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TREI

Report

Retail parks and convenience centres in Poland

2nd edition

September 2021

Introduction

Interest in the format of retail parks and convenience centres has not lessened since we published the first edition of this report last year. More investors are looking to out-of-town smaller retail formats as shifting shopping habits bring those back into favour. With social distancing measures remaining in place and shoppers still cautious about malls, well-performing retail parks that are accessible by car are becoming increasingly popular shopping destinations.

The continued growth of e-commerce is also supporting retail parks, as more consumers opt for services such as click-and-collect, which are easy to accommodate in retail park units. Consumers are also seeing the benefits. They continue to put convenience high up their lists of priorities. With retail parks offering a mix of retailers, consumers can pick up goods ordered online along with other everyday items more easily and quickly than visiting bigger shopping destinations. As such, retail parks are well-placed to take advantage of the increased momentum e-commerce has right now. Some of the semi-urban retail parks on the edge of major cities are in areas where demand for new homes is high. Mixing new residential with retail can be beneficial for both formats and create micro-catchment areas.

Appetite among investors for retail parks is increasing. With their rents fluctuating less, retail parks have long been a stable product for institutions seeking defensive investments.

Joanna Tomczyk
JLL

Jacek Wesołowski
Trei Real Estate Poland

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Although the Polish retail market is still struggling with the effects of the COVID-19 pandemic, forecasts here are favourable compared with the rest of Europe. According to Oxford Economics, retail sales in Poland are expected to grow by 4.9% per annum until 2023, which places Poland at the forefront of European countries. The whole of 2021 is expected to provide approximately 209,000 m² of GLA in retail parks, which means that 2021 would be historically the best year for retail parks in terms of space delivered to the market.

We are pleased to provide you with our latest report on retail parks and convenience centres.

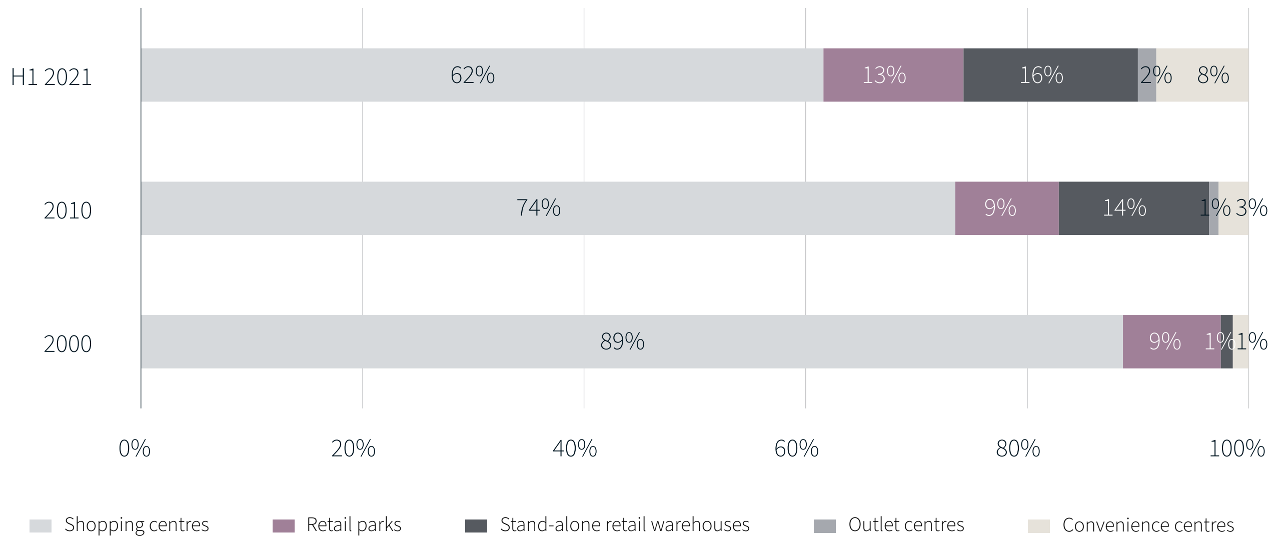
Enjoy your reading!

Vendo Park, Oświęcim

The retail market in Poland

Poland's retail market – with some 38 million potential customers – has a leading position in the CEE region and attracts numerous international investors, developers and retailers. Their confidence in the market here is supported by the stable fundamentals of the Polish economy, including positive GDP growth and retail sales forecasts. More than 30 years of continuous development of modern retail space in Poland has led to retail stock of 16.2 million m² of GLA, made up of various retail formats as shown in the graph below:

Retail stock structure (GLA)



