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Report

Retail parks and convenience centres in Poland

3rd edition

September 2022

Introduction

Retail parks and convenience centres emerged as the most resilient retail sector during the COVID-19 pandemic, with customers putting importance on quick and efficient shopping. In today's challenging economic conditions this trend is continuing, since essential goods and value shopping are needed, which are the key product categories for retail parks. Thanks to their local character, retail parks perfectly fit the new reality, addressing the issue of limited mobility, with consumers spending more time at home and in their neighbourhood.

The number of investors which would like to have retail parks in their portfolio is growing steadily, companies specializing in this type of project are intensifying their operations and announcing additional projects in smaller towns, and retailers are following.

Research from a number of different sources has shown that in terms of key metrics, such as rents, yields, vacancy rates, capital values and footfall, retail parks have proven to be resilient and have performed better than other retail formats.

As the market does not like abeyance, retail parks constantly face new challenges, such as increased construction and operating costs, ESG-related issues, and increasingly stronger competition.

We are pleased to provide you with the latest report on retail parks and convenience centres, which covers the situation in Poland as of the first half of 2022.

Enjoy your reading!

Agnieszka Tarajko-Bąk
JLL

Jacek Wesołowski
Trei Real Estate Poland

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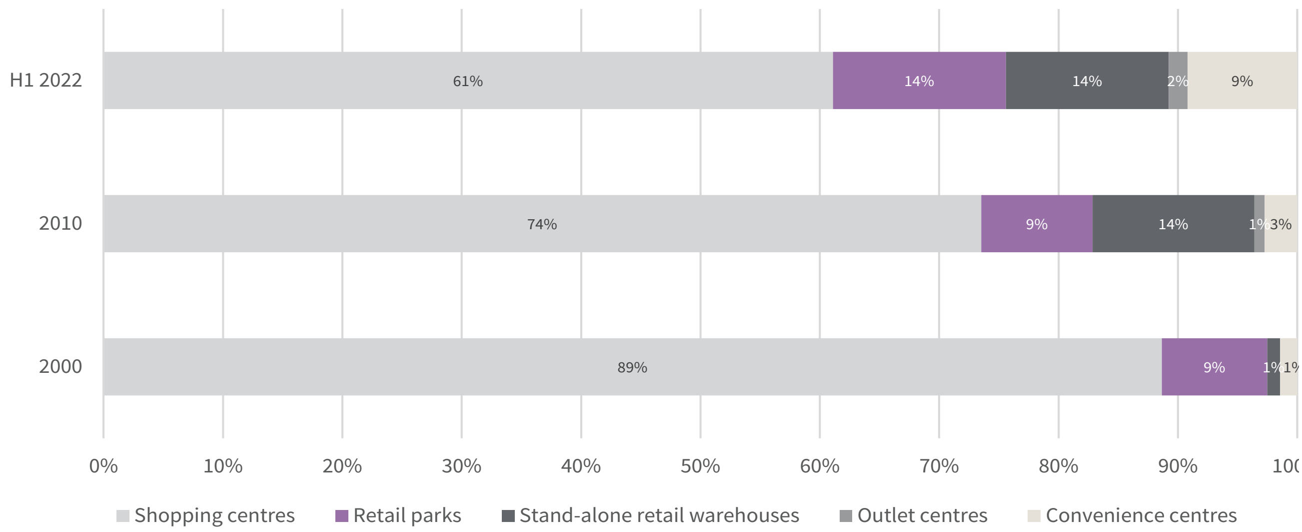
Vendo Park, Oświęcim

The retail market in Poland

The development of the Polish retail market is maintaining its momentum, with the retail park format taking the lead in terms of stock expansion. In the last 12 years this sector has grown significantly, expanding by 1.3 million m^2 of GLA, which increased its market share from 9% across all retail formats in 2010 to 14% in H1 2022. Convenience centres run close behind, growing by 1.2 million m^2 of GLA in the same period of time, increasing their share from 3% in 2010 to 9% in H1 2022. The beginning of 2022 brought new challenges, including the Russian invasion of Ukraine, growing inflation and the introduction of the new tax law, known as the Polski Ład. Nevertheless, with some 38 million potential customers, Poland remains the leader in the CEE region and still attracts attention of numerous international investors, developers and retailers.

Retail stock structure (m^2 GLA)



