailers and presents the current offers and news.

## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



## PRAGUE

## SUMMARY

According to the conducted survey, excluding department stores and urban malls, there are 203 retail / service units along the analysed streets.

Some 44% of stores are located on Wenceslas Square, followed by Na Příkopě Street / 28. Října Street with 35% of the stock, closing with Pařížská, hosting 20% of the total provision of commercial space in the high streets of Prague.

The main characteristic for Prague compared with other capitals on the supply side is the provision of high quality commercial space both in ground floor units and in small shopping passages. This enables retailers to operate flagship stores in prime tourist locations with high footfall.

In terms of tenant-mix, the three streets analysed present different structures, which reflects their character and target groups.

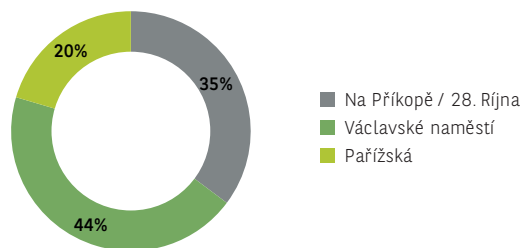
Prague is an unquestionable leader in number and volume of premium and luxury brands in Central Europe.

Undoubtedly streets differ in terms of profile - Wenceslas Square and Na Příkopě Street are focused on mid-market whereas Pařížská Street is targeted at premium and luxury clients.

All of the above mentioned factors contribute to the very strong position of landlords in the Old Town of Prague.

Demand definitely outpaces supply, which is why the survey conducted showed barely any vacant units along the analysed streets. This in turn contributes to the fact that the asking rents in Prague high streets continue to record the highest rates across the Central European capitals. They have grown by 20% over the last 5 years. The best 100-sqm units at Na Příkopě Street and Pařížská Street cost €170-200 per sqm/month and rents on Wenceslas Square range from €140-160 per sqm/month.

STRUCTURE OF HIGH STREETS  
by number of units



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016

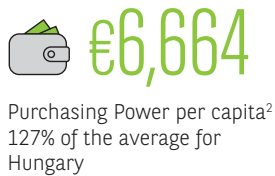
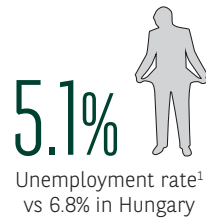
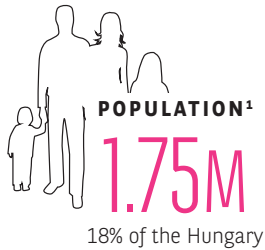


Na Příkopě



# BUDAPEST

## CITY IN A NUTSHELL



Source: 1. Hungarian Statistical Office, Dec. 2015,  
2. GfK Purchasing Power 2015/2016, 3. Euromonitor

## FOCUS ON HIGH STREETS

The high streets in Budapest include: Andrassy Avenue, Váci Street and Deák Ferenc Street (commonly known as Fashion Street).

In addition to the ground floor retail and service units, there is also a department store and an urban mall located on the high streets of Budapest, which complement the offer for customers.



Andrassy út



high streets retail schemes

## BUDAPEST

## ANDRÁSSY AVENUE

Andrássy Avenue is a 2.5 km wide and spacious avenue stretching from Erzsébet Square to the Városliget (the City Park).

It is bordered with villas, historic buildings, neo-renaissance mansions and townhouses featuring fine facades and interiors. The Millennium Underground line runs directly under the street, allowing easy access by the public transport.

The stretch from the Erzsébet Square to Oktogon Square of approximately 1 km is considered to be the key high-end streets in Budapest, hosting luxury brands, fine cafes, restaurants and theatres.

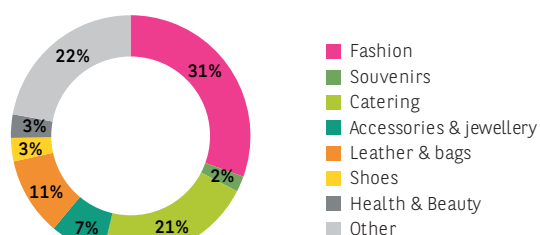
The main retailers present at Andrassy include: Burberry, COS, Emporio Armani, Ermenegildo Zegna, Gucci, Guess, Max Mara, Louis Vuitton. Premium and luxury accessories and jewellery are also present with brands such as Freyville, Coccinelle, Hubolt, Omega, TAGHeuer, RayBan.

In addition to the ground floor retail units along the street, Andrassy is also the address of Il Baccio di Stile, a 5,000 sqm multi-brand department store completed in September 2013 directed at wealthy customers.

Another retail scheme is Paris Department Store, which is a 7-storey building constructed in the neo-renaissance style at the beginning of 20th century. Currently it hosts the largest bookstore in the city and the first floor is dedicated to a lounge area. The remaining stores are dedicated to offices and a beauty store.

As indicated, the street offers a wide choice of bars, cafes and restaurants, especially close to Liszt Ferenc tér and generally along Andrassy Avenue and surrounding streets. Some of the most famous ones include: Kogart, Belcanto, La Perle Noire. Additionally, there are also some chain operators, such as Pizza Eataliano, Bigfish, Ring Cafe & Burger Bar.

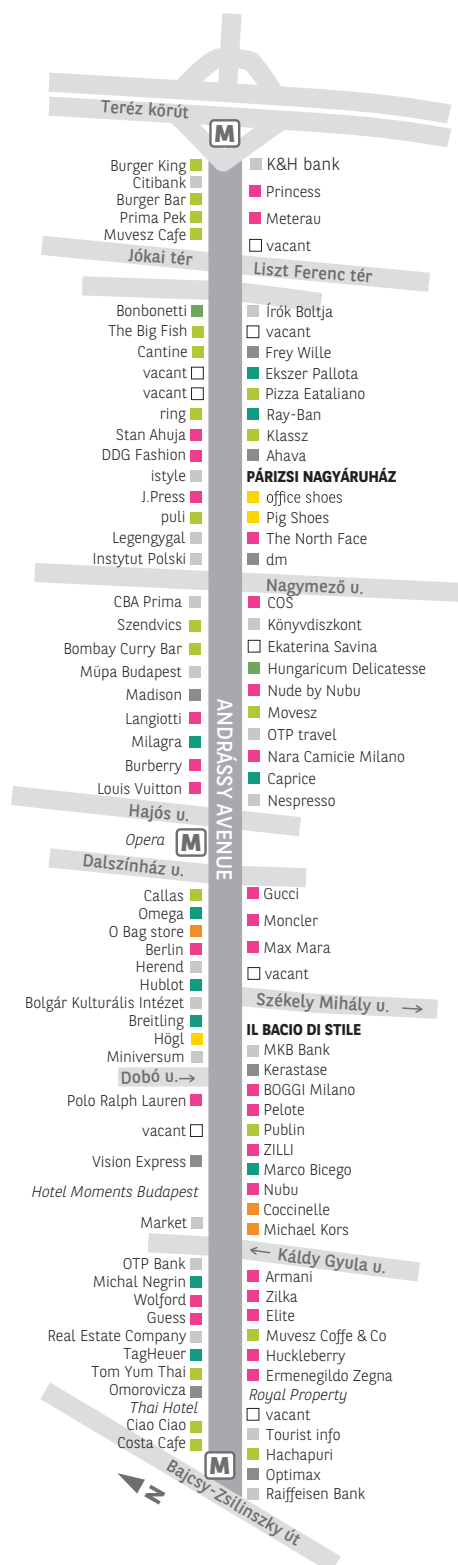
## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



Total number of retail units





# BUDAPEST

## VÁCI STREET

Váci Street has been historically known as a shopping street for three centuries.



The entire length of the street (approx. 1.3 km) is pedestrianized, and leads from Vörösmarty Square to the Great Market Hall, near Fővám Square. The two separate parts of Váci utca, to the north and the south of Elizabeth Bridge, are quite different. The northern part is mostly a shopping destination, full of tourists, whereas the southern part is quieter and mostly dedicated to catering.

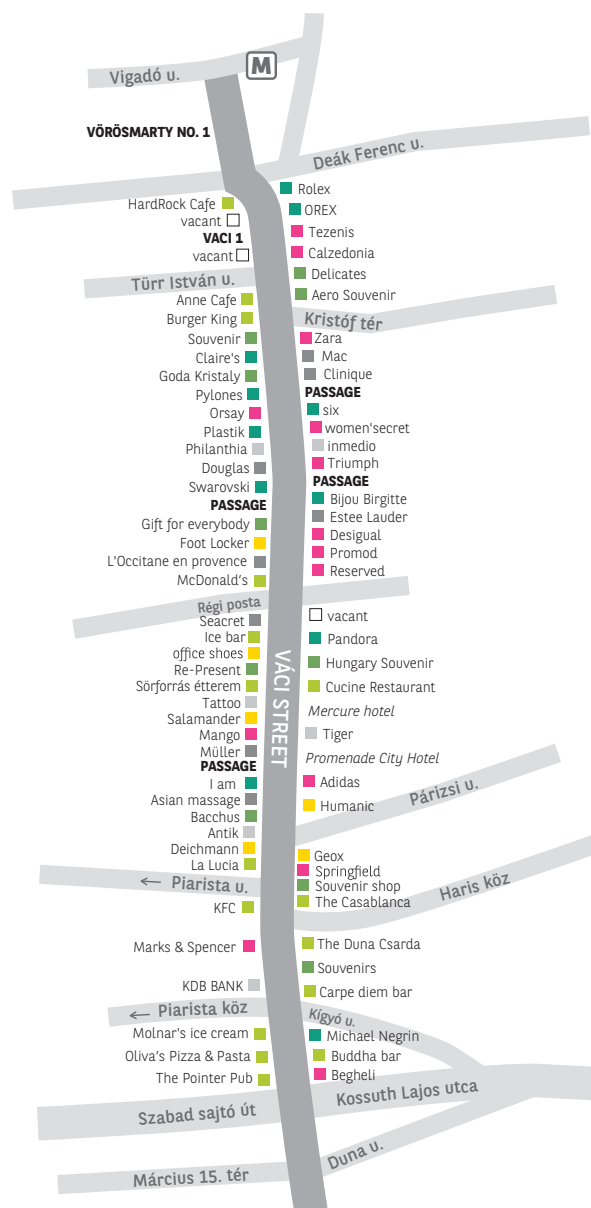
The offer at Váci Street is targeted mostly at mass and mid-market with retailers such as: Zara, H&M, Mango, ESPRIT, Douglas, Nike having their flagship stores. As this is a key tourist destination, the street offers entertainment, gastronomy, souvenirs and other services.

