



BNP PARIBAS  
REAL ESTATE



# A TALE OF THREE CITIES

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HIGH STREETS  
IN THE CEE  
CAPITALS

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NOVEMBER 2014

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You can feel **the heartbeat of a city** in the high street. It is the essence of urban life, representing the distinct culture and character of the city to tourists as well as reminding inhabitants about their heritage that gives them a sense of belonging and identity.

Retailers, landlords, city authorities should all be mindful of the importance of high streets, not only because of their economic importance but



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primarily for their importance in sense of place identity. There is no point in competing with large shopping centres or e-commerce. Successful and effective retailing is all about great products and services supported by well-trained staff. It's down to retailers and service providers to offer this to their customers. To trade and service profitably, we need customers, drawn in by a pleasant, safe and accessible high street offer.

With the variety of choice we currently have in terms of shopping formats and service channels, strategy for high streets should be smart and adopt permanent and structural changes to fit the way shoppers behave and spend money.

At the end of the day, it is about understanding consumers and that they want different things from different categories. Sometimes we want to stop, linger, touch and feel products. Other times, we just want to get in and out quickly. At a time when people are increasingly looking for a leisure experience rather than simply a range of shops to visit, such an approach can help in creating a greater sense of 'destination' and potentially competitive advantage for high streets.

This Report is the product of research to understand what are the key features of high streets in the core CEE capitals: Prague, Budapest and Warsaw. It looks in detail at the provision of space as well as tenant-mix structure. It has also been a valuable exercise to compare these cities in terms of rental levels and vacancy rates in order to understand and present the trends and their development potential.

The future for high streets is bright, especially in places like Warsaw, where the market is still hungry for new brands to come. It is no longer a question of "if" but "when" this potential will be explored deeper.



Three Crosses Square, Warsaw, Poland

# A TALE OF THREE CITIES

Despite being clustered within the Central European region, the high streets of Prague, Budapest and Warsaw have been following slightly different patterns in terms of supply, demand and rental levels. The focus on these markets is not mere coincidence. It is these markets that have gone through a major transformation in the last 20 years joining the ranks of Europe's top retail destinations as well as hot spots for the expansion of many retail brands.

The purpose of the Report is to present the current state of high streets in the selected capitals, compare the factors influencing their development, provide an overview of stock and operating retailers as well as rental levels. The CEE High Street Report will also highlight the strengths and weaknesses of the markets and their potential.

A high street, often referred to as a shopping street, provides an alternative to the conventional form of modern retail, i.e. shopping centres of above 5,000 sqm GLA. Although there is no universal definition of a high street, there are several features, which characterize a high street and make it different from the other formats. These include:

- **Prestigious and prominent character**, often considered to be part of a tourist attraction with historical character;
- Located along **pedestrianized routes** or in zones with **limited vehicle traffic**, usually with **good access to public transport**;
- Significant **footfall**;
- Substantial share of units of up to **150 sqm** in size with **large shop windows**;
- Significant share of **fashion and the food service** sector within the tenant-mix;
- Frequent **presence of luxury and upmarket brands**, and dispersed structure of landowners.

It is important to note that the term "high street or shopping street" includes a broad range of retail and service activities as well as fashion. Additionally, high streets located within heart of cities with high daily pedestrian flow, play an important role in urban and social life, creating a common platform for spending both time and money. It is by this unique feature, coupled with a diverse product offering, that high streets differentiate themselves from regular shopping centres.

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

**Prague:** Na příkopě Street, Václavské náměstí (Wenceslas Square), Pařížská Street

**Budapest:** Andrassy Avenue, Váci Street, Fashion Street

**Warsaw:** Nowy Świat Street, Chmielna Street, Plac Trzech Krzyży (Three Crosses Square), Mokotowska Street

## NUMBER OF COMMERCIAL UNITS WITHIN ANALYSED STREETS

**250** Prague

**230** Budapest

**415** Warsaw

# EXECUTIVE SUMMARY

When analysing the provision of retail along the main high streets, Prague has the most extensive offer in terms of retail unit sizes available and variety of retailers present, especially in the luxury and upmarket category. Yet it is not the city with the highest number of commercial units (around 250), holding the second position after Warsaw (415). The city's position is very strong when compared to the peer markets, primarily due to its developed tourism industry generating traffic to drive high turnovers. The capital of the Czech Republic also has a sizable provision of quality commercial space allowing for flagship store creation thereby enhancing brand visibility. These factors contribute to the lowest vacancy levels and the highest rents achieved for prime units<sup>1</sup> i.e. €160-180 per sqm/month.

Budapest remains relatively strong when considering the presence of international brands on its high streets. Yet, the economic downturn of 2010-2012 has put pressure on retailers, which have yet to fully recover, despite the recent improvement of economic indicators. The highest number of vacant units within the city's high streets were recorded at nearly 7% with footfall being much lower than in Prague. In terms of rents, the city's prime locations can be rented at the similar levels to those in Warsaw, i.e. €80-100 per sqm /month.

Despite having the largest population, Warsaw's retail industry is largely undersupplied, especially in the luxury and premium segment. It is bound to change as the city has just overtaken Prague in terms of disposable income (according to GfK Purchasing Power 2014/2015 - €11,222 per capita). Warsaw is also doing well in terms of GDP per inhabitant, achieving €29,415, which is only €588 less than Prague. It is only a matter of time when the main drawbacks such as average tourist traffic and low availability of retail units of sufficient size and quality will be sorted.

Across Prague, Budapest and Warsaw, the tenant-mix by sector within high streets is relatively similar with retail being the main driver of the high street accounting for approx. 55-65% of the market share. Yet, Warsaw clearly has the smallest part of retail when compared to peer cities.

Retail sector consists of subcategories such as fashion, hobby, electronics & media, souvenirs, accessories & jewellery and others. Warsaw lags behind in terms of fashion component with less than 45% out of the total number of retail units on high streets. Distribution of other categories is rather similar.

During the survey, we have also identified different clusters within the various high streets. Each of the capitals has a specific area of its high street dedicated mostly to luxury and upmarket brands (Warsaw: Trzech Krzyży, Mokotowska, Mysia Streets, Prague: Pařížská Street, Budapest: Andrásy Avenue). Also, although the catering offering is generally scattered across various streets, it appears to be more prominent in certain areas (Warsaw: section of Nowy Świat from Chmielna to Świętokrzyska Streets, Budapest: Andrásy Avenue and its immediate surroundings).

In addition to the established locations, a few new high street hot spots have recently emerged, which are likely to attract more retailers. In Warsaw, this includes Świętokrzyska Street – section from Rondo ONZ to Nowy Świat, which will likely become a sought after retail cluster due to the completion of the metro line along the street.

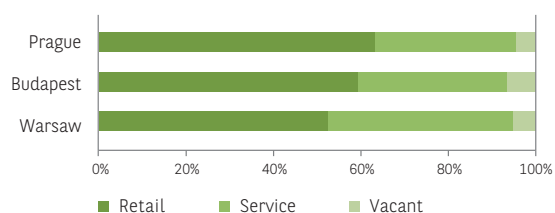
In all of the analysed high streets, the commercial offer is accompanied by urban malls, department stores and shopping passages. During the transformation period in the early and mid-90s these modern schemes have spread across most of the cities and their

## GDP PER INHABITANT IN 2013 (€)

**30,003** Prague  
**21,938** Budapest  
**29,415** Warsaw

Source: Oxford Economics

## HIGH STREET UNITS: SPLIT BY BASIC CATEGORIES



Source: BNP Paribas Real Estate

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

centres, initially attracted most of the international retailers and consumers, resulting in high street decay. Prague regained its balance relatively quickly, followed by Budapest and now Warsaw is back in the game, recording more and more new entrants on the market or existing brands opening new concepts on high streets.

On one hand urban malls and department stores could be perceived as competition, on the other hand, they can coexist with high streets providing an alternative to the standard solutions available in shopping centres where brands are repetitive. Additionally, for Warsaw the lack of available retail space in modern retail centres represents an opportunity for the high street to become the place for brand expansion.

