



The Luxury Goods Market in Poland

2016 Edition

KPMG.pl





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Introduction

It gives us great pleasure to present the seventh edition of the report on the luxury goods market in Poland. At the same time, we are very satisfied with the great interest in our previous publications, and the many positive opinions encourage us to conduct further in-depth research.

The guiding principle of this year's edition of the report is an analysis of particular segments of the luxury goods market, which has been supplemented by consumer survey results and comments of industry experts.

In addition, this year we undertook to examine the luxury goods market from a wider, so far unrepresented, perspective, by looking at the issue of investing in collectible luxury goods, such as art, watches, motor cars or wines and spirits.

This year's analysis of the luxury and premium goods market unequivocally shows that the further positive growth of the market is almost assured. It is not only the number of affluent and wealthy people that grows from year to year, but also their wealth. Growth is observed and forecast in practically every segment of the market and, considering the opinions of experts, in some categories they may even outstrip the forecasts for Europe's most economically developed countries.

We extend our heartfelt thanks to all the companies, organizations and people who have participated in the preparation of this year's edition of the report. We are convinced that reading it will provide you with further interesting insights regarding this uniquely interesting market.



Andrzej Marczak
Partner, KPMG in Poland



Tomasz Wiśniewski
Partner, KPMG in Poland

Key conclusions



The value of the market for luxury goods in 2016 is estimated at PLN 16.4 billion.

This represents an increase of 15% on the previous year. According to KPMG's estimates, by 2020 the value of the luxury goods market in Poland will increase by 27%, reaching a level of nearly PLN 21 billion. This increase will be due primarily to increased sales of luxury and premium cars, exclusive clothing and accessories, and Hotel and Spa services.



The net income of affluent and rich Poles in 2016 amounts to approximately PLN 171 billion.

The number of people with a monthly income in excess of PLN 7.1 thousand living in Poland in 2016 will exceed 1 million for the first time. We predict that this upward trend will continue, and that in 2019 Poland will be home to 1.3 million affluent and rich people, whose combined annual income will amount to about PLN 220 billion.



The number of High Net Worth Individuals (HNWI) in Poland is estimated at 41.1 thousand.

The concept of the richest people, known as HNWI (High Net Worth Individuals), refers to people with liquid assets worth over USD 1 million. In Poland, there are 41.1 thousand people that may be considered to belong to the HNWI category. The assets of the majority of these is estimated at between USD 1 and 5 million.



In the Mazowieckie Voivodeship in 2015, over a quarter of a million taxpayers submitted returns for gross annual earnings in excess of PLN 85 thousand.

People with annual earnings of over PLN 85 thousand that submitted tax returns for 2015 in the Mazowieckie Voivodeship achieved a cumulative gross income of over PLN 60 billion. In the Śląskie Voivodeship, 104 thousand taxpayers with a cumulative gross income of almost PLN 22 billion submitted returns. Dolnośląskie Voivodeship took the third place in terms of the number of affluent and rich people – 86 thousand people with a cumulative gross income of almost PLN 17 billion.



Premium and luxury cars is the largest segment of the luxury goods market.

The value of the premium and luxury motor car market in Poland in 2016 is estimated at PLN 8.5 billion. The number of new registrations in 2015 achieved the record level of 40.4 thousand, and data for the first three quarters of 2016 indicate that the result will be even greater this year. The luxury car market has a particularly bright outlook, and will rise by an average of almost 10% per year.

Jewellery and watches is the fastest growing segment of the luxury goods market, achieving an average annual growth of 10%.

In Poland, the luxury jewellery market is almost three times the size of the luxury watches market; for 2016, their value will amount to PLN 322 million and 111 million respectively. The compound annual growth rate (CAGR) for the years 2016–2020 is expected to reach 10% for the whole luxury jewellery and watches market, achieving a level of almost PLN 640 million in 2020.



Eight out of ten Poles with a gross monthly income in excess of PLN 7.1 thousand admit buying luxury goods.

In the group of people with a gross monthly earnings exceeding PLN 20 thousand, this ratio reaches as much as 97%. Affluent and rich people choose luxury goods primarily for their high quality, reliability and design.



The price of a luxury car starts from PLN 215 thousand.

According to affluent and wealthy respondents, the price of luxury high-end audio equipment starts from PLN 10.8 thousand, a weekend at a spa for two adults will cost a minimum of PLN 2.4 thousand and a bottle of cognac should cost no less than PLN 700. A woman who wishes to have luxury clothing in her wardrobe should, according to our respondents, pay at least PLN 1.9 thousand for a bag, PLN 2.0 thousand for a dress and PLN 1.2 thousand for shoes. By the same token, a man should spend PLN 6.1 thousand for a watch, PLN 3.5 thousand for a suit and PLN 1.0 thousand for shoes.



The collectible goods market is characterised by low liquidity and the greatest gains will be achieved after many years, even decades.

Although the return on investment from art, motor cars, wines and spirits, and watches was higher for many years than from shares, bonds or even real estate, it is well to remember that in this case it is difficult to predict when the next dramatic rise or spectacular crash of the market will occur.