Source: JLL, H1 2022

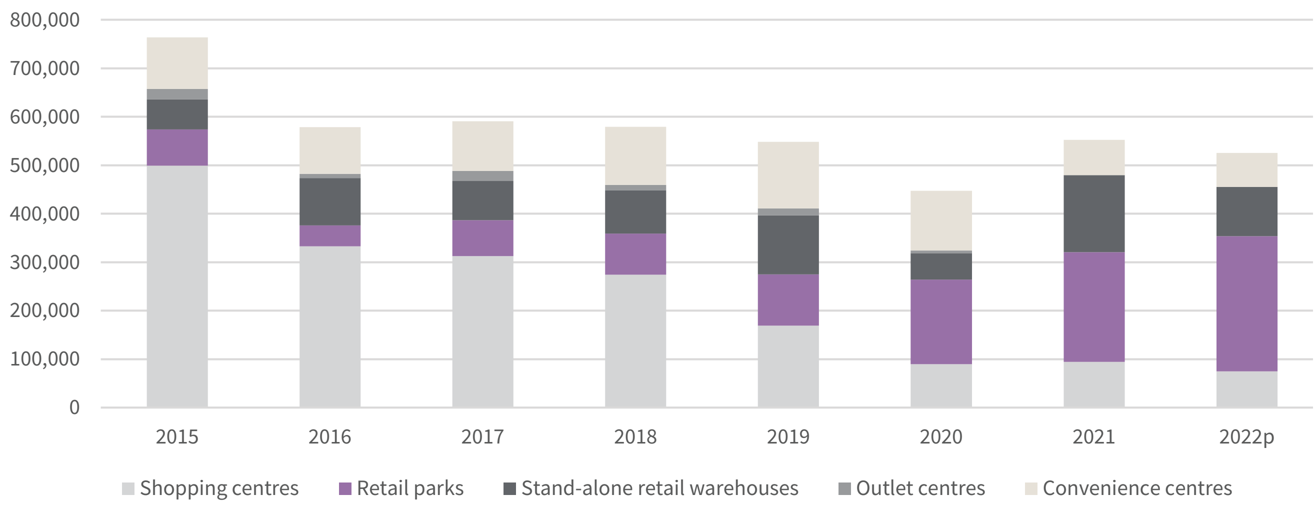
Shopping centres continue to be the most popular retail format in Poland, accounting for 61% of the total supply of retail space (16.2 million m^2 of GLA). However, the maturing of this segment and the significant slowdown in its development have allowed other formats to increase their share of the market. In H1 2022 this segment grew by barely 11,100 m^2 of GLA, which came in two extensions of existing centres. Although this format is expected to grow by another 64,000 m^2 of GLA by the end of 2022, only one out of the four centres involved will be a new project.

New opportunities to develop shopping centres are clearly falling. Fluctuating construction costs, as well as increases in minimum wages and electricity costs, are pushing many developers to search for cheaper construction options. Smaller retail formats, such as retail parks and convenience centres, are a perfect solution. This is followed by demand from retailers that are ready to expand in this type of schemes in smaller markets.

In H1 2022 developers completed 183,200 m^2 of GLA of new retail space, 66% of which was delivered in retail parks and convenience centres dedicated to everyday, quick shopping. Another 28% of the newly completed space is to be found in stand-alone retail warehouses, with the remaining 6% in shopping centres.

However, another 341,700 m^2 of GLA is expected to enter the market by the end of 2022, with retail parks accounting for 53% of that stock. 2022 will be another record-breaking year in the history of this segment in terms of space delivered to the market. The remaining pipeline is made up of stand-alone retail warehouses (19%), convenience centres (13%) and shopping centres (14%).

New completions by retail formats (m^2 GLA)



Source: JLL, H1 2022, p-prognosis

Poland's retail market is already mature in terms of presence of shopping centres. With a density ratio of 258 m^2 per 1,000 inhabitants, Poland is only slightly below the average in Western Europe (276 m^2 per 1,000 inhabitants). However, when it comes to retail parks and convenience centres space, the density ratio is just 84 m^2 per 1,000 inhabitants, suggesting further growth is coming there. The development of these formats is also fuelled by the geographical distribution of Poland's population and the large number of cities here (964 as of January 2022), which makes it easier for developers to launch new projects that use a repeatable and proven concept.

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 m^2 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 m^2 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 m^2.

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 m^2.

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 m^2 and 4,999 m^2). 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

The global economic and social situation has been reflected in consumer behaviour on many levels – not only in the way we shop, but also in how we work and spend our free time. It was a great challenge for companies to adjust to the new and unpredictable market reality, first caused by the lockdowns due to the COVID-19 pandemic and later the large number of refugees from Ukraine.

Consumers continue to cut back on non-essentials and switch to lower-cost brands. Polish customers appreciate fast and relatively cheap shopping options. This is evidenced by the sales performance of the top grocery discount stores in Poland and outlet centres. The outlet format is gaining momentum, with increasingly more supermarkets opening outlets zones – Carrefour already offers more than 90 such zones. **Discount stores and value retailers** (e.g. Pepco, KiK, Tedi, Dealz and Action) have experienced a sustained boom since before the pandemic and will continue to expand further.

The convenience trend: small retail formats are maintaining their momentum. Interest in the retail park and convenience centre formats has not decreased since we published the first edition of this report two years ago. More investors are looking to smaller, out-of-town retail formats as shifting shopping habits bring those into favour.

Omni-channel retailing is becoming popular, along with q-commerce, resulting with more openings of dark stores offering express delivery. Along with the omni-channel style of shopping, the convenience and quick commerce trends are strengthening. As a result, dark stores operated by firms such as Glovo, Bolt, Wolt and Lisek are opening in the major Polish cities, offering express delivery in as little as 10 minutes. Moreover, convenience centres and small retail parks are getting new tenants from sectors not yet well represented in those formats (e.g. C&A and Sports Direct).

Pasaż Golubsko-Dobrzyński

Green Park, Zielona Góra

Retail innovations: Walmart, Amazon, Sephora and the like may dominate the headlines as early adopters achieving great feats, such as one-hour store pickup, record sales after viral TikTok ads and loyalty-boosting mobile apps. But omni-channel retail is just as achievable for small to mid-sized brands and just as critical to future success. The e-commerce and q-commerce trends continue unabated. In 2021 JLL and Adeptmind joined forces to provide landlords with a new omni-channel digital retail solution, by providing a convenient way for consumers to browse and shop at their favourite shopping destinations. Whether it's on the web or in an app, landlords can easily plug in Adeptmind's Marketplace solution giving their shoppers access to all tenants in their enclosed, outdoor or strip centre developments.

