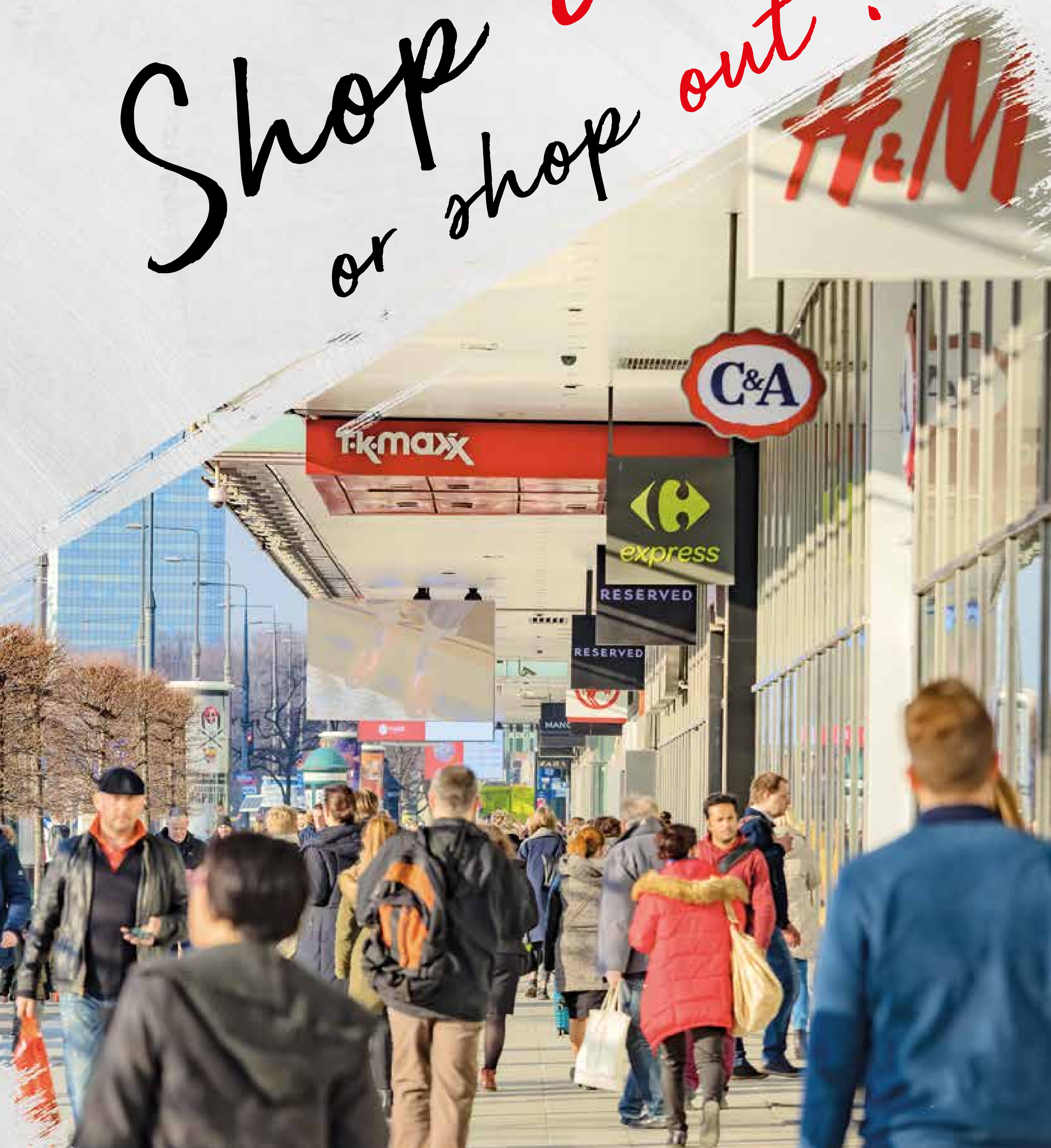
Warsaw high streets - what **opportunities** lie ahead

Poland | 2019

Shop in or shop out?



Shop in
or shop out?

Introduction

During the 25 years in which they have been present on the Warsaw's retail market, shopping centres have gained popularity among Varsovians, gradually pulling retailers away from high streets and transforming the purchasing habits of the city's residents. Currently 42 shopping centres operate in the Warsaw Agglomeration, with a total GLA of more than 1.3 million m². However, the shopping centre market is gradually maturing, and high streets are coming back into favour as alternative locations, diversifying expansion strategies of retailers.

High streets around the globe cater for a wide range of link and place functions. Some of these are immediately apparent (for example, the through traffic movement link function), while others are less obvious. They benefit from significant everyday footfall as such streets typically connect important places and areas, good accessibility by public transport, tourist attractions, and often locations in historic areas, with attractive architecture. On the other hand, the high street market is very demanding. For years high streets in Warsaw have been struggling with high vacancy rates, strong competition from shopping centres, and insufficient critical mass, to list just a few problems. Due to the polycentric character of the central quadrant of the city, high street retailing in Warsaw is exceedingly fragmented, thus the footfall also varies significantly. What is more, the centre of Warsaw is gradually moving towards the west, as more and more jobs are being created in Wola district, which is now becoming more densely built up and is taking on a metropolitan character.

It's certainly true to say high streets and shopping centres attract different clienteles. Shopping centres are destinations themselves, they attract people with shopping or leisure goals. In case of high streets (with an exception of high-end streets with luxury offering), the core clientele is more random, it consists of people who use the same routes every day on their way to work or school, and tourists, who stroll without pure shopping goals. Such clients are, by nature, more spontaneous, they need to be tempted by exceptional experience, interesting store frontages, the sense of novelty, and the awareness of being in a fashionable place where a lot is happening.

Although e-commerce is developing rapidly, some 95% of retail sales in Poland still take place within bricks and mortar stores. Nevertheless, traditional retailers have to face numerous challenges associated with the digital revolution, such as growing competition, growing role of technology, and, above all, the changing and demanding expectations of customers.

What is today's look of high streets in Warsaw? What has changed since the last survey JLL conducted three years ago? Is the future of high streets bright or bleak? Let's find out.

Enjoy your reading!

