

Economic outlook

Due to the worsening condition of the global economy, a slowdown in Poland was visible in the first half of 2009. The dynamics of GDP was slower than in the previous year and decreased to 1.7% in the first quarter and to 1.4% in Q2 2009. However it should be noted that Poland enjoys much healthier situation than other countries in Europe.

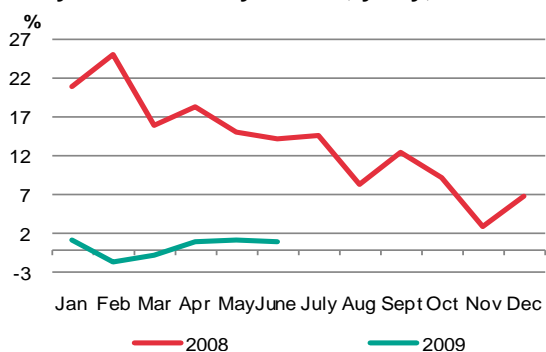
The unemployment rate increased from 10.5% in January to 11.2% in March. At the end of H1 2009, the trend reversed resulting in a fall to 10.7% in June; however this should be credited to increasing employment during seasonal working times. A further rise in the unemployment rate is forecast in the second half of 2009 and may oscillate around 13% according to the Ministry of Labour and Social Policy.

The annual dynamics of average salaries, although still positive, is weaker than in 2008, and in June reached 2%. The average monthly salary in enterprise sector was estimated at PLN 3,288 at the end of H1 2009.

Since August 2008, monthly retail sales growth has been diminishing. Due to the economic slowdown and consequent increase in unemployment rate, as well as slower increase in salaries and disposable income, consumers started to reduce their expenditures which resulted in deterioration in retail sales. In February and March 2009, the dynamics of retail sales in comparison to the same period in the previous year were negative. The following months were slightly better, however retail sales increased by only 0.9% in June 2009.

Figure 1

Monthly retail sales dynamics, y-o-y, 2008-H1 2009



Source: Oxford Economics

Table 1

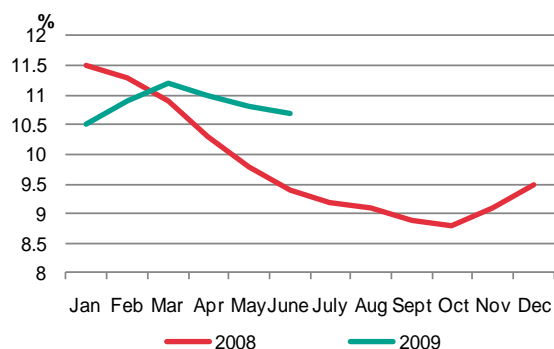
Market indicators in Poland and selected European countries

Country	GDP growth	GDP growth	Unemployment rate	Retail trade y-o-y*
	Q1	Q2	June (%)	June (%)
Czech Republic	-4.5	-5.5	8	-3
France	-3.4	-2.6	9.1	1
Germany	-6.7	-5.9	8.3	-2
Hungary	-5.2	-6.9	9.6	-2.2
Poland	1.7	1.4	10.7	2
Spain	-3.2	-4.2	11.4	-3.9

Source: Oxford Economics, Eurostat; *excluding motor vehicles and motorcycles

Figure 2

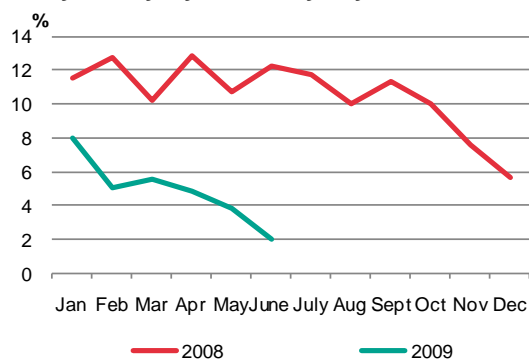
Monthly unemployment rate, 2008-H1 2009



Source: Oxford Economics

Figure 3

Monthly salary dynamics, y-o-y, 2008-H1 2009



Source: Oxford Economics

Supply

The volume of modern retail stock (defined as retail schemes exceeding 5,000 sq m GLA delivered after 1990) in Poland totalled 8.9 million sq m at the end of H1 2009. 73% of the total modern stock is located in shopping centres, which translates into approximately 6.5 million sq m.