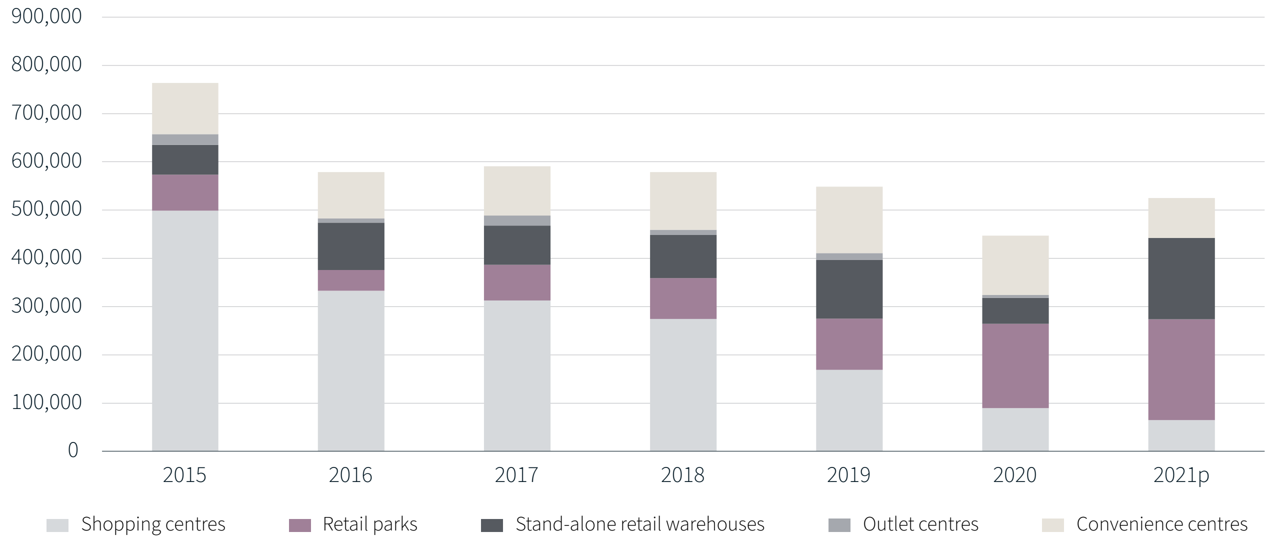
Source: JLL, H1 2021

Accounting for 62% of the total modern retail supply, shopping centres continue to be the most popular retail format among clients. However, the growth in their supply has been steadily decreasing over the years (from a 89% market share in 2000 to 74% in 2010), with retail parks, stand-alone retail warehouses and convenience centres taking increasing shares. Not only is there less development activity recorded for shopping centres, some projects are even being withdrawn from the stock due to the changes of their format (e.g. from shopping centre to retail park, retail to office, etc.).

As the market for shopping centres is now truly mature with only limited opportunities to develop new retail schemes, development activity is in an overall downwards trend. This, however, does not apply to smaller retail formats. In the first six months of 2021 developers completed 242,000 m² of GLA of new retail space, 43% of which was delivered in retail parks and convenience centres dedicated to everyday, quick shopping. Unsurprisingly, following the shuffle of hypermarket operators, 47% of the new completions as accounted for by stand-alone retail warehouses. This is mainly due to the ongoing process of former Tesco stores being taken over by DIY firms and the opening of a big-box IKEA furniture store in Szczecin. The remaining 10% of new stock was delivered in shopping centres.

The whole of 2021 is expected to provide approximately half a million m² of GLA, with retail parks representing 40% of that. It means that 2021 would be the best year in the history for retail parks in terms of space delivered to the market.

New completions by retail formats (GLA)



Source: JLL, H1 2021, p-prognosis

Definitions (ICSC, JLL)

Shopping centre: defined as a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, typically with on-site parking provided. The GLA of such a scheme is ≥ 5,000 m² and the number of tenants is > 10.

Retail park: a consistently designed, planned and managed open-air scheme that comprises mainly medium- and large-scale specialist retailers ("big boxes" or "power stores") that are mostly freestanding (i.e. unconnected). As with other open-air centres, ample on-site paved parking is located in front of the stores and around the site on ground level. The GLA of such a scheme is ≥ 5,000 m² and the number of tenants is at least two.

Outlet centre: an open-air and/or enclosed centre that comprises manufacturers' and retailers' outlet stores selling brand name goods at a discount –usually selling surplus stock, prior-season or slow-selling merchandise and especially designed merchandise. The GLA of such a scheme is ≥ 5,000 m².

Stand-alone retail warehouse: a purpose-built, stand-alone retail warehouse offering household goods, electronics or DIY products, or a hypermarket store. The GLA of such a scheme is ≥ 5,000 m².

Convenience centre: a facility dedicated to everyday, quick shopping on the way home, located mainly on roads with high traffic levels or in housing estates. This is the smallest commercial format (areas of between 2,000 m² and 4,999 m²). Due to the small sales area, the range offered is limited to one or two products in each category, most often it is a food operator , value retailers, a drugstore, a pharmacy, an electronics / household appliances store and small services units.

Major retail trends

Experiences during the pandemic have impacted expansion strategies of both developers and retailers. Many of the trends we have talked about for several years – what we have dubbed the "well-established megatrends" – continued to be relevant but in many cases were demonstrated in different ways.

1 As the convenience market continues to show steady growth with sufficient customer interest and capital investment, it has become a key focus of the retail market. **The dynamic development of convenience facilities** (small schemes dedicated to quick, everyday shopping) is a reflection of changes in the expectations and needs of customers, who want to receive goods as quickly as possible with collection at a time and place convenient for them.

2 Before the pandemic the share of e-commerce in retail sales in Poland stood at 5.6%. It varied depending on the restrictions imposed on the operations of retail facilities. Traditional retail sales increased in July 2021 by 3.9% year-on-year* and 2.1% month-to-month. The share of online sales in total sales dropped from the 9.1% recorded in May to 8.1% in June and to 7.4% in July, which was clearly a direct consequence of the reopening of shopping centres. This confirms that **shopping in bricks-and-mortar stores is still the most popular option for customers**. Forecasts for Poland assume increases in retail sales of 4.9% per annum until 2023 and 3.3% per annum until 2025, with 90% of such purchases still being made in bricks-and-mortar stores.

