

## PROPERTY TIMES

# New retail space delivered in the largest cities

Poland Retail, H2 2015

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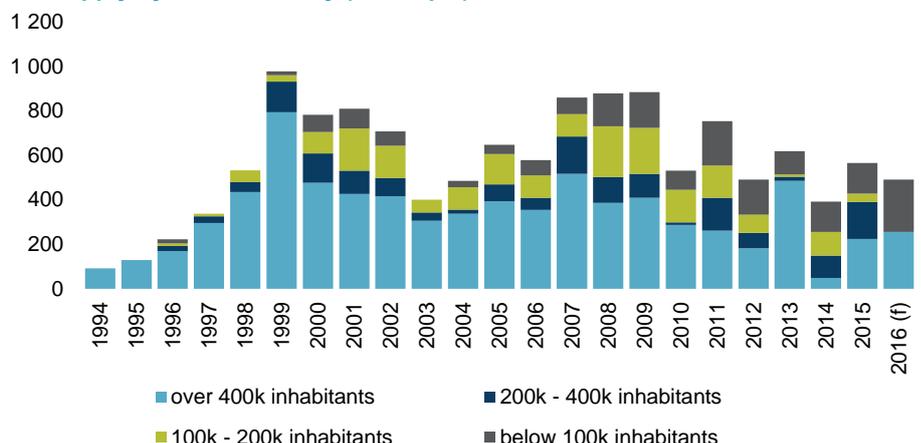
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- Total modern retail stock in Poland exceeded 13.2 million sq m at the end of 2015.
- New supply reached nearly 650,000 sq m in 2015, with 85% (551,000 sq m GLA) delivered in shopping centre formats (traditional shopping centres, retail parks and outlet centres) and 98,000 sq m opened in several standalone retail units.
- The traditional shopping centre was the dominant format in 2015. The largest 2015 openings were Zielone Arkady in Bydgoszcz, with 51,000 sq m GLA, and Sukcesja in Łódź, with 46,000 sq m GLA, both opened in the second half of the year.
- In 2015 a significant volume of 153,000 sq m GLA of new space was opened as a result of extensions of the existing shopping centres, retail parks and outlet centres. The largest extension was completed in Wrocław, where Centrum Bielany has been extended by 35,000 sq m GLA and renamed into Aleja Bielany.
- Over 57,000 sq m GLA was opened in the Warsaw agglomeration – three new shopping centres totalling 33,500 sq m GLA (the first new openings since 2013) and two major extensions have been completed in 2015.
- Vacancy rate in the largest cities stands at a stable level. The average vacancy rate is 2.9%. Prime locations benefit from very low vacancy levels, whereas secondary schemes suffer from significantly higher rates, up to 6%.
- Rents are also stable. Traditionally the highest rents are in Warsaw's prime shopping malls, followed by the capital's other schemes and regional cities.
- Ca. 700,000 sq m GLA of retail space is currently under construction, including 450,000 sq m expected to be completed in 2016. 55% of the 2016 supply will be delivered in the agglomerations and 40% in the cities below 100k.

Figure 1

### New supply by size of the city ('000 sq m)



Source: Cushman & Wakefield

## Macroeconomic background

### Economic growth and inflation

According to the National Bank of Poland (NBP), Polish economy in 2015 developed at the pace of 3.4%, growing further as compared to the previous year (3.2%). GDP growth was driven mainly by strong domestic demand, bolstered by the increase in private consumption levels by 3.1% and a dynamic surge in investment (by 6.9%). The Consumer Confidence Index also grew in the analysed period, reaching -3.9 in November, which was the best result since September 2008.

Another factor that significantly influenced economic growth in Poland was the ongoing recovery in EU member states, which continue to be the biggest recipients of goods and services produced in Poland. The GDP growth in the eurozone resulted to a large extent from a growing consumption, supported by the improving situation on the employment market, as well as continuing export growth (positive foreign trade balance).

In the years 2016 and 2017, our economy is expected to continue its growth; according to NBP's latest prognoses, Polish GDP will reach 3.3% and 3.5%, respectively. The impact of the economic slowdown in China will probably be limited, due to the low level of Polish exports to China.

NBP reports the 2015 level of deflation in Poland as 0.8%, mainly due to the decrease in the prices of food and fuels. In March 2015, the Polish Monetary Council (RPP) decided to further decrease interest rates in order to stimulate new loans and private consumption. Between January 2012 and March 2015, the reference rate fell from 4.5% to 1.5%. No changes were made later in the year. In January 2016, RPP decided again to keep the interest rates at the same level.