## PURCHASING POWER PER INHABITANT (€)

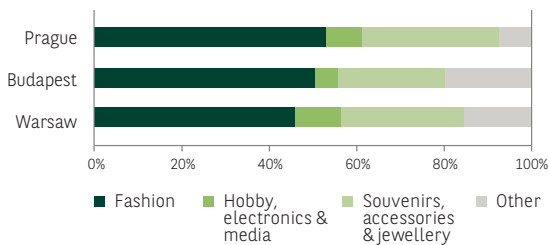
**9,107** Prague

**6,367** Budapest

**11,222** Warsaw

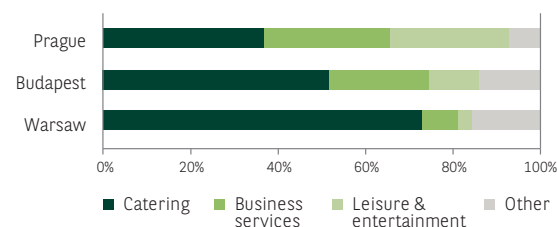
Source: © GfK Purchasing Power 2014 / 2015

### HIGH STREET UNITS: SPLIT OF RETAIL CATEGORY



Source: BNP Paribas Real Estate

### HIGH STREET UNITS: SPLIT OF SERVICE CATEGORY



Source: BNP Paribas Real Estate

### Presence of Brands on High Streets and In-town Department Stores\*

	PRAGUE	BUDAPEST	WARSAW
Baldini	✓	✗	✗
Bottega Veneta	✓	✗	✓
Burberry	✓	✓	✓
C&A	✓	✓	✓
Desigual	✓	✓	✗
Diesel	✓	✗	✗
Dior	✓	✗	✗
ecco	✓	✗	✓
Ermenegildo Zegna	✓	✓	✓
Escada	✓	✓	✓
Fendi	✓	✗	✗
Geox	✓	✓	✗
Gucci	✓	✓	✓
H&M	✓	✓	✓
Högl	✓	✓	✗
Hublot	✓	✓	✗
HUGO BOSS	✓	✓	✓
Jimmy CHOO	✓	✓	✗**
Lacoste	✓	✓	✗
Louis Vuitton	✓	✓	✓
Mango	✓	✓	✗
Massimo Dutti	✗	✓	✗
Max Mara	✓	✓	✓
New Yorker	✓	✓	✗
Prada	✓	✗	✗
ROLEX	✓	✓	✓
Saint Lauren Paris	✗	✗	✓
Salamander	✓	✓	✓
Starbucks	✓	✓	✓
Stefanel	✓	✗	✗
Tommy Hilfiger	✓	✓	✗
The Body Shop	✓	✗	✗
United Colours of Benetton	✓	✓	✗
Zara	✓	✓	✗

\*Located on High Streets and merchandising as monobrands

\*\*Located in a multibrand unit

# PRAGUE



Prague, Parfářská Street

## PRAGUE IN A NUTSHELL

Prague, has a population of around 1.2 million within the city borders and an additional 0.5 million living in the metropolitan area (11.5% and 16% of the country population). erving as an administrative, economic and cultural centre of the country, it also has the highest provision of modern real estate compared to regional cities of the Czech Republic, accounting for 82% of office stock market share and around 35% of retail supply (excluding high street units).

**A**t the end of 2013, the Central Statistical Office recorded an unemployment rate of 5.1% in the capital and the gross average monthly salary amounted to CZK 31,767 (€1,054 per month). According to GfK Polonia, the Purchasing Power per capita in Prague reached €9,107 per capita, which was 59% of the EU-28 average. The city produced 25% of the country's GDP.

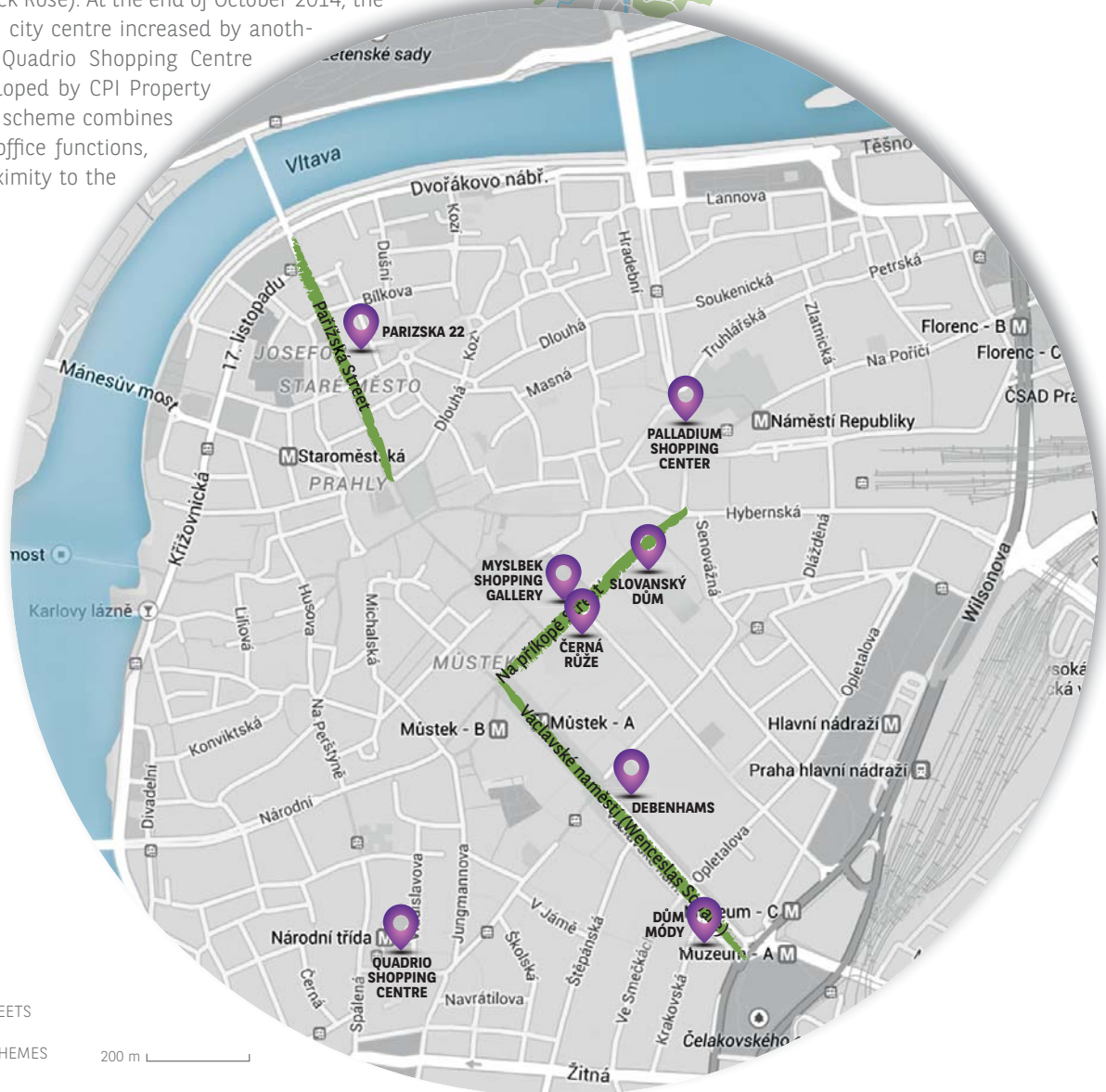
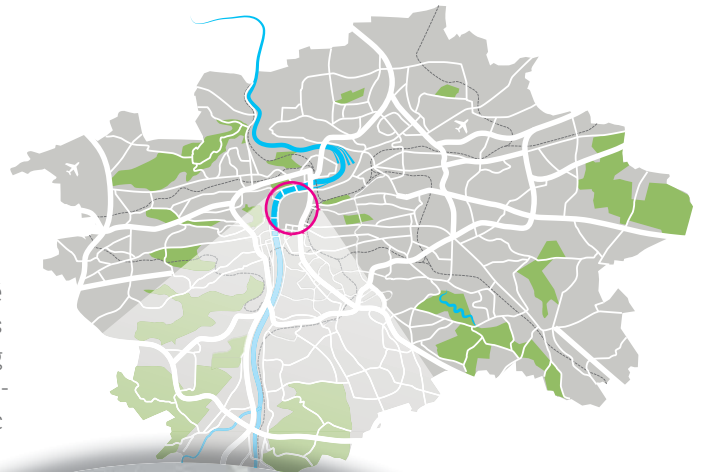
The city is among the oldest in Europe, with its history dating back to the 6<sup>th</sup> century. Its Old Town is listed on UNESCO's

World's Heritage List since 1992, which contributes to the fact that Prague is the world's 19<sup>th</sup> and Europe's 5<sup>th</sup> most attractive tourist destination according to Euromonitor's Top 100 City Destinations Ranking 2013. In 2012, the city attracted 6.5 million foreign tourists, which is the best result out of the analysed capitals.

## FOCUS ON HIGH STREETS

Prague has the most developed high streets on offer, which stems from the city's developed tourism industry. It is very compact and concentrated within Prague 1 district, forming part of the Old Town.

The key high streets include Na příkopě Street, Václavské náměstí (Wenceslas Square) and Pařížská Street. Their offer is complemented by a very well-performing Palladium Shopping Center, located close to the high street cluster, Myslebeck shopping gallery and two shopping passages: Slovanský dům (Slavic House) Černá růže (Black Rose). At the end of October 2014, the retail stock in Prague's city centre increased by another 8,500 sqm within Quadrio Shopping Centre on Národní třída developed by CPI Property Group. This mixed-use scheme combines retail residential and office functions, which are in close proximity to the analysed streets.



Source: BNP Paribas Real Estate, Google Maps

NA PŘÍKOPĚ STREET



Na příkopě Street is a promenade, connecting Wenceslas Square with the Square of the Republic. It separates the mediaeval Old Town from the New Town founded in the 14<sup>th</sup> century. Today, it is one of the most frequently visited spots, full of historic buildings of unique features, which accommodate commercial, hospitality as well as office functions. Many of these buildings are turned into flagship stores or form boutique type of multi-brand department stores.