*in constant prices

Retail Park, Babice Nowe


Vendo Park, Myślibórz

3 **New technologies** favour the **phygital revolution**, i.e. new forms of combining online and offline, such as click & collect services, the developing of new concepts (e.g. self-service checkouts and maintenance-free stores where shopping is based on smartphone apps). Digital-centred transformation will pioneer the next steps for the convenience store industry. With consumer needs at the centre of the new retail ecosystem, digitalization has become a crucial means to deal with changes and challenges. The commercial nature of convenience stores calls for sustained reaction and deeper insights into consumers via digital means, such as the **omni-channel approach to optimising and innovating categories and services**.

4 The waves of lockdown imposed on the retail sector and the continuing uncertainty about the future have affected the purchasing behaviour of Polish customers, who are paying more attention to the prices of goods, which in turn is driving **growth opportunities for budget and discount brands** of the likes of Action, Dealz, KiK, Pepco and HalfPrice. They successfully attract consumers to their stores by offering attractive prices on a wide range of products. Turning to the grocery market, the gradual developing of an alternative store format - the hard discount concept – can also be seen. The fit-out of such stores is basic, the assortment is limited, but the prices are even 20% lower than those found in other stores. Among the firms already present on the Polish market are the Supeco brand (developed by Carrefour), MERE (a brand from Russia) and the new Polish Vollmart brand. Other **food operators, as well as value retailers, are also continuing to expand**, making use of the potential of alternative retail locations.

5 Today, **sustainability** and, with it, environmental, social and corporate governance (ESG) is an increasingly important part of how companies operate globally. Sustainable development, the circular economy and the "zero waste" concept are increasingly common on the retail market. Sustainability is a key element for retailers, who have seen that sustainable development can become an important source of competitive advantage. Global fashion giants such as H&M, United Colors of Benetton and Tommy Hilfiger, to name just a few, sell clothing collections made from recycled products and biodegradable natural materials. LEGO is testing blocks made from recycled plastic, and second-hand clothing firms are expanding, both online and offline.

Characteristics of retail parks

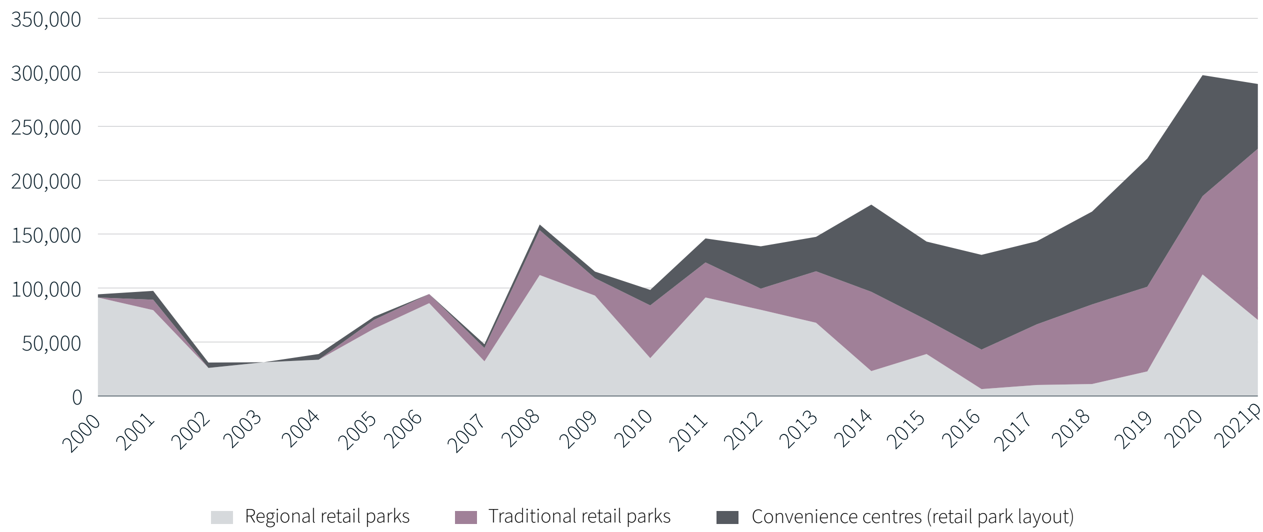
The first retail parks in Poland were opened in the early 1990s. Initially they were built mainly in major agglomerations, adjacent to existing shopping centres on the outskirts of big cities. Those were mainly large (GLA ≥ 10,000 m²) schemes that complemented the offer of shopping centres with household, sport, electronic, or furniture stores. The expansion of traditional retail parks started at the end of the first decade of the 21st century and was accompanied by the growth of their smaller counterpart - convenience centres, which continues to this day.

According to the detailed definitions presented on the next page, retail parks are large-scale schemes, which are divided into regional and traditional category, regarding size, location and visit frequency. Convenience centres are characterised by GLA of below 5,000 m² with basic offerings. They can be divided into those operating in the gallery layout (common spaces and several trading floors) and those using the retail park layout (lack of common areas, one trading floor and separate external entrances to premises). In order to be in line with the subject of this report, only convenience centres using the retail park layout have been subject to further considerations herein.