Anna Wysocka
Head of Retail Agency, JLL

Old Town
Royal Castle
Vistula River
Vistula Boulevards
PLAC TEATRALNY
Grand Theatre
PLAC PIŁSUDSKIEGO
XI
IV
Presidential Palace
KRAKOWSKIE PRZEDMIEŚCIE
City Hall
Copernicus Science Centre
University of Warsaw
Elektrownia Powiśle
Hala Mirowska
KRÓLEWSKA
GRZYBOWSKA
ALEJA JANA PAWŁA II
XIII
NOWY ŚWIAT
ORDYNACKA
MARSZAŁKOWSKA
PLAC POWSTAŃCÓW WARSZAWY
ŚWIĘTOKRZYSKA
XIV
IX
FOKSAL
Powiśle Railway Station
ALEJE JEROZOLIMSKIE
V
JUNIOR
SAWA
CHMIELNA
III
CEDET
RONDO DE GAULLE'A
National Museum
EMILII PLATER
PKiN
WARS
I
Vitkac
Warsaw Stock Exchange
Złote Tarasy
Śródmieście Railway Station
RONDO DMOWSKIEGO
PLAC TRZECH KRZYŻY
Ethos
Central Railway Station
II
ALEJE JEROZOLIMSKIE
PARKINGOWA
HOŻA
KRUCZA
XII
NOWOGRODZKA
WILCZA
POZNAŃSKA
MARSZAŁKOWSKA
VIII
Parliament
VI
X
MOKOTOWSKA
PIĘKNA
Key to symbols:
Retail area
KOSZYKOWA
Hala Koszyki
PLAC KONSTYTUCJI
Points of interest
KOSZYKOWA
Selected retail and mixed-use projects
Warsaw University of Technology
PLAC ZBAWICIELA
VII
MARSZAŁKOWSKA
Warsaw High Street
PLAC UNII LUBELSKIEJ
Plac Unii City Shopping

Methodology

There are various definitions of the components of a high street in Warsaw, for the purposes of this report the 14 following areas have been included in the analysis:

- **I** the eastern section of Al. Jerozolimskie, between Rondo de Gaulle'a and Rondo Dmowskiego;
- **II** the central section of Al. Jerozolimskie, between ul. Marszałkowska and Al. Jana Pawła II;
- **III** ul. Chmielna, the section between ul. Nowy Świat and ul. Marszałkowska, together with sections of ul. Widok, ul. Złota, ul. Krucza, ul. Bracka, ul. Szpitalna, ul. Przeskok, and Plac Powstańców Warszawy;
- **IV** ul. Krakowskie Przedmieście;
- **V** the northern section of ul. Marszałkowska, from the corner with ul. Królewska to Rondo Dmowskiego;
- **VI** the central section of ul. Marszałkowska, from Rondo Dmowskiego to Plac Zbawiciela;
- **VII** the southern section of ul. Marszałkowska, from Plac Zbawiciela to Plac Unii Lubelskiej;
- **VIII** ul. Mokotowska, with some sections of ul. Koszykowa, ul. Chopina, ul. Natolińska, ul. Piękna, and ul. Wilcza;
- **IX** ul. Nowy Świat, with sections of ul. Foksal, and ul. Ordynacka;
- **X** ul. Poznańska, with sections of ul. Koszykowa, ul. Wilcza, ul. Hoża, and ul. Nowogrodzka;
- **XI** Plac Teatralny, together with ul. Moliera, ul. Senatorska, ul. Wierzbowa, and Plac Piłsudskiego;
- **XII** Plac Trzech Krzyży, and some sections of ul. Nowy Świat, ul. Książęca, ul. Bracka, and ul. Mysia;
- **XIII** the eastern section of ul. Świętokrzyska;
- **XIV** the western section of ul. Świętokrzyska.

Field research conducted in Q1 2019 revealed that there are more than 1,300 retail units in the above defined areas, and several times more are located in remaining parts of the city centre that are not covered by this report. By way of comparison, there are approximately 3,400 standard units in all shopping centres operating within the Warsaw Agglomeration.

Only premises that meet the appropriate conditions for modern retailing have been included in the analysis. Features ticking the box include location on the ground floor of a building, a store window facing directly onto the street and access from the street or via a gate. In the second part of the report we present characteristics of the five most popular high street areas in Warsaw, namely: the northern section of ul. Marszałkowska, ul. Nowy Świat, ul. Chmielna, Plac Trzech Krzyży, and ul. Mokotowska.

Why Warsaw?

There is a number of economic and demographic reasons why potential of Warsaw high streets is high. These are some of them:

Tourists
an approximately
10 million
annually (overnight stays)

Population in **Warsaw** city
1.75 million

in the **wider metropolitan** area
2.62 million

Airports **Passengers**
in 2018
21 million
(Chopin & Modlin airports)

Purchasing power
EUR 11.727 /capita/year
(171% national average)

Retail **spending**
EUR 4.073 /capita/year
(123% national average)

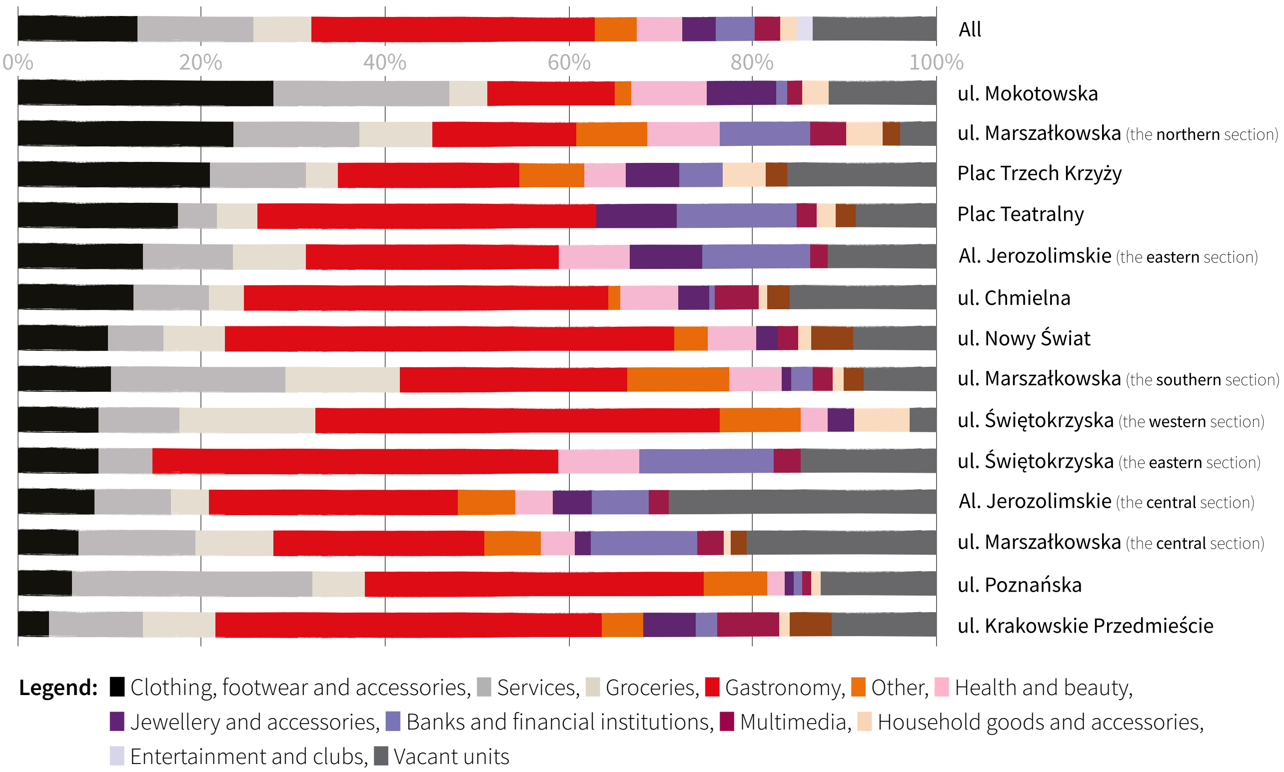
Source: JLL, MBR, Oxford Economics, Central Statistical Office, Chopin and Modlin airports, Warsaw City Hall