In terms of street profile, the majority of brands are within the mid-market group. In addition, some premium retailers are also present.

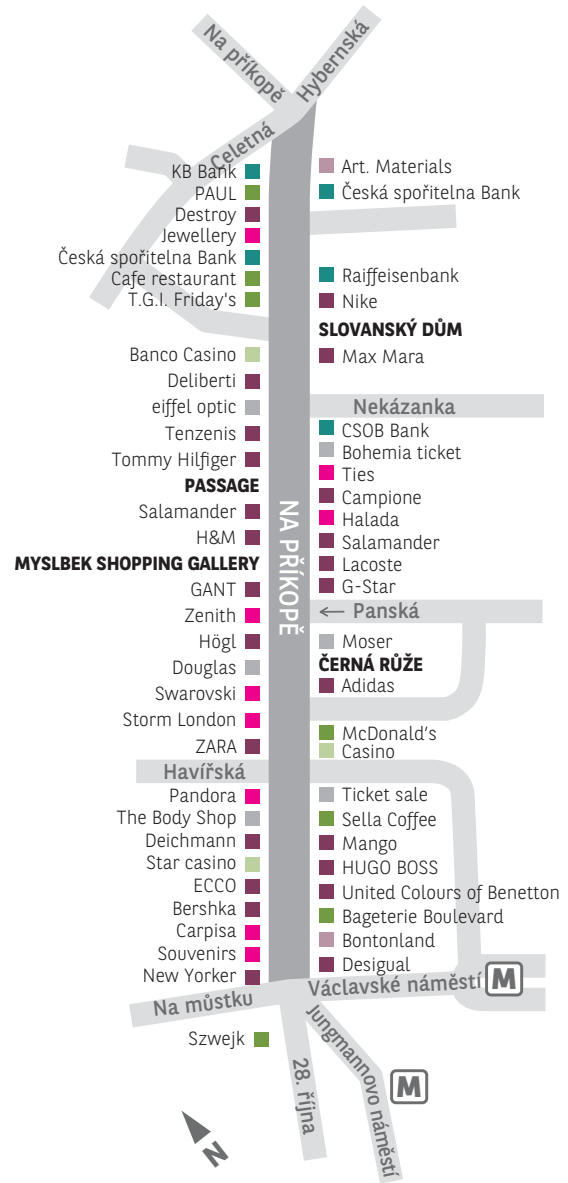
The location has been recognised by ZARA, New Yorker, Bershka, Mango or Deichmann, to name a few midmarket brands.

There are also a couple of upmarket retailers operating on Na příkopě such as Lacoste, Pandora, HUGO BOSS, or Max Mara.

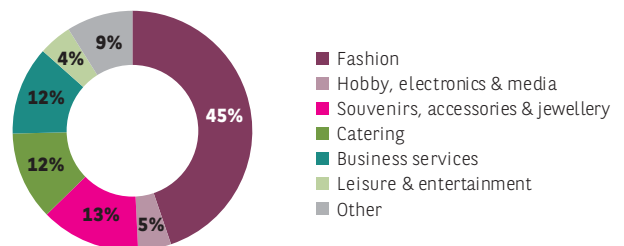
As previously indicated, in addition to the commercial space on ground floors along the street, there are some retail schemes, which accompany traditional high street. These include:

- Palladium – a 40,000 sqm GLA urban mall with 180 retail units is located close to Na prikope. The scheme has a mid to upmarket profile, hosting retailers such as H&M, C&A, BATA, Reserved, Mango, Marks & Spencer, GANT, Esprit, Napapijri, TEZENIS, Tchibo.
- Myslbek Shopping Gallery opened in 1996 as one of Prague's first shopping malls. It hosts around 30 shops and boutiques (i.e. Calvin Klein, GANT, Next, Korres, Mothercare, Intersport, dm drogerie markt) as well as a few restaurants.
- Černá růže (Black Rose), a shopping passage fully refurbished in 1998 to accommodate 50 stores and several restaurants.
- Slovanský dům (Slavic House) hosts brands such as Nautica, Mexx, Miss Sixty, Tommy Hilfiger, Cerruti Jeans, as well as some catering facilities. There's also a large outdoor garden and the Palace Cinemas multiplex theatre.

Tenant-mix on Na příkopě Street – selected retailers and services



TENANT-MIX ON NA PŘÍKOPĚ STREET



Source: BNP Paribas Real Estate

## VÁCLAVSKÉ NAMĚSTÍ (WENCESLAS SQUARE)



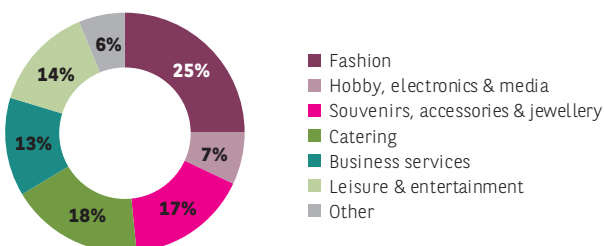
Wenceslas Square has the shape of a long rectangle, stretching over a span of 750 m. It is one of the longest boulevards in the city, connecting Na příkopě Street and the historical Old Town.

The spot is a popular shopping destination, which has attracted many international retailers such as: H&M, VAN GRAAF, Promod, Levi's, Sephora, Gate, Reserved, Salamander, McDonald's, Bata.

A couple of them like C&A and Marks & Spencer have flagship stores in multi-storey tenement houses along the square.

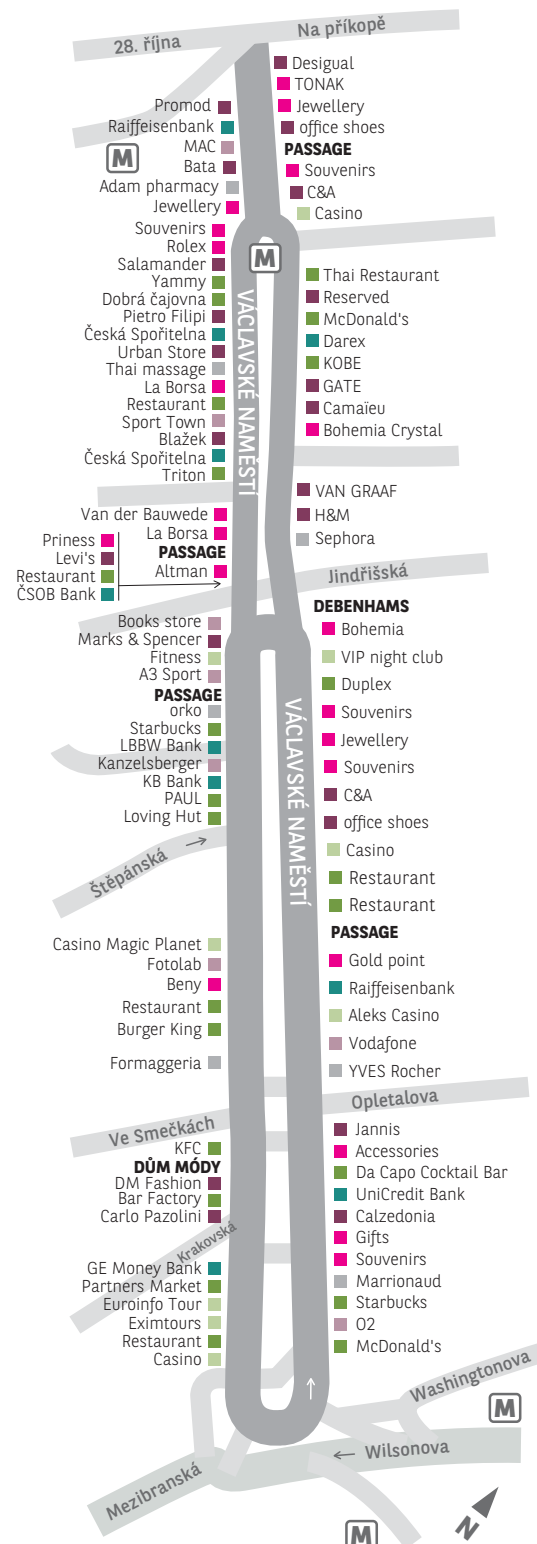
There are also department stores like Debenhams, which opened in 2004, offering a product line with its own-labels as well as a selection of franchised brands from the premium and luxury segment. The store is spread across three floors: the ground floor has cosmetics, footwear and accessories; the first is home to women's fashion; while the top floor offers clothing for men and children, alongside a toy department. Another example included is Dům Módy (Fashion House), which is a multi-brand and multi-storey department store with a range of international and local brands, such as Lagerfeld, Calvin Klein, Basler, Trussardi Jeans and Betty Barclay.

### TENANT-MIX ON WENCESLAS SQUARE



Source: BNP Paribas Real Estate

### Tenant-mix on Wenceslas Square – selected retailers and services



## PAŘÍŽSKÁ STREET



The Pařížská Street is home to the top international designer shops located in Art Noveau decorated buildings.