While regional retail parks differ considerably in this classification, traditional retail parks and convenience centres seem most similar. Common features for both traditional retail parks and convenience centres trading in the retail park format are purpose shopping and ease of purchasing due to dedicated parking and the simple, clear layout of the schemes with external entrances to each retail unit. Those features have grown in importance during the pandemic, with clients avoiding crowded common spaces.

The current supply of retail parks (both regional and traditional) and convenience centres in a retail park layout amounts to 2.87 million m² of GLA. Regional retail parks make up half of that space, however, their share is decreasing year by year in favour of smaller assets. Retail park and convenience centre stock is distributed unevenly as far as city size is concerned. The two opposite poles of concentration are in the major metropolitan areas (46% of the existing stock) and towns of below 50,000 inhabitants (29%).

New stock delivered to the market in retail parks and convenience centres (m²)



Source: JLL, H1 2021, p-prognosis

Retail parks and convenience centres which opened in H1 2021

Source: JLL, H1 2021

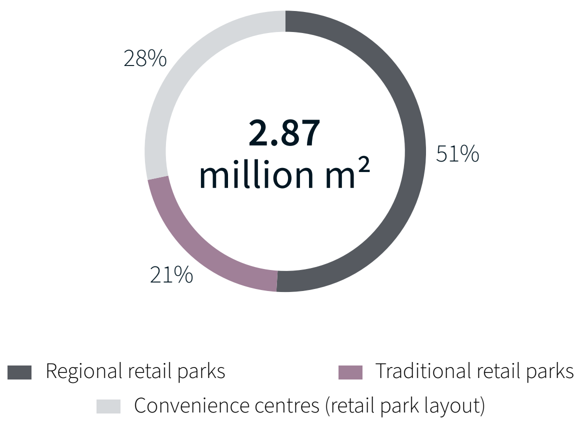
Definitions (ICSC, JLL)

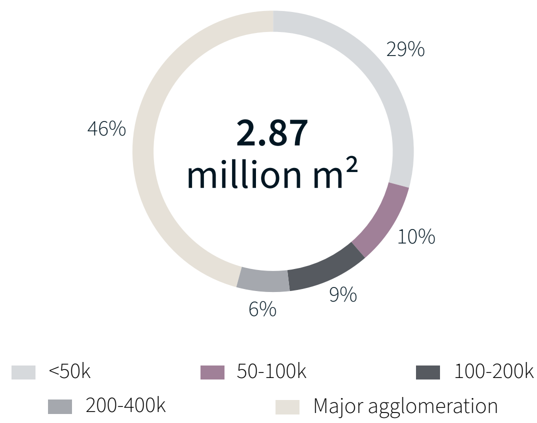
Regional retail parks (GLA ≥ 10,000 m²): retail parks which are components of the largest shopping destinations, mostly adjacent to shopping centres and retail warehouses. The vast majority are located on the edges of cities or in the outskirts, along major roads. Their regional impact power is increased by the synergy with the neighbouring retail schemes. Suitable for car-borne customers, customised for occasional, purpose shopping.

Traditional retail parks (GLA 5,000 m² – 9,999 m²): typical retail parks with large parking lots and entrances to units from the outside. Varied and wide offerings dedicated to purpose shopping. Located along main roads and convenient for car-borne customers. In small towns, they are often the only large-scale modern trade facility offering chain brands.

Convenience centres (GLA 2,000 m² – 4,999 m²): the smallest retail format, which serves mainly the nearest neighbourhood. Due to the GLA, the offer is limited and fulfils basic, everyday needs. Located along main city roads or in densely populated residential areas. For the purposes of this report, only convenience centres operating in the retail park layout (external entrances to premises and a lack of common spaces) have been considered.