The wide catering assortment ranges from local to international restaurants for all types of customers. There is also a wide selection of bars, pubs and cafes recruiting from both local as well as international chains, such as Buddha Bar Restaurant and Lounge, Café de Paris, Fatál Restaurant.

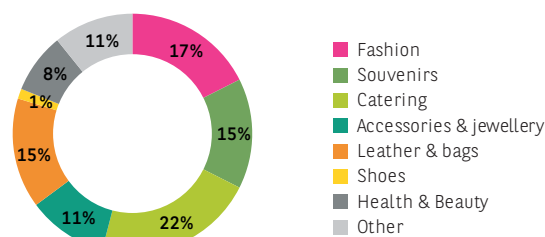
Another project, which would complement the provision of space for retail and service on the street, is Váci1. Yet, the 11,000 sqm project is facing difficulties and only the ground floor units are leased out. The owner is trying to find an alternative use for the building.



Total number of retail units



TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016

## BUDAPEST

## DEÁK FERENC STREET (Fashion Street)

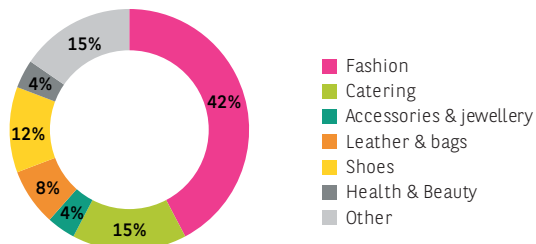
28

Total number of retail units

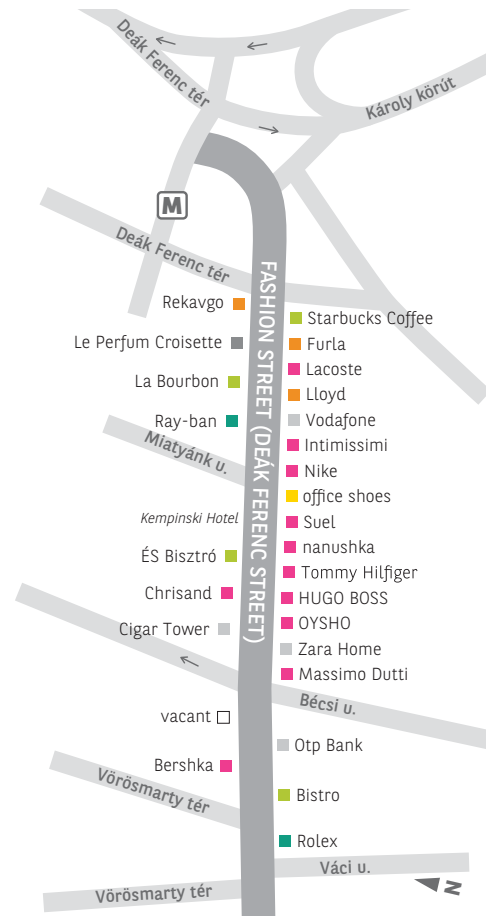
Fashion Street is formed out of refurbishment of tenement houses along a 150 m street, located in Deák Street and Sütő Street, benefiting from direct access to Váci Street, as well as Vörösmarty Square.

It provides over 11,000 sqm of GLA leased to retailers such as Byblos, Hugo Boss, Tommy Hilfiger, Max Mara, Sisley, s. Oliver, Mexx, Lloyd, Nautica, Oysho, Furla, Puma, Benetton, Sisley and Lacoste. Catering offer is provided by Vapiano, Planet Sushi, Il Patio, the Mozart Chocolate Salon.

## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



## BUDAPEST

## SUMMARY

BNP Paribas Real Estate has identified 211 retail units on the analysed streets. Majority of accommodation is located along Andrassy Avenue. Most of the units is in a relatively good technical condition and provide good visibility for retailers through large shop windows.

Clearly, the Andrassy Avenue a major thoroughfare of luxury and elegance in Budapest has a high-end luxury character, while Váci Street is more targeted at the tourist mass market. Fashion street has a mixed character due to the variety of the brands present. All of the analysed streets provide extensive catering offer.

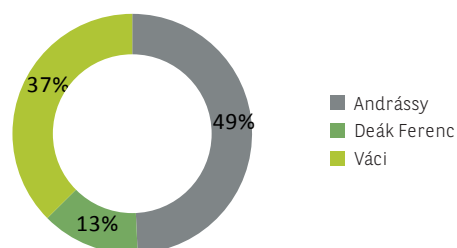
Generally, the Budapest high streets are dominated by retail sector, which has an overall 25% of the market share, followed by catering at with 19% of all units, which is rather typical for European high street tenant-mix.

Over the last year Budapest high streets saw the entrance of new retailers, such as Polo Ralph Lauren, COS, Tiger, Musette, J.Press, Michal Negrin, O'bag, Michael Kors, and FullSpot.

The conducted analysis showed 12 vacant units, with majority located along Andrassy Avenue.

The rental levels depend on location, size of the unit as well as retailer's sector. Compared with last year, prime units of around 100 sqm along Vaci ut has seen a 5-10% increase to reach €80-100 sqm/mth. No rental movement was recorded along Andrassy Avenue, recording monthly rates of €60-70 sqm/mth. Rents on the Fashion Street are less expensive with headlines at the level of €45-50 sqm/mth.

**STRUCTURE OF HIGH STREETS**  
by number of units



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016

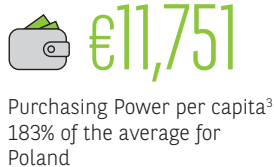
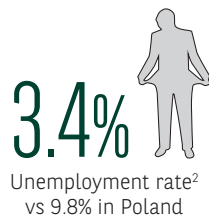
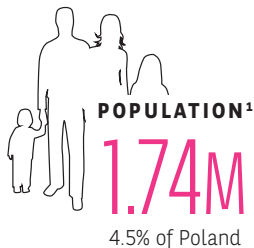


Deák Ferenc Street



# WARSAW

## CITY IN A NUTSHELL



Source: 1. Central Statistical Office, June 2015, 2. Central Statistical Office, Dec. 2015, 3. GfK Purchasing Power 2015/2016, 4. Euromonitor



## FOCUS ON HIGH STREETS

Low vacancy level in shopping centres means the opportunity to enter the market via high streets.

Yet despite strong economic fundamentals, the largest spending power and rise in tourist traffic, high streets in Warsaw are not developing at the expected pace. Due to lack of appropriate accommodation and municipal strategy toward development of Nowy Świat and Chmielna streets, the routes, which used to be Warsaw's high streets, have now a catering profile, serving as Warsaw hub for restaurants, cafes and bars, with some units occasionally occupied by accessories or fashion.

However, Warsaw high street landscape has another hot spot with a different character. The Three Crosses Square area has turned into a centre for premium and upmarket brands and a place to be in with rents at around €90-100 sqm/mth. With re-development of Ethos mix-use scheme, the area's image shall be further enhanced.

The municipality is currently working on the new master plan, which to large extent covers the area of the above mentioned high streets. Much of the future development potential depends on the regulations and limitation imposed by the city.



## WARSAW

## NOWY ŚWIAT STREET

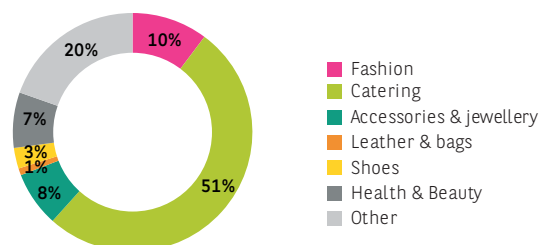
Nowy Świat Street forms a part of historical Royal Route connecting The Royal Castle in the Old Town with Wilanów Palace.



The high street part of Nowy Świat, stretching over 1 km, runs from the Three Crosses Square in the north, intersecting Aleje Jerozolimskie Avenue to Świętokrzyska Street. The street has been refurbished and reorganised in mid 90s and traffic restrictions have been introduced, allowing the thoroughfare to become one of the favourite tourist destinations in Warsaw.

Since the last survey, the commercial offer of Nowy Świat has deteriorated with and mainly consists of catering units. There are only a few mass and mid-market fashion brands and a few retailers representing leather & bags and accessories & jewellery sector.