Among all collectible luxury goods, investment in works of art are most popular among affluent and rich people; almost 10% of our respondents invest in art.

Moreover, one person in four is planning such an investment in the future. This is not, however, the most profitable method of increasing assets. This segment is clearly dominated by investment in rare, collectible models of cars, which, according to the London-based organization 'Historic Automobile Group International, could have provided the owner with profits of almost 500% over the last few years.



1

Buyers of luxury goods in Poland and their financial situation

For another successive year, a rise is observed in the number of affluent and rich people in Poland. We forecast that this figure will exceed 1 million for the first time, and the combined net annual income of these people will reach a value of over PLN 170 billion.

The number of potential buyers and their income

Our analysis shows that in 2015 Poland was home to 987 thousand people who could be described as affluent or rich, that is, achieving a gross annual income exceeding PLN 85 thousand. This group has at its disposal combined earnings in excess of PLN 164 billion. The number of affluent or rich people rose by 77 thousand in comparison to 2014, and their combined income increased by PLN 16.2 billion. Both the number of people who pay taxes according to the progressive income tax rate and the number paying taxes according to the flat rate tax at 19% have increased (by 52 thousand and 25 thousand respectively).

Following a slight decrease in the taxpayers' income from the sale of securities and derivative financial instruments in the previous year, this category also showed an increase and returned to the level of 2013, reaching a value of PLN 401 billion in 2015.

We estimate that in 2016 the number of affluent and rich people will increase

by 54 thousand and will exceed 1 million for the first time. Their income will then achieve a value of PLN 171 billion. We forecast that this trend will hold, and that in 2019, Poland will be home to almost 1.3 million affluent and rich people, with an income of almost PLN 220 billion.



Affluent People

People with a gross monthly income between PLN 7.1 – 10 thousand



Very Affluent People

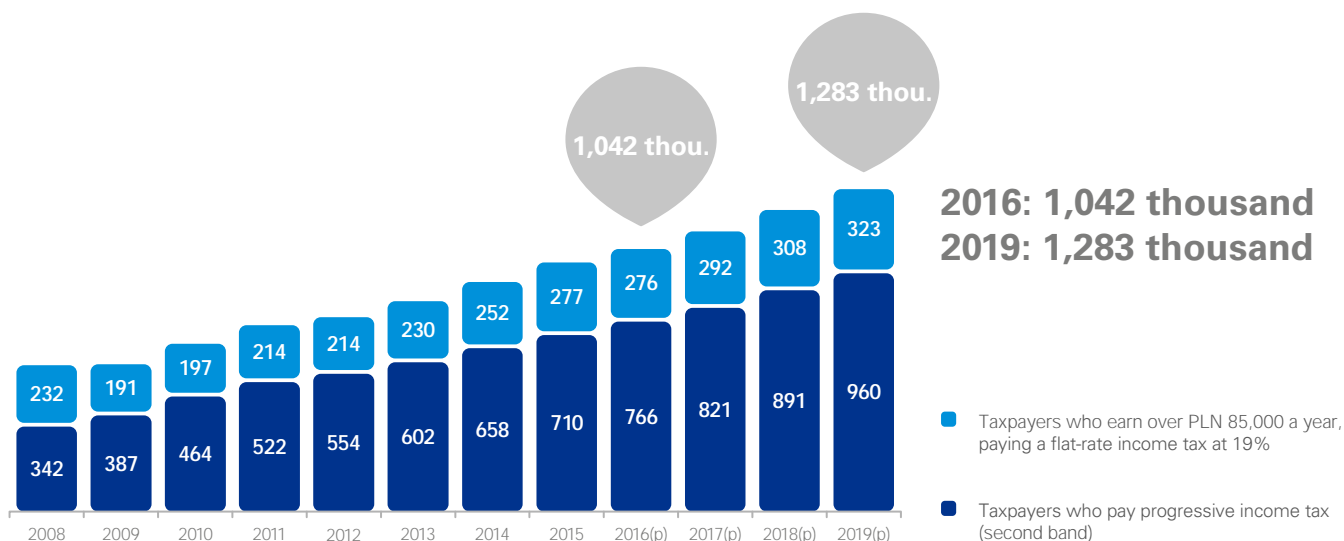
People with a gross monthly income between PLN 10 – 20 thousand



