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Hot Topics

- 2011 saw no new additions to the stock.
- 2012 - 2013 Warsaw retail pipeline remains extremely limited.
- Vacancy in prime schemes is close to 0%.
- Warsaw is increasingly becoming the prime regional target both for the mid fashion and luxurious retailers.
- Prime yields compressed to 6%.

GENERAL OVERVIEW

Polish economy continues to outperform its regional peers with 2011 GDP growth reaching 4.3% and the unemployment rate now over 12%. Its resilience to external uncertainty is mainly achieved by relatively strong levels of domestic trade and robust industrial output.

Warsaw retail market continues to evolve and boast prime opportunities for further expansion both in terms of geographies as well as the range and type of available retail formats. The performance of Warsaw retail market remains demand-driven with extremely limited 2012 – 2013 pipeline in relation to the consistently strong demand, leading to negligible vacancies in almost all retail schemes.

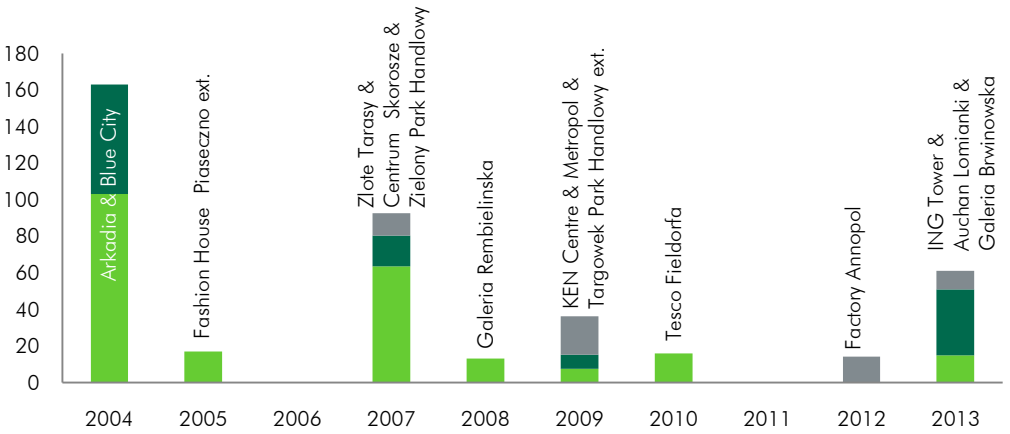
Limited retail provision on dynamically growing Warsaw's suburbs as well as growing average purchasing power stimulate expansion plans of the existing and new mid-market retailers, while growing appetite of the capital city dwellers for luxury goods attracts increasingly top-tier brands.

Warsaw remains the leading market in Poland with 1.36 million sq m of modern retail space, but the market is considerably undersupplied.

2011 saw no completions of shopping centre schemes, as the only two quality retail space completions are not falling into the ICSC's definition. VitkAc (former Wolf Bracka) is a department store, while other retail space delivered, such as Tivoli Park in Bialoleka, is being sold on per unit basis. Offering quality retail space (albeit on a very small floor plan) VitkAc is the one in its kind project on Warsaw retail market that is otherwise strongly dominated by mid-market fashion brands. It has opened with a range of luxury brands which entered the market on concession basis.

2012 and 2013 completions are expected to be equally limited, increasing current retail space volume by only 5% within the next 24 months with only Neinver's Factory Annopol scheduled for the end of 2012.

WARSAW SHOPPING CENTRE SUPPLY (in '000 sq m of GLA)



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There are three schemes under construction that are to open: the retail gallery in ING Tower (Liebrecht&wooD and BBI joined mixed use scheme with 15,300 sq m of GLA formerly known as Plac Unii), Auchan Lomianki with 36,000 sq m of GLA of the retail space and 10,000 sq m of GLA in Galeria Brwinowska in Brwinow.

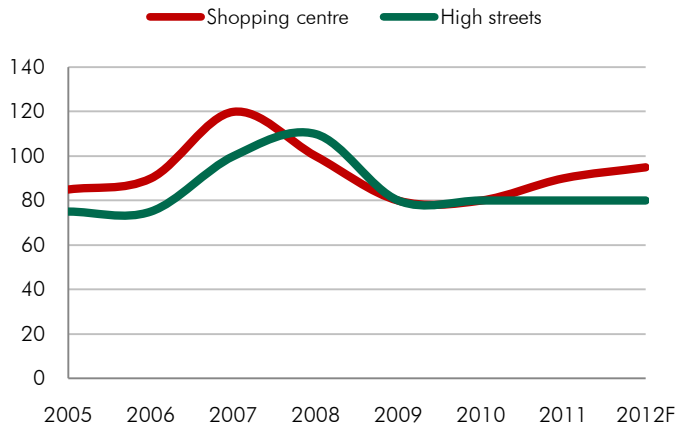
In terms of formats the key trends in Warsaw include the development of small shopping centres and re-development or extension of the existing ones. A number of small schemes is planned on the outskirts and serving predominantly commuters, such as Marcpol in Podkowa Lesna, Galeria Brwinowska in Brwinow or Multishop in Sochaczew. However, the focus remains on several large projects such as Tesco KEN or Promenada, both established and strong retail destinations, that are planning to enhance further the existing schemes in order to respond to the current clients' needs.