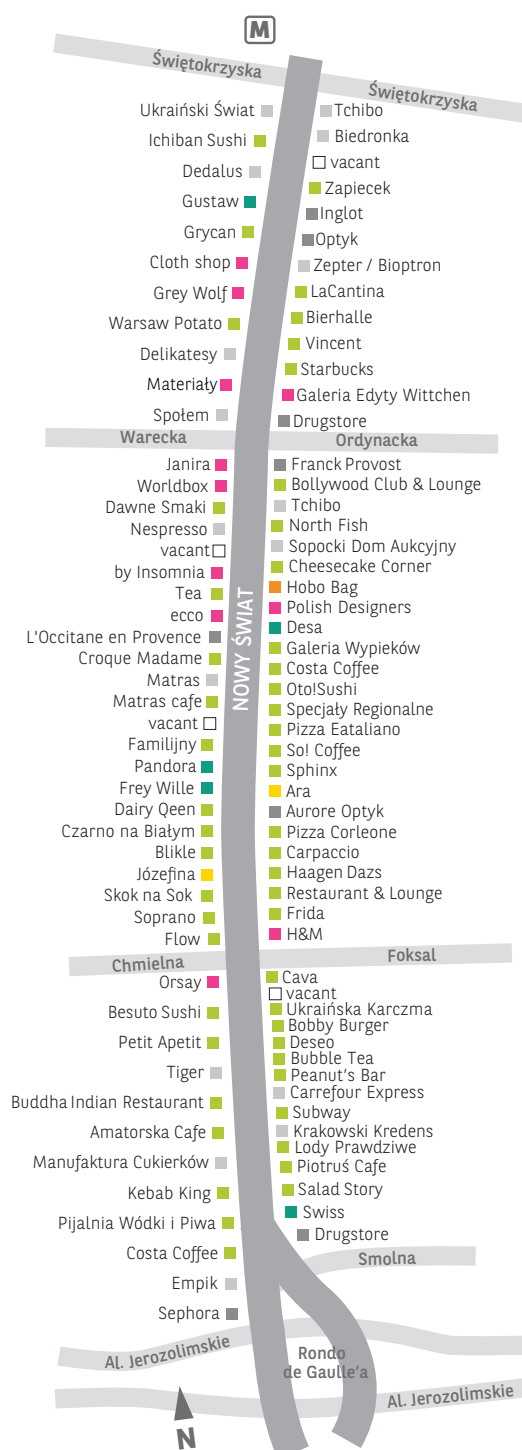
## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb. - March 2016



Total number of retail units





## WARSAW

## CHMIELNA STREET

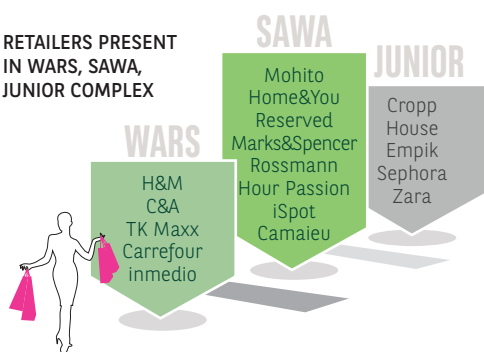
109

Total number  
of retail units

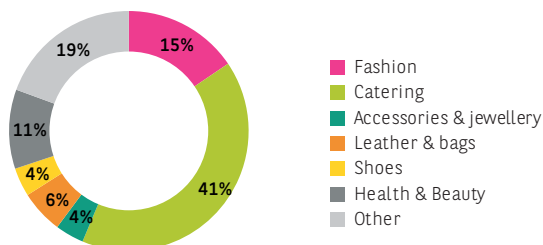
The high street section of Chmielna Street stretches for approximately 800 meters from Marszałkowska to the west with Wars, Sawa, Junior retail complex and Nowy Świat street to the east.

The offer of Chmielna street is targeted mostly at mass and mid-market. It is further strengthened by flagship stores of Zara, TK Maxx, C&A, Reserved and H&M, which are seated in Wars, Sawa and Junior complex. Several chain retailers operate on the street, such as Calzedonia, Smyk, Rossmann, Tatum and Parfois, Concept Store, Pretty One. Still, restaurants, cafes and bars have the largest market share.

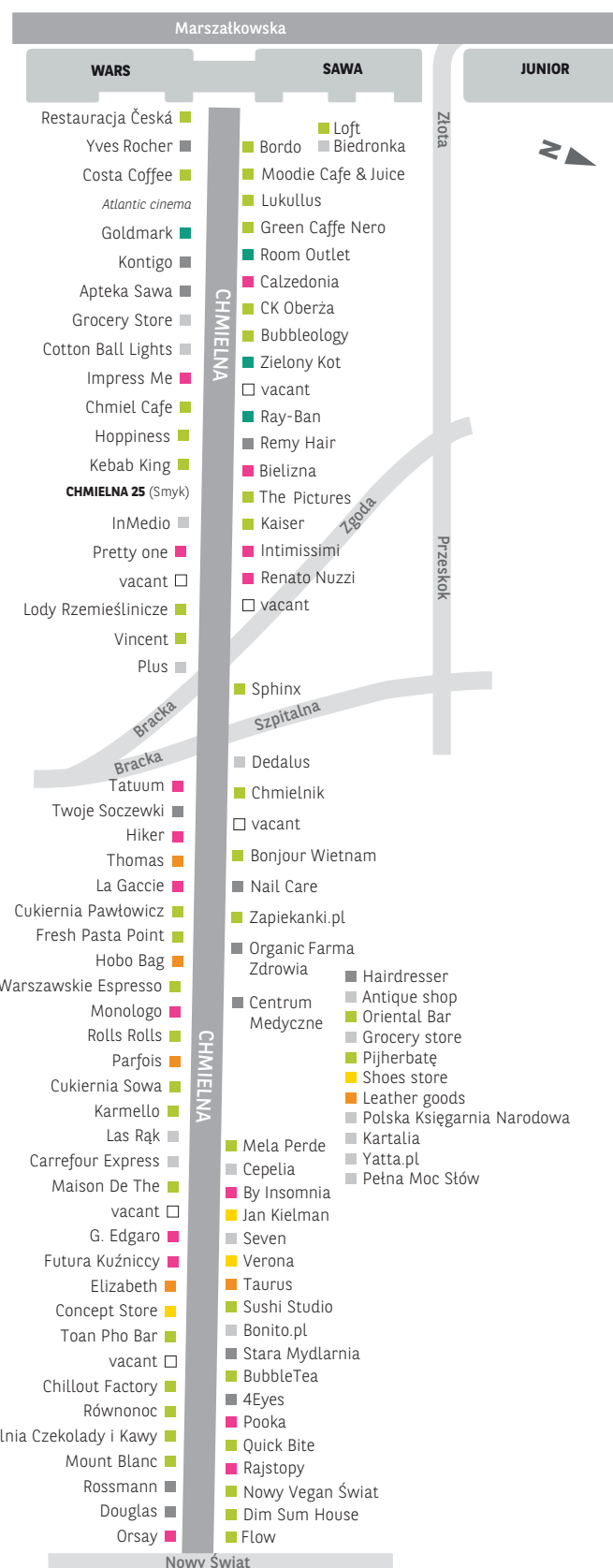
In close proximity to the street, three new mix-use schemes are planned, which will include retail component. These include: CE-DET – refurbishment of a historical department store at the junction of Jerozolimskie Avenue and Zgody Street with a planned 7,000 sqm GLA; Centrum Marszałkowska – redevelopment of a department store into a 13,500 sqm mix-use of office and retail located at the junction of Marszałkowska and Świętokrzyska Streets and Astoria, an office building with 1,400 sqm of retail space.

RETAILERS PRESENT  
IN WARS, SAWA,  
JUNIOR COMPLEX

## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



## WARSAW

# PLAC TRZECH KRZYŻY (Three Crosses Square)

## / MOKOTOWSKA STREET

95

Total number of retail units

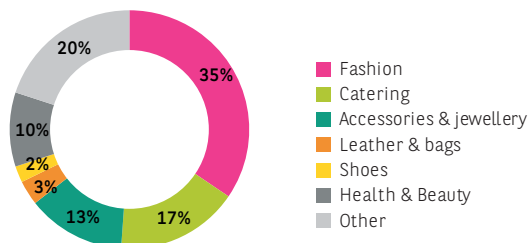
The area round the Three Crosses Square is and will remain the most exclusive and representative neighbourhood in Warsaw's city centre.

Proximity to the Parliament, the National Museum, the Warsaw Stock Exchange, embassies and consulates along Ujazdowskie Avenue as well as ministries and governmental offices makes it a hot spot for premium/luxury brands, fancy restaurants and cafes.

The area hosts monobrand stores of: Ermenegildo Zegna, Burberry, Carolina Herrera, Tiffi, Tod's / Ralph Lauren / Dolce&Gabbana / Valentino and Omega. In Mysia 3 tenement house a couple of brands are present including COS, Nenukko, CK Watches, Muji, My Paris and Orska. Some 200 meters north of Three Crosses Square, at Jerozolimskie Avenue there is a multibrand department store Vitkac, filled with a selection of collections from Gucci, Saint-Laurent Paris, Giorgio Armani, Louis Vuitton, Bottega Veneta, Lanvin, which provide complementary offer to the other luxury stores in the neighbourhood.

