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SOCIAL SHOPPING CENTRES

RETAIL MARKET IN POLAND

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Shaping Retail
2017

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TABLE OF **CONTENTS**

INTRODUCTION
FROM THE AUTHORS

Savills

Tomasz Buras
Managing Director, Savills Poland

6 Participants

Tomasz Buras, Savills
In our sector we are often asked about the future of the retail market given the rapid expansion of e-commerce. What's your opinion? What will shopping centres be like in a couple of years from now? What tenant-mix will they have? Since you can buy almost everything online, will shopping centres survive?

Wioleta Wojtczak, Savills
It depends on how you define a shopping centre. A coffee with friends, workouts in a fitness club, a candlelight supper and many other things. You won't get it on the internet! But you can do all that in a shopping centre. A social shopping centre! In a place where you want to be.

Professor Rafał Ohme, NEUROHM
And a place that makes you feel good, as revealed by our survey.

Marek Paczuski, Savills
Such shopping centres attract people, and people in a shopping centre means $$$. They could soon become tasty morsels for investors.

Marta Mikołajczyk-Pyrć, Savills
But such schemes also bring challenges for property managers. To make them vibrant and fashionable, you need to be proactive and have multidisciplinary skills.

Tomasz Buras, Savills
OK 😀 We must have a closer look at them. Will you get me a in-depth analysis and report, please?

→ Photo: Mood Stockholm (Source: AMF Fastigheter)

CHANGES TO THE SHOPPING BASKET

TRADITIONAL AND MODERN SHOPPING LISTS

THE EXPANSION OF E-COMMERCE HAS ALSO TRANSFORMED THE SHOPPING BASKET OF SHOPPING CENTRE CUSTOMERS.

A TRADITIONAL SHOPPING LIST INCLUDED MAINLY GROCERIES, HOUSEHOLD ITEMS AND CLOTHING.

TODAY, MANY CONSUMERS CHOOSE TO BUY SUCH ITEMS ONLINE. A VISIT TO A SHOPPING CENTRE IS BEING INCREASINGLY ASSOCIATED WITH THINGS TO DO, SERVICES, DINING, SPORTS AND ENTERTAINMENT.

WHAT IS A SOCIAL SHOPPING CENTRE?

DEFINITION

A social shopping centre is defined as a scheme whose retail function is not superior to its additional services including food and beverage, entertainment, sports and cultural events. That superiority need not entail a larger proportion of space occupied by non-traditional retailers, but needs to be reflected in the overall image and market positioning of a shopping centre. A social shopping centre supports social interaction and customer experience.

➔ Definition of a social shopping centre. Source: Savills Poland

An offer which has no direct online equivalent is key to defining a tenant-mix of a social shopping centre. With a unique offer shopping centres complement and constitute an alternative to online channels. As a result, centres tend to have a lower proportion of space take up by fashion retailers and focus instead on such services as fashion shows on common areas and stylist sessions in showrooms. Food retailers are being increasingly replaced as anchor tenants by restaurants, bars and cafés whose broad offer is the key magnet attracting customers.

> “ Social shopping centres are primarily leisure destinations where traditional retailing is not dominant.

Typical social shopping centres are located at post-industrial sites and their architectural designs complement regional traditions. They provide public spaces, frequently open-air spaces with many green areas. Such places support social interaction, one of key attributes of social shopping centres – hence the name of such schemes. They are primarily leisure destinations for spending free time.

The human being is always the focal point in designing social shopping centres. Unlike previous-generation shopping centre strategies where the focus was on customers, the focus now is on the human being, his or her values, interests and hobbies, and primarily on the need to socialise with others and enjoy new experiences. A unique shopping centre must also have a unique offer with niche services and brands of young designers drawing on regional craft traditions or current trends such as leading a healthy lifestyle. A shopping experience is based on emotions and atmosphere, not on the actual product purchase or service.

Different marketing tools, including in particular the use of event marketing, social media and new technologies, are other hallmarks of social shopping centres.

ATTRIBUTES OF A SOCIAL SHOPPING CENTRE

Interaction
Services, the interior design and marketing tools support social interaction and *customer experience.*

Individualism
All features of a social shopping centre are to satisfy the needs of individual self-expression, self-fulfilment and self-development with human diversity catered for.

Comprehensiveness
A strong presence of additional services complementing the traditional retail offer such as F&B, entertainment, sports, co-working, cultural event space, etc.

City formation
Creation of public spaces within a shopping centre, frequently open-air spaces with natural greenery.

Uniqueness
A unique offer of local brands and new concepts of leading retailers and services unavailable in other retail schemes, including the latest trends such as slow-food.

Revitalisation
Located at post-industrial or disused sites with an architectural design complementing the historical surroundings of a scheme.

Offline
A mix of tenants having no online presence and offering services available only in brick-and-mortar stores.

Online
Use of innovative marketing 3.0 forms of promotion, particularly in the online channel, and cutting-edge Internet of Things technologies.

A NEW TYPE OF SHOPPING CENTRES

WHICH PROPERTIES COULD BE CLASSIFIED AS SOCIAL SHOPPING CENTRES IN POLAND?

1 Precursors of social shopping centres

Galeria Kazimierz
City: Krakow
Owner: Invesco Real Estate
Developer: GTC
Delivered: 2005
Area: 38,300 sq m
Description: The complex comprises a revitalised former slaughterhouse and meat processing plant. It offers fifteen F&B outlets, interactive LED tables for children and a Jatomi Fitness club with a swimming pool.

Manufaktura
City: Łódź
Owner: Union Investment RE AG
Developer: Apsys
Delivered: 2006
Area: 109,500 sq m
Description: The complex was developed at the site of a revitalised factory and comprises outdoor restaurant seating areas, sports fields and seasonal entertainment facilities in its patio. F&B and entertainment provided in separate buildings of the scheme.

Stary Browar
City: Poznań
Owner: Deutsche Asset & Wealth Management
Developer: Fortis
Delivered: 2003
Refurbished: 2007
Area: 47,400 sq m
Description: Poland's first scheme combining retail and arts. The complex comprises a night club, a hotel and offices. Restaurants with outdoor seating areas are located in its patio.

2 Retail schemes incorporating many attributes of a social shopping centre

Arkadia
City: Warsaw
Owner: Unibail Rodamco
Developer: ERE Group
Delivered: 2004
Refurbished: Autumn 2017
Area: 115,300 sq m
Description: Poland's largest shopping centre. A new dining concept will be developed on its first floor following the addition of 2,000 sq m. The Dining Plaza will feature eight outlets and four "dining islands".

Galeria Katowicka
City: Katowice
Owner: Meyer Bergman
Developer: Neinver
Delivered: 2013
Area: 53,000 sq m
Description: More than 250 stores. The shopping centre is located in the immediate vicinity of the Katowice railway station with an F&B arcade. It also features a two-level dining area.

