

PRESS RELEASE

# RETAIL REAL ESTATE MARKET SLOWLY MOVING FORWARD, DESPITE HARSH ECONOMIC AND GEOPOLITICAL CONDITIONS.

The end of the year for retail real estate in Poland was marked by a rise in inflation and the various consequences that followed it, increases in energy prices and the effects of the war in the Ukraine. Analysis of shopping behavior showed that Poles have not turned their backs on e-commerce, the trend for shopping in retail parks continues, and discount brands are pushing harder and harder into the market. In the cyclical report, BNP Paribas Real Estate Poland experts forecast that this year will be marked by, among other things, modernization of older facilities and growing popularity of mixed-use developments.

At the end of last year, there was about 15.7 million sq. m. of retail space in Poland, including 410,000 sq. m. that were delivered to the market in the last 12 months. During that time, the largest building, which debuted on the market, was the Karuzela center in Kolobrzeg (30 thousand sq. m.). The facility, which opened at the end of October, is the eighth project in Karuzela's portfolio, which has grown to 90,000 sq. m. through its completion.

A report by BNP Paribas Real Estate Poland shows that some 270,000 sqm of new space remains under construction, with a planned completion date of the end of 2024. Among the largest retail developments under construction are: Koszalin Power Center (38 thousand sq. m.), Karuzela center in Biała Podlaska (28 thousand sq. m.) and Vendo Park in Szczecin (24 thousand sq. m.).

*- The picture of the market in the past year was strongly shaped by factors related to the war, multiple increases, as well as the continuing global effects of the pandemic. These did not make the decision to launch new investments any easier, and some were put on hold. Rising costs are that the factor which will have a key impact on the commercial market this year. Expensive construction, expensive operating costs and record utility rates will be reflected in rising rents. We estimate that after indexation, charges will rise from 7% to 9% at one time, a tough nut to crack for many tenants, says report author **Klaudia Okoń**, consultant, Business and Intelligence HUB, BNP Paribas Real Estate Poland.*

The past year has shown the dominance of retail parks in both new supply and ongoing construction processes. Throughout 2022, about 60% of openings fell into the retail park segment. Poles have not given up the habits acquired during the pandemic, and they still like to do their daily shopping quickly, conveniently, close to home and preferably in stores with attractive price offers. This is fueling the development of retail parks, especially in smaller towns. It's also a boost for discount brands such as Dealz, Action and Pepco. Experts at BNP Paribas Real Estate Poland show that parks recorded an even higher share, around 80%, in the total area of newly built and remodeled facilities. Also included in this category were redeveloped facilities of the former Tesco branch.



Modernization, remodeling and extensions are processes that older facilities will increasingly be put through in the coming years. Especially since those that are 10 years old and older account for more than half of the available stock in Poland. This is a trend that also fits in with current ESG policies. Big changes await Sukcesja in Lodz, which, according to the new owner's announcements, is to drown in greenery, refer to the city's manufacturing past and bring new functions under the center's roof. The estimated cost of the changes to the center hovers around PLN 50 million. In Krakow, demolition of a well-known center, Galeria Plaza, is underway. In the place of the facility, which has been closed since 2021, the owner, Strabag Real Estate, intends to erect a modern, multifunctional center built in accordance with the principles of sustainable development and closed-loop economy. Currently, the investor is at the planning and design stage of various variants of the mixed-use development, which is scheduled to be completed in years of 2023-2025. The authors of the report emphasize that the development of mixed-use projects with carefully thought through public spaces, which take into account the needs of local communities and have an urban creation and placemaking value, is a path that investors and developers are increasingly willing to follow.

The fourth quarter on Poland's commercial real estate investment market belonged to transactions involving retail facilities. Fabrice Paumelle, director of the Retail Department, points out that after many quarters of domination of small formats, investors took large shopping centers on their radar again. – *Not seen for long time purchases of large centers have returned. Forum Gdansk was sold for €250 million, the largest transaction involving a retail property in Central and Eastern Europe. NEPI Rockcastle, the new owner of Forum, also managed to buy Toruń's Atrium Copernicus center for 127 million euros that year. This is the fund's thirteenth facility in Poland, says Fabrice Paumelle. In addition, FREY signed an agreement with Ingka Centers to buy the Matarnia retail park in Gdansk for €105 million.*

The end of the year also brought changes in the tenant world. British fragrance house Jo Malone opened its first boutique in Poland. It chose the Westfield Mokotow center as its debut location. At the same time and from the same center, another store, belonging to the American Hollister chain, disappeared. Although the brand launched in Poland in 2012, the showroom in Warsaw's Mokotów was its only location.

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