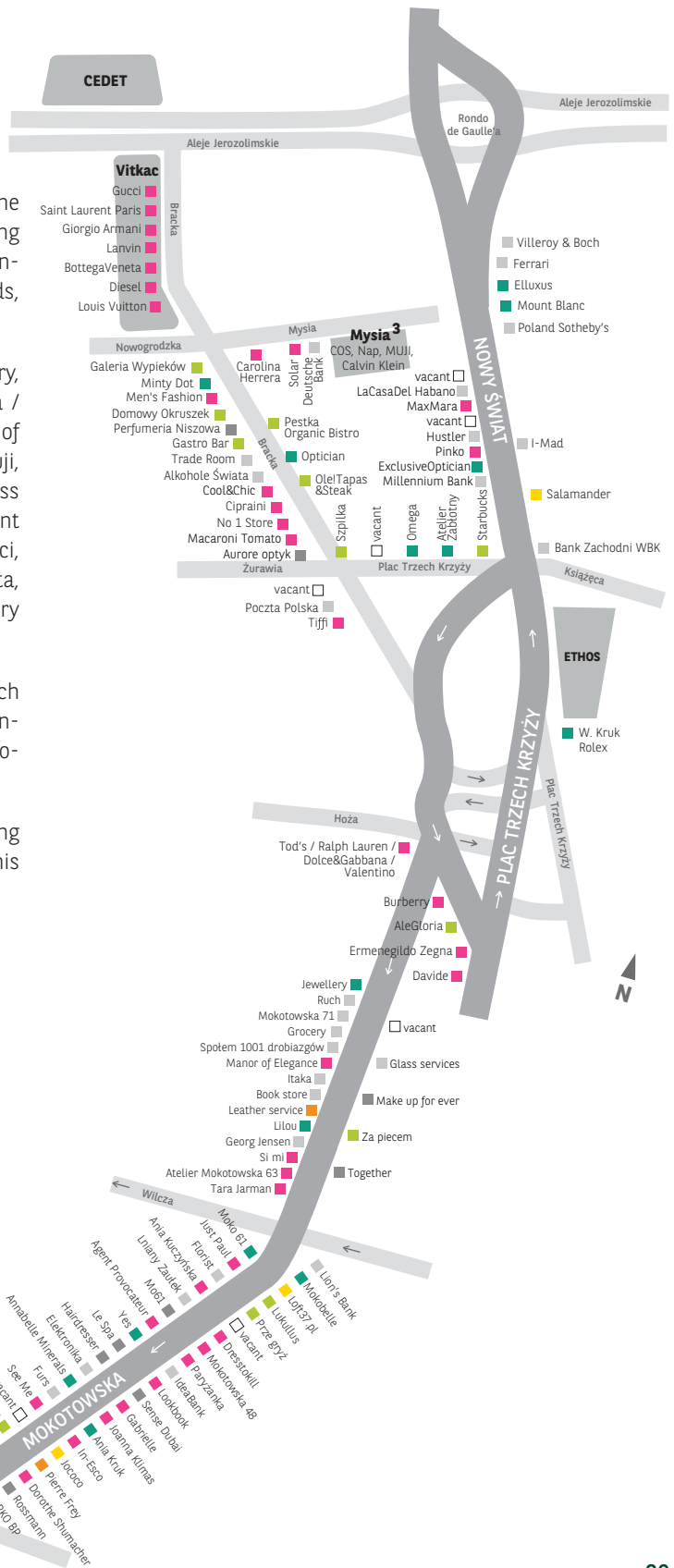
South of PL. Trzech Krzyży, there is Mokotowska Street, which hosts a variety of designers studios, boutique stores and fashionable jewellery such as Maciej Zień, Blind Concept Store, Moko-Belle, Lilou, HOS&Me.

The retail offer within the hub will be boosted by Ethos, offering prime high street units within a modern mix-use scheme in this prominent location.

TENANT-MIX STRUCTURE<sup>1</sup>

Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016

1. Includes parts of Mokotowska and Bracka



## WARSAW

## SUMMARY

The three key high street areas in Warsaw, which have been analysed in the hereby report, provide a total supply of 317 units, similarly dispersed across the streets.

**T**echnical condition of high street stores significantly differs ranging from a few nicely refurbished sites to units of very poor standard. Compared with peer cities, in Warsaw there is limited provision of multi-storey tenement houses, which could turn into proper flagship stores. The situation may improve, provided the legislation allows to combine the units into larger areas.

While fashion dominates in the area of Pl. Trzech Krzyży, the other streets are mainly driven by catering offer.

The conducted analysis showed a total of 17 units vacant, higher than in 2014.

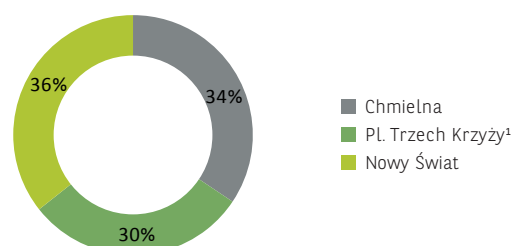
Prime rents in Warsaw high street range from €100-120 per sqm/month in the Three Crosses Square to €70-80 per sqm/month in Nowy Świat and Chmielna Streets.

Given its size and economic strength of Warsaw and bearing in mind the changing habits of customers, the city has a large potential to develop high streets. The future development will depend on the city authorities' approach but also it will be led by private landlords, shaping the retail offer along the high streets,

which was also the case for other retail formats emerging across Poland over the last 20 years.

With the largest population across the analysed capitals, fast growing tourist flows and concentration of the wealthiest people, the high street development today is more a question of time than a question of city's development potential.

**STRUCTURE OF HIGH STREETS**  
by number of units



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016

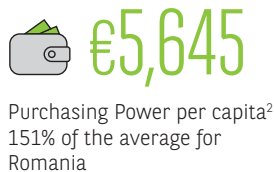
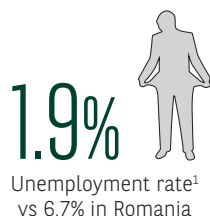
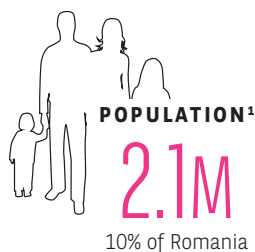
1. Includes parts of Mokotowska and Bracka



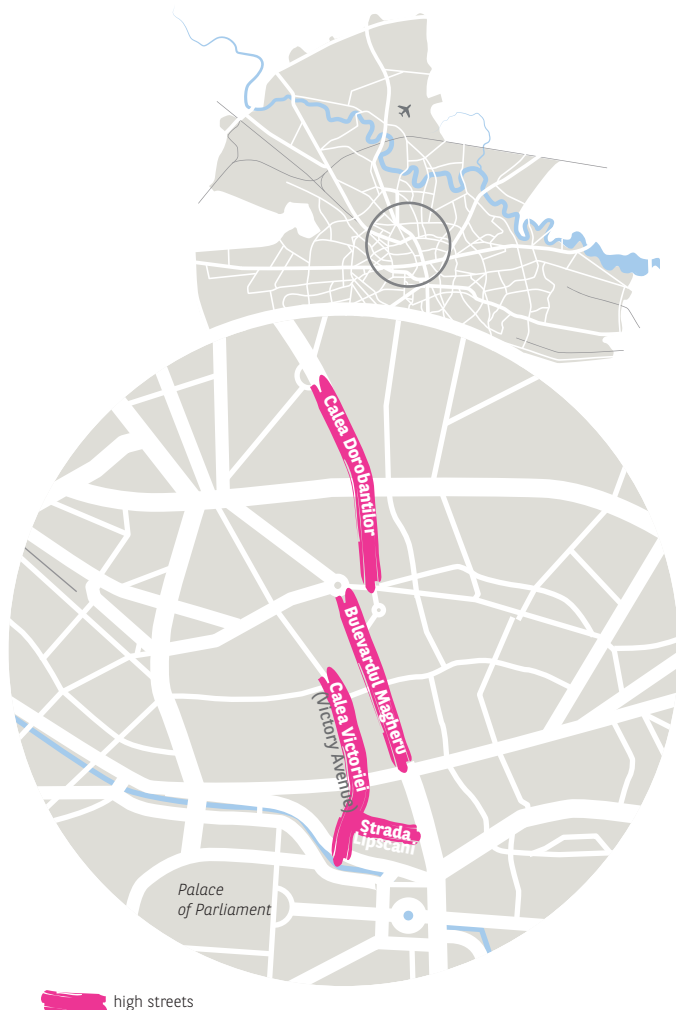
Three Crosses Square

# BUCHAREST

## CITY IN A NUTSHELL



Source: 1. Romania Statistical Office, Dec. 2015, 2. GFK  
Purchasing Power 2015/2016, 3. Euromonitor



## FOCUS ON HIGH STREETS

Compared with other analysed CEE markets, high street retail unit submarket in Bucharest is not defined by a specific area within the city dedicated to this type of commerce.

**T**he range of offer and variety of brands operating in the city is very limited, the main obstacles in developing this market segment being the quality of premises, incongruity of tenant mix along the streets, lack of synergy with 5 star hotels and international conference centres.

High streets in Bucharest, compared with the other analysed high streets, are at the initial stage, considering quality of premises, range of offer and variety of brands operating in the city. Unlike in Prague, Budapest or Warsaw, another option for the retailers that target the luxury market in Bucharest are the retail galleries within the five star hotels and the best performing shopping centres, such as Baneasa Shopping City. Such examples are Louis Vuitton, Valentino, Escada or Ermanno Scervino within The Grand Gallery from JW Marriott. Gucci has chosen the ground floor of Athenaeum Palace Hilton while Burberry has opened a store with Radisson SAS hotel.

Last year, the capital of Romania saw the openings of Michael Kors, together with Braconfi and Diesel but there are still many missing.

As the recovery continues, prime rents have stabilized in the range of €30-45/sqm/mth.

Nevertheless, with positive macroeconomic forecasts, growth in purchasing power and inflow of tourists, the city has a substantial catch-up potential to develop in the mid- to long-term horizon. The new legislation related to the construction security prohibits its commercial activities within buildings that were affected by earthquakes and were not reinforced. The main areas mentioned below comprise a large number of buildings completed before the Second World War, many properties being under the incidence of this law. As a consequence, many of street retail units located within these buildings are currently vacant. A potential result of this situation might be the increase of rents for units located within buildings without structural problems.

