

# CEE Retail Guide

## VIEWPOINT

Key market information for retailers looking to locate or expand in Central and Eastern European countries.

CBRE RESEARCH  
2022

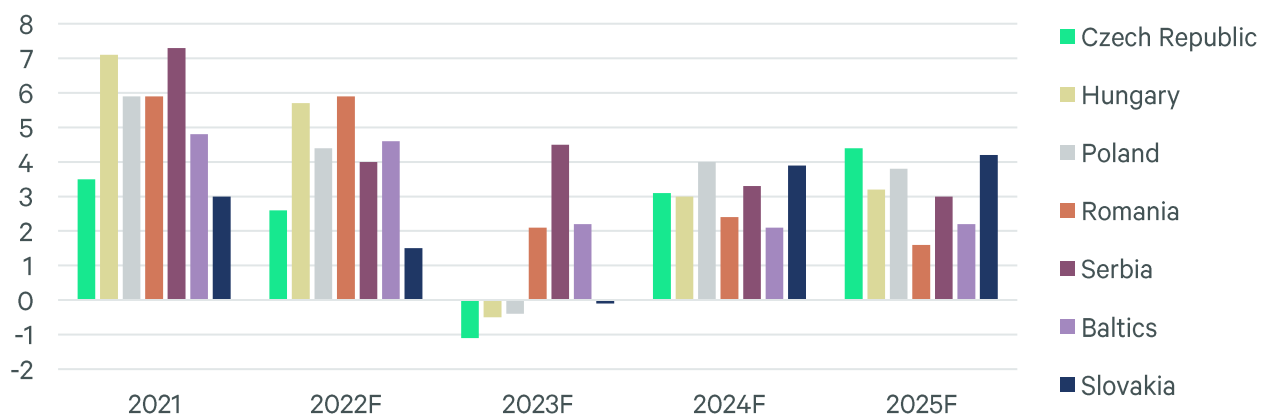


## Why Central and Eastern Europe?

The region went through the pandemic situation in quite a good condition, with positive GDP growth and forecasts.

2022 will end with the positive GDP growth for all countries, the highest in Romania at 5.9%. 2023 will be a year when a minor negative GDP growth will be experienced by majority of CEE markets. However, it will still be positive for Romania, Serbia/SEE and the Baltics, which may use this growth to build competitive advantage. Other economic factors such as competitive salaries, pool of young professionals with good English proficiency are attractive for retailers considering locating in CEE region.

### GDP growth forecasts: annual %



Source: CBRE House View, data as of October 2022

### Economy & Demography

	Baltic Region	Czech Rep.	Hungary	Poland	Romania	SEE/Serbia	Slovakia
Population	6M	10.7M	9.7M	38M	19.1M	7M	5.5M
Unemployment rate	6.9%	2.8%	3.4%	2.9%	5.5%	11.4%	6.6%
Employment	2.8M	5.1M	4.6M	16.3M	7.7M	2.3M	2.6M
Number of students	238k	319k	282k	1,431k	534k	243k	141k
GDP Growth (2021)	4.8%	3.5%	7.1%	5.9%	5.9%	7.3%	3.0%
Purchasing Power Index (% of EU average)	53.92	56.40	49.81	47.09	45.19	36.72	50.39
English Proficiency index	574 (4/5)	563 (4/5)	593 (4/5)	597 (4/5)	598 (4/5)	599 (5/5)	590 (4/5)
S&P Investment Rating	AA-/A+	AA-	BBB	A-	BBB-	BB+	A+
FDI (USD bn 2021)	8.37	5.81	5.46	24.82	8.61	4.56	0.06

Source: CBRE House View, Oxford Economics, GFK, Eurostat, EF English Proficiency Index, UNCTAD FDI, data as of H1 2022

## What is going on in the Retail sector in Central and Eastern Europe?

*During the last months, the retail business quite successfully recovered from the pandemic. In all CEE countries turnovers are widely at, or substantially above, 2019 levels and retailers have restarted their expansion programs.*

*Although nowadays CEE retail has to deal again with multiple issues:*

- double digit inflation
- exploding energy prices
- consumer sentiment on record lows
- scarcity of staff
- still discontinuous supply chains.