### Currency exchange

At the end of 2015 the Polish zloty depreciated against both the Euro and the US dollar, achieving the level of 4.26 PLN/EUR and 3,94 PLN/USD as of the end of the year (average rates for 2015 amounted to 4,18 PLN/EUR and 3,77 PLN/USD). The weakening of the Polish currency resulted both from internal (political situation) and external factors (including the raising of interest rates by the FED and the quantitative easing program introduced by the ECB).

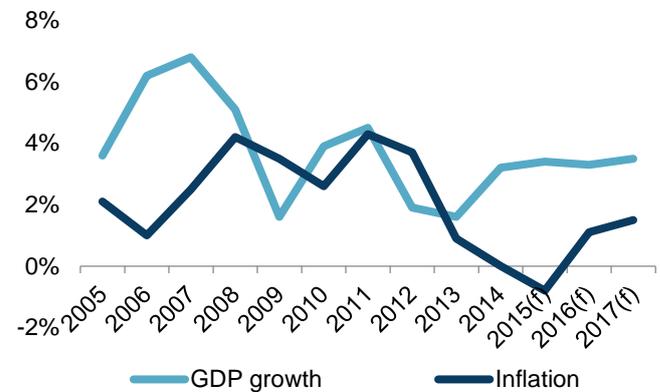
### Retail sales

In the third quarter of 2015 constant-price retail sales in grew by 2.6% y-o-y, which is equal to the rate for Q3 2014, but lower than the first two quarters of the year (Q1 – 4.4%, Q2 – 3.5%). These figures suggest that the domestic demand remains strong, and the slight decrease might be explained by seasonal fluctuations, especially since in the next two months (October and November) retail sales grew by 3.6% and 5.7% y-o-y, respectively.

### Labour market

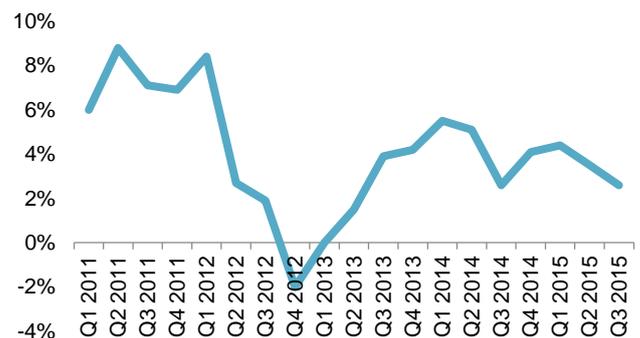
In 2015 the situation on the Polish labour market improved, which is reflected by the decrease in unemployment rates to 9.6% in November, down from 11.5% at the end of 2014. At the same time, the average gross salary increased by nearly 5% (from PLN 3,980 to PLN 4,164).

Figure 2  
GDP growth and inflation in Poland



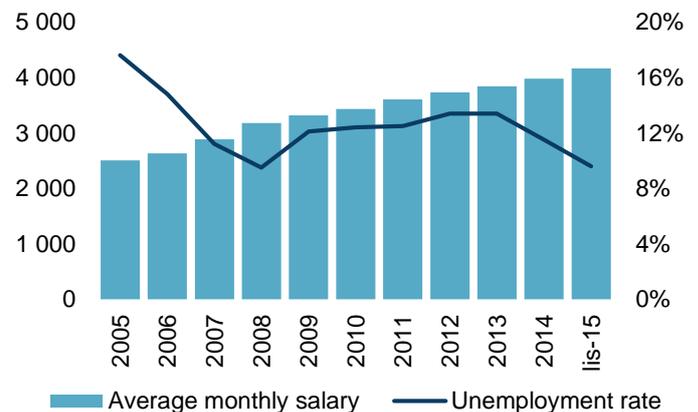
Source: National Bank of Poland, (f) - forecast

Figure 3  
Retail sales growth in Poland



Source: Central Statistical Office

Figure 4  
Average monthly salary in the enterprise sector (PLN) and unemployment rate in Poland



Source: Central Statistical Office

## Retail stock

At the end of 2015 there was 13.23 million sq m GLA of modern retail space. 73% of the total stock comprises of shopping centres in 404 facilities totalling 9.67 mn sq m GLA. Standalone retail warehouse units are responsible for 18% of the retail stock with the total space of 2.4 mn sq m. Retail parks (47 operating schemes), approaching 1 mn sq m GLA, constitute 7% of the modern retail stock, and 13 currently trading factory outlets totalling 210,000 sq m GLA make ca. 2% of the modern retail stock.