The analysis focused on four areas:

- Calea Victoriei (Victory Avenue)
- Calea Dorobantilor
- Strada Lipscani
- Bulevardul Magheru



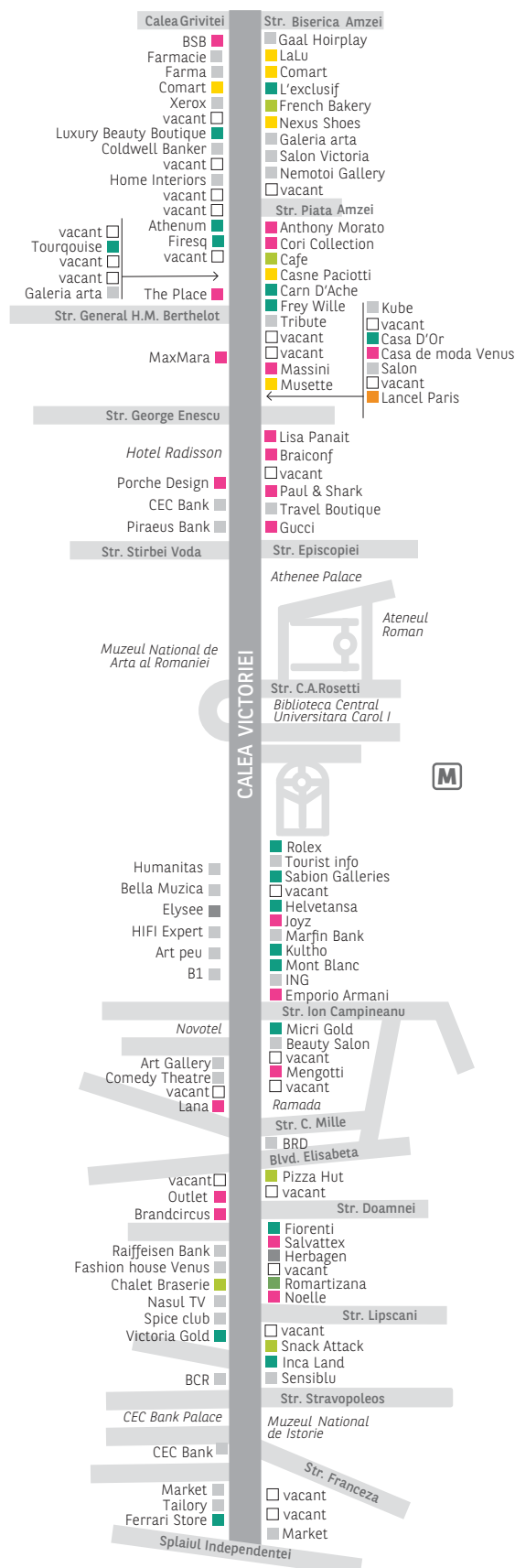
Calea Victoriei (Victory Avenue) is a major historical avenue in central Bucharest and leads from Splaiul Independenței (Piata Natiunile Unite) to North, up to Piața Victoriei.



There are many historical buildings and monuments along the street including Palace Agricola Fonciera and Trieste, National Museum of History of Romania with the Statue of Trajan and the She-wolf, CEC Palace (1887), Victoria Store, National Military Palace or Capsa Hotel.

Last year, Calea Victoriei witnessed a series of infrastructure improvements, however the increased interest forecast for this area has not yet materialized.

Category	Percentage
Fashion	22%
Souvenirs	2%
Catering	6%
Accessories & jewellery	15%
Leather & bags	6%
Shoes	2%
Health & Beauty	3%
Other	44%

Total number  
of retail units



## BUCHAREST

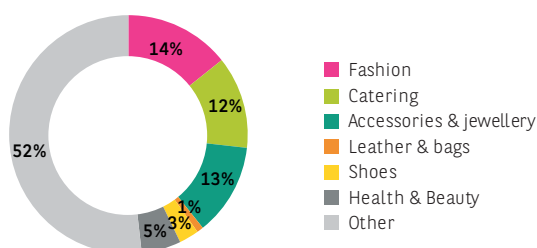
## CALEA DOROBANTILOR

Due to the limited supply of retail space, some retailers are also considering opening stores along Calea Dorobantilor.

These locations are also preferred by banks, home furnishing stores, car showrooms and pharmacies, which is off-putting for some upmarket retailers.

There are 120 points of sales, with only 8 units vacant. The vast majority of high street space is occupied by services, mainly financial institutions.

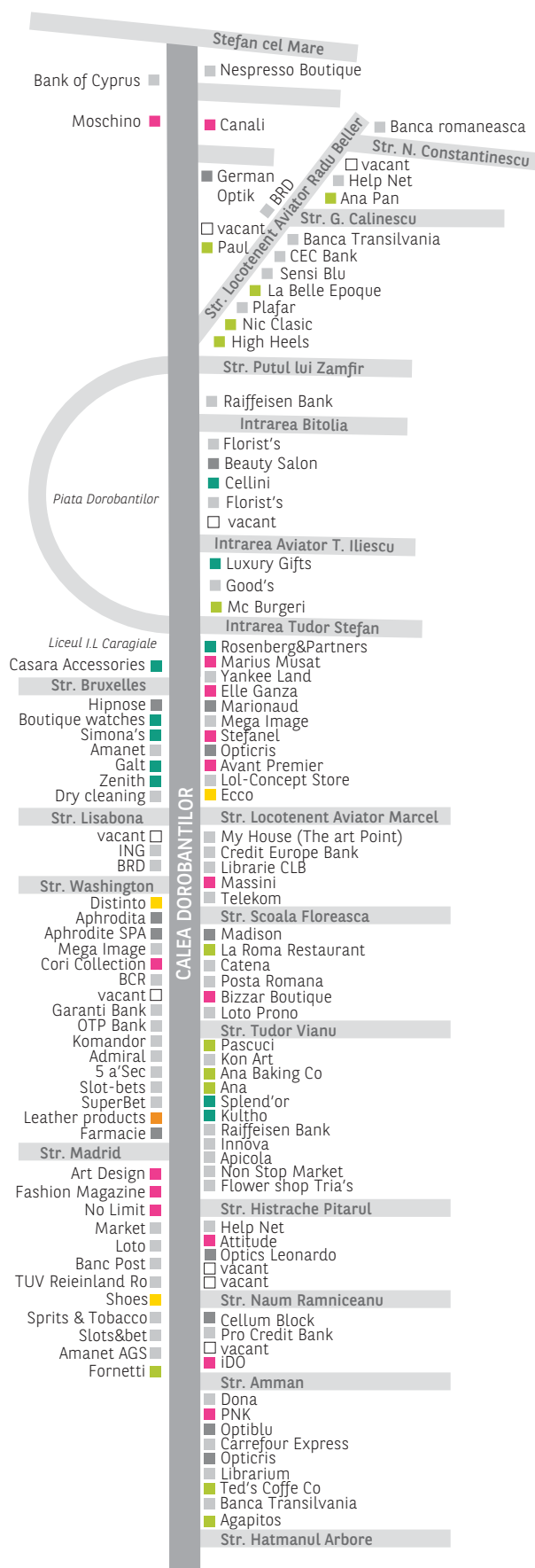
## TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



Total number of retail units



# BUCHAREST

## STRADA LIPSCANI



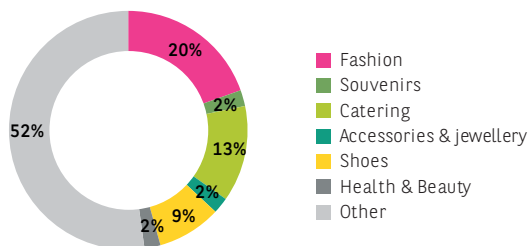
Total number  
of retail units

Lipscani is a pedestrian area, partially restored street in the Old Town of Bucharest.

From the Middle Ages to the early 19<sup>th</sup> century it was the most important commercial area of the city. Now it is the mostly visited tourist area, known mainly for its restaurants and bars. It also hosts a few renowned shops, such as H&M, Adidas and Yves Rocher.

The entire historical centre is currently undergoing refurbishments of buildings and improvements in the utility networks. This is the most affected area by the provisions of the law related to construction safety.

### TENANT-MIX STRUCTURE



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



Piata Roma	
Banca Transilvania	Raiffeisen Bank
vacant	Gabroveni Inn
Tucano Coffe	Harley
Valeta	Str. Zarafi
RBA	Metal Jack
Marelbo	Sharbek
vacant	Caprioara
Str. Bacani	
La Mama	Adidas
vacant	Penti
Shoes	vacant
Paintings	vacant
Galeria 21	Lulu
Hanul cu Tei	H2O
Market	Art Souvenirs
vacant	Natural products store
Wedding dresses	Garanti Garanti
Wedding Accessories	Cato
Liscani No. 59	Barbero
vacant	Str. Selari
vacant	Grill
Carusel Carturesti	Lo Spaccio
Muse	H&M
Theatre	The Tube
Turism	Beauty Salon
vacant	Wine Company
Wedding dresses	Night Club
Str. Eugeniu Carada	
Bizon	vacant
Touch & Buy	vacant
KOTON	
Pub	
Vodafone	
Str. Smardan	
Banca Nationala a Romaniei	

## BUCHAREST

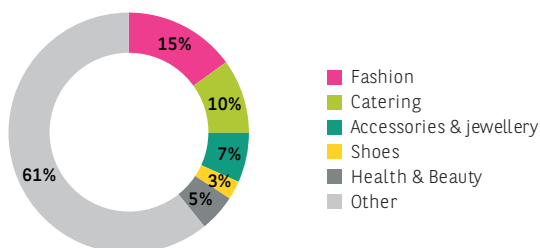
## BULEVARDUL MAGHERU

Magheru-Balcescu Boulevards records high levels of vehicular and pedestrian traffic especially at the limits of the boulevards towards Romana Square and Universitate Square.

Despite constant high level of pedestrian traffic, the lack of parking facilities, quality of premises and incongruity of tenants along the street, diminish the attraction of this location. The mix of tenants comprises tourism agencies, bank branches, fast foods restaurants, GSM stores, footwear and clothes stores.