Galeria Mokotów
City: Warsaw
Owner: Unibail Rodamco
Developer: GTC
Delivered: 2000
Refurbished: 2002, 2006 and 2013
Area: 68,900 sq m
Description: A shopping centre with upmarket fashion (The Designer Gallery). It frequently hosts various events, including presentations of cosmetic brands and events for children. Its refurbished F&B zone includes both typical food court concepts and such restaurants as Lifemotiv, Meet&Eat, Jeff's, Vapiano and Sphinx.

Galeria Młociny
City: Warsaw
Owner: EPP / Echo Investment
Developer: EPP / Echo Investment
Delivered: Q2 2019
Area: 73,500 sq m
Description: F&B outlets will account for nearly 20% of its 210 stores. The shopping centre will feature a trampoline park and an open-air rooftop garden.

Posnania
City: Poznań
Owner: Apsys
Developer: Apsys
Delivered: 2016
Area: 98,000 sq m
Description: 40 of its 300 stores are F&B outlets. It has a glass door to the F&B zone with an outdoor seating area.

Royal Wilanów
City: Warsaw
Owner: Capital Park
Developer: Capital Park
Delivered: 2015
Area: 6,900 sq m
Description: The shopping centre is located on the ground level of the Royal Wilanów office building. It has eight restaurants with outdoor seating areas.

Wroclavia
City: Wrocław
Owner: Unibail Rodamco
Developer: Unibail Rodamco
Delivered: 18 October 2017
Description: Grand Kitchen is a modern dining zone in the vicinity of all-year-round gardens with unique F&B outlets, including wrapMe! and Food Republic.

Classification of social shopping centres. Source: Savills Poland

3 Typical social shopping centres or mixed-use schemes with a retail function characteristic of a social shopping centre

Browary Warszawskie
City: Warsaw
Owner: Echo Investment
Developer: Echo Investment
Delivered: 2020
Area: 5,000 sq m (retail and services)
Description: Revitalisation of historical buildings of Warsaw breweries that will make up a residential, office, retail and leisure complex. Its 19th century cellars will house F&B outlets and retail stores.

Centrum Praskie Koneser
City: Warsaw
Owner: BBI Development and Liebrecht & Wood
Developer: BBI Development and Liebrecht & Wood
Delivered: 2018
Area: 20,000 sq m (retail and services)
Description: A revitalised former vodka factory with 6,000 sq m for an F&B zone with outdoor areas and a space for cultural events.

City Park Poznań
City: Poznań
Owner: Konkret Group
Developer: Konkret Group
Delivered: 2007
Area: n/a
Description: A residential, hotel, retail and F&B complex developed at the site of former uhlan barracks.

Elektrownia Powiśle (EC Powiśle)
City: Warsaw
Owner: White Star Real Estate / Tristan Capital Partners
Delivered: late 2018
Area: 15,000 sq m
Description: Revitalisation of a former power plant to develop avenues with restaurants as part of the project. The complex will also feature glass roofs over all-year-round outdoor seating areas. One of its buildings will be fully dedicated to F&B.

Hala Gwardii
City: Warsaw
Owner: Municipality of Warsaw
Delivered: 29 September 2017
Area: 3,300 sq m
Description: A refurbished market hall, largely with F&B outlets offering diverse cuisines from across the globe.

Hala Koszyki
City: Warsaw
Owner: Griffin Real Estate
Developer: Griffin Real Estate
Delivered: 2016
Area: 7,000 sq m
Description: A revitalised former market hall, now housing offices and restaurants, including Ćma by Mateusz Gessler, open 24/7.

Off Piotrkowska
City: Łódź
Owner: OPG Orange Property Group
Delivered: 2011
Refurbished: 2018
Area: 730 sq m (retail and services)
Description: A revitalised spinning and weaving mill with many F&B outlets and studios for artists. It is currently undergoing further refurbishment with new office space being developed.

Towarowa 22
City: Warsaw
Owner: EPP / Echo Investment
Developer: EPP / Echo Investment
Delivered: 2020
Area: 110,000 sq m
Description: A residential, office and service project with a public space.

Photo: Browary Warszawskie (Source: Echo Investment)

MILESTONES LEADING TO THE EMERGENCE OF SOCIAL SHOPPING CENTRES

Real estate market developments

1992 McDonald's opens its first restaurant in Poland at the corner of Marszałkowska and Świętokrzyska streets in Warsaw.

1996 The Femina cinema in Warsaw is converted into Poland's first multiplex. Several years later, more and more newly-constructed shopping centres incorporate cinemas, including Sadyba Best Mall's Silver Screen opened in 2000.

2001 Calypso opens its first fitness club in the Wola Park shopping centre. Today, it operates the largest number of locations in Poland, alongside Jatomi Fitness.

2003 Stary Browar in Poznań is delivered to the market – Poland's first shopping centre whose retail function is not superior to its additional function (arts). Preceded by Galeria Mokotów, which had been completed three years earlier and revolutionised the Polish retail market.

2006 The opening of Manufaktura in Łódź at a former textile plant with a three-hectare public space. Cultural events hosted there win the recognition of the International Council of Shopping Centres.

2012 The extension and refurbishment of Warsaw's Galeria Mokotów begins with a thorough redevelopment of its food court, followed by similar makeovers of other large Polish shopping centres.

2015 Blue City is Warsaw's first shopping centre to introduce beacons. This technology enables communication with a new generation of customers through smartphones.

2016 Hala Koszyki, Poland's first self-contained social shopping centre, opens in Warsaw. It fully meets the definition of a social shopping centre.

Social developments

1984 The birth year of the first Millennials (also known as Generation Y). According to sociologists, Millennials tend to be bolder and more individualistic in their ways than the previous generation.

1997 The first Generation Z people with no memory of the pre-digital world are born. They tend to be creative and focused on establishing social relations.

2004 Poland accedes to the European Union and joins the Schengen Area three years later, facilitating foreign travels and helping Western trends edge their way into Poland.

2007 Steve Jobs presents the first iPhone. An era of smartphones begins. A year later Facebook launches its Polish language version.

2010 TVN broadcasts the first episode of *Kitchen Nightmares* hosted by Magda Gessler. Two years later, the Polish edition of *MasterChef* is premiered. Cooking programmes and eating out become increasingly popular in Poland.

2013 Atelier Amaro is Poland's first restaurant to be awarded a Michelin star.

2016 Nocny Market opens at the disused Main Railway Station (*Dworzec Główny*) in Warsaw. Street food culture becomes a permanent feature of the capital's nightlife.