Offering by sector

For a number of years **gastronomy** has risen to the top of most popular categories on high streets. Restaurants, bars and cafes account for nearly one third of Warsaw's high street units, in contrast to only 11% in the shopping centres in the Warsaw Agglomeration (15% in the best performing assets across the country). The ascent of F&B sector is largely underpinned with a growing affluence of Polish customers, who spend 41% more on eating out than they did 10 years ago. The places where gastronomy accounts for the largest share of units within the analysed streets and squares are ul. Nowy Świat (where 49% of units are taken by gastronomic ventures), ul. Świętokrzyska (44%), ul. Krakowskie Przedmieście (42%), followed by ul. Chmielna (40%), and ul. Poznańska (37%). Over the last years new gastronomy clusters have emerged spontaneously in less than obvious locations. Ulica Poznańska, ul. Nowogrodzka, ul. Parkingowa, ul. Burakowska, and ul. Francuska, not to mention the fully reconstructed Vistula boulevards, have become extremely popular food and drink destinations, especially during the summer time. Restaurants, bars and cafes occupy now 31% of all registered units within the analysed areas, which is a slight decrease of 3 p.p. as compared to 2016. That doesn't mean, however, that the segment is in downward trend. On the contrary, slight decreases in the share of gastronomy on ul. Krakowskie Przedmieście, and Plac Trzech Krzyży are entirely compensated for by a large number of gastronomy units found in centrally located mixed-use developments such as Hala Koszyki, which have not been included in the calculations. The future of the F&B sector shines bright: Oxford Economics predicts that consumer spending in Poland on dining out will grow by additional 32% between 2018 and 2028 (constant 2015 prices).

The category most commonly found in shopping centres **(clothing, footwear and accessories)**, accounts for a mere 13% of the total number of high street stores in the analysed areas (1 p.p. less than in 2016). Ul. Mokotowska, where fashion boutiques occupy 29% of all units, is the street with the widest fashion offering. The northern stretch of ul. Marszałkowska is the leader in terms of mainstream fashion brands, which occupy 24% of all units there. Numerous luxury high-end brands form clusters in the vicinity of Plac Trzech Krzyży (21% of all units taken by fashion tenants) and Plac Teatralny (17%). By way of comparison, fashion units account for 28% of all units found in shopping centres located in the Warsaw Agglomeration. Some new fashion locations might soon appear on the retail map, along with completion of certain mixed-use projects (e.g. Elektrownia Powiśle); however, the fashion sector is highly likely to remain the domain of shopping centres.

Retail units broken down by retail category (%)



Source: JLL, March 2019

Service firms have recorded the largest expansion in the analysed high streets. Their share has grown by 4 p.p. over the last three years and they currently account for 13% of all units located within the analysed areas. This is a similar result to the one recorded in shopping centres in the Warsaw Agglomeration, where tenants from services category account for 15% of all the premises. Interestingly, the highest share of service operators on high streets is found in the area around ul. Poznańska (26%), followed by ul. Mokotowska and ul. Marszałkowska (19% and 16% respectively). In the case of ul. Poznańska and ul. Mokotowska, service tenants are most often beauty salons, while in the case of ul. Marszałkowska, the range of services is wider, including travel agencies, language schools, and bureaux de change. We do not expect major changes in the share of this segment on high streets in the nearest future.

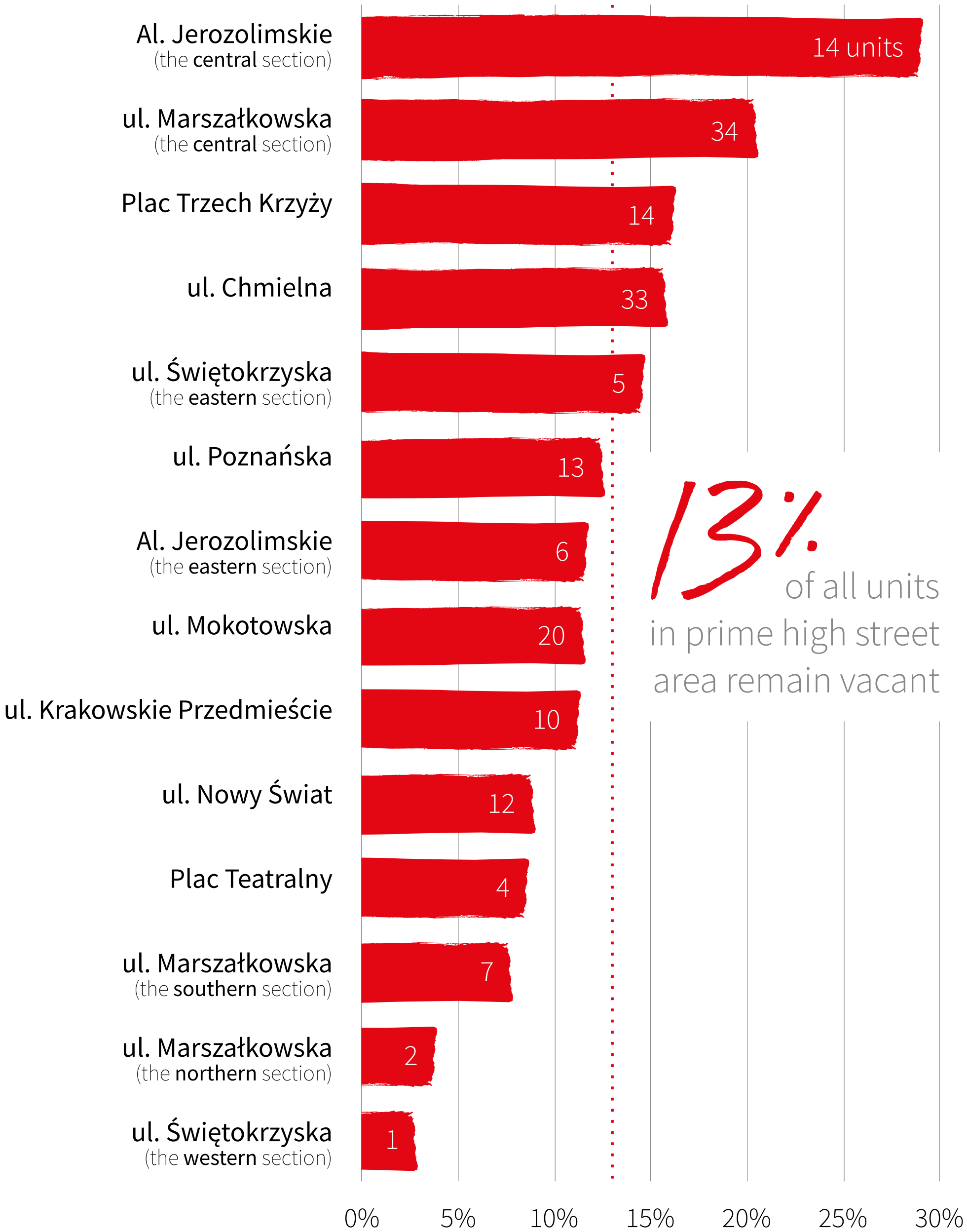
The grocery sector is fairly well represented on Warsaw's high streets, accounting for 6% of the analysed units. Compared with the research JLL conducted in Warsaw three years ago, the number of units in this category has slightly decreased (-1 p.p.). The largest number of grocery stores is found on central section of ul. Marszałkowska (14 stores). These are mostly franchise stores of large chains, e.g. Carrefour Express or Żabka. The share of local specialist stores (e.g. bakers or butchers) is small. Grocery stores in shopping centres in the Warsaw Agglomeration account for 5% of all stores, however they include large hypermarket stores, which is not a case of high streets. As new mixed-use projects are completed in Warsaw city centre, and consumers look for convenience and quick everyday shopping, the future of this sector looks promising.