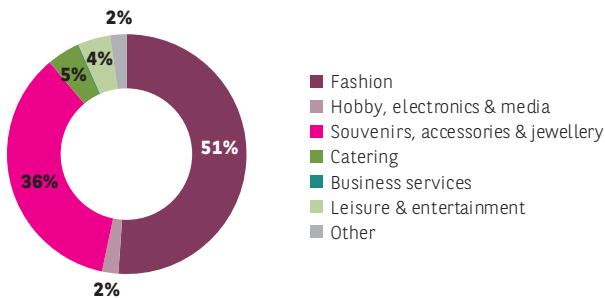
Most of the big names in design have sprung up on this street over the last couple of years with examples such as: Louis Vuitton, Hermes, Bottega Veneta, Fendi, Prada, Dior, Dolce & Gabbana, Ermenegildo Zegna, Salvatore Ferragamo, Jimmy Choo, Prada, and Gucci.

The top names in watches and jewellery are also represented, like Boucheron, Rolex, Tiffany & Co. and Cartier, all with mono-brand stores on the street. With so many fashionable stores, Pařížská Street is also home to some upscale restaurants and cafes but they are less numerous than on Václavské náměstí and Na příkopě Street.

There is also a multibrand store at Pařížská 22, which hosts brands such as Pinko, Michael Kors, Patrizia Pepe, Manila Grace, Baldinini.

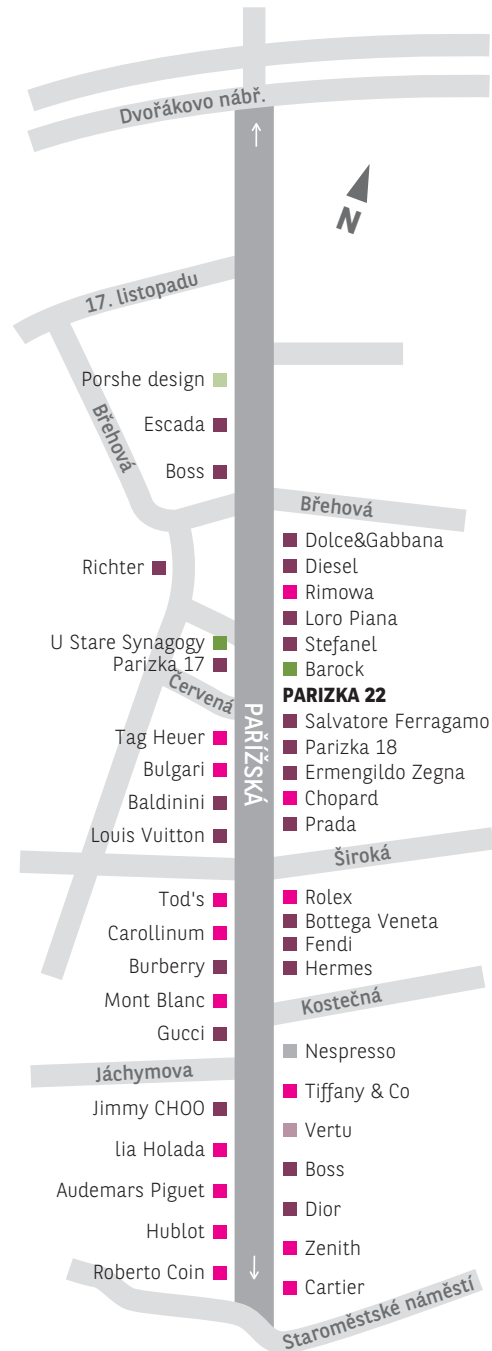
The street has its website: <http://www.parizskaulice.cz>, which lists its present retailers.

### TENANT-MIX ON PAŘÍŽSKÁ STREET



Source: BNP Paribas Real Estate

Tenant-mix on Pařížská Street – selected retailers and services



## SUMMARY

According to the conducted survey, there are around 250 retail units on the analysed streets. Some 46% are located on Na příkopě Street with 34% on Wenceslas Square. Pařížská Street hosts 20% of the total provision of commercial space in the high streets of Prague.

The main feature of Prague when comparing it to other capitals is that its supply side includes high quality commercial space both in ground floor units and in small shopping passages. This enables retailers to operate flagship stores in prime tourist locations with high footfall.

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

In terms of demand, Prague remains on the radar screens of all renowned retailers, both from the upmarket as well as mass market category. Every year, the retail offer is extended by new entrants on the market. A few recent examples include Tommy Hilfiger, Deichmann, Bershka and Weekend Max Mara.

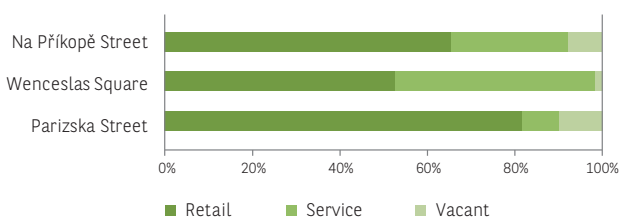
Market shares for retail sectors on the high streets of Prague are similar to the peer cities of Warsaw and Budapest. Retail has 63% market share, followed by services with 33%. Some 4% of the high street units are vacant, which is the lowest availability ratios across the analysed capitals.

Undoubtedly, the analysed streets differ in terms of profile - Wenceslas Square and Na příkopě Street are focused on mid-market whereas Pařížská Street is clearly targeting premium and luxury clients. Similar segmentation can be found in both Budapest and Prague.



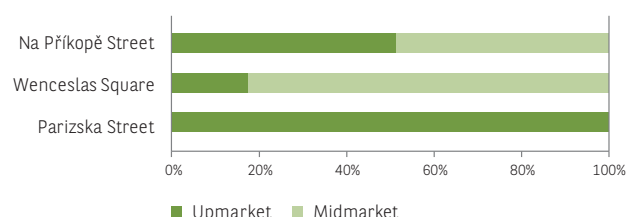
All of the above mentioned factors contribute to the very strong position of landlords in the Old Town of Prague. Demand clearly outpaces supply, which is why the survey conducted showed no vacant units along the analysed streets. This in turn contributes to asking rents along Prague’s high streets being among the highest across the Central European capitals. They have increased by 20% over the last 5 years. The best 100-sqm units at Na příkopě Street and Pařížská Street cost €160-180 per sqm/month and rents on Wenceslas Square range from €140-160 per sqm/month.

PRAGUE: HIGH STREET UNITS BY STREET AND CATEGORY



Source: BNP Paribas Real Estate

PRAGUE: HIGH STREET FASHION UNITS BY STREET AND TARGET GROUP



Source: BNP Paribas Real Estate

# BUDAPEST



Budapest, Andrassy Avenue

## BUDAPEST IN A NUTSHELL

Budapest is the capital and the largest city of Hungary, with a population of over 1.7 million and a metropolitan area of 2.5 million (19% and 28% of the country population respectively). It is the centre of the country's political and economic activities. In terms of real estate, Budapest has 95% market share in the modern office stock and 42% of modern retail stock (high streets excluded).

According to Oxford Economics, GDP per capita in Budapest reached around €21,938 in 2013, which is the lowest indicator when compared with peer cities. According to Oxford Economics, the city produced 38.5% of the country's GDP in 2013.

Based on the Hungarian Central Statistical Office, the city had an unemployment rate of 6.1% and the gross average monthly salary was at the level of HUF 302,000 (€1,006) per month at the end of Q2 2014. The GfK Purchasing Power 2014/2015 shows that Budapest reached €6,367 per inhabitant constituting 41.3% of the EU-28 average.

Tourism is a strong driving force in Budapest and it is gaining momentum. The city offers a wide range of tourist attractions,

some of which are sites on the UNESCO's World Heritage List. These include the Danube embankments and the Buda Castle District, the Chain Bridge, the Parliament, Andrassy Avenue, Heroes' Square and the Millennium Underground Railway, which is the second-oldest metro line in the world. Geothermal springs and the world's largest thermal water cave system are also important hot spots for Budapest.

According to Euromonitor's Top 100 City Destinations Ranking 2013, the city attracted about 4.8 million foreign tourists in 2012, making it the 27<sup>th</sup> most popular city in the world, and the 8<sup>th</sup> in Europe. Domestic tourists accounted for an additional 0.5 million visitors to the capital city.

1. Purchasing power standard is an artificial common reference currency unit used in the European Union which eliminates the differences of price levels between countries. This unit allows comparisons in volume of economic indicators between countries. The aggregates expressed in PPS are calculated by dividing the aggregates expressed in current prices and in national currency by the Purchasing Power Parities (PPP).

## FOCUS ON HIGH STREETS

The high street network in Budapest is relatively spread out. The main areas include: Andrassy Avenue, Váci Street and Fashion Street (Deák Ferenc Street).

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



Source: BNP Paribas Real Estate, Google Maps

ANDRÁSSY AVENUE



Andrassy Avenue, planned and developed in the late 19<sup>th</sup> century, is a 2.5 km wide and spacious avenue stretching from Erzsébet Square to the Városliget (the City Park). It is bordered with villas, historic buildings, neo-renaissance mansions and townhouses featuring fine facades and interiors. The Millennium Underground line runs directly under the street.