ESG: The issue of ESG (environmental, social and governance) has remained very firmly planted on the agenda of developers and retailers. Among the most commonly found ESG solutions in Poland's retail parks one can note car chargers, a larger share of green areas and the use of renewable energy sources. The developer of the recently opened Vendo Park in Skarżysko-Kamienna has addressed this need by installing photovoltaic panels right next to the centre. Retailers are also responding in line with ESG strategy. The circular economy is playing a key role within current trends. Retailers are introducing more ecologically aware solutions, such as fashion retailers designing sustainable collections (e.g. H&M, Reserved and Esprit), adopting reuse ideas (IKEA and Decathlon) and offering second-hand sections (4F and Auchan), to give just a few examples. Retail parks are also entering the certification process, for example Trei Real Estate Poland is about to start obtaining BREEAM for its Vendo Park schemes.

Customer experience: The COVID-19 pandemic has forced retailers to re-strategise their businesses. Brands are constantly searching for new concepts to improve customer experience. One of examples of this is Castorama opening a new small-store concept under the Castorama Express brand. Castorama Express is characterised by a compact, clear and intuitive store layout. Shelves in the stores do not exceed two metres in height, thanks to which the selection of the most necessary materials is much easier. The first store of this format has already opened in Warsaw. The chain has already large-format, smart and e-commerce stores. A new store model has just been introduced in Warsaw and will be Castorama's response to the changing needs of customers.

Challenges: The pandemic had a significant impact on the functioning of economic entities. The outbreak of war in Ukraine, interrupted supply chains, fluctuations in the availability of employees, rising inflation and operational costs, and changing consumer habits are the major issues that the retail industry is now facing.

Characteristics of retail parks

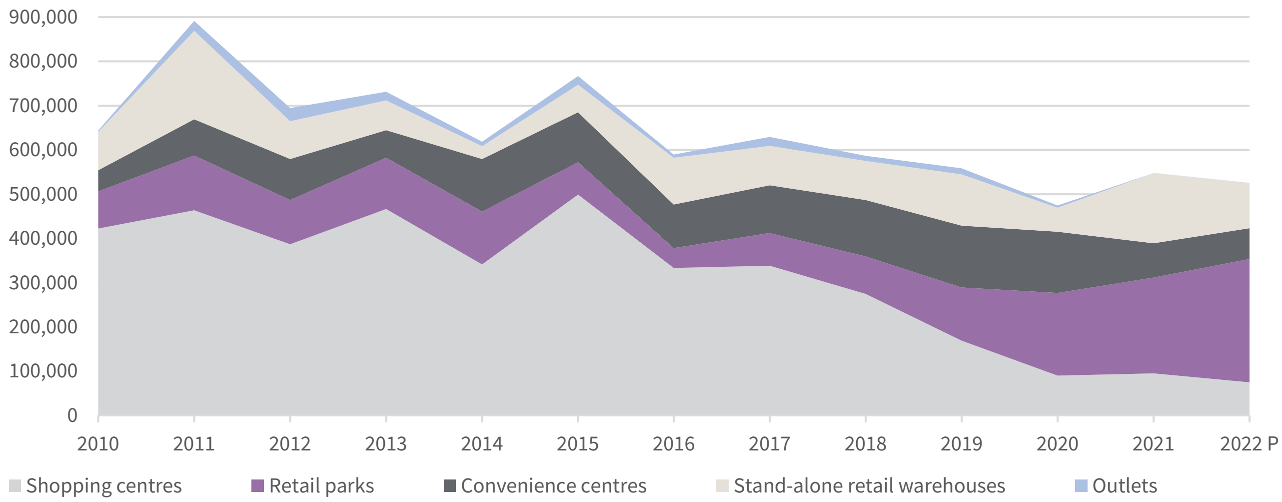
The development of the retail park sector in Poland started 30 years ago. Today (i.e. the start of H2 2022) the market has grown to 2.35 million m^2 of GLA, found in 189 retail parks, and is still expanding at an intensive rate. For a long time retail parks were less popular than shopping centres. However, recently, due to various reasons, primarily the post-pandemic impact of customers' shifting habits and expectations towards quick and easy, contact-limited shopping, the appetite for and popularity of the retail park format has increased among all market players. Their development started in the major cities and has gradually spread across the smaller markets, with the size and tenant-mix being adjusted to local market needs.

As reflected in the detailed definitions presented on the next page, retail parks are large-scale schemes which are divided into regional and traditional categories, based largely on size, location and visit frequency. Convenience centres are characterised by a GLA of below 5,000 m^2 and have basic offerings. They can be divided into those operating in the gallery layout (common spaces and several levels of trading space) and those using the retail park layout (lack of common areas, one level of trading space and separate external entrances to premises). In order to be in line with the subject of this report, only those convenience centres using the retail park layout have been subject to further considerations herein.