Rich People

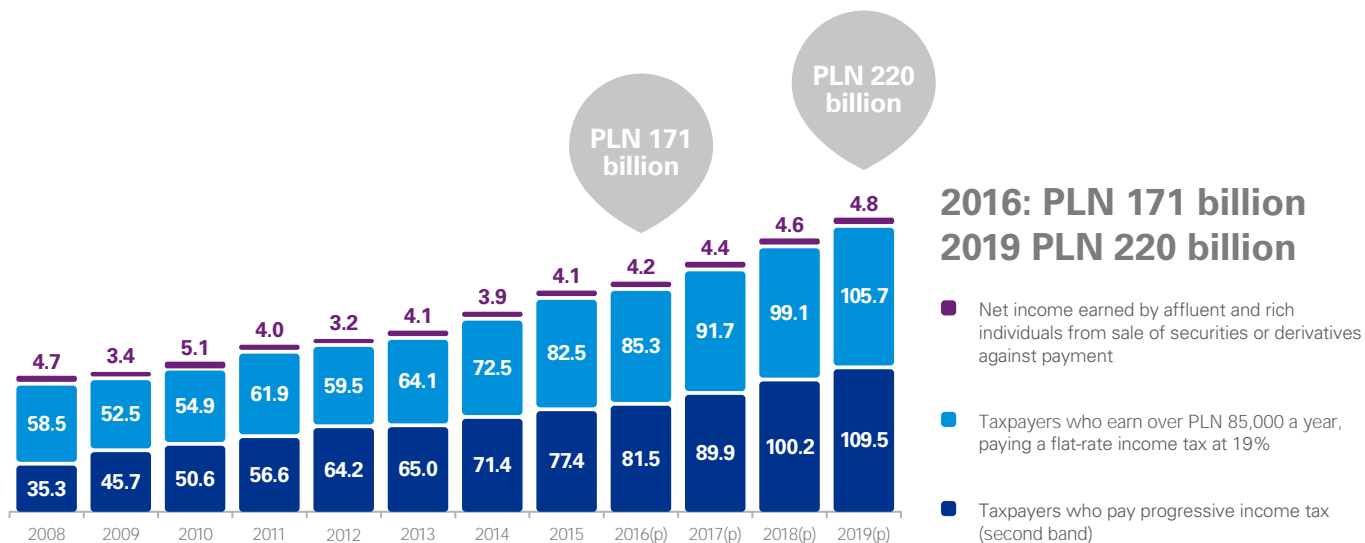
People with a gross monthly income in excess of PLN 20 thousand

Number of affluent and rich individuals in Poland (thousands)



Source: KPMG in Poland based on Ministry of Finance data; (p) – projection by KPMG.

Total annual net income of affluent and rich individuals in Poland (PLN billion)



Source: KPMG in Poland based on Ministry of Finance data; (p) – projection by KPMG.



From year to year, the number of affluent and rich people is rising. We forecast that at the end of 2016 the cumulative value of the net income they earn will probably exceed the level of PLN 170 billion. According to forecasts, the coming years appear equally promising. In the course of the next three years, this number will increase by another PLN 50 billion. The majority of people whose gross annual income exceeds PLN 85 thousand live in the Mazowieckie Voivodeship, and they represent 7% of the adult population of this region. The next ones are the Śląskie and Dolnośląskie Voivodeships.

The most important group for the luxury goods market are, however, people with liquid assets in excess of USD 1 million (known as HNWI), since it is they who contribute to the majority of financial increases in this sector.

Andrzej Marczak
Partner,
KPMG in Poland



30%

projected increase
of combined net income
of affluent and rich Poles
over the next 3 years



Barely 3%

of taxpayers achieve gross
monthly earnings in excess
of PLN 7.1 thousand



The number of affluent and rich people in Poland and the level of their combined gross income are noticeably diversified regionally. The largest number of taxpayers, more than a quarter of a million people (287 thousand) with a gross annual income in excess of PLN 85 thousand, paid their taxes in 2015 in the Mazowieckie Voivodeship. Their combined gross income was in excess of