The other sectors did not cross the threshold of a 5% share in the analysed areas.

Vacancy

Most of Warsaw's high streets are struggling with high vacancy rates. The number of unoccupied units compared to the total number of retail units on the high streets currently stands at 13%, which is 5 p.p. higher than three years ago.
To get a broader picture, consider the fact that the vacancy rate in Warsaw's 42 shopping centres is just 2.8%.

Vacancy rate (%) and number of empty retail units (No.)



Source: JLL, March 2019

The conducted research also highlights the high streets which seem to be failing in retail terms. Almost a third of all stores are empty along the central section of Al. Jerozolimskie, the part between ul. Marszałkowska and Al. Jana Pawła II. In absolute numbers, the highest number of vacant units can be located along central section of ul. Marszałkowska (34 units).

Plac Teatralny, the western section of ul. Świętokrzyska, both the southern and northern sections of ul. Marszałkowska, and the highly touristic ul. Nowy Świat have the lowest vacancy rates (all below 10%).

Rents

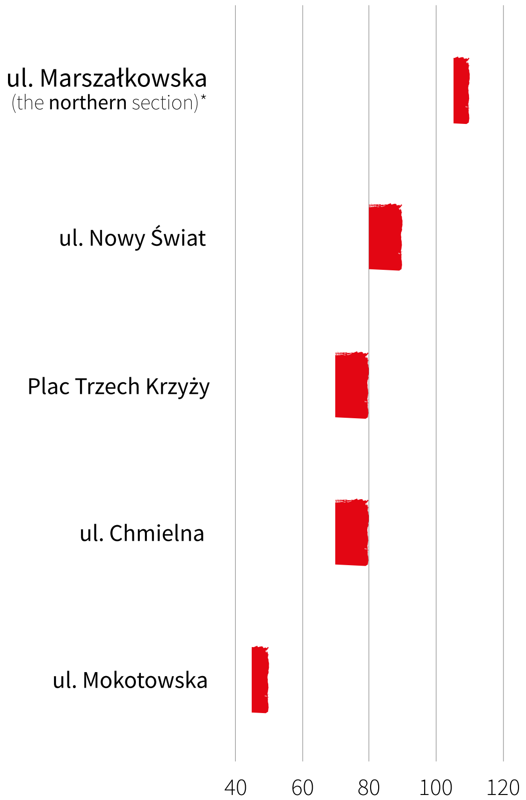
The attractiveness of high streets differs substantially between particular areas, and sometimes even sections of the same street. This is reflected in the levels of rent, which begin at €20 / m² / month (along Al. Jerozolimskie between the Central Railway Station and Rondo Dmowskiego), and peak at €80-90 / m² / month for the best locations on ul. Nowy Świat. The Wars, Sawa, and Junior buildings located on ul. Marszałkowska features even higher rents, however, the project has more of a hybrid shopping centre character.

When compared to West-European countries, prime rents levels there are above those of Poland in most of the locations. Warsaw also lags behind other CEE capitals, e.g. Budapest (€100 / m² / month) and Prague (€220 / m² / month), being ahead of only Bucharest (€60 / m² / month).

Prime rents[1] on Warsaw's high streets have been stable for many years. However, as there is more space available on the market (both in newly completed mixed-use projects and in vacant units), and the most active F&B sector is willing to pay less than tenants from fashion category, the downward pressure on rents becomes a fact.

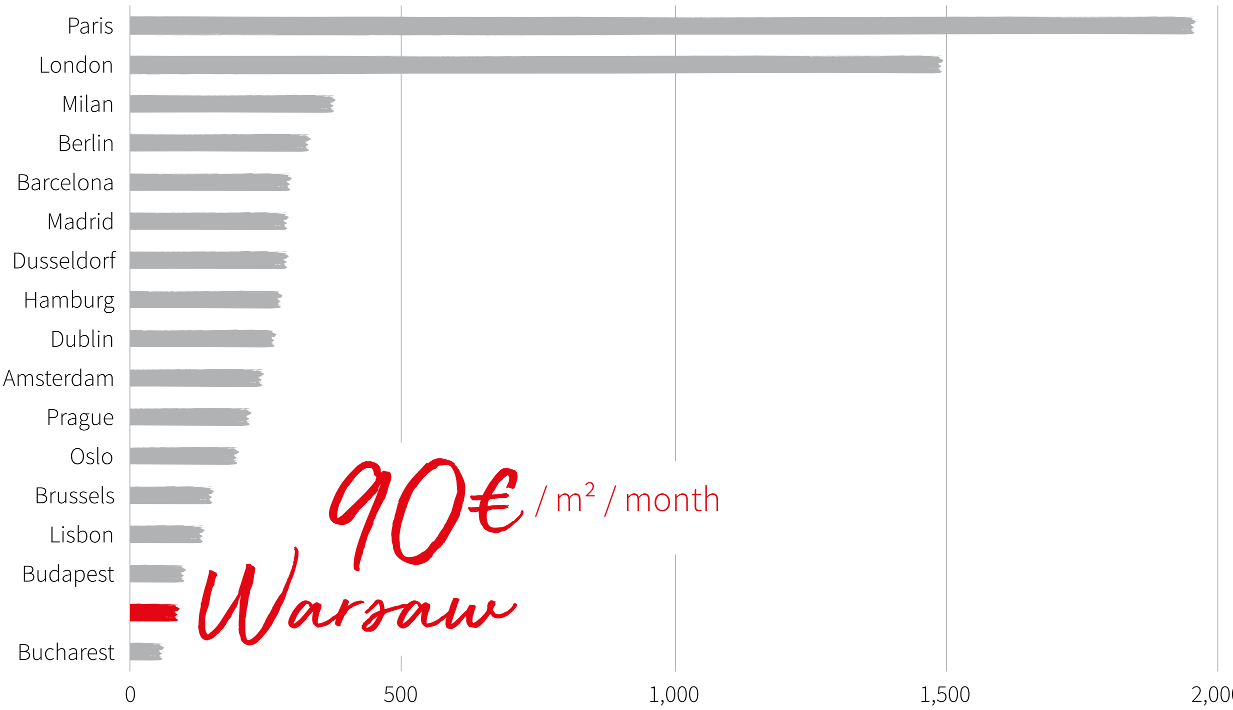
1 Prime rents apply to shop units of 100 m² earmarked for fashion and accessories.