Retail park stock broken down by scheme type and city size



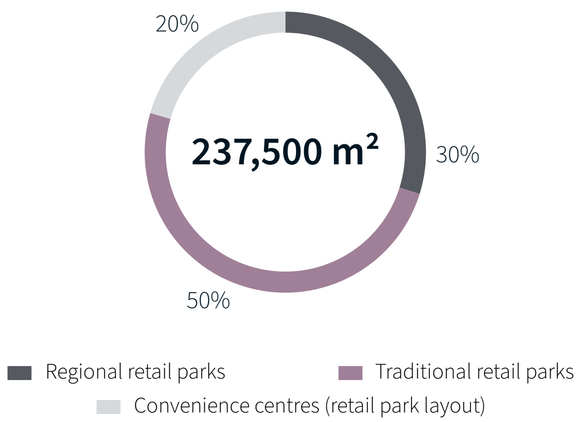


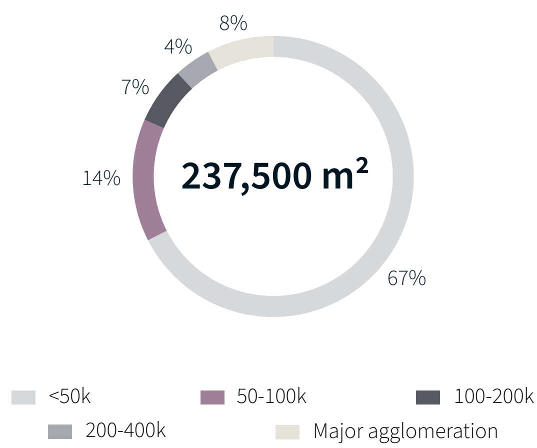
Source: JLL, H1 2021

The first half of 2021 was once again fruitful in terms of new supply, with openings of new retail parks, along with expansions of convenience centres. More than 103,000 m² of GLA was delivered to the market in regional and traditional retail parks and convenience centres (retail park layout). More than double that volume is currently at the construction stage. The delivery of approximately 188,000 m² of new retail space in retail parks and convenience centres is expected in H2 2021. Looking closely at the distribution of under-construction GLA, the focus of developers on traditional retail parks is clearly visible. Small retail formats serving their immediate catchment areas are the answer to the mature and saturated retail market, as well as retail trends determined by changing shopping habits.

Location-wise, an astonishing 67% of the stock under construction is located in the smallest cities (those of fewer than 50,000 inhabitants). A mere 8% is emerging in the largest agglomerations, proving that smaller markets are currently on the radar of developers.

Retail park and convenience centre stock under construction by scheme type and city size





Source: JLL, H1 2021

"When choosing new locations for our Vendo Parks, we still focus on small towns of around 15,000 inhabitants which are poorly served by their retail offer. The whole of Poland is considered in this process. Our projects always take into account the presence of a food operator. The investment's sphere of influence has around 30,000 potential visitors living in the city and surrounding region.

At present, we have three new retail parks at an advanced stage of construction, namely Inowrocław, Chorzów and Radzymin, which we plan to open by the end of this year.

We are also in the process of expanding the existing Vendo Park in Pułtusk. The secured land bank means we can securely plan investments for 2022 and next year will see no slowdown in the current pace of Trei's development in Poland.

Jacek Wesołowski
Managing Director,
Trei Real Estate Poland

In terms of number of projects, 22 of the 43 schemes under-construction are traditional retail parks, 16 are convenience centres with a retail park layout and only five are regional retail parks (four new schemes and one extension).

Selected largest retail parks and convenience centres under construction

Name	City	Investor	GLA (m²)	Opening year
Galeria Andrychów	Andrychów	Acteeum Group, Equilis Europe	24,000	2021
Saller Park	Lipnik	Saller	18,000	2021
Premium Park	Lubrza	Fortis Investments	11,000	2021
Retail Park	Ząbkowice Śląskie	P.A. Nova	10,000	2021
Stacja Sierpc	Sierpc	Zefir 10	8,000	2022
Tuchola Park	Tuchola	Gzella Investments	8,000	2021
S1 Center, ph. 1	Złotoryja	Saller	7,900	2021
Multishop, extension	Suwałki	Multishop Development	+7,800	2021
Retail park	Świnoujście	Grycan	7,700	2022
Stop.Shop	Zielona Góra	Immofinanz	6,700	2022
N-Park, ph. 1	Gorzów Wielkopolski	Napollo	6,500	2021
PH Busko Zdrój	Busko Zdrój	Megatrans	6,500	2021/2022
S-Mall	Limanowa	Sawig Inwest Group	6,200	2021
Giżycko Retail Park	Giżycko	M-6	5,800	2021
Vendo Park	Oświęcim	Trei Real Estate	5,300	2021
Vendo Park	Chorzów	Trei Real Estate	5,200	2021
Melia Park	Ostrów Mazowiecka	RWS	5,000	2021
Multibox	Szamotuły	Budrem	5,000	2021
PH Południe	Radom	Ancona Development	5,000	2021
N-Park, ph. 1	Łany	Napollo	5,000	2022
Galeria nad Potokiem, extension	Radom	Saller	+5,000	2022
Vendo Park	Inowrocław	Trei Real Estate	4,800	2021
Park handlowy Bielaszka	Jastrzębie-Zdrój	PTHU Bielaszka	4,500	2022
Stopiak Park, extension	Nowy Targ	FHU Stopiak	+4,000	2021
Galeria E, extension	Radomsko	Metalurgia Nieruchomości	+4,000	2022
Retail park	Gdańsk	RWS	3,700	2022
Vendo Park, ph. 2	Koszalin	Trei Real Estate	+2,300	2021
Pasaż Golub-Dobrzyń	Golub-Dobrzyń	TUF	3,500	2022
Saller Park	Lubsko	Saller	3,500	2021
Aura Park	Sosnowiec	Terg	3,300	2021
Higasa Park Łęczna	Łęczna	Higasa Properties, Green Hills Investment	3,200	2021
Vendo Park	Radzymin	Trei Real Estate	2,150	2021
Vendo Park, extension	Pułtusk	Trei Real Estate	+1,300	2021

Source: JLL, H1 2021

Market players

Inter Ikea was the pioneer of the retail park segment in Poland, developing the Janki and Franowo retail parks in the early 1990s. Its successor, Ingka Centres, is now the largest owner of regional retail parks (schemes of GLA >10,000 m^2) in Poland, followed by Pradera, which purchased a part of the IKEA portfolio in 2017, and Ceetrus, the owner of numerous retail parks adjacent to shopping centres. Traditional retail parks (GLA of between 5,000 and 9,999 m^2) are the domain of Saller, Trei Real Estate, and Immofinanz. Interestingly, they are also market leaders in the smallest segment (GLA of between 2,000 m^2 and 4,999 m^2). Whilst the regional retail park market in Poland is well-developed, there is still potential for smaller, traditional and convenience-based retail parks. The table below presents the active market players in Poland in terms of the largest amounts of stock, both under construction and completed in recent years, as well as investors active on the market.

