POLAND

RETAIL GAPS – SMALL CITIES REVIEW

MARCH 2013

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Research & Consultancy

The Research & Consultancy department at Colliers International undertakes research and advisory services for Clients in the area of the Polish real estate market in particular; office, retail, industrial and hotel sectors. Our knowledge is supported by years of experience and highly-developed analytical methods, which support our Clients in their decision-making processes, identifying opportunities and threats and possible scenarios resulting from changing market conditions.

Services provided by the Research & Consultancy department include economic analysis and market studies of the real estate market with respect to future market trends, feasibility studies, competition analyses, investment strategies, location analyses, etc.

Our database includes the most current information on the real estate market in Poland, and our close cooperation with Colliers International's agency departments allows for a better understanding of the individual needs of our Clients.

CONTACT

Colliers International
The Metropolitan
Pl. Piłsudskiego 3
00-078 Warsaw
Poland
+48 22 331 78 00
www.colliers.pl

Research and Consultancy Services
Agnieszka Winkler
Senior Analyst
agnieszka.winkler@colliers.com

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INTRODUCTION

The Colliers International Research and Consultancy department has created the report WHERE TO INVEST IN POLAND? MAP OF RETAIL GAPS, which highlights potential investment opportunities in smaller Polish cities (between 30,000 and 100,000 inhabitants). Cities were analysed in terms of both the existing and planned modern retail supply, as well as economic indicators, such as the unemployment rate and purchasing power. Based on the results of the analysis, a map of retail gaps was created, which defined new ‘trade routes’. The map covered cities with high potential due to the combination of limited supply of modern retail space and favourable economic conditions. The publication was released in six parts, each of which covered a different region of the country. The individual parts of the report were published on a quarterly basis. The first part (Central Poland) was released in Q4 2011, while the last two parts (Part 5 – Northern Poland and Part 6 – North-Western Poland) were released in Q4 2012.

Due to some changes observed in the analysed markets, we decided to prepare a publication, which presents an update of the situation in small cities in Poland. It is our great pleasure to introduce an overview of the retail markets in small cities in terms of the existing and planned supply of modern retail space, developers and retail chains operating on those markets, as well as the purchasing power and shopping habits of their inhabitants.

MODERN RETAIL SUPPLY

Since the end of 2011, more than 137,000 m^2 have been delivered to the analysed markets within twelve projects.

SHOPPING CENTRES COMPLETED IN THE ANALYSED CITIES

City	Project	Area (m^2 GLA)	Date of completion	Developer
Grudziądz	Alfa Centrum	22,000	Q1 2012	JWK Invest
Kędzierzyn-Koźle	Odrzańskie Ogrody	22,000	Q3 2012	PA Nova
Ciechanów	Marcredo Center	15,500	Q4 2012	Vertano Real Estate / Elbfonds Development
Świdnica	Galeria Świdnicka	15,500	Q1 2012	Rank Progress
Tczew	Galeria Kociewska	14,000	Q2 2012	BPF Inwestor
Sochaczew	Multishop (phase I)	8,700	H2 2012	McKinlay Development
Starachowice	Galeria Kamienna	8,000	Q4 2012	BPF Inwestor
Stargard Szczeciński	Galeria Starówka	8,000	Q1 2012	F.B.H.U. Modehpolmo
Zduńska Wola	Galeria Zduńska	7,500	Q2 2012	Aves
Jarosław	CH Pruchnicka	5,700	Q1 2012	P.H.U. Szron
Żyrardów	Stara Garbarnia	5,600	Q4 2011	Savi
Siedlce	Multibox	5,200	H2 2012	Budrem
Bolesławiec	Bolesławiec City Center	5,000	Q4 2012	Antan Development Polska
Świecie	Multibox	5,000	Q1 2012	Budrem

Source: *Colliers International*

The map of the new trade routes has shown that in most cases the greatest potential among the cities under analysis exists in the smaller ones (of less than 50,000 inhabitants). In the course of 2012, developers’ interest in cities such as Kutno, Nysa, Sochaczew and Cieszyn was observed, which has resulted in new investments planned.

SELECTED NEWLY PLANNED RETAIL SCHEMES

City	Planned retail schemes	Area (m^2 GLA)	Planned delivery date	Developer
Kutno	Marcredo Center	16,000	H1 2014	Elbfonds Development
	Galeria Handlowa Kutno	10,000	H1 2014	Mini Galeria
Nysa	Dekada	16,000	H2 2014	Dekada Realty
	Vendo Park	9,000	H2 2013	TREI Real Estate / Vertano Real Estate
Sochaczew	Multishop (phase II)	11,800	H1 2013	McKinlay Development
	Sonata Park	6,000	H1 2014	Carrefour
	Nowa Mleczarnia	6,500	H2 2014	NAP Invest
Cieszyn	Galeria Stela	9,000	H1 2014	BPF Inwestor