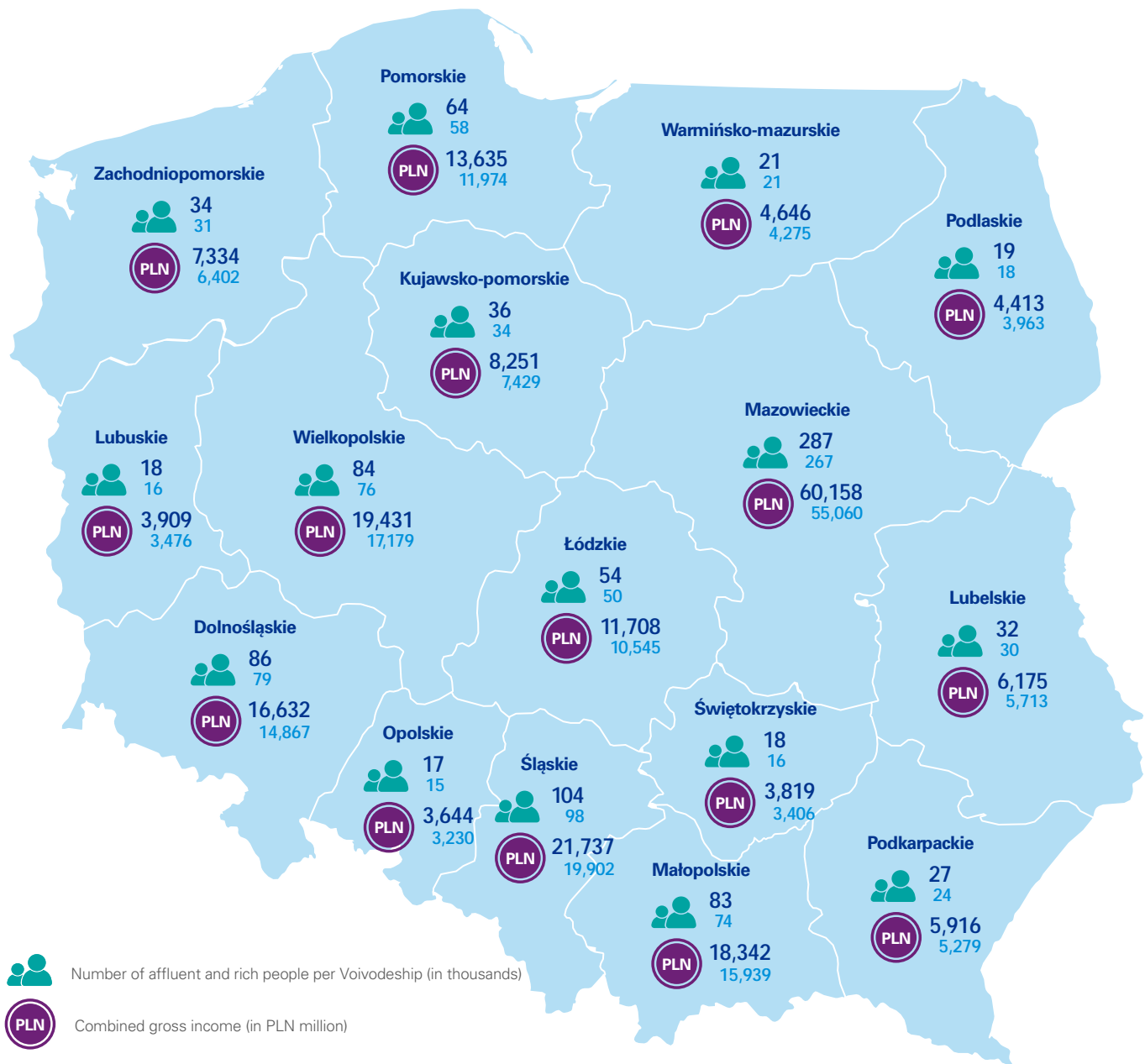
PLN 60 billion. Second place was occupied by the Śląskie Voivodeship – 104 thousand taxpayers with a gross income over PLN 85 thousand and a combined gross income of almost PLN 22 billion. Dolnośląskie Voivodeship took the third place with respect to the number of affluent and rich people (86 thousand), while Wielkopolskie Voivodeship took the third place when it comes to the gross income (PLN 19 million).



PLN 18.0
thousand gross per month

represents the mean income of affluent and rich people in Poland

Combined number of affluent and rich people per voivodeship (in thousands) and the combined gross income (in PLN million)



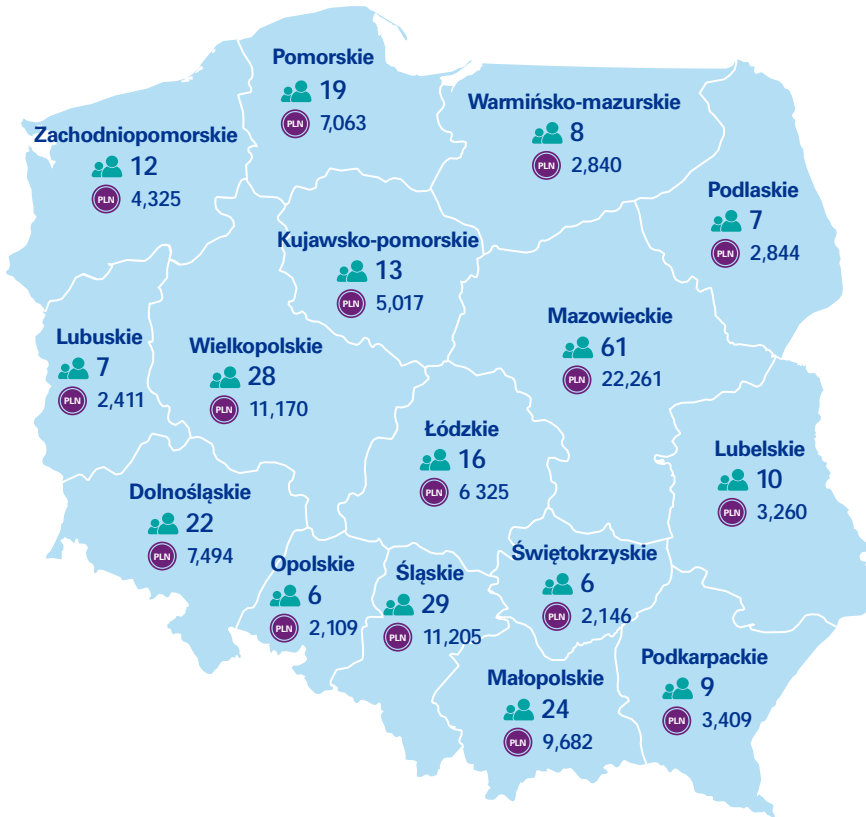
Number of affluent and rich people per Voivodeship (in thousands)

Combined gross income (in PLN million)

■ 2015 ■ 2014

Source: KPMG in Poland based on Ministry of Finance data.