DEMAND & VACANCY

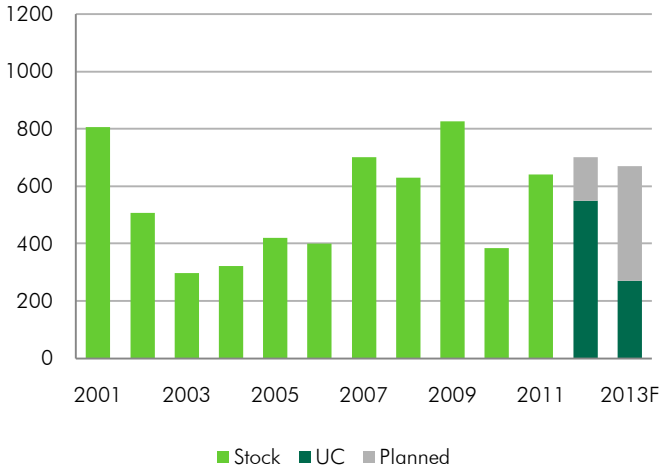
The vacancy rate in Warsaw's shopping centres continues to remain very low and close to 0%. In particular, all prime Warsaw retail schemes have negligible volumes of vacant space. Ready to let retail space is available only in a handful of shopping centre projects such as Metropol Dom i Wnetrze (specialized, with a furniture and home decoration offer). Availability of retail space for a typical, fashion tenant in an inner-city retail gallery remains close to zero, indicating huge outstanding potential for that type of retail space.

As a natural entry point for the majority of retailers, Warsaw continues to attract the newcomers. VitkAc, the first luxury department store in Warsaw, has brought to the market two dozens of luxury brands that entered as concessions. Latest direct entries recorded at the end of 2011 include such well recognisable brands as Foot Locker, Marc'O'Polo, Tiger, F&F and GAP, indicating the growing mid-market retailers' base. Also, a considerable number of bar and restaurant chains, including such brands as Yogen Früz, T-Bar, as well as Aroma Espresso Bar, mark an important trend in changing consumers' habits that are increasingly driven by lifestyle motivations.

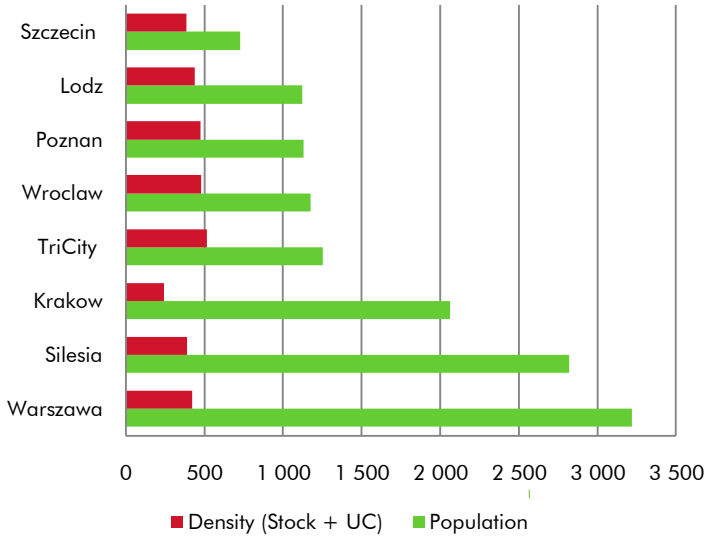
RETAIL RENT IN WARSAW (EUR / sq m / month)



SHOPPING CENTRE SUPPLY IN POLAND ('000 sq m of GLA)



SHOPPING CENTRE DENSITY vs POPULATION (sq m of GLA/ 1000 inhabitants vs Population in '000)