New stock delivered in the first half of 2009 amounted to 406,000 sq m including 16 new investments and 11 extensions of existing schemes, which is more than in the corresponding period of 2008, when over 270,000 sq m was built. Such high supply results from those developers' activity who decided to start their projects two or three years ago and launched construction during the period of economic prosperity.

More than 43% of supply delivered until the end of H1 2009 was situated in major Polish cities with a population exceeding 400,000.

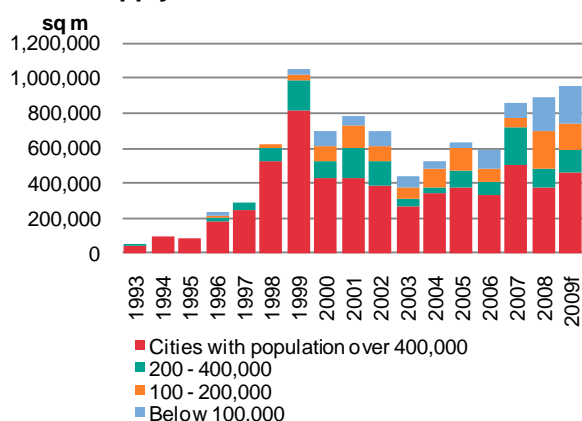
Major completions in H1 2009 include Galeria Malta in Poznań, Cuprum Arena in Lubin, Renoma in Wrocław, Karolinka Retail Park in Opole and Gemini Park in Bielsko-Biała.

DTZ forecasts that the new supply in the remaining half of 2009 will exceed 500,000 sq m GLA. 50% of planned supply will be delivered in cities with more than 400,000 inhabitants.

Currently over 1 million sq m is under construction with opening scheduled between 2009 and 2011. Construction of projects totalling a further 350,000 sq m had started but was put on hold due to financial problems.

Figure 3

Annual supply



Source: DTZ Research

While the majority of projects planned for 2009 should open within the schedule, DTZ forecasts that 2010 will be the first year since 2006 when a fall of new supply is recorded. Some of the less advanced projects might be delayed or cancelled due to financial and market restrictions. The major impediments include higher equity requirements up to 35 – 50% (in comparison to 20 - 25% required before September 2008), increase of occupancy ratio up to 50 – 70% and rising fit-out contributions for a wider group of tenants.

Table 2

Major completions, H1 2009

Scheme	City	GLA (sq m)	Units
Galeria Malta	Poznań	53,000	170
Cuprum Arena	Lubin	32,000	130
Karolinka Retail Park	Opole	30,000	N/A
Renoma	Wrocław	31,000	120
Mega Olimp (extension)	Lublin	31,000	70
Gemini Park	Bielsko-Biała	27,000	90
Galeria Przymorze	Gdańsk	25,000	60

Source: DTZ Research

Table 3

Major pipeline retail schemes, H2 2009 – 2010

Scheme	City	GLA (sq m)	Units
Bonarka	Kraków	101,000	230
Port Łódź	Łódź	100,000	120
Galeria Jurajska	Częstochowa	50,000	200
Gemini Park	Tarnów	40,000	95
Focus Mall	Piotrków Trybunalski	35,000	120
Sfera (extension)	Bielsko-Biała	27,000	110
Agora	Bytom	26,000	150

Source: DTZ Research

Demand & rents

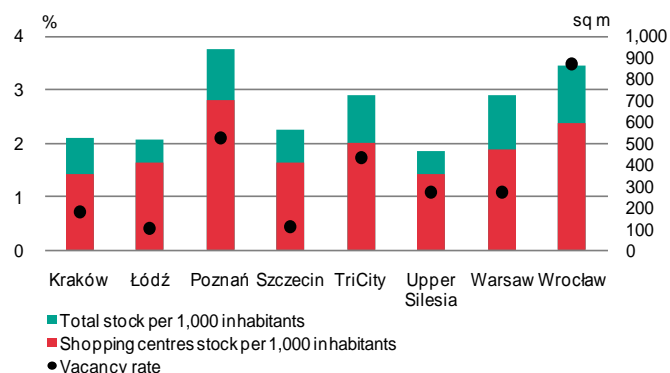
DTZ recorded weaker demand for new retail space from retail chains resulting from a slower expansion pace in comparison to last year. Retailers are now more cautious about new locations and need more time for the decision process. Large multi-store retailers are also restructuring their current outlet portfolio, focussing more closely on their profitability and closing those units which do not produce satisfactory turnover. This is creating a new subletting trend on the Polish market, which together with the releasing of vacant space in existing projects have a negative impact on the preletting of space in new projects.