Prime rents (€ / m² / month), Warsaw



Source: JLL, Q4 2018, *The above values reflect prime rents achievable on high streets, whereas in case of ul. Marszałkowska they refer to the Wars, Sawa and Junior buildings.

Prime rents (€ / m² / month), European context



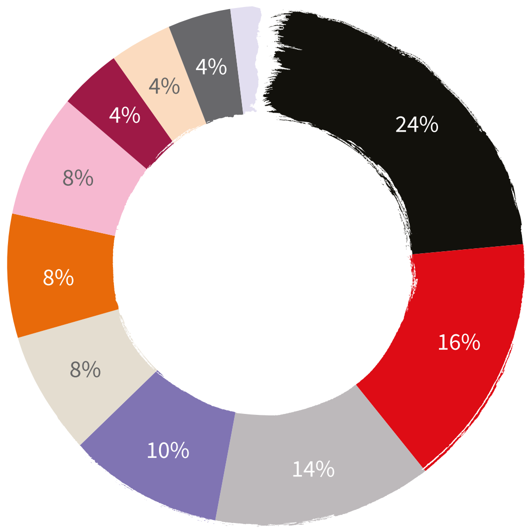
Source: JLL, Q4 2018

Marszałkowska

The northern section of ul. Marszałkowska, between ul. Królewska and Rondo Dmowskiego, is an established retail destination. It is home to, among others, the popular Wars, Sawa and Junior buildings. The area features excellent connectivity: at the intersection of ul. Marszałkowska and ul. Świętokrzyska is the only station connecting both metro lines. Additionally, the proximity to the Centrum metro station and Central and Śródmieście Railway Stations, as well as the wide, partly roofed walkways, encourage shopping here. Pedestrian traffic in this section is very significant.

There are currently 51 retail units in the analysed area. The clothing, footwear and accessories category accounts for 24% of all the units and these are mainly chain brands which are also present in shopping centres. Over the last three years a few new shops have opened. These include, among others, CCC, Calzedonia, Intimissimi, Flying Tiger Copenhagen, Martes Sport, and Vision Express.

Retail units broken down by retail category (%)



Source: JLL, March 2019

Legend: ■ Clothing, footwear and accessories, ■ Gastronomy, ■ Services, ■ Banks and financial institutions, ■ Groceries, ■ Other ■ Health and beauty, ■ Multimedia, ■ Household goods and accessories, ■ Vacant units, ■ Entertainment and clubs

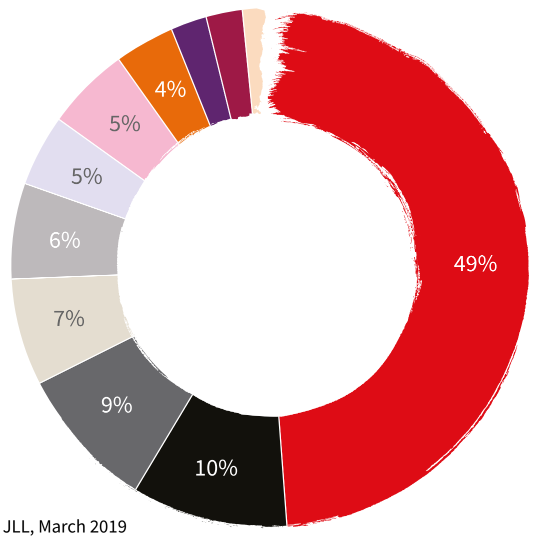
Legend: Gastronomy, Clothing, footwear and accessories, Vacant units, Groceries, Services, Entertainment and clubs
Health and beauty, Other, Jewellery and accessories, Multimedia, Household goods and accessories

Nowy Świat

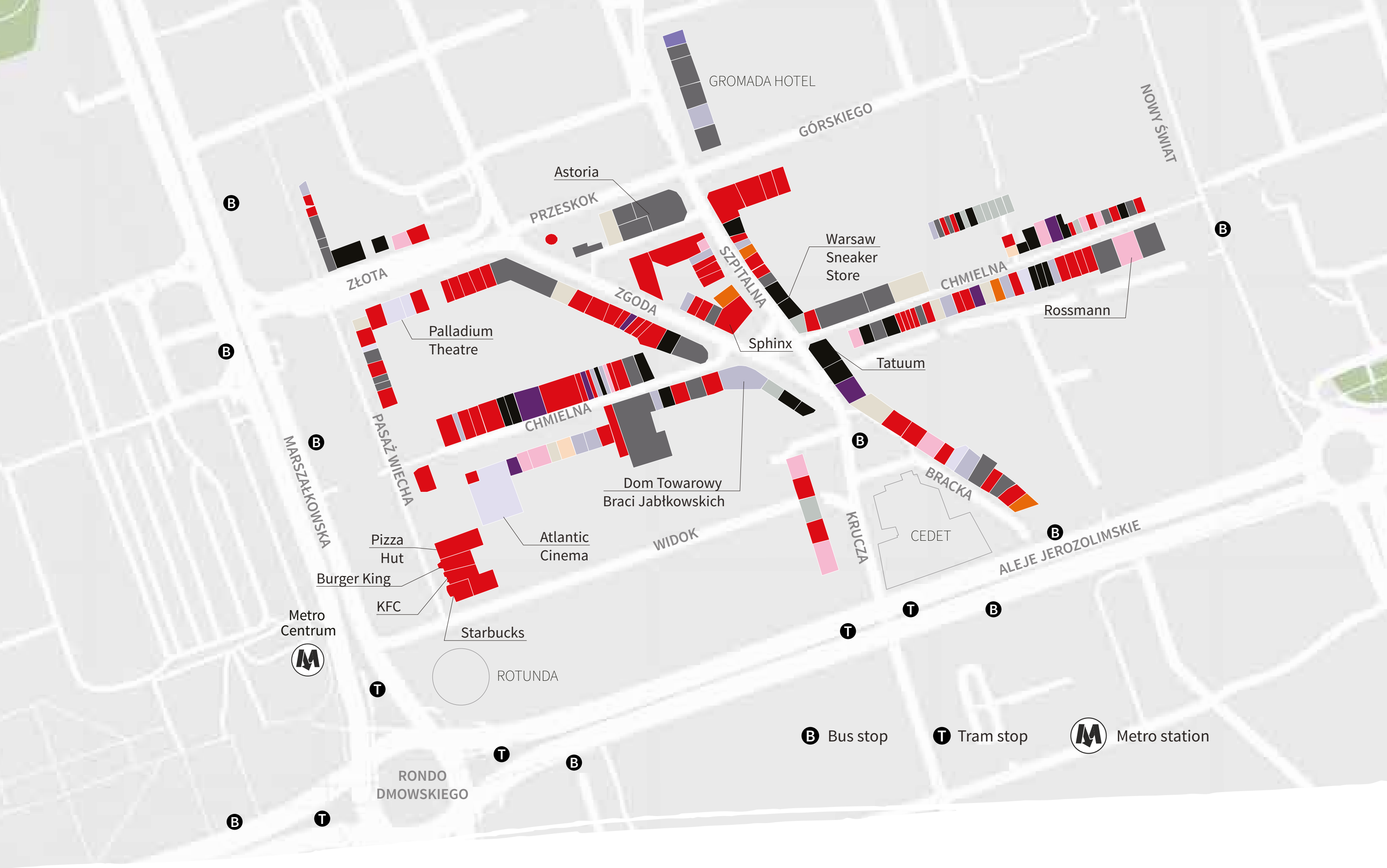
Ul. Nowy Świat, the section between Al. Jerozolimskie and ul. Świętokrzyska and the immediate side streets (ul. Foksal and ul. Ordynacka). Ul. Nowy Świat is a part of the Royal Route (Trakt Królewski) that runs from Warsaw's Royal Castle to King Jan III Sobieski's royal residence in the Wilanów district. It houses numerous shops and restaurants that attract both Varsovians and tourists. In recent years the street has transformed functionally into an area with the predominant role being gastronomy, becoming more of a meeting place than a shopping destination.