## TENANT-MIX STRUCTURE

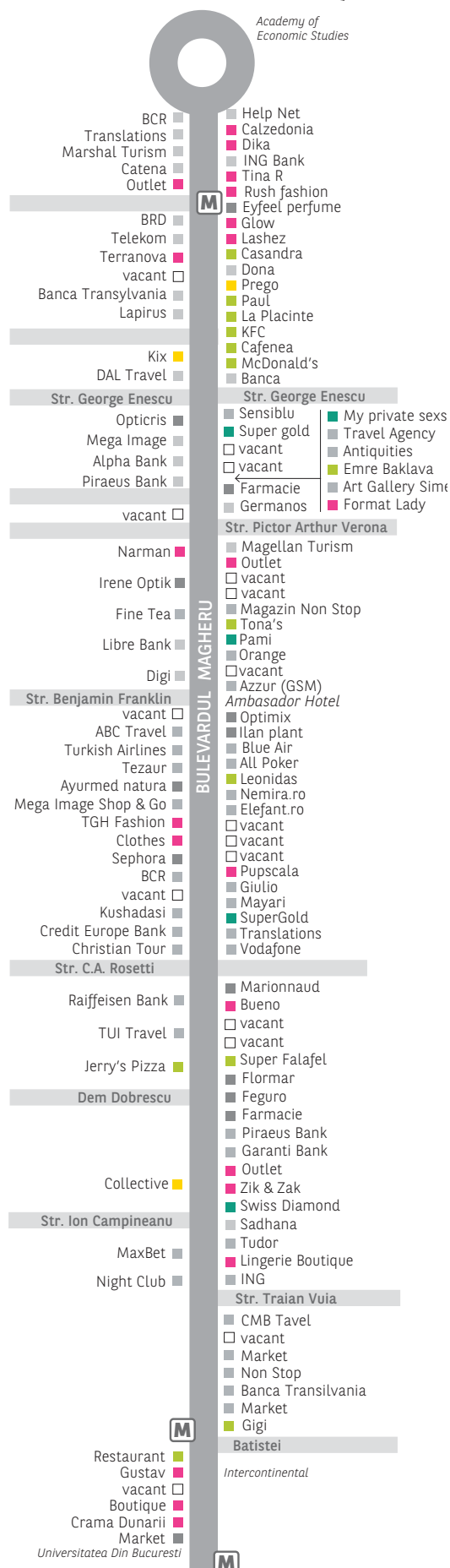


Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



Total number of retail units

Academy of Economic Studies



## BUCHAREST

# SUMMARY

Despite a high number of retail and service units totalling 437, Bucharest still awaits the influx of luxury and upmarket brands.

**C**learly, Calea Victoriei is a major thoroughfare of premium target, while Strada Lipscani is focused on tourists visiting the city with extensive catering offer. The other streets are primarily driven by services, mainly financial institutions.

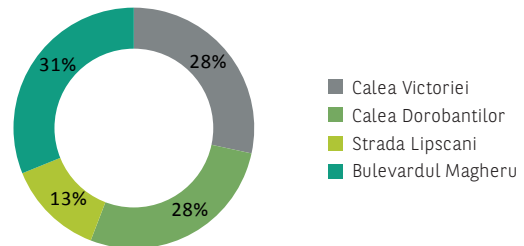
Generally, Bucharest high streets are dominated by services and fashion sector, which have 53% and 15% of the market share respectively. Catering accounts for 10% of all units.

It should be noted that many luxury and upmarket brands are present in prestigious hotels.

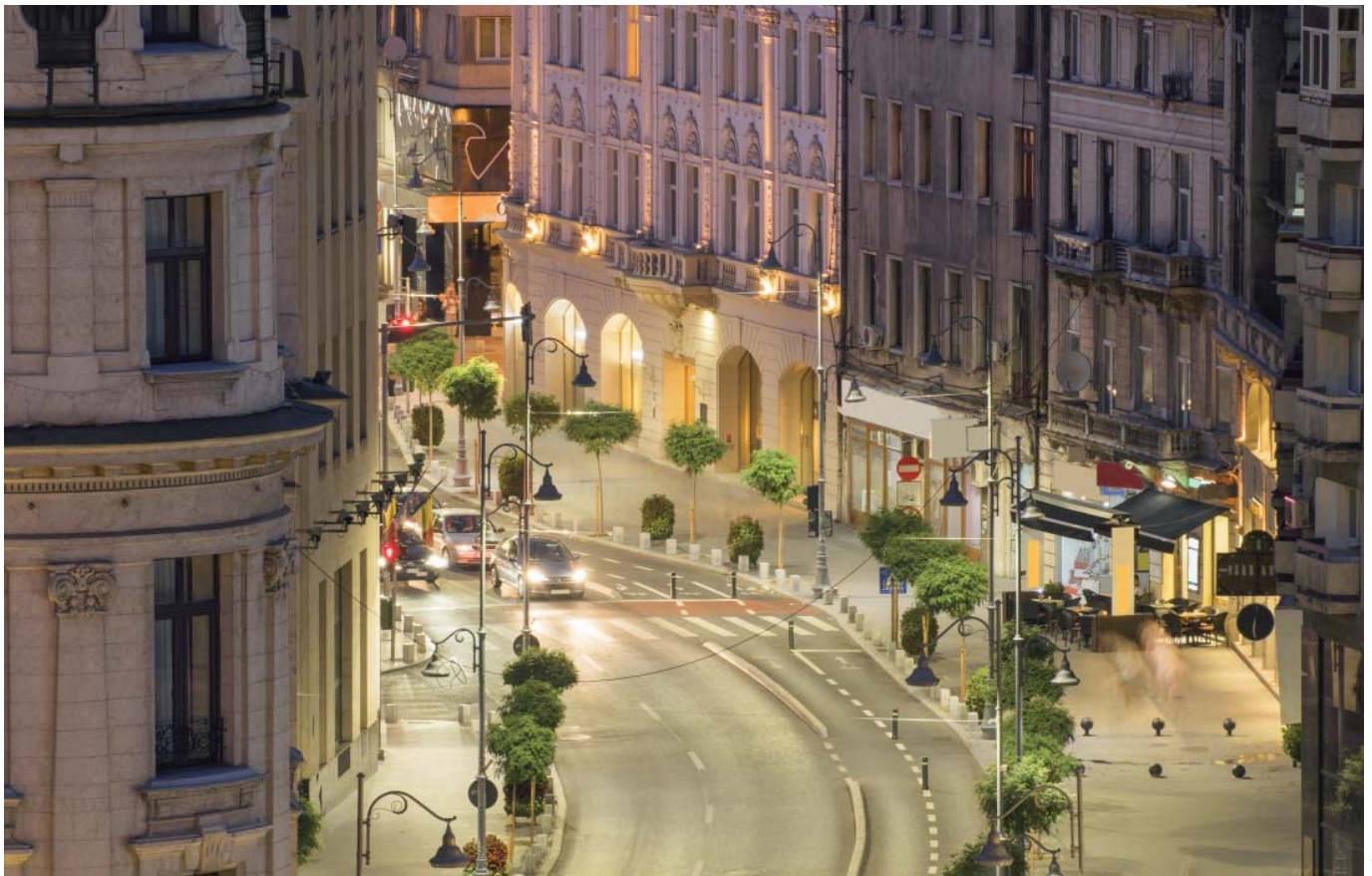
In terms of demand, there are 61 units vacant, with the bulk located along Calea Victoriei.

Rents, after a period of decline over 2011-2013 have reached equilibrium and have maintained at €50-60 sqm/mth for the last few quarters. The situation is likely to continue in short- to mid-term horizon with an upward trend expected beyond 2017.

**STRUCTURE OF HIGH STREETS**  
by number of units



Source: BNP Paribas Real Estate, inventory as at Feb.-March 2016



Calea Victoriei



# ADVICE CORNER



**FABRICE PAUMELLE**

Head of Retail  
Poland & Central  
and Eastern Europe  
BNP Paribas Real Estate Poland

## CEE: New Downtown Markets for Retailers

We are currently leaving the second cycle with its focus on shopping centres; a sector now characterised by significant slowdown in new supply.

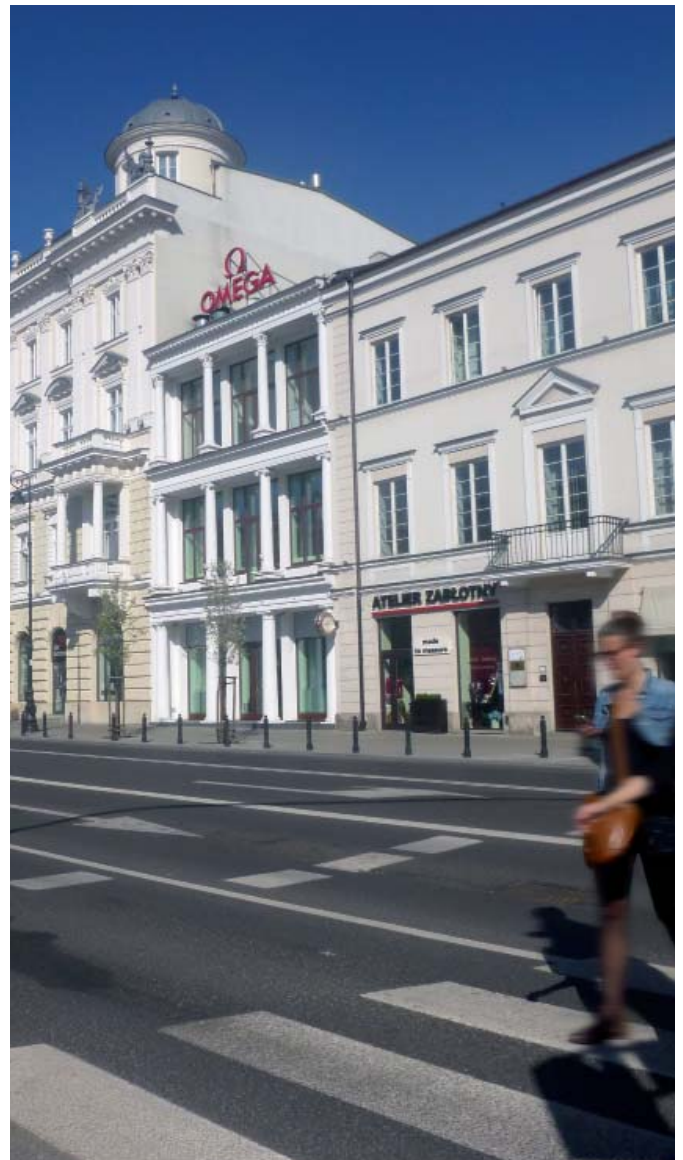
The market is transitioning into its third phase, marked by the development and consolidation of high streets, providing alternative retail accommodation to host expanding retailers.

