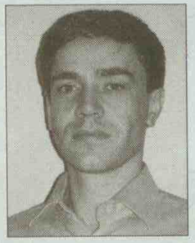
Expert analysis – retail market evolution



Poland's retail market continues to mature

Zenon Kornacki is an analyst in the finance and law department of Gray International

When Poland joined the European Union in May 2004, the Polish commercial property market began to boom. Due to its population of 38 million people, the high demographic and economic potential, rising spending power and relatively low saturation in terms of modern retail space, Poland has come to be regarded as one of the most promising EU countries in terms of commercial property market growth. Further, continued economic growth and positive trends in the labor market are reflected in rising consumer demand. Falling capitalization rates, with demand for retail space still exceeding supply, have acted like magnets in attracting investment funds for numerous development schemes.

Maturing market

As individual local markets become saturated, the entire market, on a national scale, is also beginning to mature. This evolution involves not only more and more players, but also substantial changes in quality. Not only are simpler, low-quality, hypermarket-based formats being replaced by modern, third-generation centers with distinct entertainment and restaurant components, but trends typical of developed markets are also beginning to appear: new formats, specialization, function profiling, revitalization and rebuilding of existing retail schemes.

Another dimension of this evolution is that developers are moving their activities from large urban centers to ever smaller locations. At the outset of the commercial property market's growth phase in Poland, developers concentrated mainly on Warsaw and Poland's other seven largest cities. However, for the last two years a new trend can be observed where developers are gradually moving new projects to towns with a population of less than 400,000. Medium-sized towns such as Lublin, Białystok, Bielsko-Biała or Zielona Góra, as well as smaller ones, are quickly catching up in terms of the ratio of modern retail space to inhabitants.

The search for new markets, motivated partially by the desire to avoid competition in places already filled with new or planned projects, has often persuaded developers to seek opportunities in communities between 50,000 and 100,000 inhabitants, or even smaller.

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Small-town trend

In its current review of the Polish real estate market, Cushman & Wakefield writes: "At the end of the first half of 2008 the stock of modern retail space [in Poland] amounted to approx. 7,750,000 sqm (202 sqm per 1,000 inhabitants), over 65 percent of which was found in the eight main urban areas and the remaining 35 percent in small and medium-sized towns."

At present, over one million sqm of modern retail space is under construction. If all of the planned investments are actually realized, another two million sqm could be added in the next two to three years. Close analysis of developers' plans for the next two years shows that the record volume of projects under construction will decrease the share of large urban areas to about 55 percent at the end of 2010. The remaining market share will account for smaller towns, with over 10 percent of retail schemes in towns smaller than 100,000 inhabitants.

Smaller towns exhibit low retail-space saturation and the existing plans offer no serious competition to new projects. With the execution of new plans, however, small-town markets will also approach saturation level, especially considering their significantly lower purchasing power than in the main urban cities. In locations such as Płock, Białystok, Słupsk or Rzeszów, the saturation level will reach well over 1,000 sqm per 1,000 inhabitants at the end of 2010, although current saturation in medium-sized and small towns does not exceed 500. This means that in some cases, small towns will end up well ahead of larger cities in terms of retail space saturation. Forecasts for Warsaw, the most developed and also the most saturated market in Poland, sees the city approaching the level of 900 sqm per 1,000 inhabitants by the end of 2011.

Growing popularity

The map of modern retail space is broadening in all regions of Poland. Investors with schemes in smaller towns include companies such as Parkridge CE Retail, Echo Investment, Polimeni International, Mayland Real Estate, Caelum Development or Gray International. Smaller towns are dominated by local investors who know their markets well.

Average rental rates for shopping center-space in towns over 400,000 inhabitants do not exceed €35 (zł.126) per sqm and depend on local conditions. Tenants are more eager to pay higher rent in modern, well-situated buildings and in still-unsaturated markets.

Given that demand for modern retail space in medium-sized and small towns is still much higher than supply, there are close to no vacancies.

However, the potential economic downturn, resulting in decreasing purchasing power, combined with an expected increased market supply in the next two years might produce higher vacancies and lower rental rates.