Vendo Park, Płock

Developer/ Investor	Chain
Acteeum Group	-
Adept Investment	-
Ancona Development	-
Aristoinvest Group	-
Arka Bud	Arkadia Park
BUDREM	Multibox
Capital Park	Vis a Vis
Centerscape Investments	-
CPI Property Group	City Market
Dekada	Dekada
Developer Pro	Premium Park
DL Invest Group	DL Shopping Center
DOR Group	-
DRFG	-
EDS Retail Park	-
Equilis Europe	-
Focus Estate Fund	-
Fortis Investments	-
Genesis Property	-
Ghelamco	-
Green Hills Investment	Green Park
Gzella Investments	-
Higasa Properties	-
Ingka Centres	-
Immofinanz	Stop.Shop
JB Development	A Centrum; Karuzela
Karuzela Holding	Karuzela
KG Group	ATUT
LCP Group	-
LUK	-
M-6	-
Mitiska Reim	Karuzela (in cooperation with Karuzela Holding)
Multishop Development	Multishop
Napollo	N-Park
New Gate Investment	-
P.A. Nova	-
Pradera	Homepark
Rank Progress	-
RWS Investment Group	-
Saller	Saller Park (S1)
Sawig Invest Group	S-Mall
Shopp.City	Shopp.City
Terg	Aura Park
Tower Investments	ShopIn
Trei Real Estate	Vendo Park
TUF Real Estate	-

Source: JLL, H1 2021

Demand

Demand for modern retail space in Poland is generated primarily by the largest retail chains looking for attractive locations, while smaller chains are more cautious and instead of expansion focus on optimisation. The attractiveness of the Polish market is confirmed by a number of new international chains. Although the growth in the number of new firms entering the market has dropped slightly over recent years, some 110 chains decided to open their first stores in Poland over the last five years, which proves the attractiveness of the Polish market.

The pandemic seems to be receding into the backdrop during summer, in parallel with the increasing number of vaccinations in Poland. Stationary retail is now operating fully, with restrictions only on the number of customers in stores. Against the backdrop of strong foundations of the retail market and promising predictions for retail sales growth seven foreign brands decided to open their first stores in Poland in 2021 up to August. Two furniture chains, Duxiana from Sweden and Rolf Benz from Germany opened their first stores in furniture centres in Krakow and Warsaw, respectively. The DentalPro clinic, from Italy, opened in Manufaktura shopping centre in Łódź. The entry of this Italian dental brand into the prime shopping centre confirms the growing importance of the health concept, where clinics as tenants constantly expand the offering of malls. In Warsaw two brands opened first stores in Westfield Arkadia, a LEGO company direct store, from Denmark, and cosmetics brand Rituals from the Netherlands - while Italian menswear firm Camissima and Yargici fashion brand from Turkey opened in Galeria Mokotów.

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The turbulences on the retail market in Poland, including a drop in footfall and turnover numbers in the majority of shopping centres during the COVID-19 pandemic, as well as negotiations between tenants and landlords, have caused a slowdown, and temporary suspension of development plans of some retailers. Off-price brands and grocery chains, however, were the least affected by the pandemic and their expansion plans have hardly changed. Action, Dealz, KiK, Pepco, Tedi or new market entrant, HalfPrice, successfully attract consumers to their stores by offering attractive prices on a wide range of products.

In parallel, however, tenants are not giving up on developing their stores in shopping centres. The Irish fashion giant Primark has announced another two upcoming locations in major shopping centres in Kraków and Katowice. Rituals Cosmetics, with its debut in August 2021 in Westfield Arkadia in Warsaw, plans a chain of 100 stores by 2027 in Poland. Similarly, Polish off-price chain HalfPrice (owned by CCC) opened over 20 locations within nearly four months after its debut, from prime shopping centres to high street premises.

Anna Wysocka
Senior Director,
Head of Retail Agency, JLL

Vendo Park, Piekary Śląskie

The German dm-drogerie markt chain, one of the largest players on the European drugstore market, is also planning to enter Poland.

In June 2021 footfall data for shopping centres was 5% higher than the figures reported in May, so right after the retail sector was released from lockdown. This is the best result since the beginning of the year, according to data from PRCH (the Polish Council of Shopping Centres). The high level of customers interest in retail facilities and their good results are a consequence of the launch of the full commercial and service offering, which had been significantly limited until almost the end of May. According to data from PRCH, footfall in June was 81% of the figure recorded in the same month in 2019 and 112% of the 2020 result.

Since the beginning of the pandemic, smaller retail assets have recorded higher footfall figures than their bigger counterparts.

The average vacancy rate in regional and traditional retail parks in cities in Poland with more than 200,000 inhabitants has been stable over the last five years, ranging between 3.0% and 4.8%. Slight fluctuations are typical for this market segment, as there are fewer units in retail parks as compared to shopping centres and single units are usually larger in size. This means that even minor changes in tenancy in single assets may affect the average vacancy rate. Smaller, convenience-based assets are predominantly fully leased.