Nearly 55% of the shopping centres space is located in the eight largest agglomerations, followed by the cities below 100k population, with a ca. 18% share (ca. 2 mn sq m GLA). The cities of 100-200k inhabitants and the regional cities (200-400k population) are responsible for 15% and 12% of the modern retail stock respectively. A constantly growing share of the smallest cities (below 100k inhabitants) is one of the key recent trends of the retail market in Poland.

## 2015 supply

New supply reached nearly 650,000 sq m in 2015, with 85% (551,000 sq m GLA) delivered in shopping centre formats (traditional shopping centres, retail parks and outlet centres) and 98,000 sq m opened in several standalone retail units.

Regarding shopping centres formats, in total 23 new schemes were opened and extensions of 15 existing schemes were completed in 2015. Nearly two thirds of this space was opened in the second half of the year, covering 375,000 sq m GLA in 16 new schemes and 6 completed extensions.

Generally, extensions and redevelopments have had a significant share in the shopping centres stock, about 20% of the annual supply over the last few years. In 2015 extensions were responsible for 27% of the 2015 shopping centres and 24% of the total 2015 supply.

Over 40% of the 2015 retail space was opened in the eight largest agglomerations, which constitutes a significant change as compared to the previous year, when only 9% of the annual supply was delivered to these markets. The regional cities (of 200-400k population) are responsible for 28% of the recently opened retail space (versus 22% in 2014) and smaller ones (100-200k inhabitants) for only 7% (versus 21% in 2014). In the smallest cities, below 100k inhabitants, 138,000 sq m GLA was opened recently. It corresponds to 25% of the 2015 shopping centres supply and is a significant shift compared to the nearly half of the total 2014 supply (out of 475,000 sq m GLA).

## New shopping centres space

A new shopping and leisure centre was the dominant format in 2015. In total 373,000 sq m GLA was delivered to the market in 19 new shopping centres. The largest openings (of at least 30,000 sq m GLA) were Zielone Arkady in Bydgoszcz, Sukcesja in Łódź, Tarasy Zamkowe in Lublin and Galeria Galena in Jaworzno. There was a number of mid-size schemes of 25,000-10,000 sq m GLA opened: Galeria Jurowiecka in Białystok, Galeria Neptun in Starogard Gdański, Nowy Rynek in Jelenia Góra, Vivo! in Stalowa Wola, Supersam in Katowice and Corso in Świnoujście. There were also three openings in Warsaw: MODO (16,000 sq m GLA), Ferio Wawer (12,300 sq m GLA) and Plac Vogla (5,200 sq m GLA).

Table 1

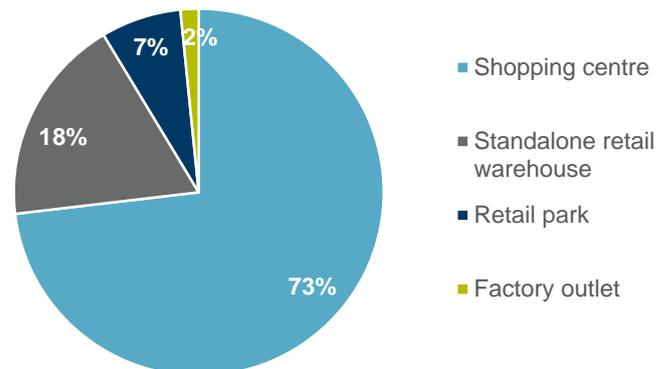
### Major new schemes opened in 2015

SCHEME	CITY	GLA (sq m)	DEVELOPER
Zielone Arkady	Bydgoszcz	51,000	ECE
Sukcesja	Łódź	46,300	Fabryka Sukcesu
Tarasy Zamkowe	Lublin	38,000	Immofinanz
Galeria Galena	Jaworzno	31,500	PA Nova
Galeria Jurowiecka	Białystok	25,000	Local developer