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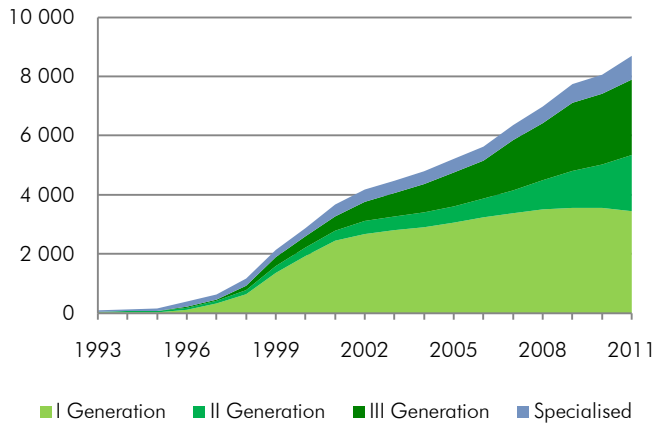
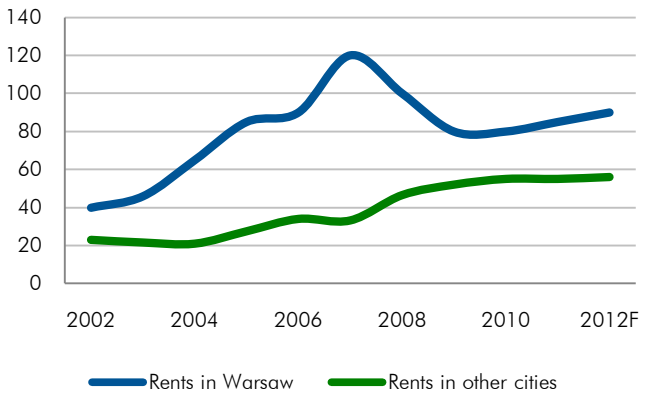
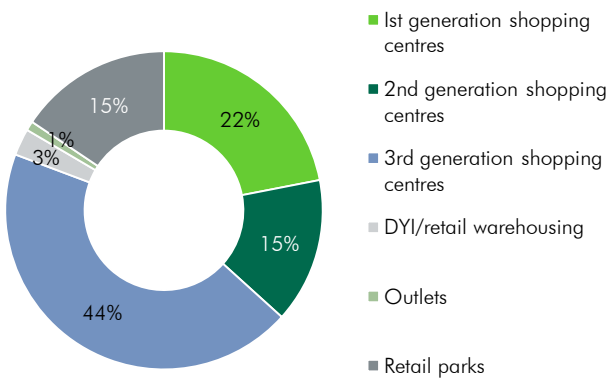
SHOPPING CENTRE TYPES IN POLAND (sq m of GLA)



SHOPPING CENTRE RENTAL EVOLUTION (EUR/sq m/month)



WARSAW RETAIL MARKET COMPOSITION (% of stock)



HIGH STREET DEVELOPMENT

Lack of available retail space for mid market fashion brands and continuing dynamic development of lifestyle type of offer (with cafeterias, bars and other eateries increasingly popular) are the key drivers behind current dynamic development of Warsaw high street. In the absence of new and quality shopping centre space, that is to grow only marginally within the next 24 months and mostly outside of the city centre, retail space in the central Warsaw remains in considerable demand that is finally to translate into a genuine highstreet revival.

Several benchmark highstreet units leases were recently recorded outside of traditional Warsaw's prime retail zone, namely in the vicinity of Swietokrzyska and Bankowy Square, tracking the recent development of central business area towards the north-west of the city centre. Infrastructural developments, such as the ongoing construction of Warsaw's second metro line, will give further boost to that development.

Warsaw's shopping zone is increasingly specialising and developing into distinctive destinations. While southern fringes of the city centre, with Mokotowska, Krucza and Wilcza street are becoming favourite locations for small and independent boutiques, cafeterias and fashion designers, the area around Swietokrzyska street records the influx of new and chain retailers, including mid market fashion, health and beauty as well as chain restaurants and bars.

RENTS

Warsaw is the most expensive retail location in Poland with prime rents at about EUR 75 - 90/sq m/month (for the best unit of approximately 100 sq m in a prime shopping centre) and average rents at EUR 30 – 45/sq m/month. Lack of available retail space increases the upwards pressure on rents.

Service charges in the shopping centres are at the level of EUR 7 - 10/sq m/month while in the retail parks rental rates and service charges for units of approx. 1,000 sq m remain in the range of EUR 10 – 12 and EUR 3 – 4/sq m/month respectively. High street rents for the best units range between EUR 70 - 90/sq m/month, remaining one of the lowest among the capital cities of Europe.

