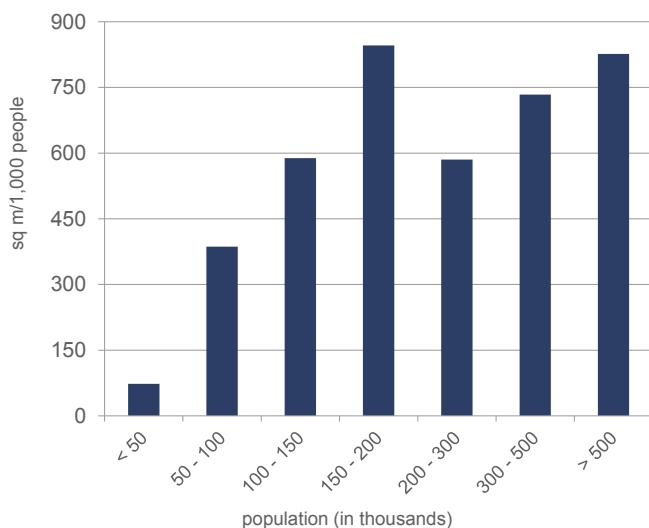


Market in Minutes

Poland retail market

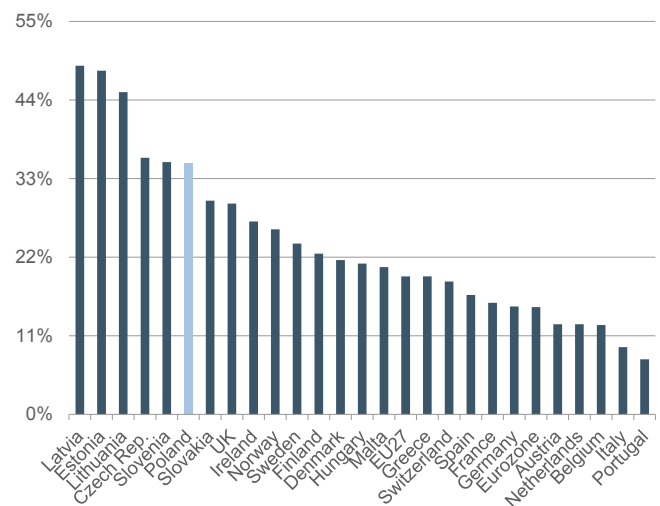
September 2014

GRAPH 1
Retail stock provision by size of the city



Graph source: Savills

GRAPH 2
Retail sales growth in Europe in 2013-2023



Graph source: Savills

SUMMARY

Overview

- Cumulative retail sales growth for the period between 2014 and 2024 is forecasted at 35.2% according to Oxford Economics.

- Economic indicators forecasted for the next 10 years are supportive of the retail market development in Poland and the expansion of retail brands.

- Ca. 9.9 million sq m of retail space is located in 380 shopping centres, 40 retail parks and 10 outlets.

- Over 891,000 sq m of retail space is under construction Poland wide of which 228,000 sq m will be completed by year end.

- Convenience centres, strip malls and small retail parks are usually present in smaller cities and are becoming more popular.

- The volume of retail transactions in H1 2014 amounted to EUR 360 million and is expected to reach EUR 1.0-1.2 billion by year end.

- Yields are stable at ca. 5.75% for the best shopping centres in Warsaw, 6.00% for dominant shopping centres in major regional cities.

“Modern retail stock in Poland will hit 10 million sq m by the end of the year, supported by positive economic growth and rising retail sales. Both occupational and investment demand remains strong in case of dominant retail schemes.”

Tomasz Buras, Head of Poland

➔ **Economy**

In accordance with Central Statistical Office data from late August 2014 GDP grew by 0.6% in the second quarter when compared quarter-on-quarter and by 3.3% when a year-on-year comparison is made. Once again the growth in Poland outpaced the economic growth in the Eurozone and European Union (28 countries) of 0.0% and 0.2% respectively.

The full year GDP growth is forecasted at 3.3% according to data released in June by Oxford Economics. According to this data GDP will grow by 3.4% and 3.7% in 2015 and 2016 respectively whereas the growth in the Eurozone is expected at ca. 1.8% in the next two years.

The rate of retail sales growth sped up having reached 5% (in constant prices) for the first seven months of 2014 whereas in 2013 the growth was only 2.5%. According to Central Statistical Office data the sale of clothes and footwear (including textiles) grew by 19.2% between January and July this year which was the highest rate when compared to other categories.