Tenants

Tenant mixes in retail parks vary depending on the size and character of the scheme. Regional retail parks are home to anchor tenants occupying large units (i.e. sporting goods, DIY or furniture stores), which boost the ability of the park to attract customers from the wider area. Traditional retail parks and convenience centres meet every-day needs of the people living in the neighbourhood. Therefore, they are home to retailers with basic offerings, very often from the off-price segment. They are intended to perform locally, serve residential areas in the neighbourhood and provide convenient, quick shopping on the way home.

In contrast to the previous edition of this report, in which the number of retail units was considered, this time we have analysed the merchandise mixes of selected traditional retail parks and convenience centres in terms of their GLA (m²). The chart below shows the results of a study of numerous retail schemes with a total of 133,000 m² of GLA. Interestingly, the merchandise mix by GLA is in line with the results found when looking at the number of stores.

Occupying 33% of GLA (i.e. every third unit), value retailers are the category most commonly found in traditional parks and convenience centres. Unlike many other retail chains, value retailers barely changed their expansion plans during the pandemic. Other popular retail categories include specialised stores (16% of GLA), grocery operators (14%), fashion and shoes (13%), electronic (10%), and health & beauty stores (9%). The number of stores in each category is usually limited to one or two, due to the rather small size of these projects.

Retailers from various retail categories take up different sizes of units. The size range of the most commonly leased premises by retail operators is listed in the table below. As shown, the spread of unit sizes can be large even within the same category, due to tenants' internal policies and global strategies.

Category	Unit size (m²)
Fitness club	800 – 1,500
Fashion	100 – 3,000
Food operator	800 – 3,500
Shoes	450 – 2,000
Sporting goods	800 – 1,200
Value retailer	350 – 1,100
Children & maternity	200 – 400
Electronics	400 – 1,200
Multimedia	200 – 300
Health & beauty	150 – 700
Pet shop	100 – 500

Source: JLL, H1 2021

Merchandise mix in traditional retail parks and convenience centres (by GLA)

Source: JLL, Trei Real Estate, H1 2021

Vendo Park, Koszalin
2nd phase under construction

Rents and market practices

Despite the fluctuating severity of the pandemic, rents in retail parks and convenience centres have remained stable. By contrast, rents in shopping centres are currently under pressure.

Rents and service charges offered in retail parks and convenience centres are incomparably lower to those in shopping centres. This is due to the characteristics of this type of retail schemes, i.e. lack of common spaces, simple one-storey layout, one-level outdoor parking and often peripheral location. Prime rents, regarding units of approximately 2,000 m² in the best performing retail parks, currently stand at €8 – €12 / m²/ month, with service charges at a low €1.5 – €2 / m²/ month. Moreover, retail parks and convenience centres benefit from lower fit-out costs resulting from stores' standard and easy access.

The outer location of retail parks and convenience centres, coupled with growing interest from tenants, has enabled developers to consider potential extension of existing retail schemes on undeveloped plots nearby. Indeed, a greater number of extensions of existing convenience centres and retail parks has been noted in recent years.

Leasing practice

Retail Parks vs. Shopping Centres		
Prime rents[1]	€8 – €12 / m²/ month	up to €108 / m²/ month in Warsaw €39 – €53 / m²/ month in regional cities €19 – €40 / m²/ month in tertiary cities
Service charge	€1.5 – €2 / m²/ month	up to €20 / m²/ month
Lease length	5, 7 or 10 years, with an option to extend; less common are longer contracts (maximum of 30 years) and shorter ones (1-3 years)	
Base rent	Paid monthly in advance, denominated in euro but paid in zloty	
Turnover rent	6–8% of the turnover, adjusted monthly, quarterly or yearly, applicable when higher than base rent	
Rent increases	Annual indexation based on HICP	
Lease agreement collateral	Bank guarantee or cash deposit equivalent of three months' base rent plus service charges and marketing fees plus VAT	
Incentives	Contribution to fit-out costs, rent-free periods, step rent	

Source: JLL, H1 2021

[1]Prime rents relate to a well located 100 m² unit shop from the fashion and accessories category in leading shopping centres in a given city. For retail parks the prime rents definition applies to units of approximately 2,000 m².

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In the first half of 2021, we opened four Vendo Parks in Zielonka, Myśliborz, Koszalin and Piekary Śląskie with a combined area of almost 20,000 m². In the same period, we concluded 35 lease agreements with a total volume of 22,500 m². As the pandemic has not affected Trei's commercialisation process of new facilities, the company has been able to successfully implement its investment plans.

Today, an increasing number of tenants are considering locating their stores in retail parks. The last fifteen months have proven that we are more resistant to restrictions than large-format shopping centres. We also offer lower lease costs than a mall. As a result, we are currently holding talks with companies that have not previously been present in retail parks, including the entire LPP group and the Smyk brand. In addition, there are a relatively large number of players, making their market debut in Poland, that are interested in retail parks.

Jacek Wesołowski
Managing Director,
Trei Real Estate Poland

Investment market

Historically, the retail sector has played a critical role in the investment market in Poland, recording the best-ever result in 2018 (€2.5 billion), while the annual turnovers between 2015 and 2019 exceeded an average of €2 billion.