Source: Cushman & Wakefield

Figure 5

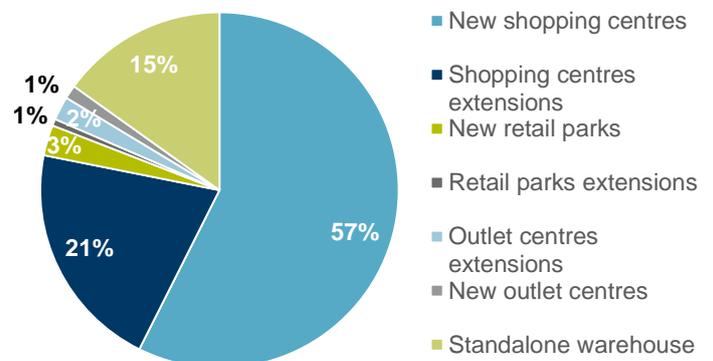
### Retail stock by format



Source: Cushman & Wakefield

Figure 6

### 2015 supply by format and type of development



Source: Cushman & Wakefield

Smaller schemes, below 10,000 sq m GLA were opened in Gorzów Wielkopolski (Galeria Manhattan), Poznań (Galeria A2), Kwidzyn (CH Liwa), Sanok (Galeria Sanok), Myślenice (Galeria Myślenicka) and Malbork (Galeria Dekada).

A significant volume of 135,000 sq m GLA shopping centres space was opened as a result of completed extensions at eleven existing schemes. The largest one, making up nearly a quarter of the total space opened as a result of extensions in 2015, is the extension of Centrum Bielany by 35,000 sq m GLA. The scheme has also been renamed to Aleja Bielany and together with the adjacent retail park and the largest IKEA unit in the country is currently the largest retail destination in Poland, with 145,000 sq m GLA.

Other significant extensions completed in 2015 are: Centrum Ogrody in Elbląg (extended by 22,500 sq m GLA), Wola Park (17,500 sq m GLA, making the scheme the second largest shopping centre in Warsaw), Magnolia Park in Wrocław (16,000 sq m GLA), Atrium Copernicus in Toruń (enlarged by 15,000 sq m GLA), Galeria Echo in Jelenia Góra (a 10,600 sq m GLA expansion and redevelopment into Galeria Sudecka) and Galeria Pomorska in Bydgoszcz (additional 10,000 sq m GLA). The smaller extensions have been completed in CH Rondo in Bydgoszcz, CH Morena in Gdańsk, Galeria Venus in Świdnik and Atrium Koszalin.

### Retail parks and outlets space

Other shopping schemes formats, i.e. retail parks and outlet centres, had a significantly smaller share in the 2015 supply. Recently, only 3 new retail parks (in Głowno, Wieluń and Zamość), totaling 18,000 sq m GLA, and one extension of nearly 3,800 sq m GLA (Centrum Graniczna in Płock) have been completed. When it comes to outlet centres, only one new Outlet Center in Białystok of 8,000 sq m GLA was opened, and 14,000 sq m outlet space was added in the extensions of already well-established schemes trading in Warsaw (Factory Ursus) and in Szczecin (Outlet Park). Additionally, Outlet Białystok (opened last year) has been recently extended by 2,700 sq m GLA.

### Standalone warehouse units

In addition to the shopping centre formats, a supply of 98,000 sq m of modern retail space was delivered in several standalone warehouses. The largest standalone retail units opened recently are: IKEA in Bydgoszcz, two stores by Agata Meble in Białystok and Lublin and two Bricoman stores, in Szczecin and Lublin.

### Development pipeline

Around 700,000 sq m GLA of retail space is currently under construction. Nearly 65% (ca. 450,000 sq m) is expected to be completed in 2016. The largest openings of 2016 will be Posnania (99,000 sq m GLA), developed by Apsys in Poznań, and Galeria Metropolia (34,000 sq m GLA) in Gdańsk, developed by a local investor PB Górski. There is also a number of mid-size schemes as well as smaller ones to be delivered to the market by the end of this year. According to the recent data, 55% of the expected 2016 supply will be delivered in the major agglomerations and 40% in the cities below 100,000 inhabitants.