Source: *Colliers International*

DEVELOPERS

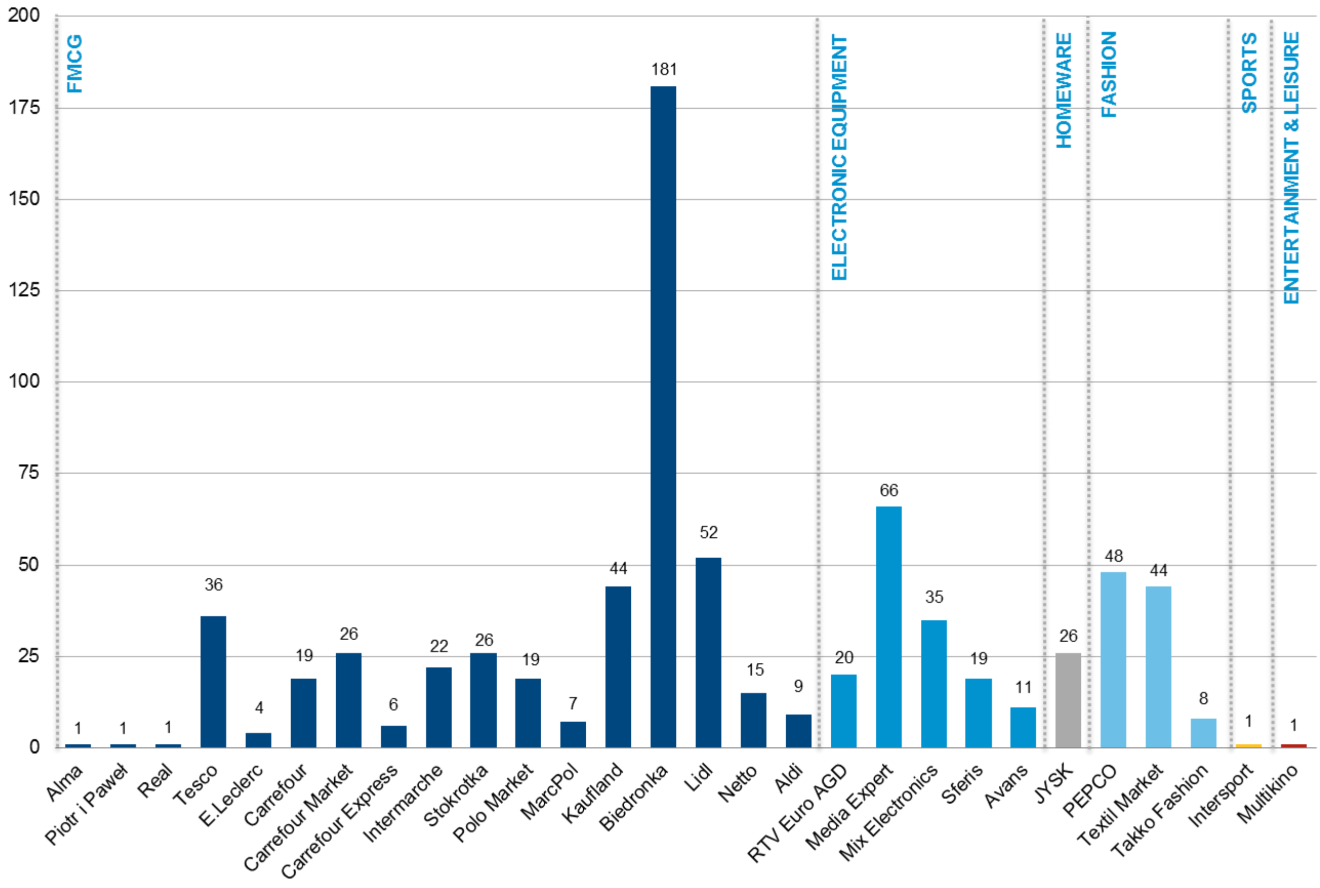
Operating in these markets are local developers with a single shopping centre such as P.H.U. Szron (SC Pruchnicka in Jarosław), or Stec (SC MAX in Chrzanów); developers operating in several markets, such as BPF Inwestor (Galeria Kociewska in Tczew) or Biuro Inwestycji Kapitałowych (Retail Park Puławy), as well as companies operating nationwide, such as Rank Progress (Brama Pomorza in Chojnice) and Caelum Development (Galeria Młyńska in Racibórz).

Smaller markets throughout Poland are also attractive for developers who operate on several markets within standardised chain of small shopping centres, such as Elbfonds Development (Marcredo Center), Budrem (Multibox), Dekada Realty (Dekada SC), Katharsis Development (HopStop), McKinlay Development (Multishop), RECE Development (Skwer Handlowy), NAP Invest (Centrum Zakupów) or Czerwona Torebka.