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

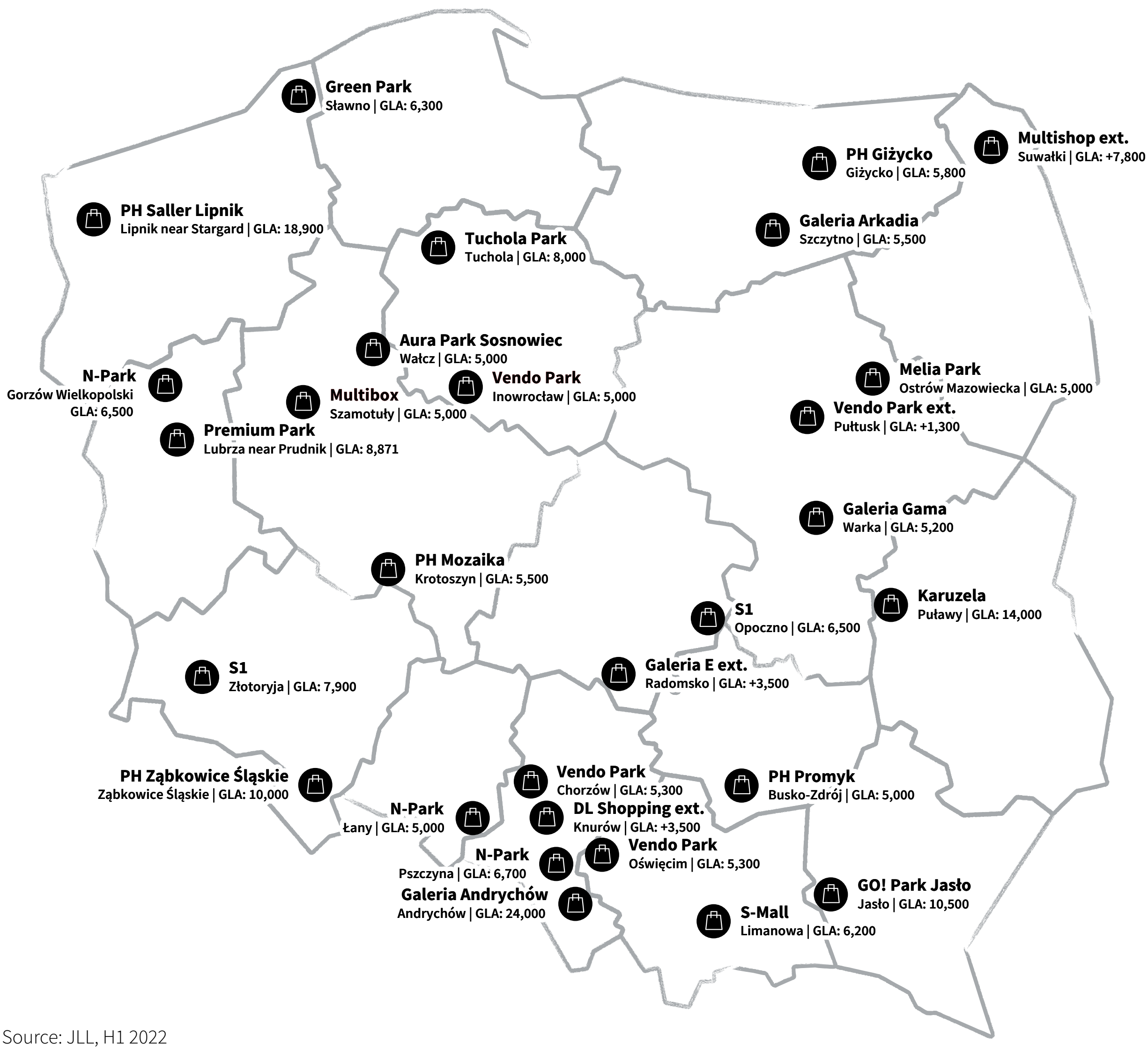
The current supply of retail parks (both regional and traditional) and convenience centres that utilise a retail park layout amounts to 3.22 million m^2 of GLA. Regional retail parks account for 49% of that space. In terms of city size distribution, smaller markets are gradually surpassing major agglomerations (58% compared with 42%). However, comparing 2022 with 2021, the biggest change in distribution is found between the major metropolitan areas (which accounted for 42% of that GLA in H1 2022 compared with 46% in H1 2021) and towns of below 50,000 inhabitants (33% in H1 2022 compared with 29% in H1 2021), indicating that smaller markets are growing well.

New stock delivered to the market in all retail formats (m^2 GLA)



Source: JLL, H1 2022, p-prognosis

Selected largest retail parks which opened in H2 2021 - H1 2022



Source: JLL, H1 2022

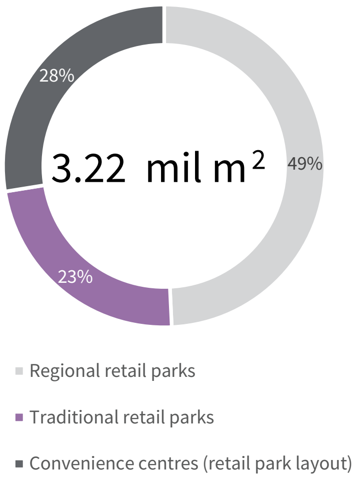
Definitions (ICSC, JLL)