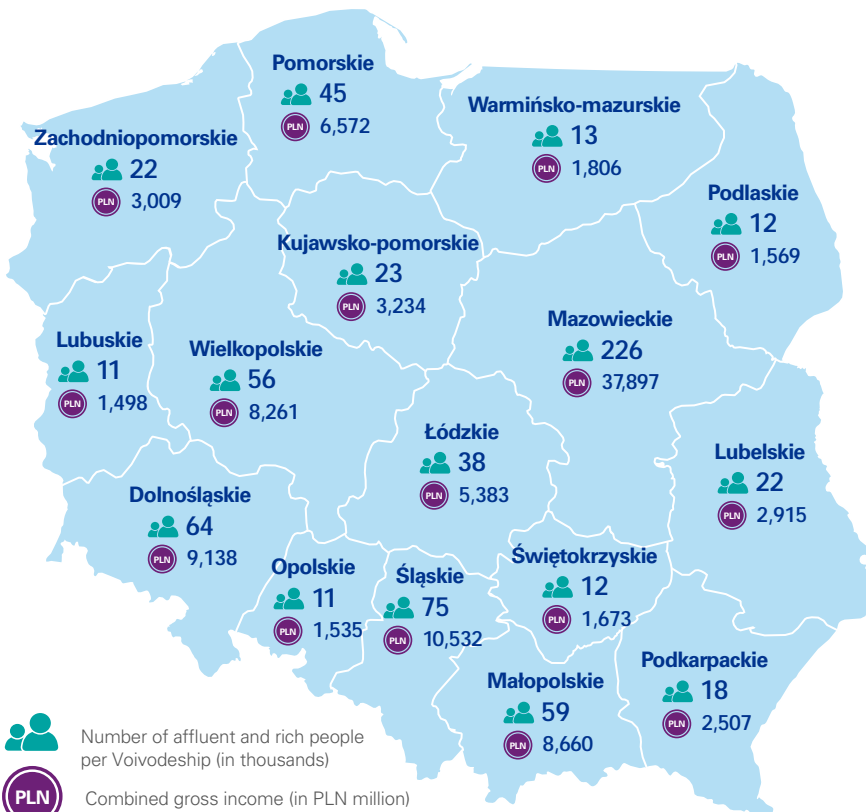
Combined number of affluent and rich people paying a flat-rate income tax at 19% per voivodeship (in thousands) and the combined gross income (in PLN million)



PLN 30.9
thousand gross per month

represents the mean income of affluent and rich people paying a flat-rate income tax at 19%

Combined number of affluent and rich people who pay progressive income tax (second band) per voivodeship (in thousands) and the combined gross income (in PLN million)



PLN 11.8
thousand gross per month

represents the mean income of affluent and rich people who pay progressive income tax (second band)



Number of affluent and rich people per Voivodeship (in thousands)

PLN Combined gross income (in PLN million)

Source: KPMG in Poland based on Ministry of Finance data.



1 in 1,000

people in Poland

belong to the HNWI group. By comparison, in Switzerland, it is one in ten.