The above mentioned restructuring may lead to a temporary increase in the vacancy rate within shopping centres. The highest vacancy rates at the end of H1 2009 have been recorded in cities where markets are the most competitive such as Wrocław, Poznań and TriCity. It should be noted that the increase of vacancy in those cities should be mainly credited to sudden changes in the strategy of some tenants choosing not to open outlets in new projects, whose landlords failed to secure new tenants in the short term.

In comparison to the healthy H1 2007 figures, approximately 39% of shopping centres (in a group of over 120 analysed projects located in major Polish cities) recorded an increase in the vacancy rate, whilst a slightly lower percentage (34%) can boast of an improvement in the occupancy ratio. In over 30 shopping centres, the amount of vacant space has not changed. The majority of 22 new shopping centres which were delivered after H1 2007 suffer from a vacancy rate varying from 0.5 to 50% of the leasable area.

Figure 4

Vacancy rate and market density in major cities



Source: DTZ Research

In spite of this, the total amount of vacant space in the eight major Polish cities is currently lower than two years ago. It amounts to 56,000 sq m in comparison to 58,000 sq m in H1 2007, while the total stock increased by over 570,000 sq m in the corresponding period.

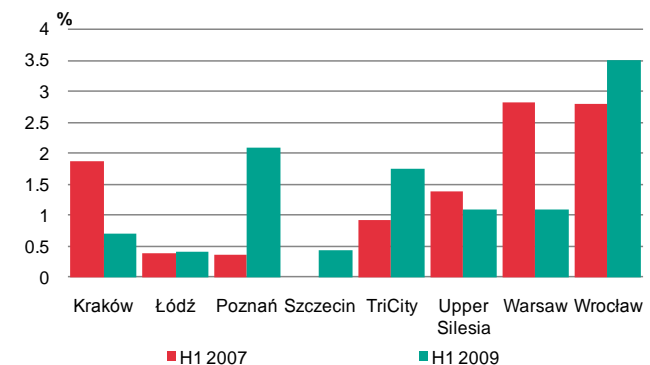
The low vacancy rate in the major cities (the highest of which is recorded in Wrocław at 3.5%) indicates that those markets seem to be more resistant to the economic slowdown. Smaller cities, where purchasing power is lower and retail chains have suffered from a fall in turnover, may face a more visible increase in the vacancy rate.

A wide discrepancy between vacancy rates in different shopping centres ranging from 0% to over 50% proves the need for individual assessment of the attractiveness of the projects. Schemes with a strong position can select the required retailers in line with their tenant-mix strategy, while those weaker centres will be forced to introduce significant incentives to attract tenants.

Retail chains planning an entry onto the Polish market as well as newcomers from recent years can benefit from the increasing availability of space in existing projects. However, prime properties are fully let and only cosmetic changes are visible resulting from restructuring the tenant-mix. Among recent and planned entries are s.Oliver, Halfords, Starbucks, TK Maxx, O'neil, Marliese Decker, Petit Bateau, Kickers and Tressnapf. There are also examples of new store concepts presented by retailers / chains already operating in Poland such as Ann Christine (New Yorker), Zara Home (Inditex), Avanti (C&A), Tezenis (Calzedonia), New Look (NFI) or Coyoco (KAN).

Figure 5

Vacancy rate in major cities H1 2009 versus H1 2007



Source: DTZ Research

Rents

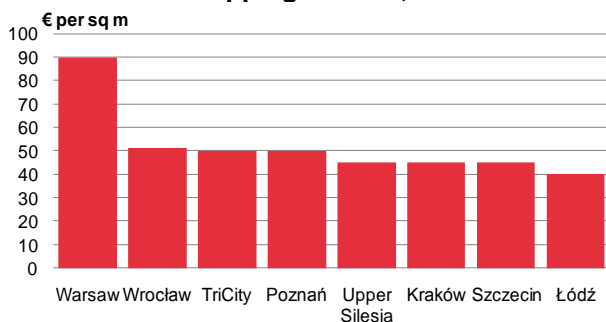
Rents in major Polish cities depend on factors such as shopping centre positioning, tenant's reputation, location within a shopping centre and size of unit.