➔ Photo: Stary Browar in Poznań (Source: Jakub Wittchen)

➔ Photo: Nocny Market in Warsaw (Source: Krystian Szczęsny)

ANALYSIS OF THE POLISH RETAIL MARKET

DOES POLAND HAVE SOCIAL SHOPPING CENTRES?

Social shopping centres account for less than 10% of Poland's retail stock.

Poland's total retail stock comprising shopping centres and retail parks of more than 5,000 sq m and outlet centres has topped 11.1 million sq m, of which over 88% are shopping centres. Food courts and entertainment zones occupy a small percentage of space at two-thirds of the country's nearly 430 shopping centres, offering more than 9.8 million sq m. The leisure offer at other retail schemes frequently comprises only a multi-screen cinema and a typical food court. Few shopping centres have both a strong F&B component with outlets operating outside the opening hours of a shopping centre, and a broad entertainment offer.

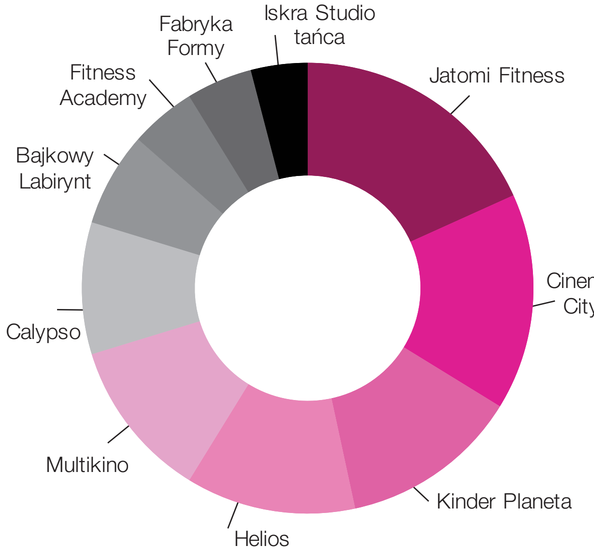
The changing market landscape, including the impact of e-commerce on traditional retailing and the double-digit annual growth of online sales (25% in 2016), has transformed shopping behaviour and consumer expectations. Eating habits of Polish people have also evolved alongside changing sales channels.

According to the Polish Statistical Office, consumption of bread and cereal products fell by more than 30% between 2005 and 2016. And so did the consumption of sugar (down by 33%) and fresh milk (down by 30%). The structure of Polish households' expenditure that rose from about PLN 690 per capita in 2005 to nearly PLN 1,132 per capita in 2016 has remained fundamentally unchanged, but spending on some categories such as eating out surged by 285%. Spending on recreation and culture rose by over 65% in the same period.

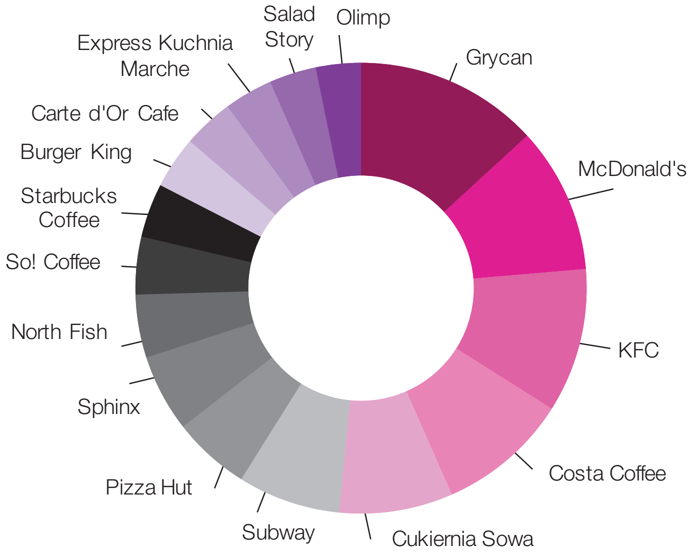
Poland's eighteen largest cities with more than 150,000 inhabitants have approximately 400 shopping centres with over 765 F&B tenants operating nearly 2,100 outlets (regular islands and in standalone buildings). There are also approximately 210 leisure operators with more than 400 outlets.

F&B operators with the largest number of establishments include such leading brands as Grycan, McDoland's and KFC, followed by Costa Coffee, Cukiernia Sowa and Subway, each having at least 55 outlets in the above shopping centres.

Top 10 leisure & entertainment operators in Polish shopping centres (by the number of outlets)



Market shares of F&B operators having at least 20 outlets in Polish shopping centres



Source: Savills, Polish Retail Research Forum

Leisure operators with the strongest presence in shopping centres include Jatomi Fitness (27 fitness clubs) and Cinema City (23 multiplexes). The top ten brands comprise other multi-screen cinema operators such as Helios and Multikino, fitness clubs (Calypso, Fitness Academy and Fabryka Formy) and dance school Iskra Studio Tańca. Kids' play areas operated under various brands also have a considerable presence in many shopping centres.

> “Food courts and entertainment zones occupy a small percentage of space at most of Poland's 430 shopping centres.

On this changing market, developers and owners need to maintain customer interest in their retail schemes by developing new shopping centres with a much broader non-fashion offer or by redeveloping and extending existing first-rate centres which enjoy a dominant position on their respective markets.

Selected new shopping centres:

- Echo Investment's Galeria Libero in Katowice. Its entertainment and F&B zones will occupy 6,500 sq m and 3,000 sq m respectively, accounting for 15% and 7% of the shopping centre's GLA;
- Unibail-Rodamco's Wroclavia in Wrocław. Its Grand Kitchen concept and entertainment zone, including Cinema City, will occupy 18% of the scheme's total area.

Shopping centres redeveloped or extended with a view to expanding F&B zones.

- Auchan Gdańsk, where 5,800 sq m is being gradually added to its gross leasable area, part of which will be dedicated to F&B;
- Warsaw's Arkadia, where 2,000 sq m is to be added to its food court. The shopping centre will thus provide a new separate meeting place;
- Warsaw's Reduta with a multi-screen 3D cinema, a fitness club and an F&B zone on a 5,800 sq m area to be added to the shopping centre;

In addition, some schemes are largely or even fully let to F&B operators. These include City Park Poznań, developed at the site of former uhlan barracks in 2007, with an extended F&B offer provided by 15 operators. Off Piotrowska in Łódź is home to fashion design studios, music clubs, restaurants, art cafés and art studios, making it a very popular destination on the city's cultural and F&B map.

Precursors of social shopping centres include Manufaktura in Łódź and Stary Browar in Poznań – both boasting a broad F&B and entertainment offer. However, it is the opening of Warsaw's Hala Koszyki that has unequivocally demonstrated that non-retail schemes are also very likely to be successful.

Following Hala Koszyki's success, Hala Gwardii has been remodelled to accommodate restaurants and other F&B outlets and a modern fresh produce market, setting a new market trend to be closely monitored in upcoming years.