Forecasts for the next ten years are positive with a cumulative retail sales growth of 35.2% between 2014 and 2024 representing a growth of ca. 3.1% per annum, the highest growth rate amongst all major European economies and well above the EU-27 and Eurozone averages of 19.3 % and 15.0% respectively.

The rate of retail sales growth is not in

“The number of active retail developers is increasing as some companies are differentiating their business lines and shifting their attention to the retail sector. In the next few years the number of convenience centres and small projects build in small cities will increase which will change the Polish retail map.”

Michal Muc, Savills Property Management

line with consumer confidence which deteriorated in August for the second consecutive month. Despite positive forecasts for the Polish economy the survey conducted by the Central Statistical Office shows an unflattering opinion on the future economic climate in Poland amongst those surveyed.

Supply

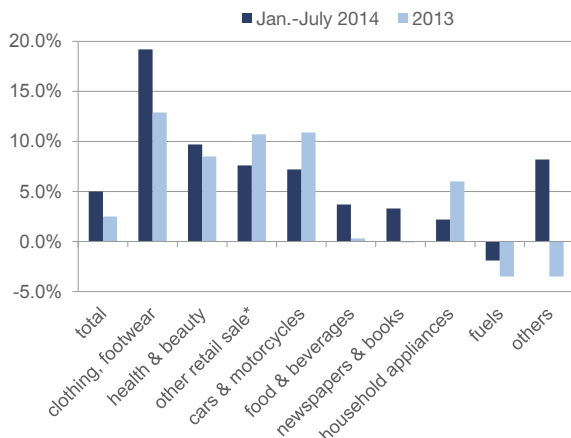
There were two shopping centres extensions completed and eight new projects opened across the country since the beginning of 2014 adding 269,800 sq m to the market. Six of the projects are located in cities of below 100,000 inhabitants of which the biggest schemes are Galeria Siedlce in Siedlce (35,000 sq m) and Galeria Bursztynowa in Ostroleka (27,000 sq m) whereas only one opened in the one of the biggest cities in Poland – Atrium Felicity in Lublin (75,000 sq m). The two extensions were Gemini Park in Bielsko-Biala (16,000 sq m) and a 2,500 sq m addition to the Ferio Konin in Konin.

In addition to the above a number of convenience centres and small retail parks of ca. 55,000 sq m were completed between January and mid-September 2014. Two of the projects Vendo Park Milanowek near Warsaw and Shopin Lodz are located in the biggest agglomerations and the remaining 11 projects are in the cities up to 65,000 inhabitants.

There is approximately 9.9 million sq m of modern retail space located in over 380 shopping centres, ca. 40 retail parks and 10 outlets across Poland. In addition to the above there are almost 130 standalone DIY stores with a total area of over 1.05 million sq m.

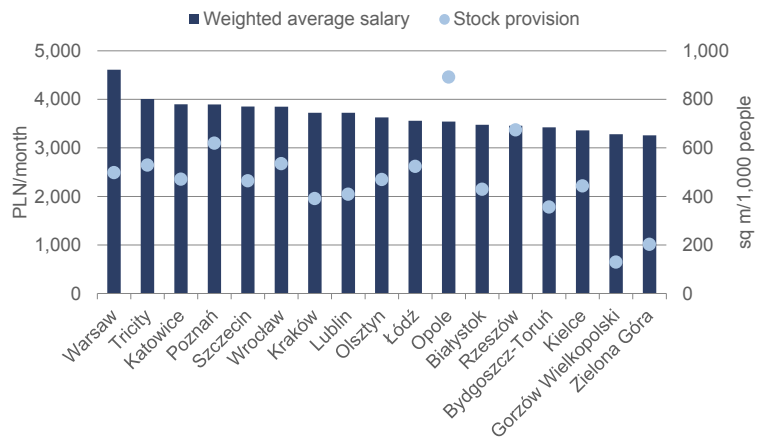
Over 891,000 sq m of retail space is under construction across the country including 228,000 sq m which will be completed by the end of December. 248,000 sq m of retail space is under constructed in the five biggest cities including Posnania in Poznan

GRAPH 3 **Retail sales growth by category**



Graph source: Savills, Central Statistical Office *in non-specialized stores

GRAPH 4 **Salary and stock provision by agglomeration**



(previously known as Lacina) of 98,000 sq m. Another 298,000 sq m is located in cities below 100,000 inhabitants.