Given the CEE capitals are well provisioned with large urban malls, the era of high streets is well on its way, providing an interesting expansion option, not only generating decent turnover but also enhancing brand image. New retailers will join the existing ones who will adapt their concepts to fit the requirements of reborn high street destinations.

On top of that, we are also seeing a further diversification in capital allocation in the retail sector with high streets finally becoming an interesting asset class for investors. Transactions are beginning to occur as investors awaken to a relatively untapped market that has many of the quality tenants found in established markets elsewhere in Europe with the advantage of much more attractive yields.

## PRAGUE: A PROVEN MATURE HIGH STREET RETAIL MARKET

With more than 200 stores located along the main high streets in Prague, the number of international brands has tripled in less than 10 years, while the prime rents have doubled from €100 to €200 /sqm / month in the Czech capital. With the opening of the first Hamley's toy store in CEE, and sale of Louis Vuitton store building at sub 4.00% yield, Prague has status as a mature high street market with good retail offer and differentiation.



Three Crosses Square, Warsaw, Poland





Three Crosses Square, Warsaw, Poland

## WARSAW: THE UP-COMER OF THE CEE HIGH STREET MARKET

It's a fact. Warsaw offers the largest potential for high street development. It has the highest purchasing power across the CEE, the highest number of wealthy individuals, as well as solid macroeconomic foundations. Yet, its growth has been overshadowed by the shopping centre development coupled with the ownership structure of downtown high street buildings, which prevented the Polish capital from developing as quickly as Prague over the last 10 years. Now that the downtown shopping centre stock is built out with low retailer rotation, focus has switched. With the privatization of former public buildings and the adoption of a new master plan for the downtown area, we will observe acceleration in high street development. And this can already be seen in the new iconic projects in Warsaw, Ethos and CEDET, both located along the high street. Luxury retailers such as Louis Vuitton; Gucci; Saint-Laurent; Burberry; Ralph Lauren; Rolex; Omega and COS already perceive Three Crosses square district as the upmarket / luxury place to be. Marszałkowska and Chmielna streets are powerful mass market destinations that retailers like Mango have just confirmed by opening their country flagship there. Warsaw high streets come with still affordable prime rents at €100-120/sqm/month that may come closer to Prague's level within the next 2-3 years.

## BUDAPEST AND BUCHAREST: EXPANDING MARKETS IN THE MAKING

Budapest and Bucharest are further behind the retail curve than Prague and Warsaw. Still, the development model of these two capitals is coinciding with the expansion plans of international retailers and so their potential will follow the path laid out by the big two CEE capitals. In fact, Budapest has already shown capacity to attract luxury retailers and the main international retail players to its downtown areas, whereas Bucharest recently welcomed some large international chains such as H&M in the heart of the pedestrian old town. Since Budapest and Bucharest do register lower purchasing power and number of tourists than Prague and Warsaw, the prime and average rents are also lower. That advantage enables these two capitals to be seen as clear considerations for international retailers aiming to complete their network presence in CEE.

# ADVICE CORNER



**TOMASZ WIŚNIEWSKI**

Partner  
KPMG in Poland

## Luxury goods market in Poland

In 2015 the value of the luxury goods market in Poland was estimated at PLN 14.3 billion, which constitutes an increase by 13% as compared to the previous year.

The largest category included in KPMG's analysis are luxury and premium motorcars. The value of this particular segment amounts to nearly PLN 7 billion, which accounts for almost half of the total value of the luxury goods market in Poland.

Clothing and accessories (14% of the market), hospitality and SPA services and real estate (9% and 8% respectively) are also significant segments of the market. Other segments analysed included furniture, spirits, cosmetics and perfumes, jewellery and watches, home electronics, writing implements, yachts and aircraft.

It follows from KPMG and Euromonitor International forecasts that the luxury goods market in Poland has positive prospects for growth, however, due to its increasing saturation the pace of growth will be weaker than thus far.

In 2018 the value of the market may reach PLN 16.6 billion. This would represent an increase by 17%. Over the next three years the greatest increases are to be expected in the following segments: hospitality and SPA services (35%), yachts (22%) as well as jewelry and watches (21%). There will also be dynamic movements in the real estate (18%) and cars (17%) segments.

### BUYERS OF LUXURY GOODS IN POLAND AND THEIR INCOME

The number of wealthy and rich Poles, i.e. those whose annual gross income is in excess of PLN 85,000, is growing systematically from year to year. As at the end of 2015 their total number was 969,000, which represents an increase by 7% as compared to the previous year. According to the estimates by KPMG, the total net income of the wealthy and rich amounted to PLN 154.7 billion (increase by 5% y/y).

Furthermore, we estimate that in 2018 the number of wealthy and rich tax payers may reach 1.2 million, where their combined income will come to over PLN 200 billion. However, Poles are still falling far behind the European average both in the number of people by world standards that can be qualified as rich as well as the average wealth per capita.

Compared to Western European countries, Poles' wealth is not impressive. As at mid-2015 the average wealth per capita in Poland amounted to only USD 19,500, while the European Union average comes to USD 133,400, which is nearly seven times more.

### PLACES TO SHOP FOR LUXURY GOODS

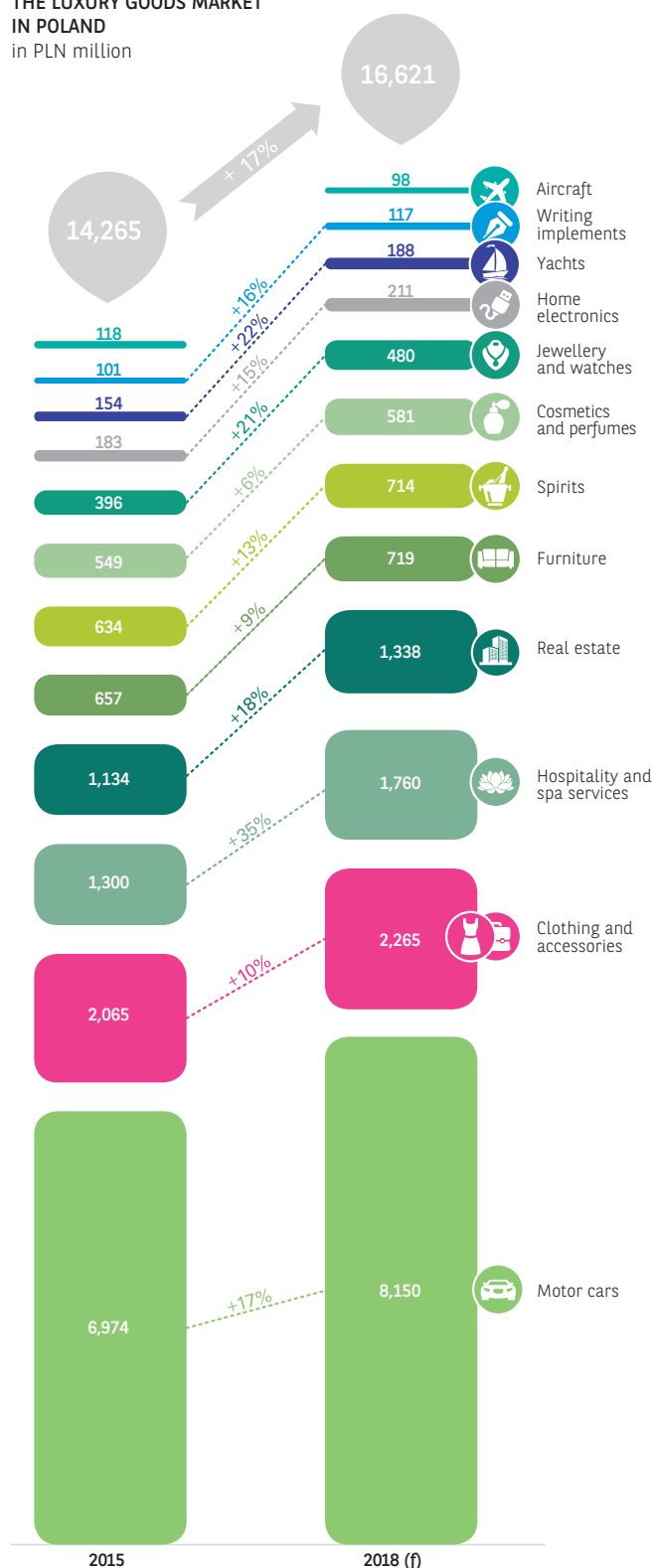
One of the more important trends in the luxury goods market, as currently identified by companies from this sector, is the growing significance of the Internet as a sales channel. Poles are ever more willing to shop on the Internet, this including shopping for luxury goods. Convenience is named as the key reason for which those with an above-average income purchase luxury goods on the Internet.