Wioleta Wojtczak
Head of Research, Savills

RETAIL REVOLUTION

HISTORY OF THE RETAIL MARKET TRANSFORMATION

Shopping centres have served non-retail functions - largely complementary to retail - since the early days of the Polish commercial property market.

The late 1980s and early 1990s – the period of economic transformation in Poland – were dominated by the development of large-scale hypermarkets with a very limited F&B offer. At that time there was even no talk of providing entertainment at such schemes.

Foreign fast-food operators also entered the Polish market in the 1990s, developing standalone buildings or gaining a foothold in the first food courts at some hypermarkets towards the end of 20th century. For F&B operators, it was a time of great business opportunities, supported by very strong consumer demand following the dearth of innovative F&B concepts.

The opening of Warsaw's Galeria Mokotów in 2000 was a pivotal event for the Polish retail market. In addition to new store formats, it also boasted a then-revolutionary food court with a full offer of well-known fast-food concepts and a couple of brand new fast-food bars serving international cuisine. Galeria Mokotów also housed a multi-screen cinema and a large leisure zone with a multi-lane bowling alley, an amusement arcade and a music club, all complemented by modern cafés, cake and ice-cream shops.

A new era began – practically every newly-constructed shopping centre had to have a food court, a cinema and an amusement arcade. That added fresh impetus to fast-food operators who developed new concepts in response to the unwavering demand for this type of dining at shopping centres. Cinema operators expanded capitalizing on Hollywood box-office hits. Bowling alleys, a symbol of the Western lifestyle, popped up across the country. This continued practically until the financial crisis of 2007-2008.

The GFC accelerated lifestyle changes that had been taking place across Poland for some time, inspired – as in the case of many other trends adopted on the Polish market – by Western patterns. Everything was being revolutionised, affecting nearly all aspects of our lives. A digital era began spreading into an ever growing number of areas. The revolution spread to the retail market at a rapid pace, totally dominating some sectors. To some Polish customers, shopping centres were no longer the best places to shop as smartphones offered much greater convenience.

> “The opening of Hala Koszyki has been the most pivotal event on the Polish retail market since Galeria Mokotów was delivered.

These developments have had a profound impact on traditional retailing and the retail property market with effects seen today. Pure retail has shrunk while food & leisure expanded. The share of F&B operators in a typical shopping centre's total leasable area has risen from 5% in the 1990s to nearly 20% today.

Retail concepts have also been revolutionised. Fast-food formats are being pushed out by small-scale chains or innovative bistros offering healthy food. Bowling is no longer in – people want to have access to professional fitness opportunities, hence the rising popularity of fitness clubs, all complemented by dance and foreign language schools, medical centres, and recently also by co-working spaces.

Hala Koszyki in Warsaw has set another dynamic trend on the Polish retail market with creation of a dedicated F&B space. In my opinion, it was a landmark event, just like the opening of Galeria Mokotów in 2000. And just like Galeria Mokotów, Hala Koszyki has become a 'role model' for other schemes adopting this new innovative format.

These concepts are likely to develop at a rapid pace in upcoming years. Polish people are becoming ever more conscious of their lifestyle choices, health and eating. There is no turning back from this revolution and the retail market needs to keep up with changing lifestyles and consumer needs.

→ Photo: Hala Koszyki in Warsaw (Photo: Gryffin Premium RE)

5% / 20%

Percentage change in the recommended share of an F&B zone in the total leasable area of a shopping centre in recent years.

16 years

Time span between two revolutions on the Polish retail market triggered by the openings of Galeria Mokotów and Hala Koszyki.

2008

The GFC coincided with the symbolic beginning of the digital revolution in Poland: the launch of Facebook's Polish version. The lifestyle of Polish people began to evolve gradually.

CARING ABOUT A CUSTOMER EXPERIENCE

FROM A PROPERTY MANAGER'S PERSPECTIVE

Evolving consumer needs lead to changes on the retail market, posing major challenges for managers responsible for day-to-day operation of retail schemes.

Retail property managers have always been keen to extend customer dwell times. Visitors to social shopping centres naturally tend to spend more time in such retail schemes than they otherwise would in traditional shopping centres focused on retailing. Multiplexes and restaurants usually operate much longer hours than retail stores, and some fitness clubs are open 24 hours a day. A property manager's role is, on the one hand, to make sure that shopping centre visitors enjoy the same level of comfort both during the day and outside the normal opening hours of a centre, and, on the other hand, to bring down costs for instance by closing some parts of the centre for the night.

Social shopping centres are frequently located at post-industrial sites. Construction work in such buildings must be very often carried out in consultation with a heritage conservation officer. A property manager wanting to have a post-industrial site remodelled must take into account that the process will be more demanding than in a typical location.

In addition, management of social shopping centres also requires constantly ensuring a premium customer experience and positive emotions are instrumental in this – they ought to be stirred up by all details, from interior elements to dedicated relaxation areas. Property managers must also keep abreast of the latest technologies, providing for example phone charging stations for customers or solutions enabling tenants to conduct multi-channel retailing.

> “Managers of modern shopping centres are required to demonstrate much higher standards of competence than those necessary in previous generation centres.

A comprehensive F&B offer frequently involves serving alcohol. A cocktail bar is a focal point of such schemes as Hala Koszyki or Foodhallen in Amsterdam. Ensuring safety is one of the property manager's key responsibilities. Consequently, managers of social shopping centres ought to have skills that so far have been required rather for running night clubs than shopping centres. However, they need to be flexible and able to draw on their experience in organising, for instance, cultural events. Vernissages, exhibitions or small theatre plays are becoming increasingly common in modern retail schemes.

Cooperation with a local community and projects associated with local history are also recommended. Ferio Wawer in Warsaw is an example. Its manager took the initiative to create a “space for neighbours” that is available to local residents and can be used, for instance, as a co-working space or a meeting room for local associations. Ferio Wawer also cooperates with Wawerskie Centrum Kultury (a local cultural centre), hosting regular creative workshops (Wawerskie Sobótki Artystyczne) or a recent exhibition of the building's old photographs. Ferio Wawer is also engaged in charity activities by providing support for people with special needs. It is also a pet-friendly shopping centre.

Managers of modern shopping centres are required to demonstrate much higher standards of competence than those necessary in previous generation centres. What is more, they need to be open-minded and able to use unconventional tools. By providing a broad F&B and entertainment offer, social shopping centres attempt to appeal to the tastes of demanding metropolitan customers and have to compete with a number of alternative leisure activities. Therefore, efficient property management may be key to success of a shopping centre.