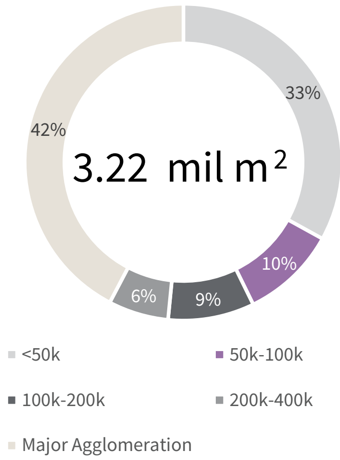
Regional retail parks (GLA ≥ 10,000 m²): retail parks which are components of the largest shopping destinations, mostly adjacent to shopping centres and retail warehouses. The vast majority are located on the edges of cities or in the outskirts, along major roads. Their regional impact power is increased 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 2022

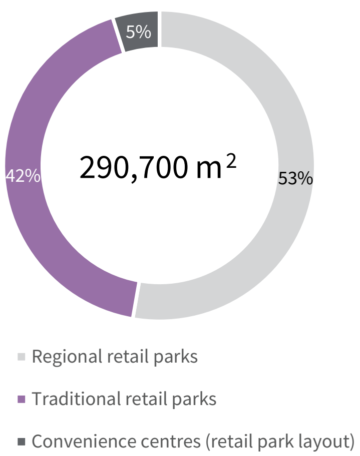
In the first half of 2022 over 120,700 m^2 of GLA was delivered to the market in regional and traditional retail parks as well as convenience centres (using the retail park layout). This was found in 23 new projects: 11 retail parks and 12 convenience centres. In addition to that, two retail parks were extended in the first half of 2022.

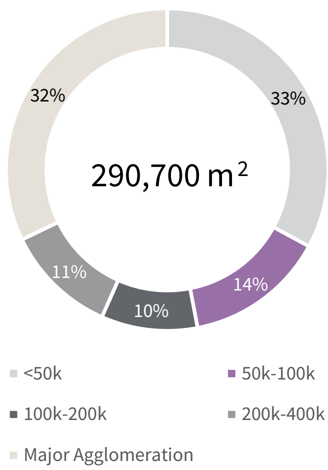
Location-wise, most of these projects (11 of the retail parks, accounting for 85% of the space provided by such parks, and eight of the convenience centres, accounting for 59% of such space, have been developed in the smallest cities (i.e. those with fewer than 50,000 inhabitants). This demonstrates the strong interest in Poland's smaller markets. Construction activity remains at a high level, with more than 290,000 m^2 of GLA in these two formats expected to hit the market by the end of 2023. The distribution of under-construction GLA is roughly evenly split between traditional and regional retail parks.

In terms of location, all markets seem to offer bright spots, as new supply will grow evenly between the smallest cities (i.e. those with fewer than 50,000 inhabitants) and the largest agglomerations.

When it comes to the number of projects, 20 of the 35 under-construction schemes are traditional retail parks, six are convenience centres using a retail park layout and nine will be regional retail parks (including one extension).

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





Source: JLL, H1 2022

In 2021 we built, commercialized and opened eight Vendo Parks in Poland – in Zielonka, Piekary Śląskie, Koszalin, Myśliborz, Oświęcim, Inowrocław, Chorzów and Radzymin. Last November we formed a joint venture with Patron Capital, worth €140 million, to develop new retail parks across the country. Furthermore, Trei obtained €27.5 million of financing from Pekao in November 2021. The capital raised will be used for the company's further expansion nationwide, including the construction of Vendo Parks and residential investments.

The first half of this year was dominated by disruption caused by the outbreak of war in Ukraine, as well as high inflation, which in our industry has had a huge impact on contracting costs and the price of materials, such as steel, aluminium and glass. The price increases have been so significant that we were unable to start new construction projects, as it was difficult to set an investment budget that would guarantee a return on capital.

The second half of the year is seeing prices slowly stabilising, and so we plan to start new construction projects in Mielec, Zambrów, Kraków, Gorzów Wielkopolski and Szczecin. We continue to purchase land for more retail parks. We also completed the construction and opening of two 100%-leased Vendo Parks, in Otwock and Skarżysko Kamienna. As a result, our portfolio in Poland now stands at 31 facilities.

Although the increase in construction costs is generating upward pressure on rental rates in retail parks, we are holding rates steady. However, we see no possibility of decreasing them. Tenants are beginning to understand that it will be increasingly difficult to charge the developer for the cost of turnkey fit-outs. If we can achieve a compromise on fit-outs, there will be an opportunity for further stable development of the retail park sector.