Table 2

#### Major extensions completed in 2015

SCHEME	CITY	EXTENSION GLA (SQ M)	TOTAL GLA (SQ M)
Aleja Bielany	Wrocław	35,000	145,000
Ogrody	Elbląg	22,500	42,000
Wola Park	Warsaw	17,500	77,500
Magnolia Park	Wrocław	16,600	100,000
Atrium Copernicus	Toruń	15,200	48,500

Source: Cushman & Wakefield

Figure 7

#### Extensions in the annual supply



Source: Cushman & Wakefield

Table 3

#### Major openings planned for 2016

SCHEME	CITY	GLA (SQ M)	DEVELOPER
Posnania	Poznań	99,000	Apsys
Metropolia	Gdańsk	34,000	PB Górski
Galeria Wołomin	Wołomin/ Warsaw Aggl.	25,000	Rockcastle/ Acteeum Group
Galeria Aviator	Mielec	25,000	Rank Progress
Galeria Glogovia	Głogów	25,000	Saller

Source: Cushman & Wakefield

## Demand

The demand for retail space remains at a healthy level. Tenants, however, tend to minimise risk and prefer established retail schemes, featuring high footfall and satisfactory revenues, over new projects. Re-marketed shopping centres are an attractive alternative to newly-constructed space.

In addition to well-known retailers expanding their footprint in 2015 demand for retail space also came from brands opening their first stores in Poland, largely in Warsaw's shopping centres. The 2015 new market entrants included: Schiever's fashion brand Kiabi, the children's fashion brand Jacadi, the sports footwear brand Courir, the cosmetics brand Origins, the fashion brand Superdry, the US fast-food chains: Fuddruckers and Dairy Queen. Brands that made their debuts outside Warsaw were: Esprit Bodywear, Collin's and Lykke – a Scandinavian women's fashion brand in Kraków's shopping centres, the sports fashion and footwear brand Decimas in Wrocław's Magnolia, the urban fashion brand Gate and the sports brand Sportisimo in Jelenia Góra's Nowy Rynek shopping centre. The homeware sector is represented by a new Polish brand à Tab, which opened its brick-and-mortar stores in shopping centres in Gdynia, Warsaw, Kraków, Lublin and Toruń shortly after its online debut.

Some new brands are expected in 2016. Tallinder, a new high-end fashion brand of the LPP Group, will make its debut in Poland in Q1 2016, planning to open 20 stores within the year. The US fashion brand Forever 21 is also about to start their expansion in Poland.

## Vacancy and rents

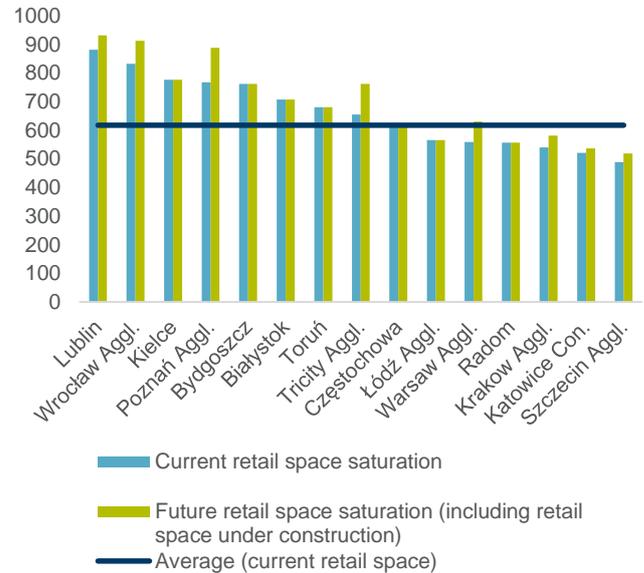
### Vacancy

Due to the current demand level, the marketing period for new schemes has become much longer and few shopping centres are fully let when they open. Vacancies in newly-opened retail schemes are at average 10-20%, whereas vacancy on mature markets is ca. 3%.

Among the largest cities (above 200k inhabitants) Warsaw, Lublin and Wrocław benefit from the lowest vacancy rate whereas Bydgoszcz, Radom and Toruń suffer from the highest vacancies (6.0%, 5.7% and 5.2% respectively), significantly exceeding the largest cities average. The higher vacancies are mostly driven by the secondary schemes, usually dominated by large hypermarkets and the recent openings still in the last phases of leasing process.