Marta Mikołajczyk-Pyrć
Head of Retail Property Management,
Property & Asset Management, Savills

Key challenges for managers of social shopping centres

- Longer opening hours
- Ensuring safety on the premises
- Ensuring a premium customer experience
- Enabling tenants to conduct multichannel retailing
- Organisation of social and cultural events

➔ Photo: Ferio Wawer Shopping Centre, Warsaw (Source: STRABAG Real Estate)

➔ Photo: Centrum Praskie Koneser (Source: BBI Development / Liebrecht & Wood)

A NEW PRODUCT ON THE INVESTMENT MARKET

FROM AN INVESTOR'S PERSPECTIVE

Retail properties have averaged 40-50% of the total investment volume on the commercial real estate market in Poland in recent years.

Investors targeting shopping centres consider two aspects of a potential investment. On the one hand, they look at the current and past performance of a retail scheme, including the occupancy level, the lease structure, rents and tenants' turnover levels in comparison with the market's benchmark values. Other important factors include a shopping centre's footfall, average basket spend and other performance figures.

On the other hand, a retail scheme's capacity to remain competitive and exit value are also relevant. That's why investors cannot afford to disregard market developments. They need to assess how quickly a shopping centre is able to respond to changing consumer needs and what capital expenditure will be required to maintain or enhance its competitive edge in the future.

F&B operators are rapidly expanding their presence in shopping centres on Asian and Western European markets in terms of both the volume of space taken up and quality of their offer. This expansion is being accompanied by cultural changes such as the promotion of an active and healthy lifestyle and the desire to share personal experiences on social media. This trend is leading directly to increased catering, sports and entertainment spending, but is also forcing shopping centre owners to broaden and reinvent their offer in response to the needs of a new type of customers, taking account of preference differences on local markets.

Therefore, services attracting shopping centre regulars such as fitness club members are particularly important. For them, a visit to a shopping centre is an excellent opportunity to do shopping and to meet up with friends in a café or restaurant. However, tenants operating in this market segment tend to pay relatively low rents – frequently below the break-even point in the case of cinema operators. Despite being vital to the attractiveness of a shopping centre, sports and entertainment must be appropriate to the shopping centre's size to generate sufficient revenue.

The ever-growing presence of F&B and entertainment in shopping centres is a natural response to changing consumer needs. Schemes with no retail function such as food markets are still a rarity in Poland. Warsaw's Hala

Photo: Elektrownia Powiśle in Warsaw (Source: Tristan Capital Partners / White Star Real Estate)

Koszyki is the first project developed in line with Western European standards. The growing popularity of such schemes, including food markets, is not a fleeting trend on mature markets and there is no apparent reason why this should be different in Poland. From an investor's perspective, such schemes could be very attractive assets. However, due to their relatively recent emergence and pioneering nature, it may take some time before investors begin to consider them as safe investment products.

> Investors cannot afford to disregard market developments.

Social shopping centres, including food markets, such as Hala Koszyki will definitely become sought-after investment assets, but there is not necessarily enough room for many such schemes on the Polish market. Soft, non-classifiable factors such as ambience of a venue – in addition to its location and F&B offer – may determine whether a scheme is successful or not. Therefore, such schemes are at risk of changing preferences of customers who would be tempted to go where they are offered a better experience.

Revitalised post-industrial spaces may help create a special ambience. It frequently costs more to regenerate and maintain post-factory facilities than to develop a brand new scheme. All such maintenance expenses need to be covered by rental income, while tenants need to generate sufficient turnover to pay lease costs.

Investors seek top-quality and high-yielding assets. Such investment opportunities are for now available only in the largest Polish cities. In upcoming years, Warsaw and major regional cities will remain key locations of social shopping centres attracting investor interest.

Marek Paczuski
Director, Investment Department, Savills

Major challenges for investors targeting social shopping centres

- Low rents paid by sports and entertainment operators
- High revitalisation costs impacting on asset pricing
- Limited number of schemes in this segment that a market can absorb
- Intensive marketing and continuous innovations required to maintain customer interest and build loyalty
- Dependence on current trends and need to rotate tenants frequently
- A relatively new concept with no track record of performance

TRUE CONSUMER NEEDS

WHAT SHOULD AN IDEAL SHOPPING CENTRE BE LIKE?

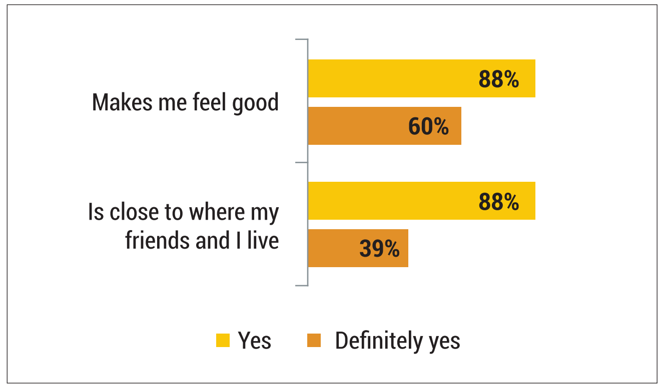
In August 2017, research company NEUROHM conducted a survey to identify attributes an ideal shopping centre should have according to Polish people. We had drawn up a list of potential motivations behind visits to such schemes and invited a group of more than 1,000 people with varied backgrounds to take part in our survey. As experts in exploring human emotions, we also measured response times in addition to investigating respondents' answers. This enabled us to capture the degree of certainty or hesitation with which a response was selected at a subconscious or emotional level, i.e. without any use of rational thinking – and hence to obtain answers that were free from distortions. Studies have revealed that approximately 80% of our decisions are made at an emotional rather than rational level.

We can therefore establish what percentage of Polish people indicating a feature as an important attribute of an ideal shopping centre actually believe in what they claim. To do that, we focus on situations when they indicate answers without hesitation, automatically and emotionally, as emotions in practice most strongly determine our choices and actions.

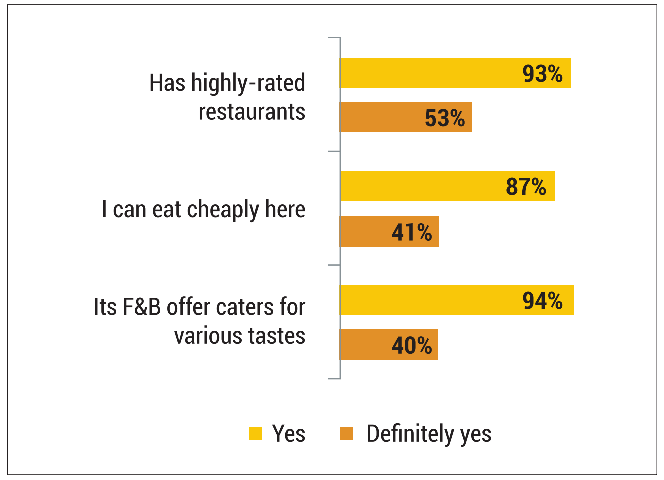
> Purely emotional aspects rather than a rational retail offer or a list of useful functionalities are now more important to Polish people in defining a favourite shopping centre.