Jacek Wesołowski
Managing Director,
Trei Real Estate Poland

Selected largest retail parks and convenience centres under construction

Name	City	Investor	GLA (m²)	Opening year
Bielawa Retail Park	Bielawa	Asset Real	11,000	2022
N-Park Gniezno	Gniezno	PKB Inwest	8,000	2022
Dzierżoniów Retail Park	Dzierżoniów	Saller Group	8,000	2023
Stop Shop	Zielona Góra	Immofinanz AG	6,700	2022
Vendo Park	Szczecin	Trei Real Estate	23,000	2023
Era Park	Iława	Bonus	7,000	2023
Cuprum Park	Lubin	Ultro Holding	13,000	2022
S1 Retail Park	Leszno	Saller Group	6,000	2022
Emka Retail Park	Koszalin	LCP Properties	10,000	2022/2023
Dor Plaza	Częstochowa	DOR Group	20,500	2022
P.A. Nova Retail Park	Kłodzko	P.A. Nova	10,000	2023
Węglin Retail Park	Węglin	INTERBUD-LUBLIN	8,600	2022
Maxim Park, extension	Legionowo	PIR	+6,200	2022
Ostrzeszów Retail Park	Osztrzeszów	K&K Group	6,800	2023
Vendo Park	Skarżysko-Kamienna	Trei Real Estate	6,800	2022
Retalia Retail Park	Grodzisk Mazowiecki	Retalia	5,000	2022
Atut Sucha Beskidzka	Sucha Beskidzka	KG Group	5,200	2022
Atut Nowohucka	Kraków	KG Group	23,000	2022
Atut Ruczaj 2	Kraków	KG Group	25,000	2022
Arkadia Świecie	Świecie	Arka Bud	6,300	2022
Karuzela	Wągrowiec	Karuzela Holding/ Mitiska REIM	8,500	2022
Nowe Bielawy, extension	Toruń	Newbridge	+6,000	2022
S1 Retail Park	Gorzów Wielkopolski	Saller Group	11,400	2023
Hepi Park	Aleksandrów Łódzki	Hepi Park	6,300	2022
Długosza Retail Park	Wrocław	Triada Dom Development	5,200	2022
Vendo Park	Mielec	Trei Real Estate	7,100	2022
Pasaż Warmiński	Lidzbark	TUF RE	4,000	2023
Galeria Skarpa	Bochnia	Rafko	2,500	2022
Stara Kablownia, extension	Czechowice-Dziedzice	AMG Development	+2,000	2022
Lucro Park	Sobótka	Genesis Property	2,700	2022

Source: JLL, H1 2022

Market players

The range of investors active in retail parks and convenience centres is currently wide and still expanding. The table below presents selected active developers in Poland in terms of the largest amounts of stock, both in the pipeline and completed in recent years, as well as investors active on the market. Some of them specialize in major agglomerations (e.g. Ghelamco, Ingka Centres and Pradera), while some are present in all city-size categories (e.g. LCP Group, Saller and Trei Real Estate).

Selected companies active in retail park format

No	Developer / Investor	Major Agglomerations	Cities 200k-400k	Cities 100k-200k	Cities 50k-100k	Cities <50k
1	Acteeum Group	■		■		■
2	Adept Investment	■				■
3	Agile Property Development					
4	Aristoinvest Group					■
5	Arka Bud					■
6	BUDREM				■	■
7	Capital Park	■	■			
8	Centerscape Investments				■	■
9	CPI Property Group	■		■	■	
10	Dekada			■		■
11	DL Invest Group	■				■
12	DOR Group		■			
13	DRFG	■			■	
14	Duda Development	■				
15	EDS Retail Park					■
16	EPP			■		
17	Equilis Europe					■
18	Falcon Investment Management					■
19	Focus Estate Fund			■		■
20	Fortis Investments					■
21	Ghelamco	■				
22	Graf Bis				■	■
23	Green Hills Investment	■		■		■
24	Gzella Investments					■
25	Higasa Properties				■	■
26	Ingka Centres	■				
27	Immofinanz		■	■	■	■
28	JB Development	■			■	■
29	Karuzela Holding				■	■
30	KG Group	■			■	■
31	LCP Group	■	■	■	■	■
32	LUK		■			
33	M-6					■
34	Master Management Group	■				
35	Mitiska Reim				■	■
36	Multishop Development				■	■
37	Napollo	■		■	■	■
38	Newbridge	■		■		■
39	New Gate Investment	■	■		■	■
40	P.A. Nova	■	■	■		■
41	Pir	■				
42	PKB Inwest Budowa	■			■	■
43	Pradera	■				
44	Rank Progress				■	
45	Redmill					■
46	Retalia	■				
47	Rock Capital		■			■
48	RWS Investment Group	■		■	■	■
49	Saller	■	■	■	■	■
50	Sawig Invest Group					■
51	Shopp.City	■		■	■	■
52	Terg	■			■	■
53	Tower Investments	■		■		■
54	Trei Real Estate	■	■	■	■	■
55	TUF Real Estate					■
56	Ultro Holding				■	
57	Zefir 10					■

Source: JLL, H1 2022

Demand

The Polish retail market remains attractive to retailers, a fact which is confirmed by the number of new international chains entering the market, as well as those already present looking for expansion opportunities. Despite the turbulent times over the last three years, more than 50 new chains have decided to open their first stores in Poland in that period. Around 18 brands withdrew from the market during those years, which is not many given the extreme challenges thrown up by the two years of the COVID-19 pandemic.

Against the backdrop of the 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 the 12 months between July 2021 and June 2022. Most of them are from the fashion sector. By the end of 2021, Karl Lagerfeld's high-end designer store had opened in Galeria Mokotów in Warsaw. Philip Plein, a German luxury brand, also opened its first mono-brand store in the capital city, in Dom Dochodowy. Bimba y Lola from Spain and Zadig&Voltaire from France have also marked their presence on the Warsaw market, in Galeria Mokotów and Dom Mody Klif, respectively.

JD Sports from the UK enriched the offer of Posnania shopping centre in Poznań.

Other newcomers include cosmetics chains: Rituals Cosmetics from Netherlands (which opened its first store in Westfield Arkadia, Warsaw, and followed that with numerous other locations) and Nectar Bath Treats from the USA (which has opened a unit in Magnolia Park in Wrocław).