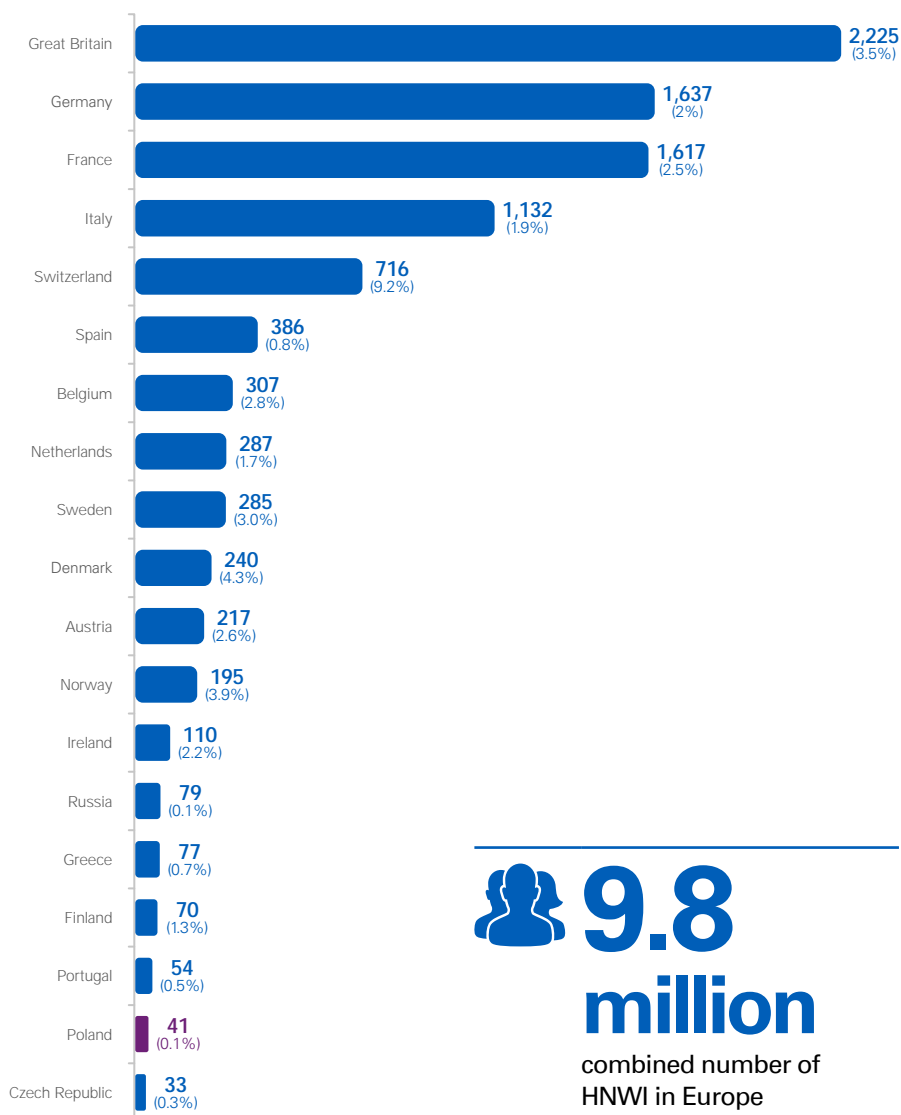
The most important target groups for companies operating in the luxury and premium goods market are affluent and rich people, and amongst them the HNWI (High Net Worth Individual) segment is crucial. Liquid assets (e.g. cash, shares, securities, gold) exceeding USD 1 million in value are traditionally accepted criterion for belonging to this group.

As shown by the Global Wealth Databook 2016 report, issued by Credit Suisse, over 41 thousand people living in Poland can be considered as belonging to the HNWI category. In comparison to countries in Western Europe, the number of HNWI in Poland is not great. For instance, in The United Kingdom there are 2.2 million of them, in Germany and France – 1.6 million each and in Italy – 1.1 million. The number of HNWI in Poland is comparable to countries such as Portugal (54 thousand), Finland (70 thousand) or the Czech Republic (33 thousand), countries with significantly smaller populations.

The assets held by the majority of Polish HNWI (36.5 thousand) are estimated at between USD 1 and 5 million. Only a very small group enjoy significantly larger assets.

Analysis of the change in the number of HNWI over the most recent period revealed a small decline in the last few years. This is due mainly to the weakness of PLN with respect to USD in comparison to previous years.

Number and percentage of HNWI in selected European countries (in thousands, 2016)



9.8 million

combined number of HNWI in Europe

Number of HNWI in Poland according to wealth



USD 1–5 million	36,521
USD 5–10 million	2,839
USD 10–50 million	1,556
USD 50–100 million	126
over USD 100 million	82
Total HNWI	41,124

HNWI (high net worth individuals) – people with assets exceeding USD 1 million

Source: KPMG in Poland based on Credit Suisse data.

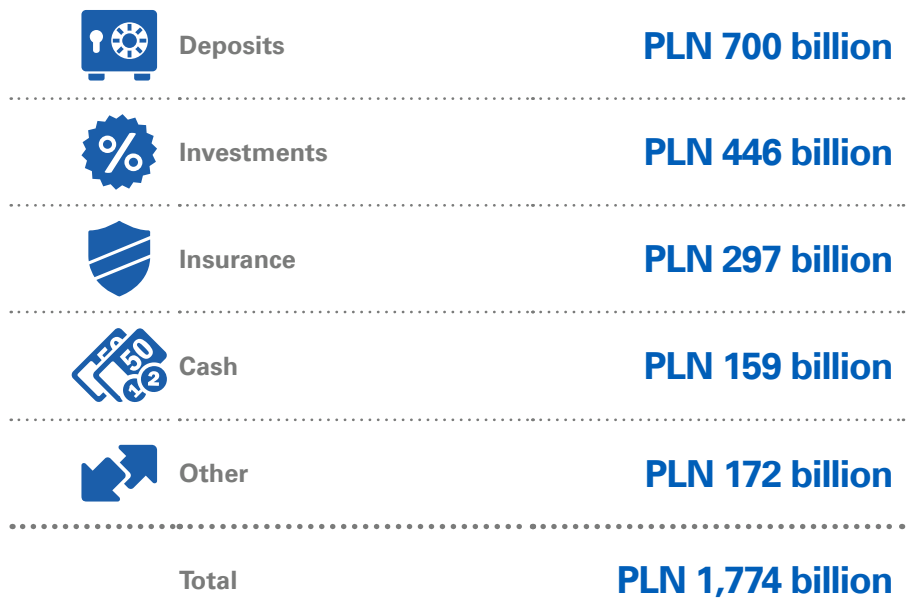
Poles' Assets

Consistently deposits are the largest part of the assets of households in Poland over the past years. Their value shows steady growth, reaching PLN 700 billion in the second quarter of 2016, which is a remarkable 11% more in comparison with the corresponding period of 2015.