What are the attributes of an ideal shopping centre? Our survey shows that at the rational (declarative) level nearly 50 various attributes ascribed to shopping centres (e.g. friendly to families with children, easy to get there, I come here for special offers, a one-stop shop) were selected by at least 75% respondents of our survey questionnaire. Does it mean that all of them are equally important to consumers? Of course not, and the response time is a measure that permits us to identify key factors in choosing a shopping centre.

Let us consider two attributes from our survey. 88% of the respondents declared that an ideal shopping centre should make them feel good. The same percentage also agreed with the attribute is close to where my friends and I live. Based on these two responses it would be logical to assume that both attributes are equally important to Polish people. Yet, a look at response times reveals a spectacular difference: 60% of the respondents cited the attribute makes me feel good without any hesitation (a very short response time), making it the key motivation indicated with the highest degree of certainty, while the score for the latter attribute was barely 39%. This means that according to most respondents only the former factor is a true attribute of an ideal shopping centre.



Quality is now more important than prices, according to our survey respondents. As sharing views and comments on the internet is so widespread, consumers expect shopping centres to have highly-rated restaurants. This attribute was indicated by 93% of the respondents while 53% strongly agreed with it. By contrast, only 41% of the respondents strongly agreed with the attribute I can eat cheaply here.



What's more, customers seek recommendations before choosing a place to go. That is why they do not really expect the F&B offer to cater for various tastes. Despite an equally high level of declarations as in the case of the question about highly-rated restaurants, this time only 40% of the respondents agreed with this attribute without hesitation.

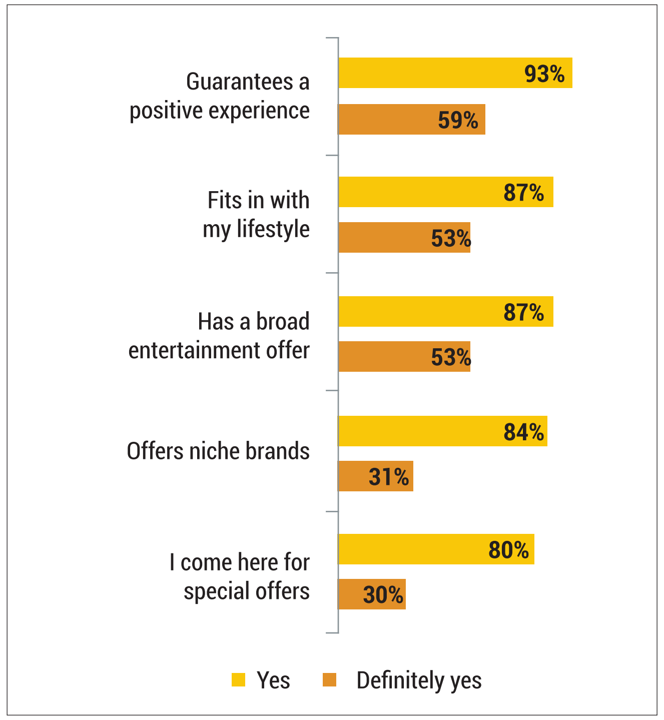
REPORT PARTNER

ABOUT NEUROHM

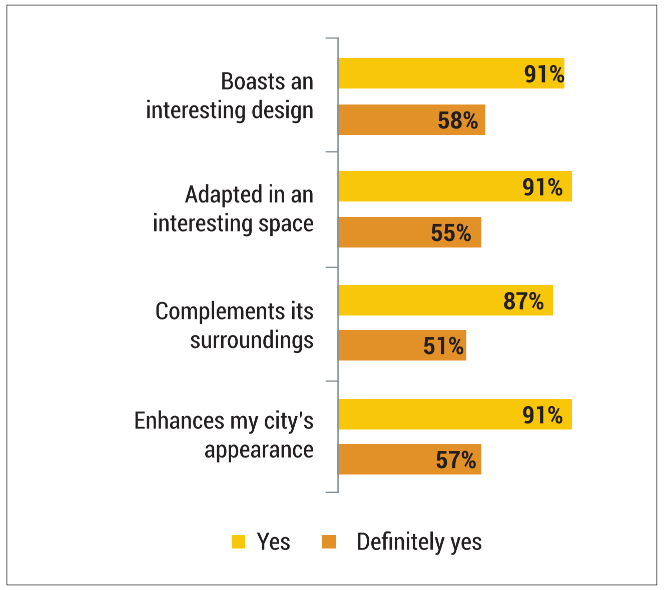
NEUROHM focuses on investigating consumer emotions and true intentions. It was founded following the research begun in 1997 by Professor Rafał Ohme, a pioneer of consumer neuroscience. The company is a member of the Neuromarketing Science & Business Association.

NEUROHM true emotions > true connect

Shopping centres are no longer places we to go to only to do some shopping quickly and move on. An ideal shopping centre should be a place where we want to spend free time and enjoy entertainment, a place we want to return to, an ecosystem that suits us and fits in with our lifestyle. Our research shows that purely emotional aspects rather than a rational retail offer or a list of useful functionalities are more important to Polish people in defining a favourite shopping centre.



Approximately 90% of the respondents agreed - and more than half strongly agreed - with such statements as guarantees a positive experience, fits in with my lifestyle and has a broad entertainment offer. Attributes such as offers niche brands and I come here for special offers were cited with a high degree of certainty by 30% and 31% of the respondents, respectively. These attributes, therefore, must be viewed as "false friends" as at a rational level they appear important to most people, but at an emotional level they appeal to a much smaller group of customers. They may be key to commercial success of a retail scheme, but according to approximately 30% rather than 80% of potential visitors.



Shopping centres are being increasingly developed in historical places across Polish cities. What used to be largely irrelevant is now emotionally important as a shopping centre should boast an interesting design, be adapted in an interesting space and complement its surroundings. In addition, we want newly-developed schemes to enhance a city's appearance. Most of the respondents either agreed or strongly agreed (51-58%) with the above statements. Our survey shows that schemes such as Hala Koszyki in Warsaw and Stary Browar in Poznań meet consumer expectations according to the respondents' declarations, but they appeal to them primarily at an emotional level.

Paulina Poławska
Project Coordinator, Analysis Department, NEUROHM

WHAT SHOPPING CENTRE ATTRIBUTES ARE IMPORTANT TO CONSUMERS?