The German DM Drogerie Markt chain, one of the largest players on the European drugstore market, opened its first store in Wrocław in April 2022. The first mono-brand Haribo store recently started trading in Factory Ursus in Warsaw. And a long-awaited Uniqlo and an Adidas flagship store both opened in Wars Sawa Junior in Warsaw.

Footfall and turnover results prove that shopping centres are further recovering after the COVID-19 pandemic. According to data from the PRCH (the Polish Council of Shopping Centres), footfall* in the shopping centres in Poland in June 2022 was 12% higher than in June 2021, whilst turnover* in May 2022 was 21% higher than the same month in the year before. The challenge in the coming months, however, will be the economic slowdown, high inflation, rising energy costs and possible limitations in its availability.

* the data is no like-for-like

"Since the beginning of the year, we have been noting a constant improvement in the functioning of shopping centres in terms of footfall and turnover parameters, as well as the unwavering interest in the retail park format among all market players: investors, developers, retailers and customers. Currently the most active retailers are those seeking average and large-sized spaces (400 m^2 – 2 000 m^2), especially value retailers, grocery chains and drugstores. Also, they are interested in gaining a presence in smaller markets, even below 20,000 inhabitants.

In the shopping centre sector we see clear interest in opening new stores of above 1 000 m^2 from off-price brands and value retailers (e.g. HalfPrice and Woolworth), sports and fashion retailers (e.g. P&C, Sports Direct, Primark, Sinsay and Carry), and interior design (Jysk). However, the availability of such large spaces is limited, due to the low activity levels of shopping centre developers and thus the small supply of new projects. An interesting trend is the development of the provision of medical services in retail facilities. The growing importance of health care has resulted in further expansion demand from firms such as Medicover, Lux Med and Enel-Med. The offerings of medical centres have been available in some facilities for some time, but there is a noticeable increase in interest in space in convenience facilities and retail parks, also in terms of previously non-standard surfaces.

Anna Wysocka
Senior Director,
Head of Retail Agency, JLL

Vendo Park Skarżysko-Kamienna

Tenants

The mix of tenants operating in retail parks depends on the size and character of the particular scheme. Regional retail parks are home to well-known anchor tenants that take large units (i.e. sports, DIY and furniture stores), which boosts the project's ability to attract customers from a wider area. Traditional retail parks and convenience centres meet the every-day needs of the customers living in the immediate vicinity of the development. Therefore they are home to retailers with basic offerings, very often from the off-price segment. They are meant to perform locally, serving residential areas in the vicinity and/or providing convenient, quick shopping on the way home. We have analysed the merchandise mixes of selected traditional retail parks and convenience centres in terms of their GLA. The chart below shows the results of a study based on 34 retail schemes with a total of over 160,000 m^2 of GLA and more than 300 units.

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

Category	H1 2022	H1 2021
Value retailers	37%	33%
Specialised stores	14%	16%
FMCG	13%	14%
Fashion and shoes	12%	13%
Electronic stores	11%	10%
Health & Beauty	9%	9%
Other	3%	5%
Total	100%	100%

Source: JLL, Trei Real Estate, H1 2022

Accounting for 37% of the leased GLA, value retailers are the category most commonly found in traditional parks and convenience centres. What is more, their presence has only strengthened since last year's report (an increase of 4 p.p.).

Retailers from various retail categories take up different sizes of units. The size ranges of the most commonly leased premises by retail operators are listed in the table below.

Typical unit sizes in traditional and convenience retail parks

Category	Unit size (m^2)
Fashion	100 – 3,000
Fitness club	1,000 – 2,000
Food operator	800 – 2,000
Sport equipment	800 – 1,500
Value retailer	350 – 1,100
Shoes	450 – 1,000
Electronic stores	400 - 900
Health & Beauty	150 – 600
Pet shop	100 - 500
Children & maternity	200 – 500
Multimedia	200 – 400

Source: JLL, H1 2022

As shown above, the spread of unit sizes can be wide even within the same category, due to the tenants' internal policies and global strategy.

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

Source: JLL, Trei Real Estate, H1 2022

Vendo Park Chorzów

Rents and market practices

Prime rents in these assets are still at levels similar to last year and the contracts are signed for long periods. Rents and service charges found in retail parks and convenience centres are lower than those in shopping centres. That is due to the characteristics of this type of retail scheme, i.e. lack of common spaces, simple one-storey layout, own outdoor parking and often peripheral location. However we may expect that the level of service charges will be influenced by the increases in the operational costs, especially increases in the costs of energy. Prime rents, covering units of approximately 2,000 m^2 in the best performing retail parks, currently stand at €8 to €12 per m^2 per month, with service charges at a level of €1.5 to €2 per m^2 per month.

Recently we have been noting pressure from the tenants of retail parks and convenient centres on the level of incentives, especially fit-out contributions, which may affect the economics of those developments. Some 62% of the floor space under construction in Poland is being developed in retail parks and convenience shopping centres and many retailers say they are interested in entering cities with fewer than 20,000 inhabitants.