The largest new developments, as previously mentioned, are Posnania with the opening date planned for Autumn 2016, Forum Radunia in Gdansk, 60,000 sq m to be delivered in Q4 2015, Zielone Arkady in Bydgoszcz, 48,000 sq m due in Q4 2015, Sukcesja which will add 42,500 sq m of retail space in Q1 2015 in Lodz, Tarasy Zamkowe in Lublin 38,000 sq m due in Q2 2015 and the 35,000 sq m extension of Bielany Retail Park in Wroclaw planned for

Realty. The provision of retail space with traditional shopping centres, retail parks and outlets of more than 5,000 sq m in Poland currently stands at 258 sq m per 1,000 people. The highest provision of retail space (846 sq m per 1,000 inhabitants) is recorded in cities of between 150,000 and 200,000 people (seven cities across Poland: Bielsko-Biala, Bytom, Gliwice, Kielce, Olsztyn, Rzeszow and Zabrze) whereas the weighted average in the five biggest cities is slightly lower at 827 sq m per 1,000 inhabitants.

There are ten cities (excluding

unemployment rate is usually much lower than the national and regional averages as well as salaries (and purchasing power) are higher than the country and hence the retail offer in those cities is richer and more diverse than in small cities.

Demand

Low vacancy rate reported by Polish Shopping Centre Council proves that demand for retail space in shopping centre is strong, although older and / or not attractive projects located in more saturated market and small cities are facing the issue of vacant units.

“In the last 12 months we saw some new retail brands entering Poland but there are still a number of them that consider Poland as an attractive location and plan to launch their concepts here.”

Maciej Medrek, Savills Retail Agency

A number of new retail brands launched their stores in Poland in the last year including: Kiehl's and Neo in Arkadia (Warsaw), Devred 1902 in Wola Park (Warsaw), Leopark in Bonarka City Center (Krakow), Inside in Galeria Katowicka (Katowice), Nuna Lie in Europa Centralna (Gliwice), Olimp Live&Fight in Millenium Hall (Rzeszow), Gattinoni Roma in Ptak Outlet (Lodz, Rzgow) and Eye Sport in recently the opened Galeria Warminska (Olsztyn). In addition to the above two new sport and fitness centres are now present in Poland: City Fit in Plaza Rzeszów (Rzeszow) and Fitness24Seven in Galeria Debiec (Poznan).

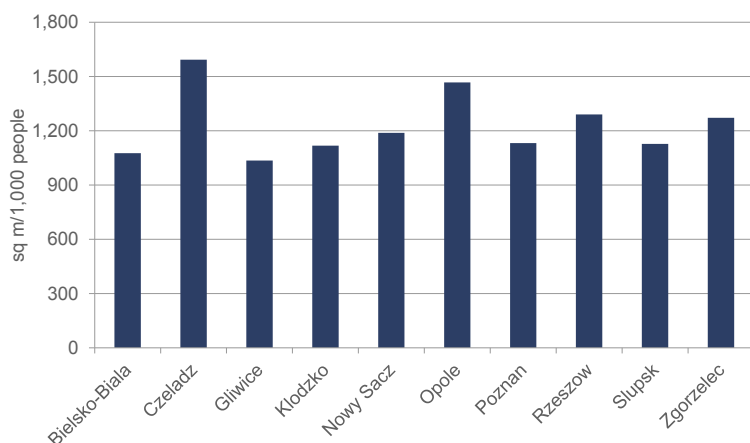
completion in 2015. Convenience centres, strip malls and retail parks up to 10,000 sq m are becoming a more popular type of retail scheme in Poland. These projects are dedicated mainly for small cities and a number of developers have established concepts i.e.: Stop.Shop by Immofinanz, HopStop by Katharis Development, Elbfonds with Marcredo, Shopin and Shop Corner by Budner, Eyemaxx with MyBox and Dekada by Dekada

Piaseczno and Rumia although both are satellite towns of larger cities, Warsaw and Tricity respectively) where over 1 sq m of retail space falls for every inhabitant (when only the population of the city is considered).