SUMMARY OF SURVEY FINDINGS

ESSENTIAL ATTRIBUTES

- MAKES ME **FEEL GOOD**
- HAS **HIGHLY-RATED** RESTAURANTS
- A BROAD **ENTERTAINMENT OFFER**
- GUARANTEES **A POSITIVE EXPERIENCE**
- I WANT TO **SPEND MY FREE TIME** HERE
- PROVIDES **KIDS' ENTERTAINMENT**
- COMPLEMENTS THE **SURROUNDINGS**
- HAS A **FOOD STORE**
- HAS A **CINEMA**
- **ONE-STOP** SHOP
- I CAN **UNWIND** HERE
- HOSTS **CULTURAL EVENTS**
- FITS IN WITH **MY LIFESTYLE**
- OFFERS **FREE WI-FI**

DESIRABLE ATTRIBUTES

- A PLACE WITH **A DISTINCT AMBIENCE**
- AN IMPRESSIVE **INTERIOR DESIGN**
- I WANT TO **SOCIALISE WITH FRIENDS** HERE
- I POP IN HERE FOR A **QUICK MEAL**
- I POP IN HERE FOR A **QUICK COFFEE**
- I ENJOY BEING HERE **AFTER WORK**
- I CAN SPEND **A WHOLE DAY** HERE
- HAS A **FITNESS CLUB**
- FRIENDLY TO **FAMILIES WITH KIDS**
- TURNS INTO A **SOCIAL VENUE AT NIGHT**
- SUPPORTS **SOCIAL INITIATIVES**
- I COME HERE TO HAVE A **FAMILY MEAL**

SEEMINGLY IMPORTANT ATTRIBUTES

- THERE IS **REAL VEGETATION**
- HAS AN **OPEN-AIR SPACE**
- HAS A **PREMIUM FOOD STORE**
- I CAN **EAT CHEAPLY** HERE
- HAS **MOBILE PHONE CHARGING** STATIONS
- **AMBIENT MUSIC**
- OFFERS **NICHE BRANDS**
- I CAN GET SOME **WORK DONE HERE**
- IS CLOSE TO WHERE **MY FRIENDS AND I LIVE**
- ITS F&B OFFER **CATERS FOR VARIOUS TASTES**

ABOUT THE SURVEY

NEUROHM, in cooperation with Savills, conducted an online survey using the BIOCODE™ method for the "Social Shopping Centres" report. The survey was carried out in August 2017 on a sample of over 1,000 shopping centre customers.

BIOCODE™ analyses not only customer responses but also the time taken to respond to a question in order to identify the emotional certainty of a respondent's attitude. Combining declarative opinions with certainty/hesitation measurements makes it possible to predict more accurately actual consumer behaviour and choices.

DECLARATIONS VS. REALITY

HOW TO READ THE SURVEY?

ESSENTIAL ATTRIBUTES are key to commercial success of modern shopping centres, both on the rational and emotional level, manifested by a high or very high degree of certainty of responses.

DESIRABLE ATTRIBUTES are those that may complement the image or functions of a shopping centre, manifested by a moderate degree of certainty of responses.

SEEMINGLY IMPORTANT ATTRIBUTES are not critical factors in the success or failure of a shopping centre, manifested by a low degree of certainty of responses.

HOW OPINION LEADERS DO THEIR SHOPPING

OPINION POLL

RADOSŁAW RYBIŃSKI
Managing Director, Evigo.com

In a shopping centre, apart from shopping, I most often…
Burn calories in Calypso. At least three times a week. I usually snack then as well, so it's shopping, fitness and eating out.

My favourite shopping destination abroad is…
Any place where I can find basically the same stuff as in Poland but different. I don't like experimenting, but I like new versions of what I already know.

The thing I most recently bought in a shopping centre…
Glasses for my son. He carelessly ruined his previous pair. So he thought he would have to contribute to the costs of purchase. When he made sure that his parents would pay, he changed his mind and chose a frame that was twice as expensive. I paid. But had the frame been for me, I would have thought twice. What's the conclusion? Children are quite a large slice of the 'retail pie'.

Three features of an ideal shopping centre are:

- A good location (easy access, car park)
- A comprehensive retail offer
- A large food court (not just fast-food bars but also restaurants, preferably with a separate entrance)

The market winners will be…
Those adopting an omnichannel model. This requires a large business scale and major financial outlays, so I'm afraid the current market leaders will only strengthen their dominant positions. They will be joined by leading online players who will establish a strong presence in traditional retailing. In the case of smaller markets such as Poland it may lead to an absolute and greater-than-ever-before dominance of a few players only.

» Jarosław Rybiński is in charge of the editorial office of retailnet.pl and Shopping Center Poland, and coordinates work connected with Shopping Center Forum fairs. He has worked on the media market for nearly 25 years. Before joining Evigo he was the editor-in-chief of the TVP1 news programme, a reporter for Polsat TV news and a journalist of Radio Free Europe.

PROFESSOR RAFAŁ OHME
Founder of NEUROHM

In a shopping centre, apart from shopping, I most often…
Write my book, "Emo Sapiens 2", having a good coffee.

My favourite shopping destination abroad is…
Printemps in Paris.

The thing I most recently bought in a shopping centre…
Freshly squeezed juice.

Three features of an ideal shopping centre are:

- A food court with a variety of healthy foods
- A truly good children's play area
- Low rotation of store staff. People who are able to build strong relationships with customers

The market winners will be…
Those who conduct continuous sales via integrated channels, based on a personalized message created in real time using smart data, artificial intelligence and hybrid VR and AR solutions.

» Professor Rafał Ohme is an expert in emotions and a world pioneer in consumer neuroscience. Psychology professor of the SWPS University of Social Sciences and Humanities. A visiting professor at Stellenbosch University in Cape Town and Renmin University of China in Beijing. A laureate of the Awards of the President of Poland, the Prime Minister of Poland, the Foundation for Polish Science, the Fullbright Scholarship, an Honourable Member of the Executive Club. The founder of research company NEUROHM and training company Inemo. The author of a popular science bestseller Emo Sapiens. Harmony of reason and emotions.

ARTUR LIS
Asset Manager, Tristan Capital Partners

In a shopping centre, apart from shopping, I most often…
Go to a medical centre. It's on the agenda of anyone who has children and lives in a big city.

My favourite shopping destination abroad is…
Places that are an inspiration for the Elektrownia Powiśle scheme in the making: La Boqueria in Barcelona, Bikini Berlin, and Borough Market and Covent Garden in London.

The thing I most recently bought in a shopping centre
Suitcases for a holiday at TK Maxx. I normally don't shop in shopping centres. Haven't done it for a long time. When I need clothes, I go online. And then, if I want to make sure that I really want what I've found, I go to a physical store.