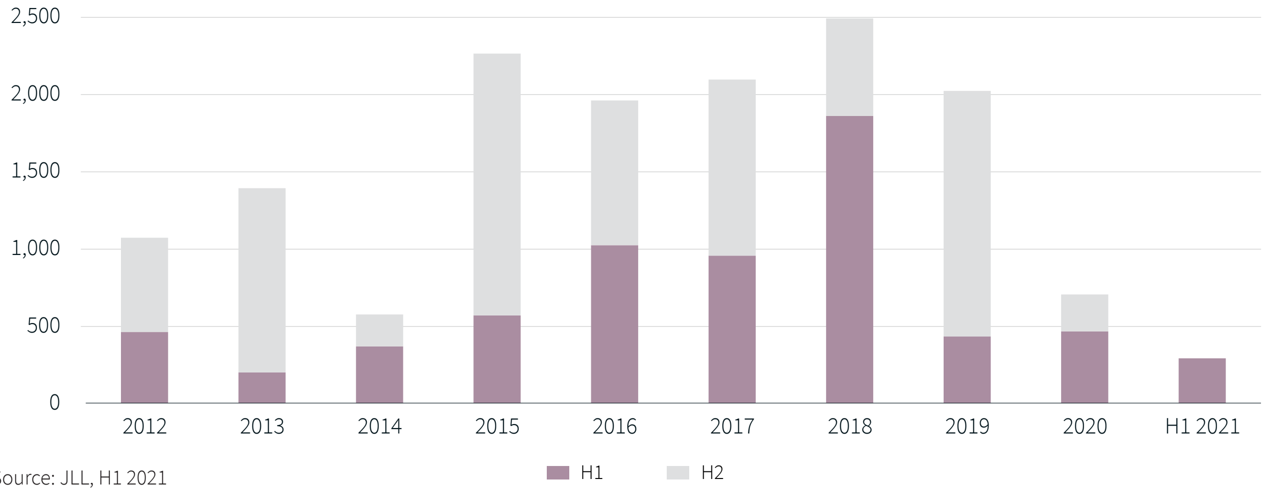
Due to trade restrictions caused by the pandemic, large shopping centres had to suspend their operations overnight, resulting in the inability to generate revenues and, consequently, a loss of interest from most investors. Despite the full re-opening of trade and record turnovers in many projects, interest in this segment remains subdued, due to the risk of repeated closings and a return of limits on trading. The effects of limited interest are well reflected in the recent results. In 2020, the total investment volume in the retail sector slightly exceeded €700 million, which was only 35% of the turnover in 2019. In turn, the total value of transactions in the first half of 2021 (approximately €290 million) has bottomed out at the lowest level for the first six months since 2013. Interestingly, the number of transactions itself was one of the highest in the history, and the low volume has resulted directly from the type of assets that are currently most popular among investors.

What is the subject of so many transactions? Based on the list of acquired schemes, investors' attention is focused on asset classes that are more resistant to shocks caused by the pandemic (such as retail parks and grocery stores) and Tesco supermarkets, the sale of which has been prompted by the impending exit of this chain from Poland.

The largest transaction in H1 2021 was the acquisition of four retail parks by EPP for €106 million. The transaction was the final tranche of a larger 12-asset deal with Chariot Top Group signed in 2018. Looking at Q2 alone, the most notable deal was the purchase by Leroy Merlin of a Tesco store located on ul. Połczyńska in Warsaw.

Another visible trend is the growing interest in grocery stores, both free-standing stores and those which are part of a larger service area located on the ground floors of residential buildings. Examples of transactions involving such assets include the purchase of premises at ul. Obozowa 16 in Warsaw and a number of acquisitions of discount grocery stores in medium-sized cities throughout Poland. The high level of interest also translates into the expected compression in yields for such asset classes, which should be most evident for stores located in densely populated areas of the largest cities.

Retail investment volumes (€ millions)



Source: JLL, H1 2021

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Investors' attention is still focused mainly on retail parks, convenience centres, DIY stores and grocery shops, which is reflected by the transactions being concluded this year. Recently we have also noted an increased activity in opportunistic transactions involving shopping centres.

Despite the lack of transactional evidence for H1 2021, we estimate the prime yields for shopping centres at 5.25%. So far prime cap rates for the best retail parks remain stable at around 6.80%; however, the high level of interest and limited availability of a good product may result in compression in the short term. Similar downward pressure can be seen for grocery stores, especially those located in Warsaw and other large agglomerations. The high level of interest from buyers has resulted in expected increases in the prices of such assets.

The group of investors and firms whose portfolios significantly increased in the first half of 2021 includes: EPP, Saller, Henley, Leroy Merlin, LCP, Centerscape Investments and other private investors, whose transactions are characterised by ever increasing volumes.

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About Partners:

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Trei Real Estate, based in Germany, is currently developing its Vendo Park retail park network in Poland, the Czech Republic and Slovakia. A total of 36 facilities have already been built, with 26 located in Poland. The developer's Polish plans for 2021 include the construction and opening of a total of seven retail parks. Apart from the facilities already delivered in Zielonka, Myślibórz, Koszalin, Piekary Śląskie and Oświęcim, Trei will also open Vendo Parks in Inowrocław, Chorzów and Radzymin. Trei Real Estate Poland manages a portfolio of 128 retail facilities in Poland.