Prime rental levels reflecting the highest paid rents for the most attractive 100 sq m units leased by fashion operators remain stable in major cities. However, new leases might be closed at lower levels which will increase the discrepancy between prime and average rents or between rents in prime and secondary retail schemes. A wider gap will also be recorded between nominal and effective rents as more and more tenants request incentive packages.

Rental decreases were observed in high street locations. Financial institutions, which were previously the main drivers of rental increases and caused changes to the profile of some high street locations into more service than retail use, have currently ceased the expansion. The slower development of banks and other financial institutions leads to a more flexible approach to other tenants in terms of rental levels.

Figure 6

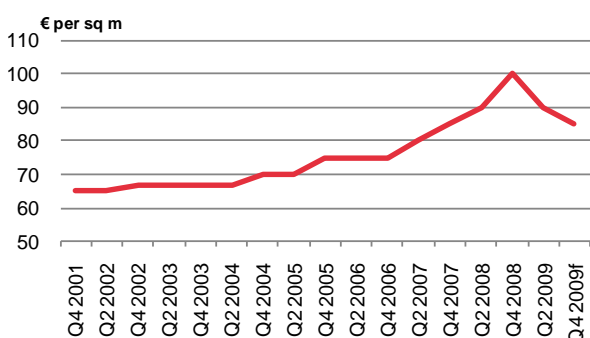
Prime rents in shopping centres, H1 2009



Source: DTZ Research

Figure 7

High street rents in Warsaw



Source: DTZ Research

Trends

The retail market in Poland is becoming more mature, not only in terms of types of retail space, but also in terms of the geographical split. During the prosperous period, due to a good economic environment, increasing spending power and retail sales retailers expand to even smaller cities, which lack modern retail accommodation. To satisfy this demand on the one hand and provide customers with good quality shopping centres closer to their place of residence, developers were keen to invest not only in tertiary cities (with a population between 100,000 and 200,000), but in smaller towns with a population below 100,000 people.

The economic slowdown will firstly impact pipeline supply in smaller cities, where labour markets are less immune to economic turbulences and people are less affluent. Pre-leasing of the projects in these locations is currently much more difficult as retail chains revised their expansion plans. In case of some cities this might be a healthy reorganisation and only the best and strongest projects will be commissioned.

The verification of projects will also concern their size and offer; developers decrease the rentable space and in some cases resign from cost-increasing elements such as entertainment. There are examples of projects on the Polish market, mainly in secondary and tertiary cities, where tenant-mixes were not fully corresponding to the purchasing power of the population or too many new shopping centres with similar tenants were opened simultaneously. Now developers will pay more attention to selecting tenants which will be sustainable in the longer time.

DTZ is of the opinion that there is a substantial gap when it comes to high street department stores in Poland. The Polish market awaits international department store operators and the renaissance of high street locations which may begin to appear. Currently high streets are more entertainment, catering and service oriented, but creating a brand new concept provides the opportunity to attract customers and induce them to shop outdoors.

Development potential lies in smaller, comfortable convenience shopping centres located close or a part of residential complexes designed for people in larger cities who want to do their daily shopping nearby and save time.

Definitions

Shopping centre – a modern retail scheme with over 5,000 sq m of GLA, more than 10 shops, with central management. DTZ classifies shopping centres in three generations. The first generation shopping centre is a hypermarket-led scheme (40 – 50% GLA) with additional small shopping mall. The second generation shopping centre comprises a hypermarket and an extended attached mall of approximately 70% of total GLA. The third generation shopping centre is characterised by limited share of food element, large shopping gallery and entertainment element;

Retail Park – a retail scheme with few dominating, large-space anchor tenants, accompanied by smaller tenants; min. two big-box operators;

Retail Warehouse – a large-scale stand-alone retail scheme typical for DIY, furniture, electronic appliances, cash & carry and sport operators;

Factory Outlet - a shopping centre with brand shops offering merchandise at discount price;

High Street - a centrally located street with high footfall, of the highest rent rates and the most prestigious city location;

Prime rent – the highest rent for the most attractive, 100 sq m unit leased by the fashion operator in the best shopping centres.



Solaris Center, Toruń

DTZ

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- Land and Development Consultancy
- Valuation
- Consulting & Research
- Project and Building Consultancy
- Property and Asset Management of Office, Retail and Industrial space.

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