The stretch from the Erzsébet Square to Oktogon Square (approx. 1 km), is considered to be one of the key high-end streets in Budapest, hosting luxury brands, fine cafes, restaurants and theatres. Except for the Opera House located at the street, just off the Andrassy Avenue, at Nagymező Utca, there is a "Budapest Broadway" with galleries, clubs and theatres.

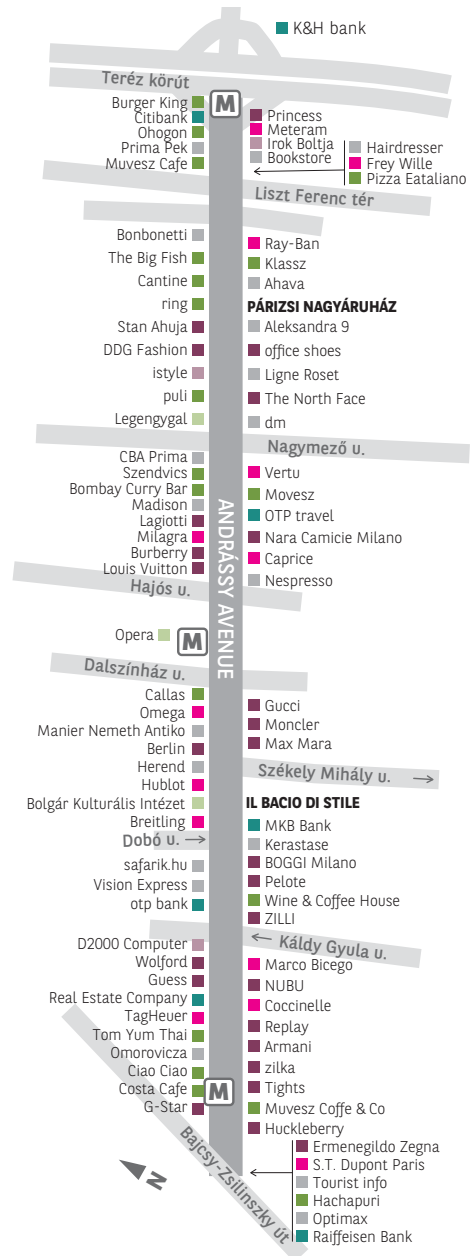
The main retailers present at Andrassy Avenue include: Gucci, Louis Vuitton, Moncler, Burberry, Guess, Emporio Armani, Ermenegildo Zegna, Omega, Roberto Cavalli or Dior.

In addition to the groundfloor retail units along the avenue, Andrassy is also the address of Il Baccio di Stile, a 5,000 sqm multi-brand department store completed in September 2013 catering to affluent customers. Some of the main brands present include: Armani, Chloé, DKNYPure, Dolce&Gabbana, Emporio Armani, Givenchy, Guess, Jimmy Choo, Lanvin, Michael Kors. The scheme also has cafe, bar, and a rooftop restaurant.

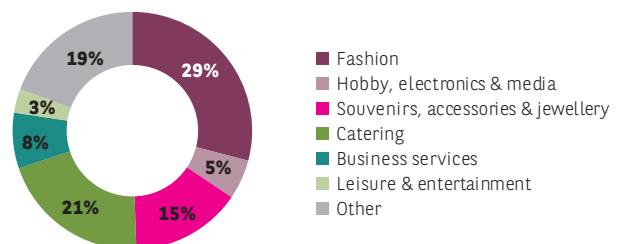
Another retail scheme worth mentioning is Párizsi Nagyáruház (the Paris Department Store), which is a 7-storey building built at the beginning of 20<sup>th</sup> century. It currently hosts the largest book-store in the city and the first floor is dedicated to a lounge area. The remaining stores are dedicated to offices and a beauty store.

As indicated, the street offers a wide selection of bars, cafes and restaurants, especially close to List Ferenc ter. Some of the most famous ones include: Kogart, Belcanto, La Perle Noire. Additionally, there are also some chain operators, such as Pizza Eataliano, Bigfish, Ring Cafe & Burger Bar.

Tenant-mix on Andrassy Avenue – selected retailers and services



TENANT-MIX ON ANDRÁSSY AVENUE



Source: BNP Paribas Real Estate



## FASHION STREET (DEÁK FERENC STREET)



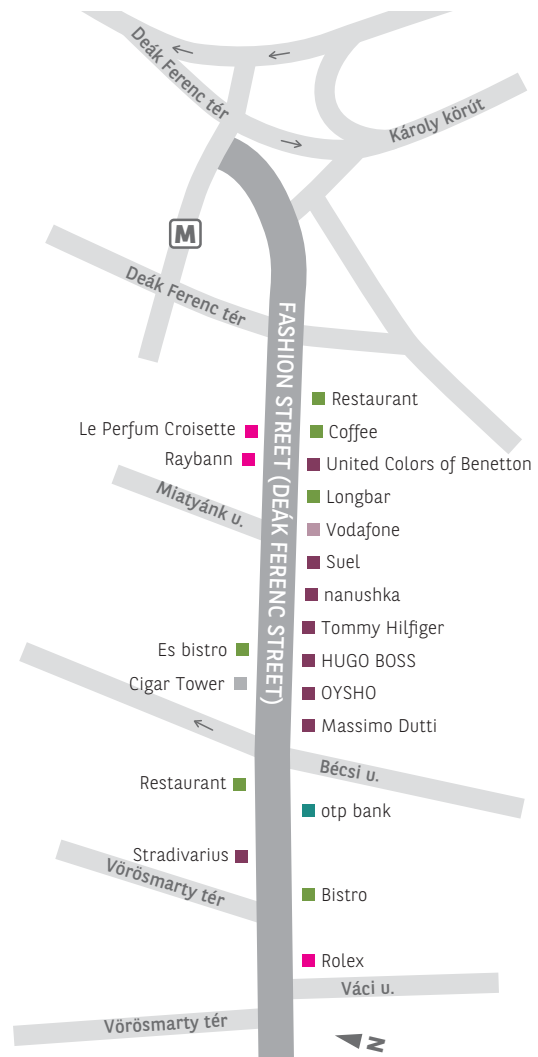
Developed by Immobilia in 2007 Fashion Street is a refurbishment of tenement houses along a 150 m street. Its creation was possible as the streets benefits from direct access to Váci Street, as well as Vörösmarty Square, which are established high street clusters.

The project offers approximately 11,000 sqm of GLA leased to retailers such as: HUGO BOSS, Tommy Hilfiger, Max Mara, Sisley, Mexx, Lloyd, Nautica, Oysho, Furla, Puma, United Colours of Benetton and Lacoste.

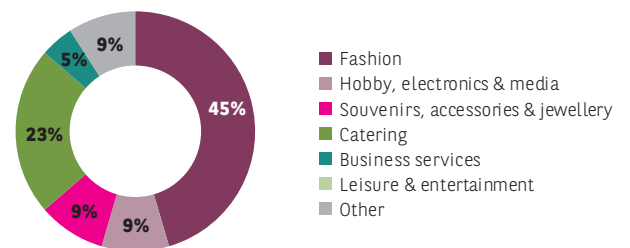
The catering offer is provided by Vapiano, Planet Sushi, IL Patio and the Mozart Chocolate Salon.



Tenant-mix on Fashion Street – selected retailers and services



TENANT-MIX ON FASHION STREET



Source: BNP Paribas Real Estate

## SUMMARY

BNP Paribas Real Estate has identified around 230 retail units. Some 45% was situated along Andrásy Avenue, 47% at Váci Street with the remaining share at Fashion Street. Most of the units were in good technical condition and provided proper visibility for retailers through large shop windows.

The generic structure of high streets in Budapest is rather typical, with retail accounting for an average of 59% of all units and services are at 34%. The vacancy rate at the level of 7% is the highest when compared to other capital.

The Budapest high streets are dominated by fashion sector, which occupies 30% of units along the analysed routes, followed by catering accounting for 19% of the space. The least represented sectors are leisure & entertainment and Hobby, electronics & media having 4% each. This is rather typical for a European high street tenant-mix.

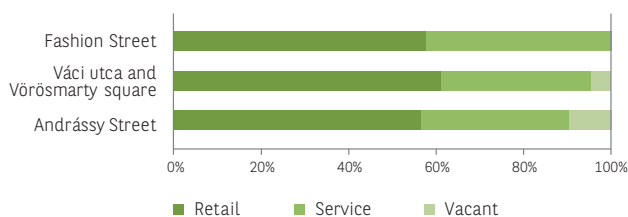
Clearly, the Andrásy Avenue is a major thoroughfare for luxury and elegance in Budapest and has a high-end luxury character, while Váci Street is more targeted at tourist mass market. Fashion street has a mixed character due to the variety of brands present. All of the analysed streets provide an extensive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

Over the last year, Budapest saw the entrance of new retailers to the city. These include: GAP, Massimo Dutti, Michael Kors, Napapijri, Mohito, Oysho, Zara Home, H&M Home, Berlin, Högl, Breitling, Ligne Roset and Desigual.