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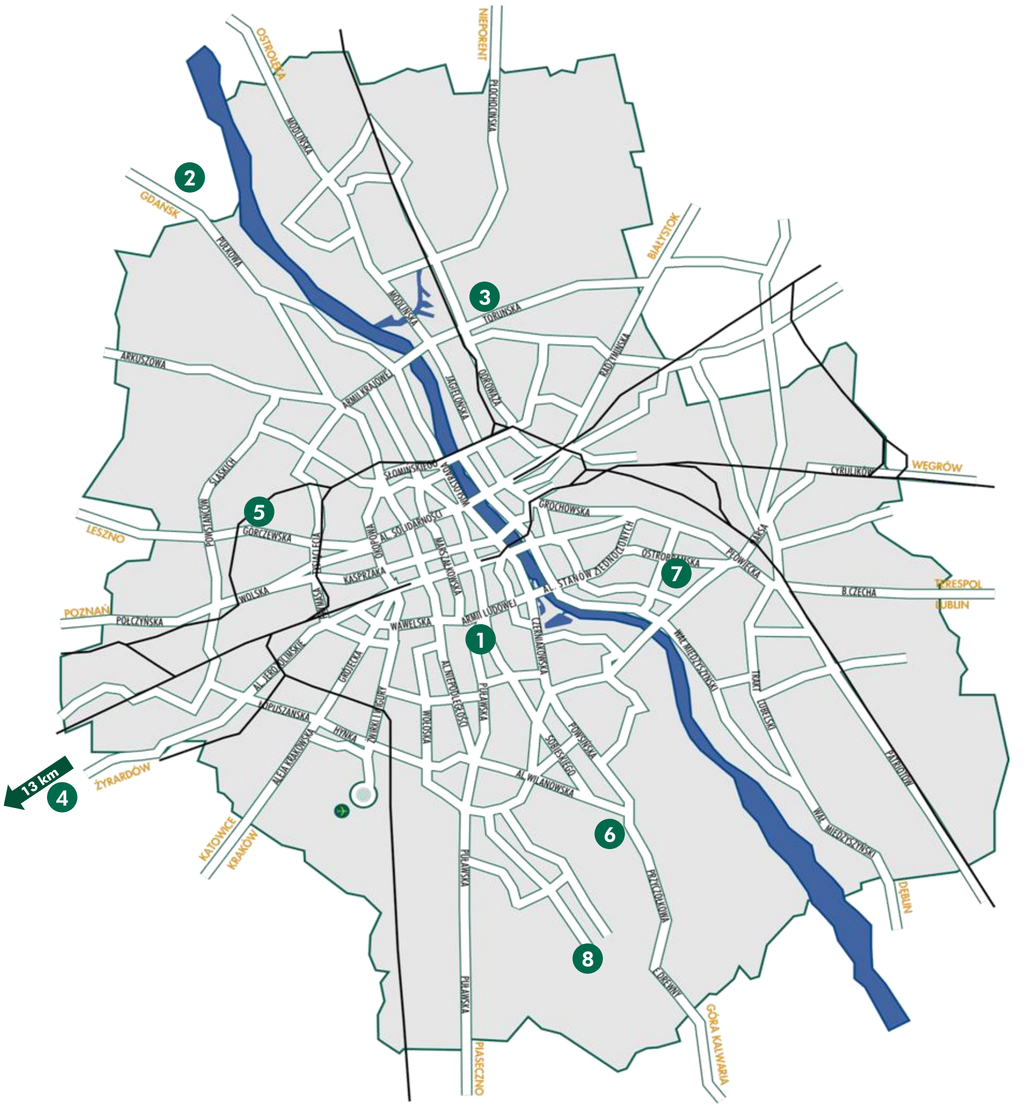
RETAIL INVESTMENT

Proving the market soundness prime retail yields have seen further compression to the current 6%. Poland remains the most active of the CEE investment markets with 2011 volume reaching EUR 3.1 billion, including 54% (or some 1.7 billion worth) transacted retail assets. In 2011 Warsaw saw a substantial volume of the retail transaction including such quality schemes as Promenada (purchased by Atrium for nearly EUR 170 million), Galeria Mokotow (50% share bought by Unibail – Rodamco) and Wars Sawa Junior (of which 50% is now owned by CBRE Investors).

As the run toward safety continues (prime asset transactions were mostly cash financed as external financing remains scarce), the best shopping centres in Warsaw continue to outperform other investment class of products.

SELECTED UNDER CONSTRUCTION AND PLANNED RETAIL SCHEMES IN WARSAW	
1. ING Tower (UC)	5. Wola Park extension
2. Auchan Lomianki	6. Miasteczko Wilanow
3. Factory Outlet Bialoleka	7. Promenada extension
4. Galeria Brwinowska	8. Tesco KEN refurbishement



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