*The downward risks for both turnover and bottom-line of retailers resulting from these issues are evident. Such pressure might lead to another round of discussions between retailers and landlords about appropriate occupancy cost.*

*However, there are also positive signs to be taken into account:*

- During more than 2,5 years of pandemic, the resilience of the retail sector has been proven by both retailers and landlords
- The post-pandemic growth rates in CEE retail outgrew their Western European peers
- The boost towards an omnichannel business model brought most retailers into the 21st century leaving pure online players behind
- Retailers of several categories are still in substantial expansion mode, e.g. grocery, discounters, health & beauty, fitness and luxury
- The relatively high investment yields (compared to other asset classes) allow a positive leverage for retail investment deals also in an environment of increased financing costs
- An increasing number of retailers and landlords is benefitting from their investment into ESG – activities resulting e.g. in reduced energy consumption



**Walter Wölfler**  
CEE Retail  
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Population

100 M

Modern Shopping Centre Stock  
(sq m)

21 M

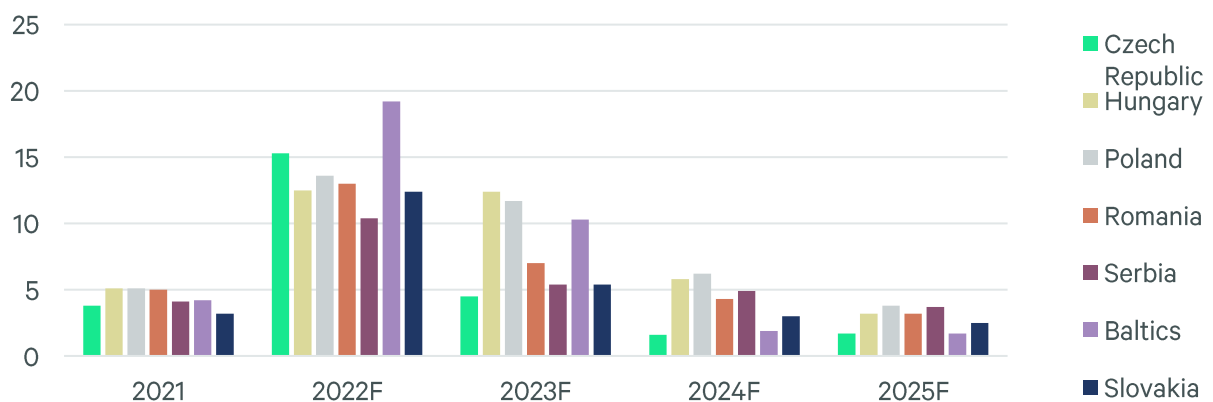
## Retail KPIs

Like in all sectors, the rising costs and high inflation are currently one of the major economic issues. On the positive note, levels of CPI in 2023 are forecast to be lower and the rate of price growth will slow down in all of the countries.

Consumer confidence index is below 100 in all countries, indicating a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less. However, the levels are not far from a 100, which is positive, and the slightly pessimistic view is understandable in the context of economic environment

E-commerce, still an important component of retail which accelerated intensely during pandemic, is expected to slow down its pace. Tenants will still focus on omnichannel and synergy of the channels - there is a need for new, technically advanced solutions in shops to enhance positive customer experience and attract both younger and older generations.

### Consumer price index growth forecast: annual average



Source: CBRE House View, data as of October 2022

### Retail KPI

	Baltic Region	Czech Rep.	Hungary	Poland	Romania	SEE/Serbia	Slovakia
Consumer confidence indicator	100	95	99	99	n/a	n/a	98
Purchasing power per inhabitant (EUR)	13,274	10,667	6,889	8,370	7,453	4,317	9,272
Volume of total sales (EUR M)	22,482	41,384	30,234	120,969	43,210	12,352	19,116
Volume of online sales (EUR M)	2,763	7,558	2,555	21,306	4,209	610	2,106
E-commerce penetration 2021	12.3%	18.3%	8.5%	17.6%	9.7%	4.9%	11.0%
E-commerce penetration forecast in 2026	20.9%	24.0%	12.9%	23.4%	14.2%	9.9%	14.8%
Retail density (GLA/'000 inhabitant)	471	384	230	298	209	154	417
3 new entries in 2020-2022	Domino's Pizza, Burger King, Under Armor	Chanel, Versace, Primark	RealMe, TEDi, JD Sports	Primark, JD Sports, DM Drogerie	Primark, TEDi, JD Sports	Decathlon, Peek & Cloppenburg, Pepco	Primark, Oysho, ZARA Home