This area houses 133 retail units, of which 49% are accounted for by gastronomy (an increase of 6 p.p. over the last three years).

Retail units broken down by retail category (%)



Source: JLL, March 2019

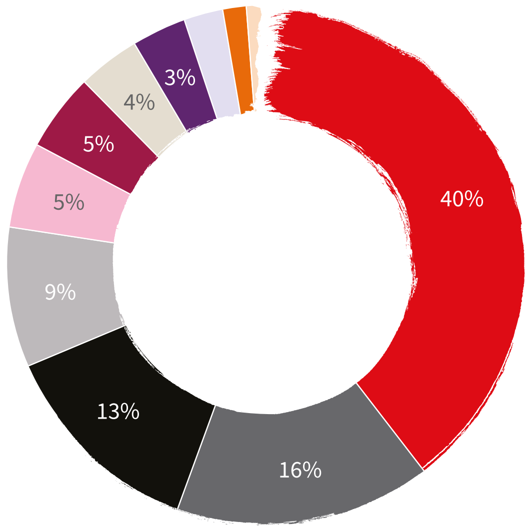


Legend: Gastronomy, Vacant units, Clothing, footwear and accessories, Services, Health and beauty, Multimedia
Groceries, Jewellery and accessories, Entertainment and clubs, Other, Household goods and accessories

Chmielna Area

Ul. Chmielna, the section between ul. Marszałkowska and ul. Nowy Świat with some stretches of adjacent streets, is the heart of Warsaw's downtown and has long trading traditions. Ul. Chmielna has been functioning as a pedestrian street and meeting place since the '90s, and is widely perceived as one of the main shopping streets in Warsaw. In this area there are, among other buildings, the Atlantic cinema and the Braci Jabłkowskich department store.

Retail units broken down by retail category (%)



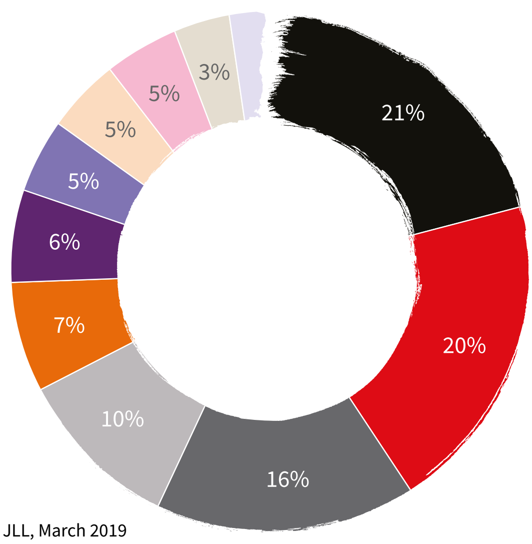
Source: JLL, March 2019

There are currently 207 retail units in the ul. Chmielna area. The gastronomy sector has maintained its strong position and accounts now for 40% of those units. The share of fashion stores has dropped by 5 p.p. over the last three years and now accounts for 13%. The number of vacant units has considerably increased as compared to 2016 and currently constitutes 16% of all retail units in the analysed area (an increase of 10 p.p.).