Each capital of a voivodeship is a regional retail hub attracting inhabitants of cities, towns and villages belonging to the capital's agglomeration. The gravity of a big city is much greater as the

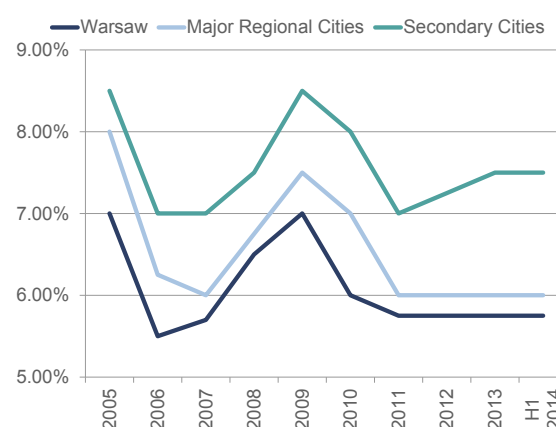
What is also important is that some retailers plan to introduce new brands to the market. According to some reports in 2016 LPP Group will launch a new retail concept positioned slightly → higher than Reserved in

GRAPH 5 10 most saturated Polish cities



Graph source: Savills

GRAPH 6 Prime shopping centre yields



→ terms of prices.

Vacancy

In accordance with the most recent survey conducted in December 2013 by the Polish Shopping Centre Council in cities of above 200,000 inhabitants (227 shopping centres with a total GLA of ca. 6.8 mln sq m) the average vacancy rate was 3.5% reflecting a growth of 0.5 percentage points year-on-year. The highest vacancy rates were recorded in: Kielce (8.5%), Torun (5.7%), Bydgoszcz (5.2%) and Białystok (5.1%).

Rents

Prime retail rents for units of ca. 100 sq m dedicated for fashion retailers are the highest in Warsaw. In the best shopping centres tenants can expect headline rents at EUR 80 – 95 per sq m/month whereas in other cities they are approximately half those in the best shopping centres in Warsaw. The highest monthly rents in regional cities are recorded in Łódź and Wrocław ranging from EUR 44 per sq m to EUR 50 per sq m. Prime rents in Kraków range between EUR 40 – 44 per sq m/month. In Katowice they vary between EUR 43 per sq m/month to EUR 50 per sq m/month. ■

Retail investment

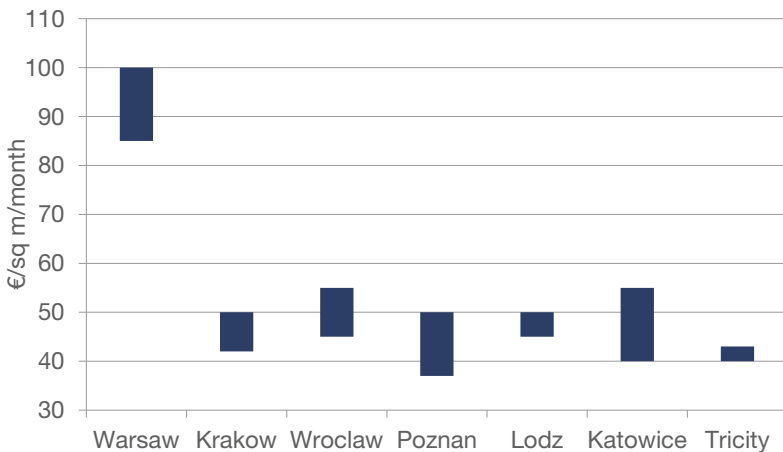
Demand for dominant retail schemes still strong

The volume of retail transactions in H1 2014 amounted to EUR 360 million, which accounted for only 25% of the total volume. Nevertheless, it was 30% higher than in H1 2013. The largest transactions were the acquisitions of Poznan City Centre by Resolution Real Estate Fund IV and ECE Prime European Shopping Centre Fund, Galeria Mazovia by CBRE Global Investors as well as the acquisition of the remaining 50% stake in Nova Park in Gorzow Wielkolski by Futureal.

We expect that in the second half of the year, there will be more large transactions in the retail sector, starting with the first acquisitions in Poland by the National Pension Service of Korea (NPS), who showed interest in dominant shopping centres located in Polish major regional cities. We expect that by the end of the year the volume of transactions in the retail sector will be in the range of EUR 1.0-1.2 billion.

Prime shopping centre yields remain stable at ca. 5.75% for the best shopping centres in Warsaw, ca. 6.00% for dominant shopping centres in major regional cities and ca. 7.50-8.00% for leading shopping centres in secondary cities.

GRAPH 7 **Prime shopping centre headline rents* in major cities**



Graph source: Savills *standard units of approx. 100 sq m

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