Source: CBRE House View, Oxford Economics, OECD, Euromonitor, GfK, Eurostat, data as of H1 2022

## What's there to come for Retail?

The current political and economic environment makes it difficult to provide a reliable forecast for the upcoming months. In general, we see the following trends for retail real estate:

- Still strong interest in prime- and convenience-based retail
- Growing popularity of high streets, as a go-to place for new brands
- Increasing importance of mixed-use
- Increasing need of retailers for flexibility (lease-duration, break-clauses, pop-up solutions)
- Data and analyses are becoming increasingly important for retailers
- Green leases are being agreed upon

## Shopping centres in Central and Eastern Europe

Shopping centres are still the core assets for retailers willing to expand their retail chains. Even though the shopping centre stock is stabilized in most of the countries and expansions and new developments are now limited, owners of shopping centres are constantly taking care about their properties for the purpose of their attractiveness, as brick-and-mortar is still considered as more effective compared to online according to retailers.

Total retail shopping centres stock in CEE

21 m sq m

Average retail shopping centres rent in CEE capital cities

20-40 EUR

## Real Estate Markets – Shopping centres

	Baltics	Czech Rep.	Hungary	Poland	Romania	SEE/Serbia	Slovakia
SHOPPING CENTRES							
Total stock (sq m)	2.7 m	2.5 m	1.5 m	9.5 m	2.5 m	0.8 m	1.5 m
No. of shopping centres (#)	137	105	33	362	77	44	83
Shopping centre density (sq m/ '000 capita)	448	232	148	248	115	110	276
New supply in H1 2022 (sq m)	7,000	0	0	7,400	16,500	0	26,000
Under construction (sq m)	0	17,500	0	114,800	127,400	0	35,000
Prime rents in capital (EUR/ sq m/ m)	45-50	140	85	100	75	60	65
Average rents in capital (EUR/ sq m/ m)	15-25	45-60	30-50	35-50	20-45	26-28	25
Average lease terms (years)	5-10	4-5	5-10	5-10	5-10	5-10	5
Prime yields	7.0%-7.25%	5.75%	6.50%	5.75%	7.00%	8.25%	6.15%

Source: CBRE Research, data as of Q2 2022

## Retail parks in Central and Eastern Europe

According to [EMEA Retail Occupier Survey 2022](#), retail parks were selected as number one choice for expansions in 2022 by clothing and footwear retailers. This is also in line with the sector's success throughout the pandemic, when at times retail parks were the only open places for customers while shopping centres were closed due to restrictions. Their advantage is also seen by the investors, as the number of sales transactions of this type of asset in the investment volume has increased, although these are generally smaller in terms of volume.

Retail park stock in CEE countries

# 6.3 m sq m

Average retail park rent in CEE countries

# 8-12 EUR

### Real Estate Markets - Retail parks

	Baltics	Czech Rep.	Hungary	Poland	Romania	SEE/Serbia	Slovakia
RETAIL PARKS							
Total stock (sq m)	307 k	1.35 m	734 k	1.50 m	1.50 m	401 k	524 k
No. of retail parks (#)	9	117	61	141	92	34	63
Retail park density (sq m/ '000 capita)	51	126	75	39	68	57	96
New supply in H1 2022 (sq m)	0	4,000	8,300	95,800	20,000	19,000	0
Under construction (sq m)	63,000	41,900	0	222,100	166,600	35,000	36,200
Prime rents (EUR/ sq m/ m)	12	17	16	18	15	15	14
Average rents (EUR/ sq m/ m)	8	9-13	6-9	9-12	13	9	8
Average lease terms (years)	10	5	5+5	5+5	5+5, 10-25	5	5
Prime yields	7.25%	6.00%	7.00%	7.00%	7.00%	8.25%	6.75%

Source: CBRE Research, data as of Q2 2022

## What each CEE country has to offer?

*The increasing focus of occupiers to CEE Market in 2022 is directly connected to the quality of modern retail stock and the rising spending power in the region. Poland, the largest market in terms of population in CEE, with occupiers' going mostly in shopping centers, is currently a sophisticated market in terms of retail and being a „best-in -class” in the region for the concept of food halls and integrated mixed-use projects.*

*The Czech Republic is very attractive for luxury retailers which are considering to expand in both formats, covering high street and shopping centers. Romania, the second largest country in CEE gives occupiers the opportunity to expand their network in regional developed cities over 300 000 inhabitants beside the capital, Bucharest.*