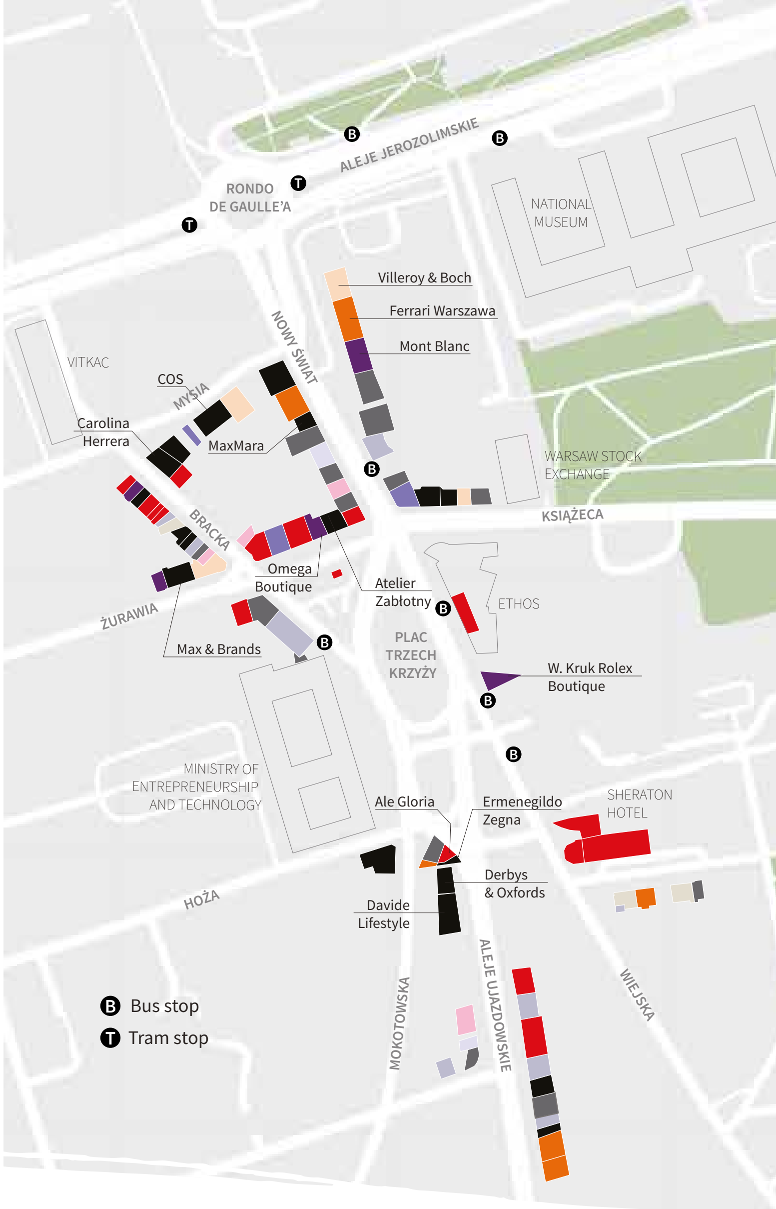
Plac Trzech Krzyży

Plac Trzech Krzyży with sections of ul. Nowy Świat, ul. Bracka, ul. Mysia, ul. Książęca and Aleje Ujazdowskie, has for many years been associated with high-end brands. In this area there are, among others, the Ministry of Entrepreneurship and Technology, the Sheraton hotel, the Ethos office building, the Warsaw Stock Exchange, the House of Parliament and the Vitkac department store. There are 86 retail units in this area, with the clothing, footwear and accessories category accounting for 21% of those.

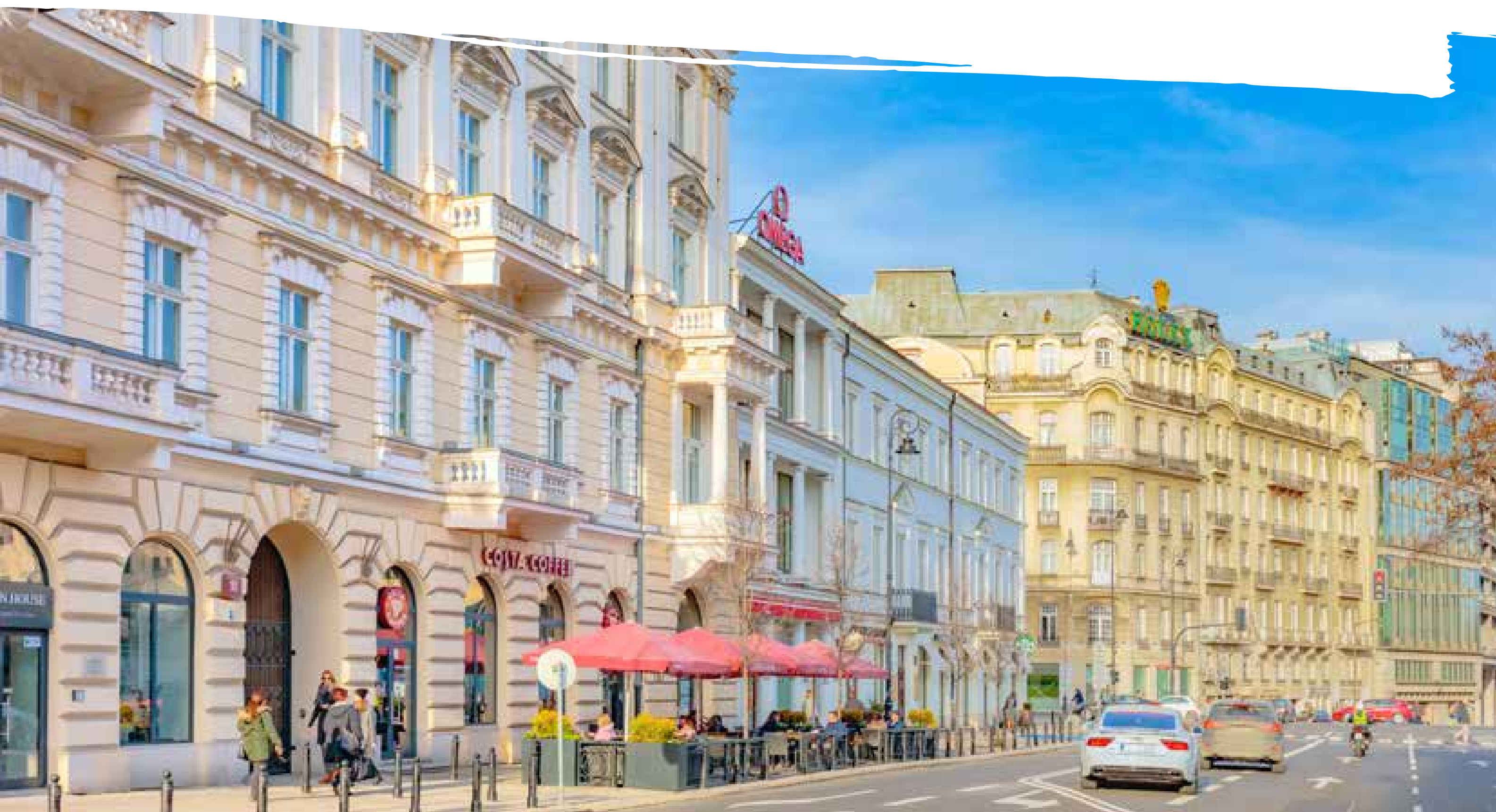
Retail units broken down by retail category (%)