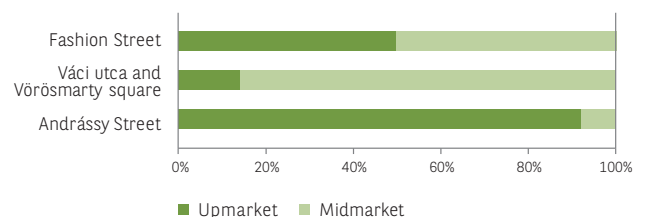
The rental levels depend on location, size of the unit as well as retailer's sector. Prime units of around 100 sqm at Andrásy Avenue as well as Váci Street are in the range of €70-90 sqm / month, whereas the Fashion Street is less expensive with rents of €45-50 sqm / month.

BUDAPEST: HIGH STREET UNITS BY STREET AND CATEGORY



Source: BNP Paribas Real Estate

BUDAPEST: HIGH STREET FASHION UNITS BY STREET AND TARGET GROUP



Source: BNP Paribas Real Estate

# WARSAW



Warsaw, Three Crosses Square

## WARSAW IN A NUTSHELL

The official population of Warsaw agglomeration exceeds 2.5 million, of which 1.72 million live within the city borders. Additionally, Warsaw is a lucrative labour market, which attracts young people from across Poland, who work here but are not officially registered as Warsaw inhabitants.

**W**arsaw is the administrative and economic centre of the country and is the seat of state institutions as well as headquarters of many domestic and international firms. The city is considered to be the financial hub of Central Europe with the Warsaw Stock Exchange recording the largest number of IPOs over the last 5 years.

In terms of the modern real estate market, Warsaw is the most developed city across the country and within the Central European region. The market share of office stock in the capital amounts to around 65%. The shopping centre supply in Warsaw reached 1.4 million, representing a mere 14% of the overall supply of shopping centres in the country. It is a notably lower market share when compared to Prague or Budapest, which are much more centralised in terms of modern real estate market.

Warsaw's GDP per capita in 2013 was €29,415 according to Oxford Economics. Due to its polycentric structure and size of the country, the capital of Poland accounted for 13.4% of the country's GDP, which is significantly lower in relation to peer cities. Due to a favourable business environment, the unemployment rate in the capital has continuously recorded low levels at 4-5%. According to the most recent data of GfK Purchasing Power 2014/2015 Warsaw exceeded the level recorded in Prague and reached €11,222, which was 72.8% of the EU-28 average.

Despite the Old Town (fully reconstructed after the Second World War) being listed as a UNESCO World Heritage site, Warsaw ranked 11<sup>th</sup> in the Euromonitor's Top 100 City Destinations Ranking 2013, attracting 3.7 million foreign tourists in 2012.

1. Purchasing power standard is an artificial common reference currency unit used in the European Union which eliminates the differences of price levels between countries. This unit allows comparisons in volume of economic indicators between countries. The aggregates expressed in PPS are calculated by dividing the aggregates expressed in current prices and in national currency by the Purchasing Power Parities (PPP).

## FOCUS ON HIGH STREETS

Considering socio-economic factors, the consumer market in Warsaw is particularly strong.

This is clear from the existing volume and diversity of formats, the highest rents achieved for prime retail schemes compared to other capital cities and the interest from retailers to expand operations.

The established high streets in Warsaw are Nowy Świat, Chmielna, the cluster around Three Crosses Square and Mokotowska. An emerging location, which has been recently gaining on importance is Świętokrzyska Street. This is a result of completion of the second underground line scheduled for the end of 2014. Similar to peer cities, the retail market close to the high streets is equipped with shopping centres and department stores, some of which are located on the analysed streets or close to them (within 500 meter radius).

Yet, high street as a retail sector is the least developed format within the capital compared with peer cities especially when analysing retailers' pool. Low vacancy levels in shopping centres provides an opportunity to enter the market via high streets, yet the limited provision of quality space and lack of proper city strategy concerning high street development remain the key entry barriers. The situation has been gradually improving, spurred by an increased interest from retailers to grow, and new entrants willing to mark their presence within flagship stores along the key shopping streets.



 HIGH STREETS  
 RETAIL SCHEMES

Source: BNP Paribas Real Estate, Google Maps

## NOWY ŚWIAT STREET



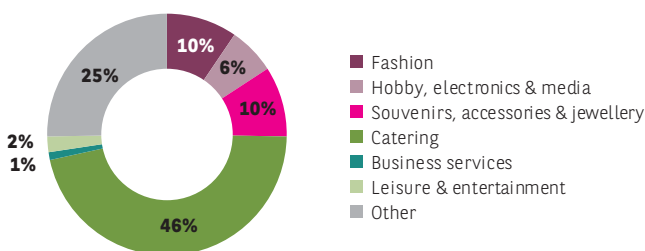
Nowy Świat Street forms a part of the historical Royal Route connecting the Royal Castle in the Old Town with Wilanów Palace. Established in the 17<sup>th</sup> century, the street is developed with historical tenement houses and manors, reconstructed after the Second World War. Nowy Świat, stretching over 1 km, runs from Three Crosses Square in the south, intersecting Aleje Jerozolimskie Avenue to Świętokrzyska Street. The street has been refurbished and reorganised in the mid-90s and traffic restrictions have been introduced, in order to turn it into one of the favourite tourist destinations.

The commercial offer of Nowy Świat is mixed, consisting of a section dedicated mostly to catering; full of restaurants, cafes and bars, as well as a shorter from Chmielna Street to Jerozolimskie Avenue, targeting mass and mid-market customers, separating catering from fashion. The last section of Nowy Świat (north of Jerozolimskie Avenue) belongs to another cluster located at Three Crosses Square.

Most of the retail space along the street is located on the ground floors, yet a few tenants enjoy a multi-storey flagship store such as H&M or Empik.

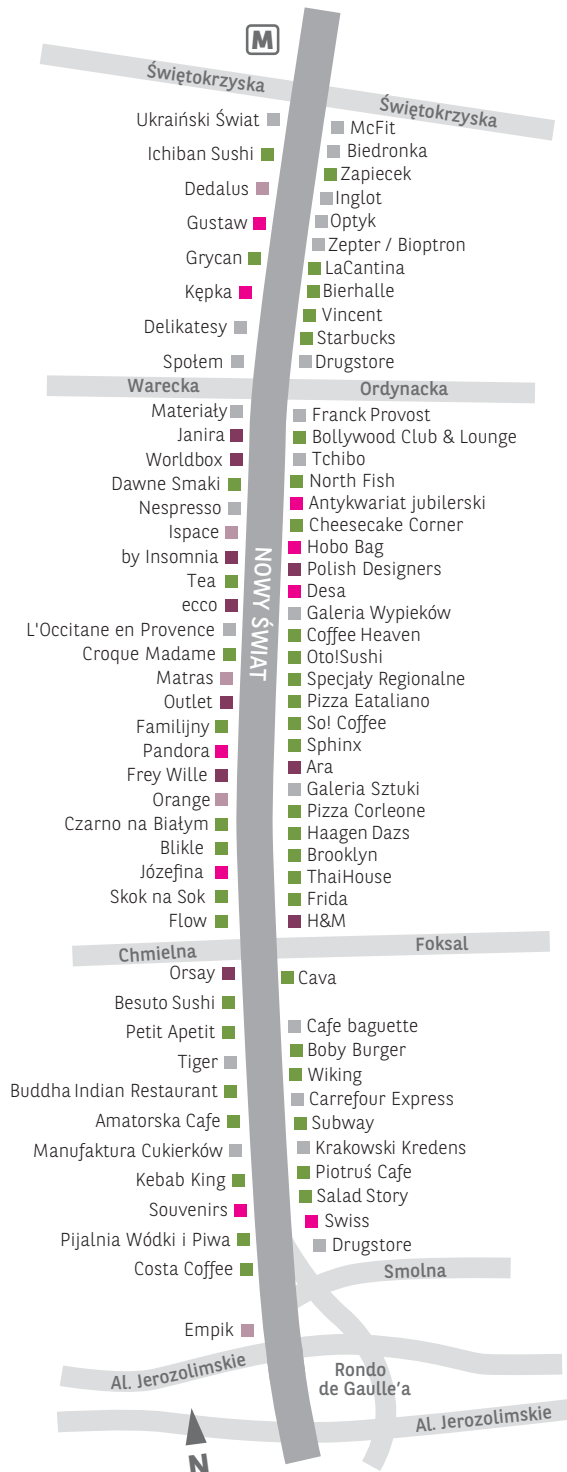
The majority of brands located along the route target mid-market customers (Orsay, Tiger, Tchibo), but some premium retailers are also present such as Pandora and Frey Wille.

TENANT-MIX ON NOWY ŚWIAT STREET



Source: BNP Paribas Real Estate

Tenant-mix on Nowy Świat Street – selected retailers and services



## CHMIELNA STREET



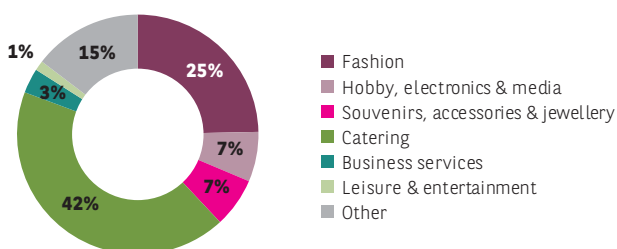
The high street section of Chmielna Street stretches from Marszałkowska to the west and Nowy Świat to the east and is approx. 800 m long. The offer at Chmielna Street is targeted mostly at mass and mid-market.