*Both Hungary and Slovakia recovered in terms of tourism and remain key markets in CEE to both luxury and mass market retailers. SEE countries, even with smaller population, proved their performance in terms of retail and are seen as a natural step in expansion for brands operating in CEE region.*

*One trending topic in the regional retail market is related to ESG, given by the rising interest of both occupiers and developers on how to operate their businesses in amore sustainable way but also given the increased cost of occupancy.*



**Carmen Ravon**  
CEE Retail Occupiers  
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## The Baltics - Overview

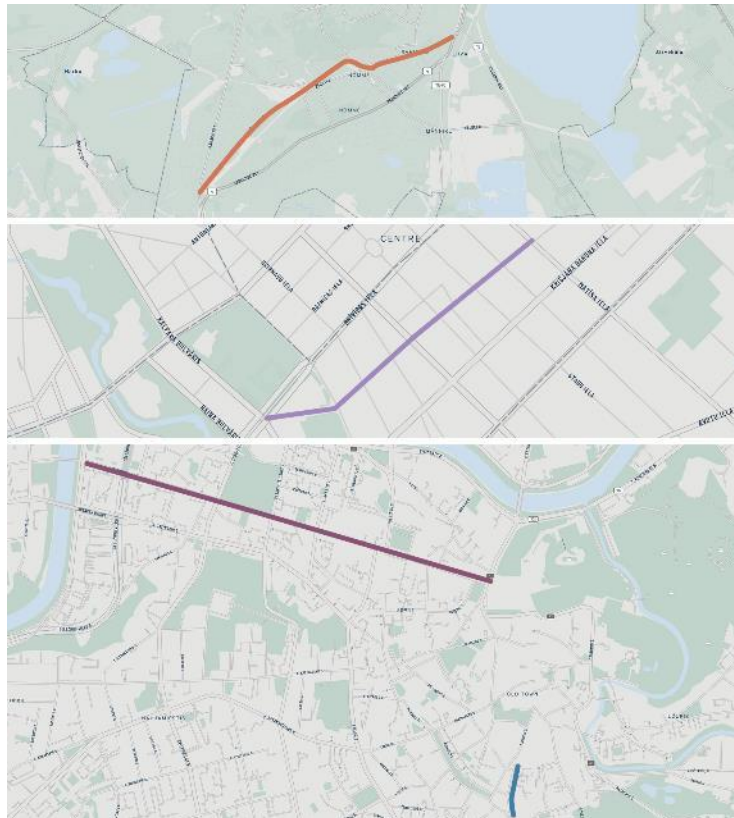
### FIVE LARGEST PRIME SHOPPING CENTRES

Centre	City	Year built	Size (sq m)	Owner
Akropolis Vilnius	Vilnius	2002	88,500	Akropolis Group
Ülemiste	Tallinn	2004	73,200	Linstow International
Akropole Alfa	Riga	2001	71,000	Akropolis Group
Spice complex	Riga	2001	62,850	Kapitel
Akropolis Kaunas	Kaunas	2007	58,120	Akropolis Group

### GEOGRAPHICAL DIVISION



### HIGH STREETS IN TALLINN, RIGA AND VILNUS



#### LEGEND

— Parnu st. - Tallinn	— Gedimino st. - Vilnius
— Tērbatas st. - Riga	— Didžioji st. - Vilnius

### Retail stock structure

+10 years – 86%

5-10 years – 4%

-5 years – 10%

### Rent-free period

yes

### Step rent

yes

### Fit-out budget

yes

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## Definitions

**Shopping centre** is defined as: 1. centrally managed, purpose built shopping facility; 2. GLA of over 5,000 sq. m; 3. 10+ retail units; 4. anchor tenant doesn't exceed 60 percent of GLA

**Retail park** is defined as: 1. a consistently designed, planned and managed open-air scheme that comprises of mainly medium- and large-scale retailers with more than two tenants, usually one-floor, lacking common areas 2. GLA of over 5,000 sq m

**Prime rent** is defined as typical "achievable" open market headline rent which an international retail chain would be expected to pay for a ground floor retail unit of up to 200 sq m of the highest quality and specification and in the best location in a given market, commensurate with demand in each location.

**Prime yield** is defined as the yield which an investor would receive when acquiring a grade/class A building in a prime location (CBD, for example), which is fully let at current market value rents.

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