A significant rise has also been observed with respect to the amount of cash held by the Poles. In the second quarter of this year, they accumulated PLN 159 billion of assets in cash, which represents an increase of 18% over the course of the last year.

In the second quarter of this year, the Poles had invested exactly the same amount as in the previous year, namely PLN 446 billion. Yet the decline in the value of shares held (6%) was more than compensated by an increase in the value of debt securities by up to 45%.

Three years ago, at the end of 2013 and the beginning of 2014, the category of insurance and OFE (open-end pension funds) recorded a significant decrease in value, caused by a one-time transfer

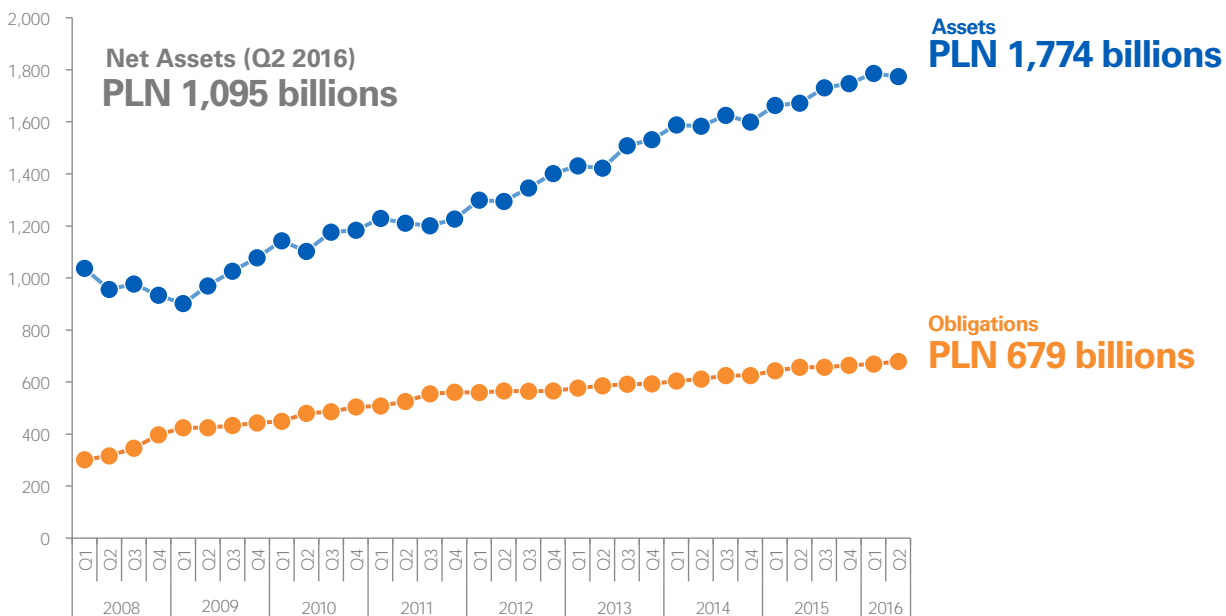


Source: KPMG in Poland based on NBP data.

of capital from the OFE to ZUS (social security institution). Over the course of the last year, the value of these assets has remained at a similar level, with an upward trend, reaching PLN 297 billion by the end of the second quarter of 2016.

From year to year, a rise in the values of household assets is observed, which at the end of the second quarter of 2016 achieved a value of PLN 1,774 billion. At the same time, the value of obligations also rose, to PLN 679 billion.

Financial assets and obligations of households (in PLN billions) (Q2 2016)



Source: KPMG in Poland based on NBP data.