Three features of an ideal shopping centre are:

- A shopping centre that strikes a balance between popularity and relaxed shopping. You don't want to fight for a parking space in a car park or a fitting room in your favourite store at weekends. It is a problem in Warsaw's shopping centres.
- A shopping centre that offers a good, safe car park and is reasonably located, within a 20-minute drive by car or public transport.
- A shopping centre with a broad range of stores for family shopping, with play areas for children and good venues for a weekend lunch at the end of a long shopping day.

The market winners will be…
Retailers who adapt to changing shopping patterns. Click & Collect stores, Zalando's or Amazon's showrooms will be as important in a shopping centre as brick-and-mortar stores of traditional retailers.

» Artur Lis joined Tristan Capital Partners as an Asset Manager in 2013. He has 10 years of professional experience and is now responsible for management of a EUR 570m plus investment portfolio in Poland and the Czech Republic.

RADOSŁAW KNAP
CEO, Polish Council of Shopping Centres

In a shopping centre, apart from shopping, I most often…
Meet up with people for a meal or a coffee. I also go to the cinema with my family or friends or to events organized for families.

My favourite shopping destination abroad is…
London. That's because of its broad offer and availability of products and brands, not all of which have made their way to Poland yet. I like being inspired by new concepts for which London is a sort of incubator.

The thing I most recently bought in a shopping centre…
School starter kits for my sons and books for my wife and me.

Three features of an ideal shopping centre are:
A varied tenant-mix, an attractive location, easy access, appropriate marketing based on cooperation with tenants.

The market winners will be…
Those who are ready to inspire and surprise customers with their offer, not only by adapting to customer preferences. To put it briefly, those who are creative and bold!

» Radosław Knap is the CEO and a Board Member of the Polish Council of Shopping Centres (PRCH). He has worked for the PRCH since 2009. He has pioneered projects to develop the organisation's knowledge base such as the PRCH Turnover Index, Footfall Trends, or an online Shopping Centre Catalogue. A member of the ICSC European Research Group. At present, he is responsible for management and strategy development at the PRCH.

MARKET OUTLOOK

CONCLUSIONS

The traditional division of shopping centres into successive generations is gradually becoming outdated. Shopping centre development in Poland has recently lost its momentum and there will be fewer and fewer openings of large schemes in upcoming years. Retail schemes in the pipeline or undergoing refurbishment will tend to incorporate many attributes of social shopping centres. They will move away from 'traditional' retailing or will attempt to combine it with new functions to increase footfall and compete with e-commerce.

Polish people are becoming more and more conscious of what they eat and buy and how they spend free time. As a result, one of the biggest challenges in designing a social shopping centre is to develop a unique offer that would be competitive to that of online channels. A new market niche has emerged: demand for specialists who would help select original brands that would benefit social shopping centres.

There is strong demand for concepts of well-known brands developed uniquely for a given project, such as Poland's only Ćma restaurant in Warsaw's Hala Koszyki. It is owned by Mateusz Gessler, a seasoned restaurateur who guarantees high quality and is ready to operate on a large enough scale. An ability to cooperate with such tenants will be an invaluable skill in the retail sector in the near future. Market leaders will be those who closely follow the latest trends and are able to work with often very small, semi-amateur businesses, helping them spread their wings by starting out in a large professional shopping centre.

It remains to be seen how many social shopping centres can be absorbed by the Polish market. Such schemes must maintain the right balance between individual functions and align price levels with the size of the city they are located in. For now, only the largest Polish cities have social shopping centres targeting mainly the most affluent patrons.

Operators of restaurants and unique shopping concepts prefer turnover-based rents, which is particularly relevant to property owners. Such rents pose a greater risk to developers and investment funds that could be potentially interested in buying a retail scheme.

In addition, such schemes are vulnerable to rapidly changing fashions. Customers often change places where they want to spend time.

> “There is a new market niche for specialists closely following the latest trends and offering unique concepts who would help select original brands to benefit social shopping centres.

Despite many challenges connected with social shopping centres, there is no turning back from the retail revolution. Technological advances and evolving lifestyles have irreversibly transformed consumer behaviour and expectations. Today's customers are undoubtedly the most demanding in the history of the retail market.

Past	Now	Future
Dominant retail function, occasionally additional functions	Growing presence of additional functions	Multi-channel retailing and comprehensive services offered in a shopping centre
Hypermarket	Cinema and fitness club	Art galleries, co-working and public spaces
Food court	Extended food court and separate restaurants	Food halls with restaurants
Fast food	Traditional restaurants	Healthy, fresh and organic food, slow-food
Chain store tenants	New concepts of leading retailers dedicated to a shopping centre	Niche, local brands and original retail concepts
Agency leasing	Active commercialization consultancy	Trendsetting and business development support for smaller tenants

WESTERN EUROPEAN EXAMPLES

The Polish retail market has drawn on the experience of Western European countries for years. In Germany, for example, the proportion of space taken up in shopping centres by F&B operators has doubled over the last ten years, now standing at 8%. At some retail schemes this figure will be higher following the planned refurbishments. In Frankfurt's MyZeil the share of the F&B offer in its total space will rise to 15% and in Hamburg's Europa Passage – to 20%.

Photo: Time Out Market, Lisbon (Photo TOM Lisboa)


Photo: Mathallen, Oslo (Photo StåleFelberg)


Photo: De Foodhallen, Amsterdam (Photo Typhoon Hospitality)

7,2/10 Average rating by London's Generation Z of how important the F&B offer is when it comes to choosing a place to shop.

73% vs. 32% In the UK, food courts are visited by ¾ of customers who shop every two weeks and only by a third of those shopping every week.

YOUNG BRITONS EXPECT GOOD RESTAURANTS IN SHOPPING CENTRES

A 2017 survey carried out by Savills in the UK has revealed that the F&B offer is one of the most important factors influencing Generation Z (16-24 year olds) and Generation Y (25-34 year olds) on choosing where to shop.

The surveyed Generation Z and Generation Y respondents rated the importance of a wide choice and high quality of restaurants as 6.1 and 6.4 out of 10, respectively, where 1 is the least important and 10 is the most important. Higher ratings were recorded in London, where the importance of the F&B offer was rated as 6.2 by Generation Z and 7.2 by Generation Y.

Savills also highlights in its survey that the less frequently customers shop, the more likely they are to visit a F&B zone. 73.2% of consumers who shop in shopping centres or high streets once every two weeks visit a restaurant on that trip, compared to 31.9% of those who shop at least once a week.

➔ Source: Savills UK

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ABOUT **SAVILLS**

Savills is a global real estate services provider with a network of more than 33,000 employees in over 700 offices across the world. Savills Poland was established in 2004 and serves clients throughout the country from offices in Warsaw, Wrocław, Poznań and Kraków.

We offer a broad range of professional services for the commercial real estate market, including consultancy, valuation, asset and property management, project management, investment advisory as well as tenant and landlord representation in office, retail and industrial sectors.

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Savills Poland, September 2017

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