Several chain retailers operate on the street, including Calzedonia, Smyk, Veromoda, Rossmann, Tatum and Ryłko. There are also a number of restaurants, cafes and bars here.

With the redevelopment of the Galeria Centrum department store, located to the west of the street, the development of the Nowy Dom Jabłkowski mix-use scheme, next to the historical department store, Dom Towarowy Bracia Jabłkowsky, and Chmielna 25, a mixed-use development by LHI, the street's image has been gradually improving.

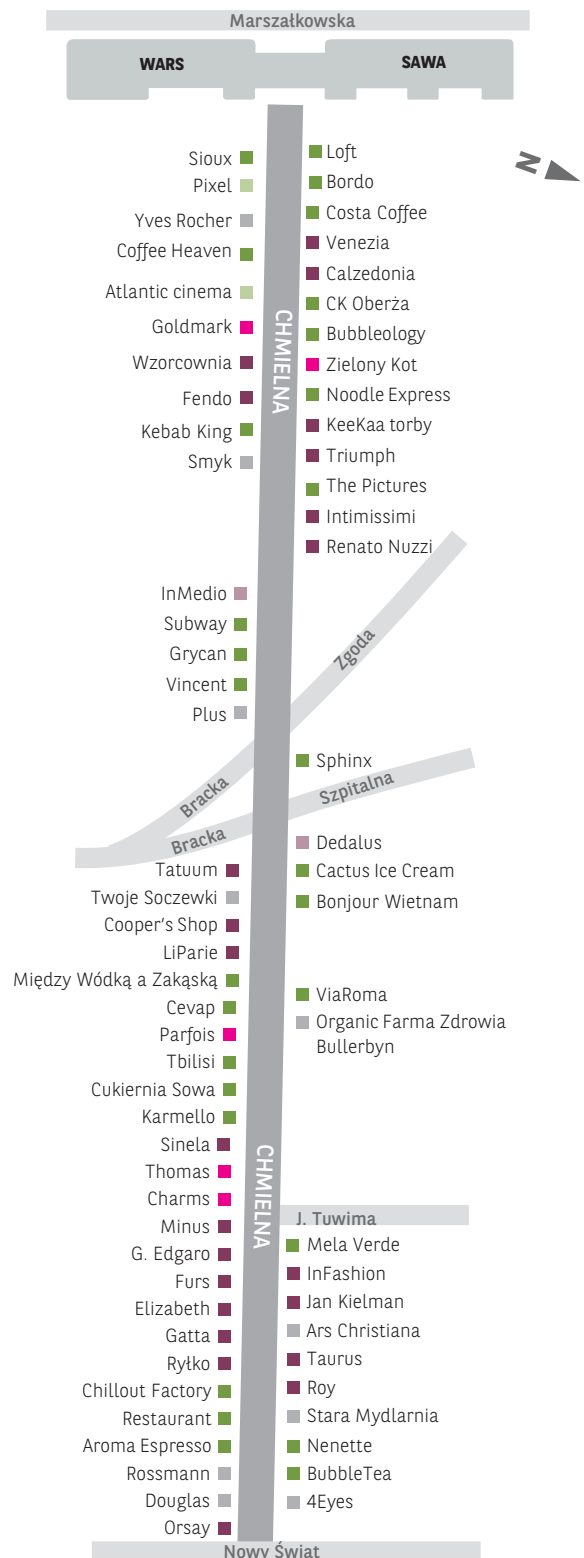
In addition to the aforementioned Galeria Centrum, and in close proximity to Chmielna Street, two schemes offering commercial space are planned: CEDET – the redevelopment of an historical department store (formerly DT Smyk) at the junction of Jerolimskie Avenue and Zgody Street with 7,000 sqm GLA planned; and Centrum Marszałkowska – the grand refurbishment of a department store (formerly Sezam) into a 13,500 sqm mixed-use office and retail located at the junction of Marszałkowska and Świętokrzyska Streets.

TENANT-MIX ON CHMIELNA STREET



Source: BNP Paribas Real Estate

Tenant-mix on Chmielna Street – selected retailers and services



## PLAC TRZECH KRZYŻY (THREE CROSSES SQUARE) / MOKOTOWSKA STREET

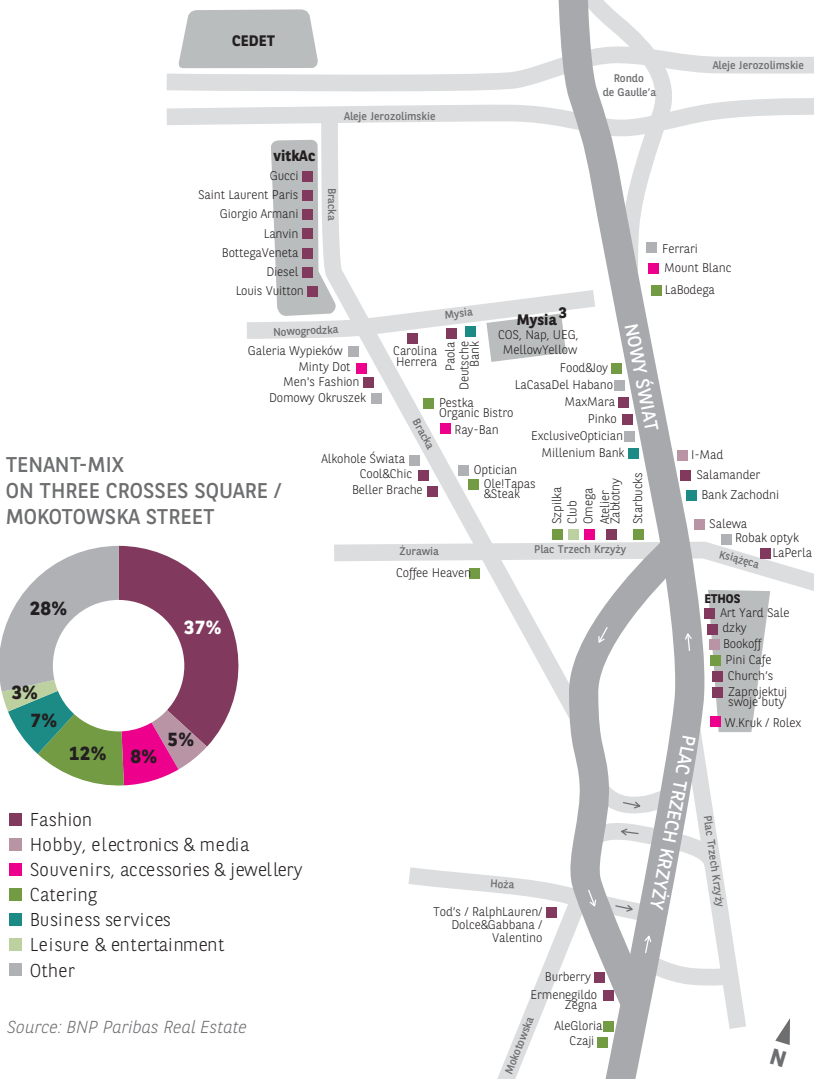
The area round Three Crosses Square is and will remain the most exclusive and representative neighbourhood in Warsaw's city centre. Close proximity to the Parliament, the National Museum, the Warsaw Stock Exchange, embassies and consulates along Ujazdowskie Avenue as well as Ministries and governmental offices makes it a hot spot for premium and luxury brands and fashionable restaurants and cafes.

The area hosts monobrand stores from Ermenegildo Zegna, Burberry, Salamander and Omega. In the Mysia 3 tenement house a couple of brands are present including COS, Nenukko, CK Watches, Muji, My Paris and Orska.

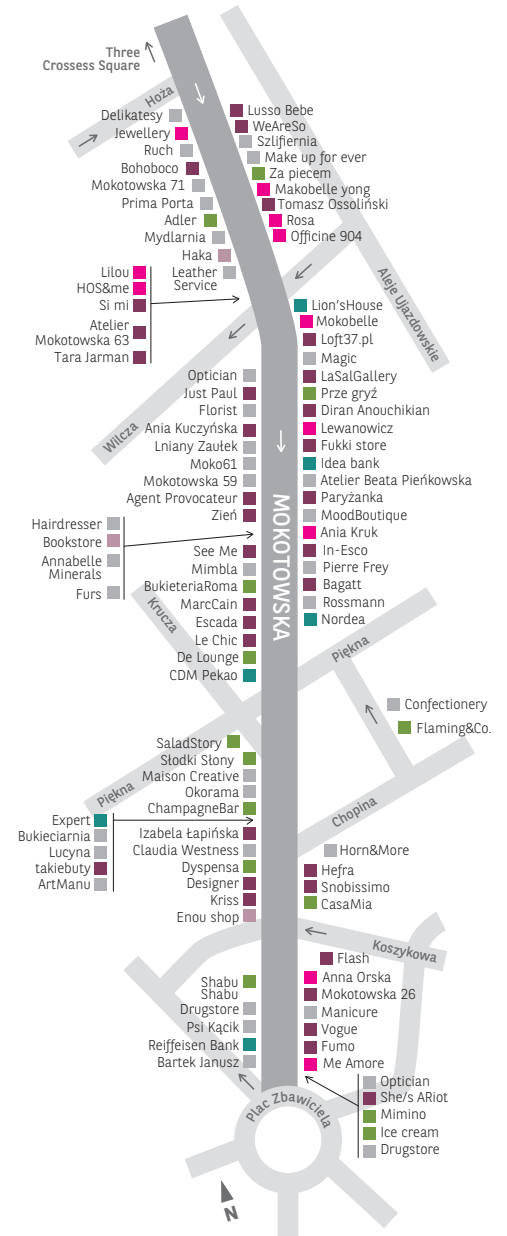
Some 200 meters north of Three Crosses Square, at Jerozolimskie Avenue there is a multibrand department store called VitkAc. This hosts a selection of collections from Gucci, Saint-Laurent Paris, Armani, Louis Vuitton and Bottega Veneta which provide a complementary offer to the other luxury stores in the immediate vicinity.