Figure 8

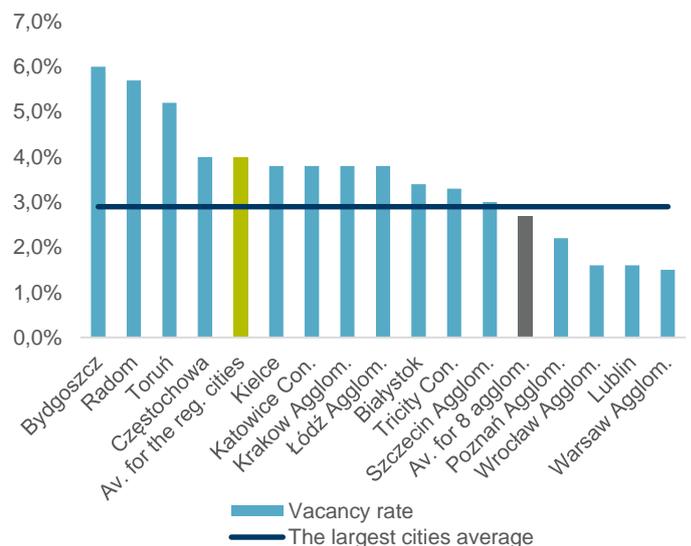
### Shopping centres saturation in the largest cities (sq m GLA per 1,000 inhabitants)



Source: Cushman & Wakefield

Figure 9

### Vacancy rate in the largest cities



Source: Cushman & Wakefield, PRRF

## Rents

Rents are stable for the best assets. The highest rents are in Warsaw's prime shopping centres at EUR 120-140/sq m/month for small-sized, favourably fashion units. In capital's other retail schemes rents are at EUR 80-100/sq m/month. In other agglomerations average rental levels are at EUR 35-45/sq m/month and EUR 20-25/sq m/month in medium-sized and small-sized cities. Rents in secondary schemes and in projects under construction are expected to face further downward pressure, with tenants seeking more concessions such as fit-out contributions.

Rent is only one of many components of lease packages, which include a number of incentives and financial contributions, particularly for anchor tenants. Also, turnover rents, as well as mixed rents (base rent plus a percentage of the turnover volume exceeding an agreed level), have become a more common rental practice on the leasing market.

## E-commerce

E-commerce is the fastest growing sector of the Polish economy, posting an annual two-digit growth for several years and outperforming other European countries. It benefits from ongoing improvements and innovations, making online shopping an easy and comfortable experience, including new solutions related to e-banking and payments, browsing store websites, and product delivery options. In addition, a growing number of online retailers are expanding their retail offer.

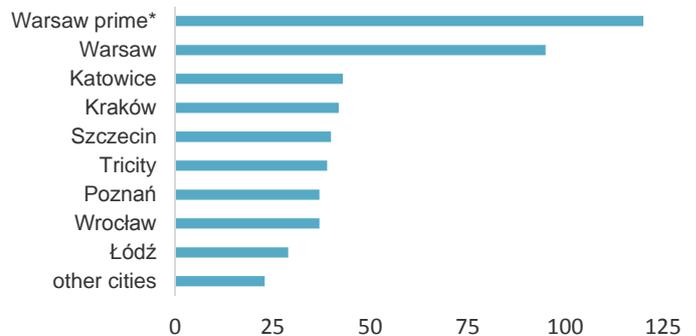
Retailers who have so far focused on developing their presence in brick-and-mortar stores are now also turning to on-line trading. More and more brands across all sectors that are present in traditional shopping centres or retail parks are opening online stores. In May 2015, a top fashion brand H&M launched its online store and at the end of the year Carrefour started on-line trading. Other retailers are currently testing this distribution channel, including IKEA and Żabka (convenience e-commerce).

Retail schemes are also trying to tap into the growing popularity of e-commerce by offering more free Wi-Fi zones in shopping malls, introducing beacons and other interactive mobile applications. Click & collect services in growing number of stores is the most visible multi-channel trace of the dynamically expanding integration of traditional shopping with e-commerce.

Online sales in Poland in 2016 are estimated to reach around PLN 38 billion (15% y-o-y growth).