The growing popularity of the Internet as a sales channel does not mean, however, that street stores will become outmoded. As far as the luxury goods market is concerned, traditional stores – often located along prestigious high streets – play a particularly vital role. They are the place where products are presented and offer the opportunity to consult and ask the opinion of a professional salesclerk. For many customers it is the visit to a luxury store itself that provides a pleasant experience.

The most significant category in terms of the number of street stores is the fashion and accessories segment. This particular market is extremely fragmented and is currently at a stage typical of developing countries. Certain high-end brands, such as Louis Vuitton and Burberry, already have their boutique stores in Poland.

# VALUE AND STRUCTURE OF THE LUXURY GOODS MARKET IN POLAND

in PLN million



According to Euromonitor International, nearly 95% of luxury fashion and accessories are distributed through street stores and thus location is of imperative importance. Polish consumers like to visit shopping centres, therefore many brands from the attainable luxury segment open their stores in the main centres. As far as high-end brands are concerned, they tend to go for locations along the main high streets in the largest cities. Recently the most changes could be noticed in Warsaw: Mokotowska, Krucza, Nowy Świat, Chmielna, Marszałkowska and Plac Trzech Krzyży are addresses with the greatest potential for growth for boutique stores offering luxury fashion and accessories. At the same time, more and more brands are now operating e-stores. An exciting step as regards distribution of luxury fashion and accessories was taken at the beginning of 2014 by Warsaw's stores Moliera 2 and Plac Trzech Krzyży 3/4 when they introduced the option to pay for goods purchased on the Internet in instalments.



KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 174,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG in Poland was established in 1990. We employ more than 1,300 people in Warsaw, Kraków, Poznań, Wrocław, Gdańsk, Katowice and Łódź.

Source: research and forecasts by KPMG in Poland based on data provided by Euromonitor International, BMI, GUS

# ADVICE CORNER



**JAN SKŘÍČEK**  
Chief Analyst  
PPF Real Estate

## Investor's Perspective

Safe investment with predictable income

### PRAGUE HIGH STREET RETAIL – AN ATTRACTIVE INVESTMENT?

Investors into Prague's high streets generally fall into two main categories: Those who seek a safe, cash generating asset and those who look for a value add component where they can capitalize the upside. The upside could be repositioning the retail concept, extending the lease or expanding the sales area. With upside comes risk, expenditure and effort but the potential gains are often lucrative, especially if realized at the optimal point in the market cycle.

### WHERE DOES THE BEAUTY LIE?

The attractiveness of high street retail generally lies in its central location, footfall and the propensity for retailers to generate profits which ultimately underpins their ability to pay rental. These factors coupled with the finite supply of premises help generate occupational demand, create positive rental growth and reduce investor risk. The low risk profile is then reflected in a lower yield in comparison to shopping centers and other asset classes.

In H2 2015, the prime Prague high street transaction between PPF Real Estate and Realitní fond KB shifted prime high street yields to new low levels. The low yield in this transaction was justified by a combination of the super prime location (Pařížská) and the long term lease with Louis Vuitton, in newly reconstructed building.

However, not to mention only positives, the high street especially in Prague can be very sensitive to tourism and global geo political factors. FX rates play an important role as well, especially in the luxury segment. A recent example is the reduction in Russian tourism due to the severe depreciation of the ruble; fortunately this drop was partially offset by the growing numbers of Chinese visitors.

Another consequence of retail in Prague's city center is that it is usually located in culturally protected areas, influencing the degree to which you can reconstruct the property and limiting the structural changes that could be made.

High street retail provides a safe investment, reflected by the low yields investors are willing to pay but in return provides a stable and relatively predictable cash flow. Moreover, any value added is generously rewarded thanks to the higher rents and low yields.





Pařížská street, Prague, Czech Republic

# RETAIL SERVICES IN CEE

BNP Paribas Real Estate becomes an important differentiated player in CEE region. We have already established complex Retail Services for real estate owners, developers and retailers in Central and Eastern Europe. With an international experience, we are able to provide a swift and local response to your needs, both for classical shopping centres and positioned high street multi-use asset.

**We are changing the game in a retail world and we would like to do it together with you.**

Why worth to trust us:

- We created strong, complementary platform of services in CEE countries
- We have a full range of support – from Patrick Delcol, CEO for the CEE region in BNP Paribas Real Estate, who is also the founder and President of Polish Council of Shopping Centres and the board member of International Council of Shopping Centres, to the diversified know-how and the expertise of our Property Management and Capital Markets specialists
- Our Warsaw office is a HUB and headquarters for this part of Europe and in terms of retail advisory, we serve clients from Czech Republic and Romania
- The retail advisory team consist of industry professionals who worked in the past as developers and retailers who decided to bring their experience as consultants to solve clients daily challenges
- Our dedicated team of retail has skills and talent to anticipate future trends and create the right retail strategy to match your objectives
- In Poland, our retail advisory professionals provided in the last 15 years services for over 2.5 million sqm of shopping centres

# CONTACT

## POLAND / CEE

### Patrick Delcol

Chief Executive Officer  
Central and Eastern Europe  
patrick.delcol@bnpparibas.com

### Fabrice Paumelle

Head of Retail  
Central and Eastern Europe  
fabrice.paumelle@bnpparibas.com

### Natasa Mika

Director, Retail  
natasa.mika@bnpparibas.com

### Del Chandler

Managing Director, Capital Markets CEE  
del.chandler@bnpparibas.com

### Dr. Piotr Goździewicz MRICS

Director, Capital Markets CEE  
piotr.gozdziejewicz@bnpparibas.com

### Mateusz Skubiszewski MRICS

Director, Capital Markets CEE  
mateusz.skubiszewski@bnpparibas.com

### Izabela Mucha MRICS

Head of Valuation  
Central and Eastern Europe  
izabela.mucha@bnpparibas.com

### Anna Staniszevska

Head of Research & Consultancy  
Central and Eastern Europe  
anna.staniszevska@bnpparibas.com

### Michał Pszkit

Operations Director  
Property Management  
michal.pszkit@bnpparibas.com

## CZECH REPUBLIC

### Stewart Thomson MRICS

Business Development Director  
stewart.thomson@bnpparibas.com

### Lenka Šindelářová

Head of Consultancy, Associate Director  
lenka.sindelarova@bnpparibas.com

## ROMANIA

### Olga Melihov

Business Development Director  
olga.melihov@bnpparibas.com

### Catalin Maruntelu

Senior Valuer  
catalin.maruntelu@bnpparibas.com

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# 6 BUSINESS LINES in Europe

## A 360° vision

### Main locations

#### EUROPE

##### FRANCE

Headquarters  
167, Quai de la Bataille  
de Stalingrad  
92867 Issy-les-Moulineaux  
Tel.: +33 1 55 65 20 04

##### BELGIUM

Boulevard Louis  
Schmidtlaan 2 B3  
1040 Brussels  
Tel.: +32 2 290 59 59

##### CZECH REPUBLIC

Pobřežní 620/3  
186 00 Prague 8  
Tel.: +420 224 835 000

##### GERMANY

Goetheplatz 4  
60311 Frankfurt  
Tel.: +49 69 2 98 99 0

##### HUNGARY

Alkotás u. 53.  
H-1123 Budapest,  
Tel.: +36 1 487 5501

##### IRELAND

20 Merrion Road,  
Ballsbridge, Dublin 4  
Tel.: +353 1 66 11 233

##### ITALY

Via Carlo Bo, 11  
20143 Milan  
Tel.: +39 02 58 33 141

##### JERSEY

3 Floor, Dialogue House  
2 - 6 Anley Street  
St Helier, Jersey JE4 8RD  
Tel.: +44 (0)1 534 629 001

##### LUXEMBOURG

Axento Building  
Avenue J.F. Kennedy 44  
1855 Luxembourg  
Tel.: +352 34 94 84  
Investment Management  
Tel.: +352 26 26 06 06

#### NETHERLANDS

Antonio Vivaldistraat 54  
1083 HP Amsterdam  
Tel.: +31 20 305 97 20

#### POLAND

Al. Jana Pawła II 25  
Atrium Tower  
00-854 Warsaw  
Tel.: +48 22 653 44 00

#### ROMANIA

Banul Antonache  
Street n°40-44  
Bucharest 011665  
Tel.: +40 21 312 7000

#### SPAIN

C/ Génova 17  
28004 Madrid  
Tel.: +34 91 454 96 00

#### UNITED KINGDOM

5 Aldermanbury Square  
London EC2V 7BP  
Tel.: +44 20 7338 4000

### MIDDLE EAST / ASIA

#### ABOU DHABI

Hazza'a Bin Zayed Street  
Area 19/02 plot n°186  
P.O. Box 2742 Abu Dhabi  
Tel.: +971 44 248 277

#### DUBAI

Emaar Square  
Building n° 1, 7th Floor  
P.O. Box 7233, Dubai  
Tel.: +971 44 248 277

#### HONG KONG

25 /F Three Exchange  
Square,  
8 Connaught Place, Central,  
Hong Kong  
Tel.: +852 2909 2806

### Alliances

#### ALGERIA \*

#### AUSTRIA

#### CYPRUS

#### ESTONIA

#### FINLAND

#### GREECE

#### HUNGARY \*\*

#### IVORY COAST \*

#### LATVIA

#### LITHUANIA

#### MOROCCO

#### NORTHERN IRELAND

#### NORWAY

#### RUSSIA

\* Coverage via our alliance in Morocco

\*\* Covering Transaction, Valuation & Consulting

### Contacts

#### Alliances

Florence Hesse  
Tel.: +33 (0)1 47 59 17 38  
florence.hesse@bnpparibas.com

#### Research

Christophe Pineau  
Tel.: +33 (0)1 47 59 24 77  
christophe.pineau@bnpparibas.com



@BNPPRE

[www.realestate.bnpparibas.com](http://www.realestate.bnpparibas.com)



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