South of Three Crosses Square, Mokotowska Street hosts a variety of designer studios, boutiques and fashionable jewellery such as Maciej Zień, Blind Concept Store, Escada, Lilou and HOS&Me. Some fashionable cafes and restaurants are located along this street including Stodki Słony and Flamingo to name a few.

Tenant-mix on Three Crosses Square – selected retailers and services



Tenant-mix on Mokotowska Street – selected retailers and services



## SUMMARY

The three key high street areas in Warsaw that have been analysed in this report provide a total supply of around 450 units. The technical condition of the high street stores significantly differs ranging from nicely refurbished sites to units of very poor standard. Still Warsaw has a great potential to develop this sector, given its size and spending power.

Compared with peer cities, in Warsaw there is a limited provision of multi-storey tenement houses that could be converted into high standard flagship stores. The situation may improve in the future, provided that legislation allows for the combination of multiple units into single, larger areas that can be utilised effectively.

Over the last year Warsaw saw the entrance of new retailers to the city, but only a few of them moved to the high street. Prime rents for Warsaw high street units range from €80-100 per sqm/month in the Three Crosses Square to €50-60 per sqm/month on Nowy Świat and Chmielna Streets.

Compared with peer cities Warsaw has the lowest market share of retail on high streets (52%), followed by services (43%). The conducted analysis showed that some 5% of units remained vacant. Most of the units available could be found on Mokotowska Street.

Two sectors combined, catering (28%) and fashion (20%), account for nearly half of the tenant-mix present in units along the analysed high streets in Warsaw. The share of the service sector in the market accounts for another 15%.

Evidently, high streets in Warsaw have different key features which follow the patterns observed on the other markets. Nowy Świat is dominated by catering with few fashion and health & beauty stores, Chmielna has a mix of mid-market fashion with a catering offer and Three Crosses Square is targeted at affluent consumers.

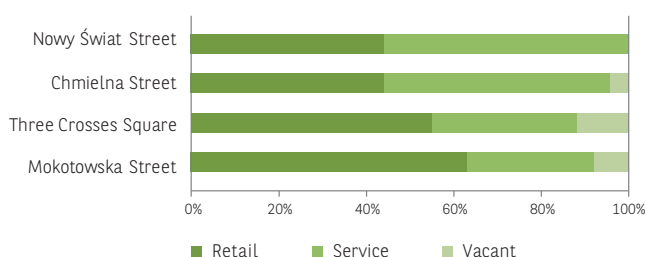
Given the size and economic strength of Warsaw and bearing in mind the changing habits of customers, the city has large potential to develop its high streets. Any future development will depend on the city authorities' approach, but will also be led by private landlords moving to shape the retail offer along the high streets. This was also the case for other retail formats emerging across Poland over the last 20 years.

Retailers should also view opportunities to develop their flagship stores and alternative concepts in high street locations as a complementary offer to their existing stores in shopping centres. Moreover the development of the high street opens the possibility for newcomers to start operations, especially for international brands with no shopping centre culture or concept.

In terms of the future directions of high streets, in addition to the established Nowy Świat and Chmielna Streets and the cluster around Three Crosses Square and Mokotowska, Świętokrzyska is likely to become the new high street hotspot in the near future.

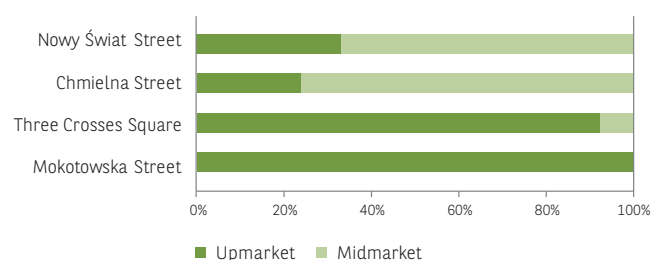
With the largest population across the analysed capitals, fast growing tourism flows and a concentration of the wealthiest people in the country, the high street development today is more a question of time than a question of the city's development potential.

WARSAW: HIGH STREET UNITS BY STREET AND CATEGORY



Source: BNP Paribas Real Estate

WARSAW: HIGH STREET FASHION UNITS BY STREET AND TARGET GROUP



Source: BNP Paribas Real Estate



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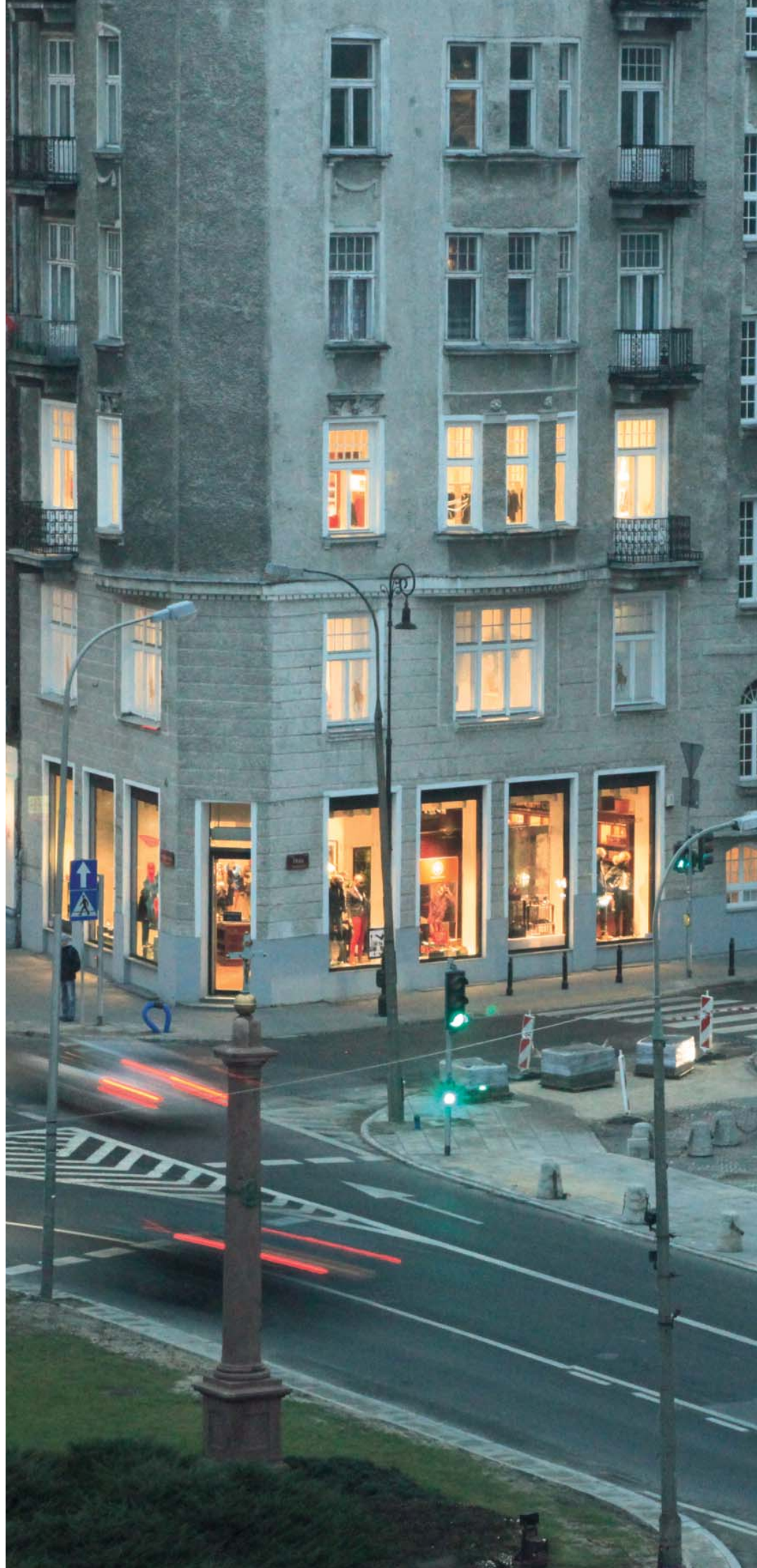
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