RETAIL CHAINS

In cities with a population of less than 50,000 many retail chains are present, the main ones are Biedronka, Media Expert, Lidl, PEPCO, Kaufland and Textil Market. There are also some exceptional situations, when stores that are usually to be found in large cities open up in small towns. Examples include: Alma (Nowy Targ), Piotr i Paweł (Chrzanów), Real hypermarket (Zgorzelec), the sports equipment store Intersport (Zakopane) or Multikino (Zgorzelec).

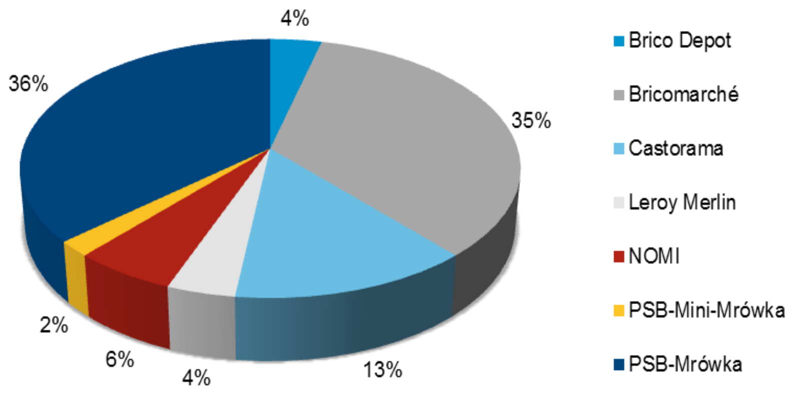
MAIN RETAIL CHAINS IN CITIES BETWEEN 30,000 AND 50,000 INHABITANTS (number of stores)



Source: *Colliers International*

Among the 59 small cities analysed (with a population not exceeding 50,000) 52 DIY stores can be found.

DIY CHAINS IN CITIES BETWEEN 30,000 AND 50,000 INHABITANTS



Source: *Colliers International*

CONSUMER MARKET

It is worth looking at retail markets in small cities from the point of view of consumers and their purchasing power. The purchasing power index for the retail trade (GfK) in small cities (between 20,000 and 50,000 inhabitants) amounts to 105.5 (with the national average of 100). For comparison, in the largest Polish cities, this figure is as follows: Warsaw – 149, Poznań – 112, Wrocław – 119. Some bigger cities, such as Bydgoszcz (106) and Lublin (103), are at a level close to the category of small cities. This confirms that smaller markets are economically attractive.

The branch structure of the purchasing power index in categories such as FMCG, fashion & shoes and homeware is above the national average in small cities. However, the purchasing power index in the gastronomy and entertainment & leisure sectors is below the national average (at 98). This confirms that expenditures like these are more associated with an urban lifestyle than with life in small towns.

FMCG accounts for the largest share of Poles' expenditures. In cities with a population between 20,000 and 50,000, everyday shopping is done mainly in discount stores, where more than 45% of purchases in this category are made. For comparison, at a national level 30% of everyday shopping is done in discount stores. The leader is Biedronka, where 70% of discount shopping takes place, followed by Lidl and Kaufland.

GfK data shows that there is still a large group of consumers in Poland (over 35%) who visit shopping centres less frequently than once a month. In small cities (between 20,000 and 50,000 inhabitants) this amount increases to 43%, which represents almost half of the population of these cities. The percentage of people, who currently do no shopping at all in shopping centres amounts to 33% in the whole Poland and almost 38% in the cities under analysis. Purchases of fashion and shoes in those cities are made predominantly in the shops located directly on streets and in outdoor markets.

SUMMARY

Retail markets in small cities can be an attractive location for modern shopping centres. Analysis shows that both developers and retail chains are interested in these markets. However, it needs to be borne in mind that new developments have to be well matched to the spending power and needs of local residents in terms of size and retail offer.

The data concerning purchasing power and the consumer market in small cities on the one hand shows the potential that modern shopping centres have, but also highlights the lifestyle and shopping habits of inhabitants, which have to be taken into account by developers in order to succeed.

DEFINITIONS*

Shopping centre – a retail property that is planned, built and manager as a single entity, comprising units and „communal" areas, with a minimum gross leasable area (GLA) of 5,000 m², and minimum of 10 units.

Retail Park – also known as a „power centre", is a consistently designed, planned and managed scheme that comprises mainly medium- and large-scale specialist retailers ("big boxes" or "power stores".

Factory outlet centre – is a consistently designed, planned and managed scheme with separate store units, where manufacturers and retailers sell merchandise at discounted prices that may be surplus stock, prior-season or slow selling.

Purchasing power – total amount of goods and services which residents of particular area can buy within a year.

Purchasing power for retail trade – total value of goods which residents of particular area can buy within a year in shops.

Purchasing power index per capita – the index presents the relation of purchasing power for retail trade of the population of the given region on the average purchasing power in Poland.

** based on ICSC and GfK Polonia*

The data in the report represents the situation at the end of February 2013.

This publication does not cover all aspects of the subject it deals with. This publication is not designed to provide legal advice or investment consultancy and therefore it cannot be considered as a basis for business decisions.