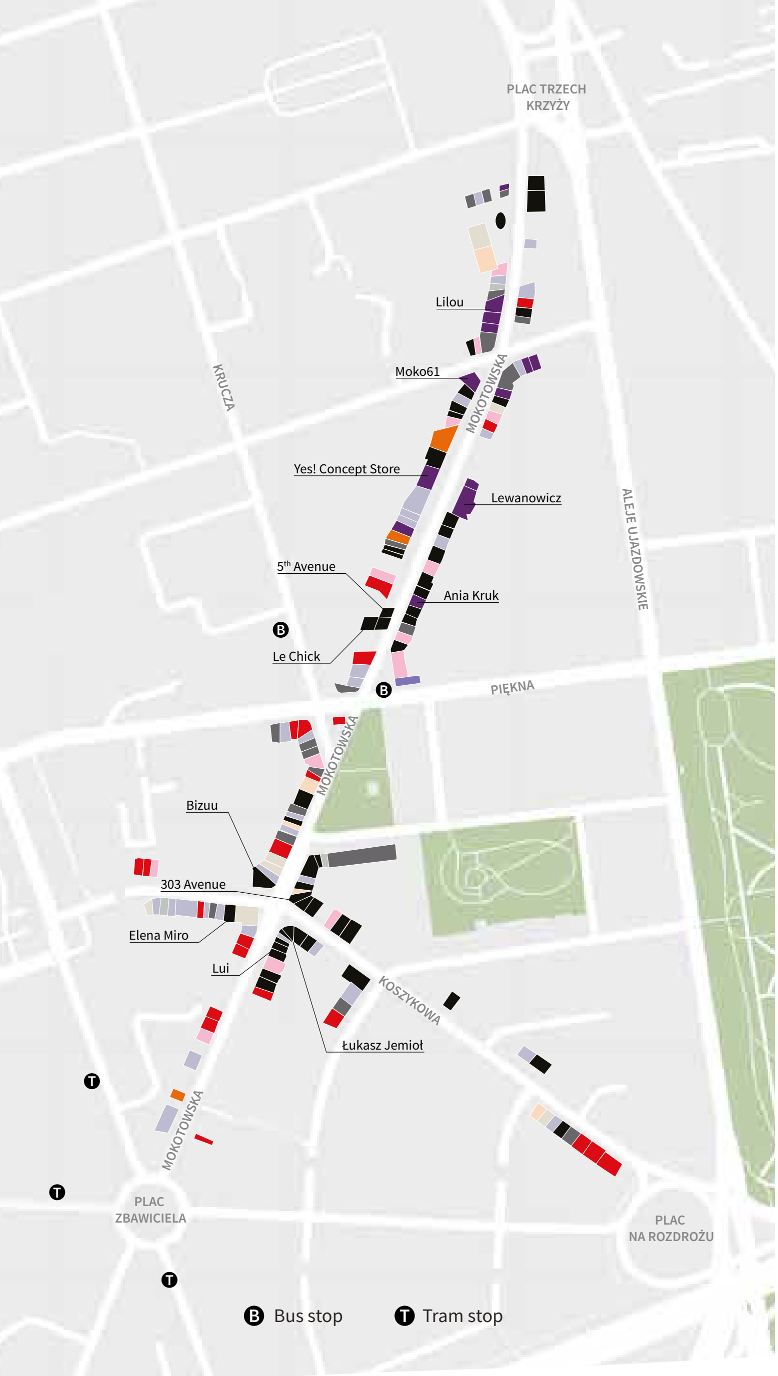


Source: JLL, March 2019



Legend: ■ Clothing, footwear and accessories, ■ Gastronomy, ■ Vacant units, ■ Services, ■ Other, ■ Jewellery and accessories, ■ Banks and financial institutions, ■ Household goods and accessories, ■ Health and beauty, ■ Groceries, ■ Entertainment and clubs



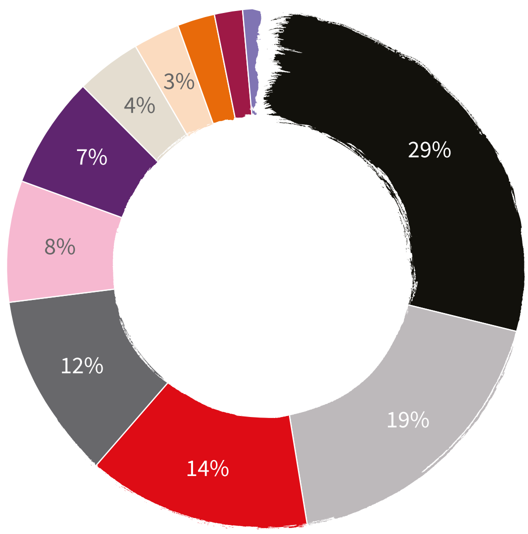


Mokotowska

Ul. Mokotowska, between Plac Trzech Krzyży and Plac Zbawiciela, is characterised by a compact urban layout with many pre-war decorative tenement houses. The street is one-way on the section from Plac Trzech Krzyży to ul. Piękna. It is home to numerous non-chain fashion and jewellery boutiques.

There are currently 172 retail units in the analysed area. Fashion accounts for 29% of those units, which is the highest share among all of the analysed areas. However, compared to 2016 the share of vacant units has increased by 7 p.p.

Retail units broken down by retail category (%)



Source: JLL, March 2019

Legend: Clothing, footwear and accessories, Services, Gastronomy, Vacant units, Health and beauty, Jewellery and accessories, Groceries, Household goods and accessories, Other, Multimedia, Banks and financial institutions

Conclusion

Challenges

No doubt shops and retailing form the lifeblood of many historic areas, providing vibrancy and an essential economic base. **Retail is an element that glues together** all other uses and integrates residents, workers, commuters and tourists.

In the last decades of the 20th century, the growth in large, centrally located shopping centres reduced activity in shopping streets, putting at risk the viability of some of our most characterful streets. Poland's capital currently lacks a representative retail high street of the likes of Vienna's Kärntner Straße, Kurfürstendamm in Berlin, Madrid's Gran Via or the Champs-Élysées in Paris.

The need to revamp failing high streets has been one of the heavily discussed topics among retail market players over the last years. This underperformance has been attributed to a number of different reasons, including the shortage of available units that meet the requirements of modern apparel brands, significant conservation restrictions, problematic ownership structure of retail units, insufficient number of parking places, and lack of comprehensive management, to list just the most frequently pointed out.

Solutions

The range of things that are missing on high streets is wide. But what can be done to boost their performance? When it comes to surviving the downturn, **ultimately it comes down to one thing: a greater cooperation between all market players**. Residents of downtown, representatives of local businesses, building owners and the city authorities of Warsaw need to work out solutions for the benefits of all parties involved. We currently lack legislative tools that are widely used abroad, such as the BIDs (Business Improvement Districts), that engage stakeholders for the common benefit. Special purpose regulations, both local (e.g. different management principles), and nationwide (e.g. exclusion from the Sunday Trading Ban), might also help to boost high streets performance.

Investors and developers have started activities aimed at improving the image of shopping streets. The city authorities of Warsaw also keep the lights on, with a number of recovery initiatives already taken. We are now seeing substantial reinvestment in mixed-use and retail developments in central locations, such as CEDET, Hala Koszyki, Elektrownia Powiśle, ArtN, and Browary Warszawskie, to name just a few. These projects not only bring freshness to the urban fabric, provide customer experience that is now more than just sales, but they also generate a positive ripple effect to the adjacent streets.

Trends

One of the most visible trends seen on the main high streets is the increasing role of gastronomy and a simultaneous decrease in the number of fashion stores. **Changes are inevitable**. As people favour experiences over pure shopping, high streets need to adapt and reinvent themselves. It is necessary to start managing them based on practices similar to those used in shopping centres. This change of paradigm must come in parallel with a constant improvement to the overall aesthetics, connectivity and attractiveness of public realm. The process of improving the high streets in Warsaw will take time. These changes, however, need to progress systematically and according to a long term vision.

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