Leasing practice

	Retail Parks	Shopping Centres
Prime rents[1]	€8 – €12 / m^2/ month	up to €108 / m^2/ month in Warsaw €36 – €52 / m^2/ month in regional cities €17 – €38 / m^2/ month in tertiary cities
Service charge	€1.5 – €2 / m^2/ month	up to €20 / m^2/ 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 (two or three years and less than one year)	
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 2022

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

Green Park, Sławno

Investment market

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

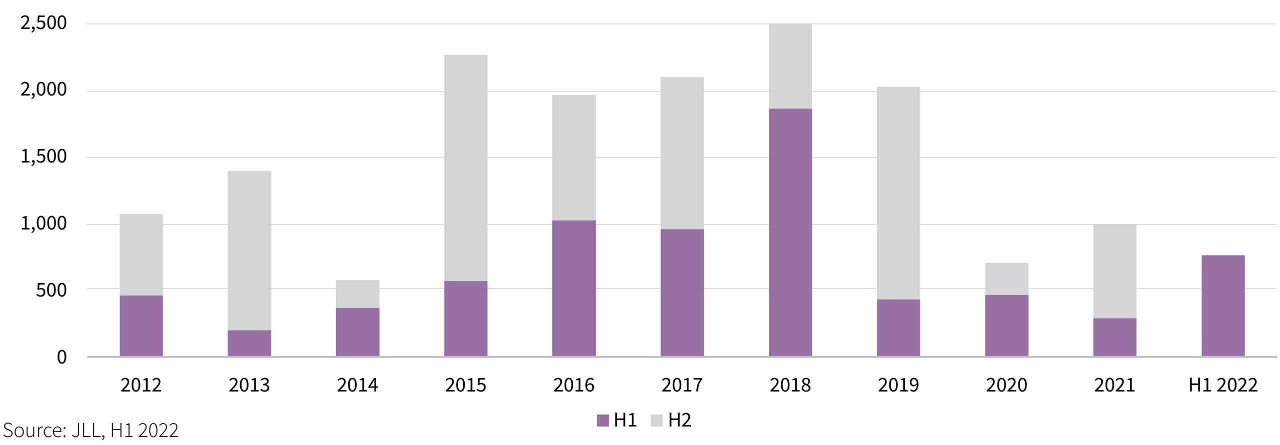
During the pandemic most investors lost interest in large shopping centres. Even now, with the risk of future lockdowns subsiding, interest in this segment remains subdued. However, recently we started to see cautious optimism among investors. This is driven by positive development of tenants' turnover in the best assets, despite footfall still being slightly lower than the levels recorded in 2019. But we still have not seen large shopping centre transactions yet.

The effects of the limited interest in large retail assets are clearly reflected in the recently reported investment results. In 2021 the investment volume in the retail sector totalled almost €1 billion, which equated to only 49% of the turnover from 2019. In turn, the total value of transactions in the first half of 2022 (approximately €760 million) appears promising, although to a great extent it was the result of two portfolio transactions related to the delisting of EPP. With these transactions excluded, the total volume drops to below €200 million, a result lower than the €290 million from H1 2021. Despite the limited volume of closed deals, the investment market still remained very active in H1 2022, with numerous retail parks and convenience shopping centres entering exclusivity phases. We therefore expect a number of larger ticket deals to be announced by year-end, meaning that the total volume for 2022 is likely to exceed the figure for 2021 and reach approximately € 1.2 billion, or even more. Despite the relatively low turnover, the number of investment transactions in the retail sector is one of the highest in history, with 54 transactions during 2021 and another 20 in H1 2022. But the data clearly indicates that investors' attention is focused on smaller assets, which are more resistant to shocks such as those caused by the pandemic (particularly retail parks, DIY and grocery stores), as well as on opportunistic acquisitions of well-located assets, particularly the former Tesco supermarkets (most of which have already been involved in transactions) and some shopping centres which offer redevelopment value add potential. In the last 12 months we have seen a number of new entries into the Polish retail investment market, with the following players announcing their first acquisitions: BIG CEE, Frey, Lords LB, Gutenberg Capital and Patron Capital, who formed a JV with Trei Real Estate.

Well-located retail parks with a strong tenant mix are a very sought-after investment product and can attract multiple bidders, especially those in major cities. A prime asset in this category, the Młyn retail park, located in Wrocław, traded in Q1 at a record-low capitalisation rate of below 6.75%. While core product of this type is scarce, high-quality assets in smaller cities can achieve yields of below 7.5%.

Further compression of capitalisation rates is unlikely, due to the increasing cost of debt financing. Also, although lenders are eager to finance acquisitions of core retail parks, they remain reluctant regarding smaller assets, as well as non-prime shopping centres. This further reinforces the prevailing trends in the investment market.

Retail investment volumes (€ millions)



Source: JLL, H1 2022

Investors' attention is still mostly concentrated around the broad convenience retail, i.e. retail parks, small convenience shopping centres, DIY stores and grocery shops. For retail parks and convenience retail, presence of a grocery tenant with a strong covenant and long lease term is particularly attractive from an investment perspective.

There has also been increasing activity around shopping centres. First, in 2021, we saw opportunistic acquisitions in locations with a high residual value. And more recently, after over two years, the return of structured marketing processes concerning well performing assets.

The prime cap rates for the best retail parks have moved to ca. 6.5 - 6.75%; despite the high demand and low supply of such investment product, the increasing cost of debt financing is likely to prevent further compression.

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About Partners:

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Trei is also developing residential properties in the US, Poland, the Czech Republic and Germany. Polish residential company Trei currently has three developments under construction, in Wroclaw, Lodz and Poznan, which will deliver a total of 920 units. Further plans include development projects in Warsaw. In total, Trei will build 2,200 apartments in Poland as part of six planned developments.

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