Figure 10

### Prime rents in shopping centres (EUR/sq m/month)

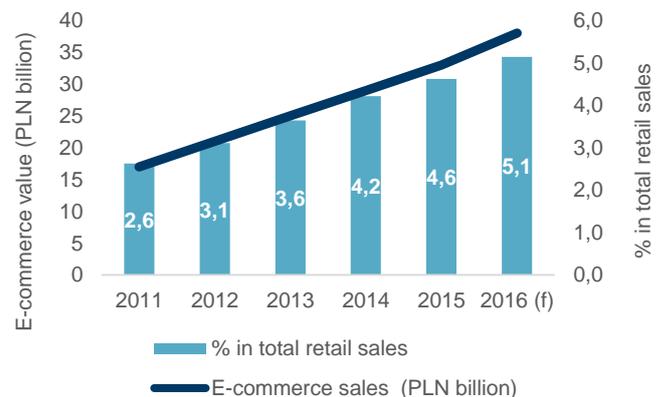


\*best shopping malls in Warsaw

Source: Cushman & Wakefield

Figure 11

### E-commerce in Poland



Source: Cushman & Wakefield estimates based on "Raporty interaktywnie.com – E-commerce"

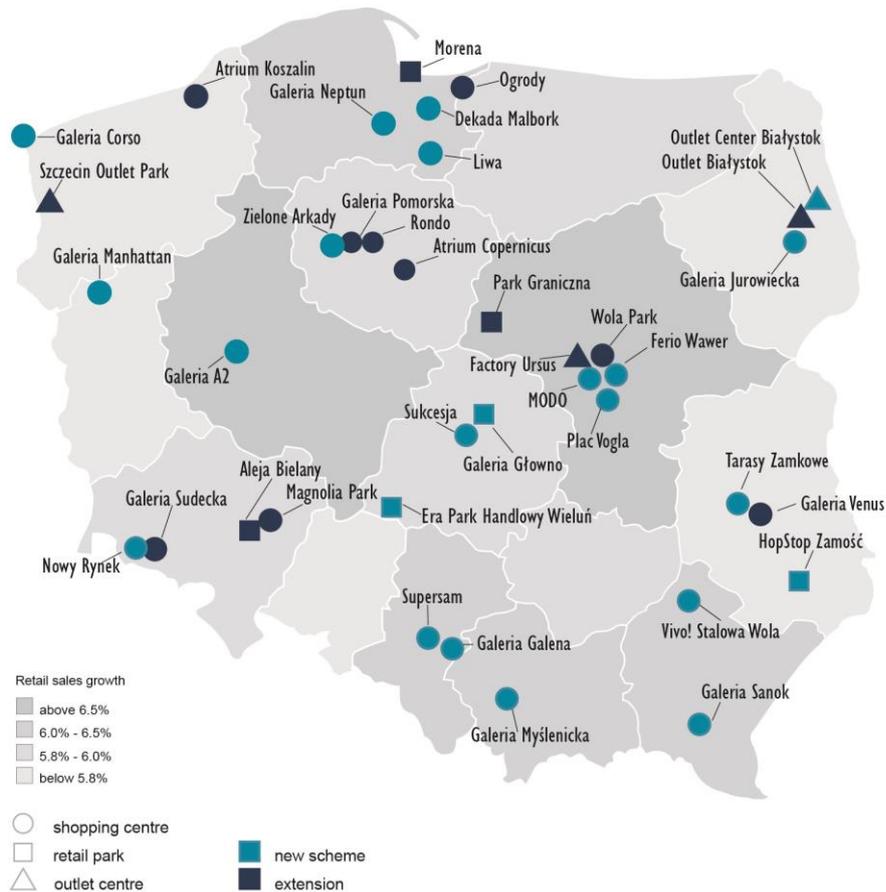
Table 4

### E-commerce in Poland: key facts

% of internet users	76.5%
No. of households with access to internet	9.4 million
% of internet users doing online shopping	55%
% of internet users who shop in Polish e-stores	54%
% of internet users who shop in foreign e-stores	13%
Average shopping basket (PLN/month)	80

Source: E-commerce w Polsce 2015. Gemius dla e-Commerce Polska

2015 openings map



Definitions

Modern retail stock	Retail schemes exceeding 5,000 sq m of GLA delivered or refurbished after 1990.
Prime rent	The highest rent paid monthly for the most attractive, approx. 100 sq m unit leased by the fashion operator in the best shopping centres.
Shopping centre	Modern retail schemes with over 5,000 sq m of GLA and more than 10 shops in the shopping mall, with central management.
Stand alone retail warehouse	A large-scale stand-alone retail scheme typical for DIY, furniture, electronic appliances, cash & carry and sport operators.
Retail park	A retail scheme with a few dominating, stand-alone, large-space anchor tenants, accompanied by smaller tenants; min. two big-box operators.
Factory Outlet	A shopping centre with brand shops offering merchandise at discount price.

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