The Poles assets in comparison to other European Countries

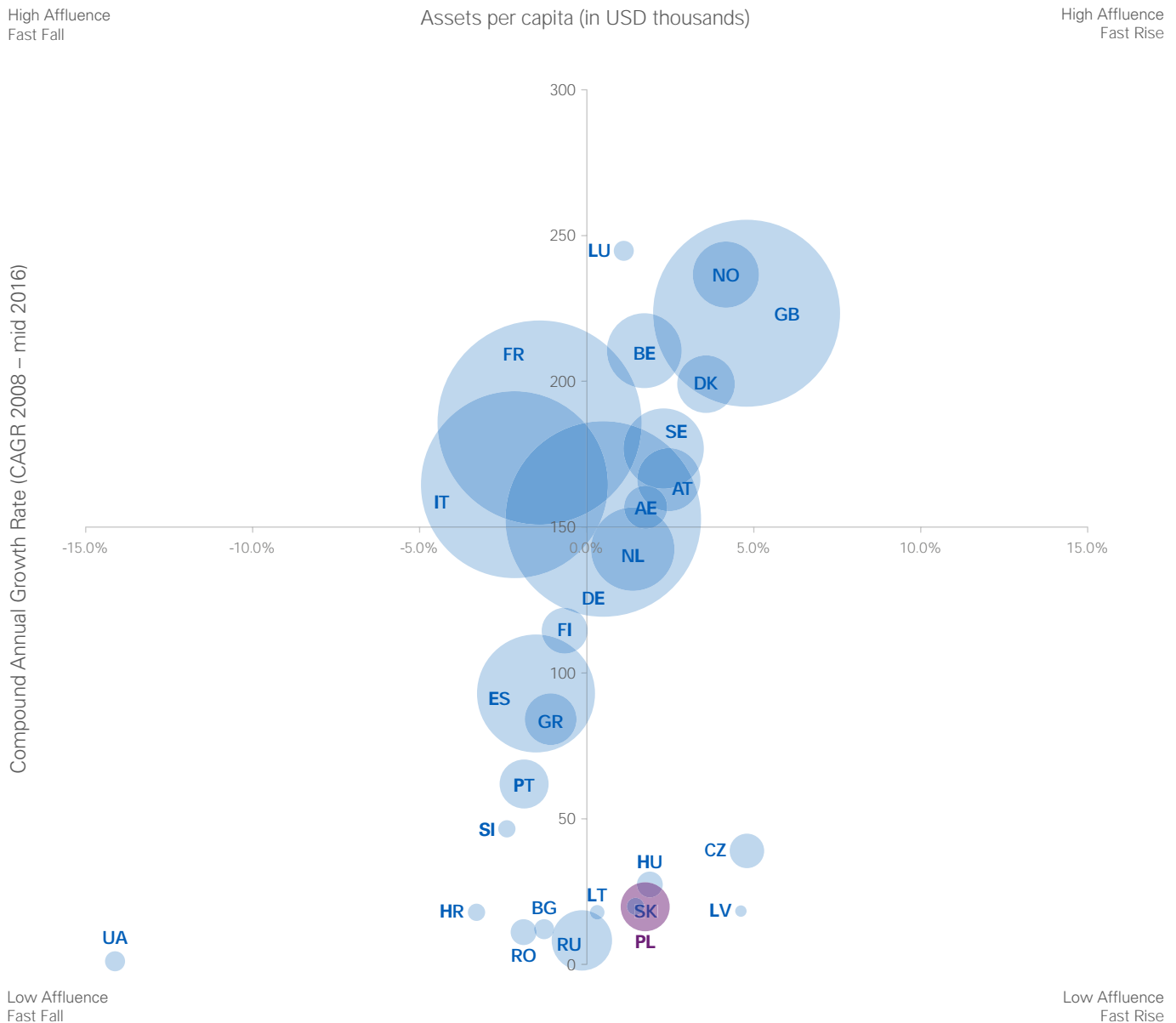
In comparison to Western European countries, the assets of Poles can be described as modest. In mid-2016, the mean value of assets (financial and non-financial assets, after deduction of liabilities) per person in Poland amounted to USD 19.8 thousand, whereas the mean for the European Union is equal to USD 132.5 thousand, i.e. almost seven times as much.

The value of the assets of the average Pole is comparable to countries such as Slovakia (USD 19.9 thousand), Croatia (USD 17.9 thousand), Lithuania (USD 17.9 thousand) or Hungary (USD 27.3 thousand). Ahead of us is the Czech Republic with mean assets of USD 38.9 thousand as well as the relatively less affluent countries of Western Europe, such as Portugal (USD 61.8 thousand), Greece (USD 84.1 thousand) and Spain (USD 92.8 thousand). Among the most affluent of Europe's inhabitants are the citizens of Switzerland

(USD 448.8 thousand), Iceland (USD 301.4 thousand), Luxembourg (USD 244.7 thousand) and Norway (USD 236.5 thousand).

Poland is country with a relatively low level of affluence, yet the mean value of assets per person has been rising over recent years (7.6% growth annually between 2000 and 2016). In 2000, the value of the assets of the average Pole amounted to USD 6.4 thousand and in 2008 – PLN 17.3 thousand.

Affluence of selected European Societies



Area of the circle reflects general level of affluence
Source: KPMG in Poland on the basis of Credit Suisse data.



2

The Luxury Goods Market in Poland

In 2016, the value of the luxury goods market in Poland increased by 15% in comparison to the previous year and was worth almost PLN 16.4 billion. This total comes mainly from luxury consumer goods (clothing and accessories, wines and spirits, jewellery and watches, cosmetics and perfumes, home electronics, stationery), premium and luxury motor cars and also luxury real estate (apartments and houses), yachts, aircraft, hotel and spa services and furniture.

Premium and luxury motor car segment is the largest of the analysed categories, with the value amounted to approximately PLN 8.5 billion in 2016. Luxury clothing and accessories is the largest segment of the market, with a sales volume of PLN 2.2 billion. Further positions are occupied by hotel and spa services (PLN 1.6 billion), real estate (PLN 1.2 billion) furniture (PLN 0.7 billion) and wines and spirits (PLN 0.7 billion).

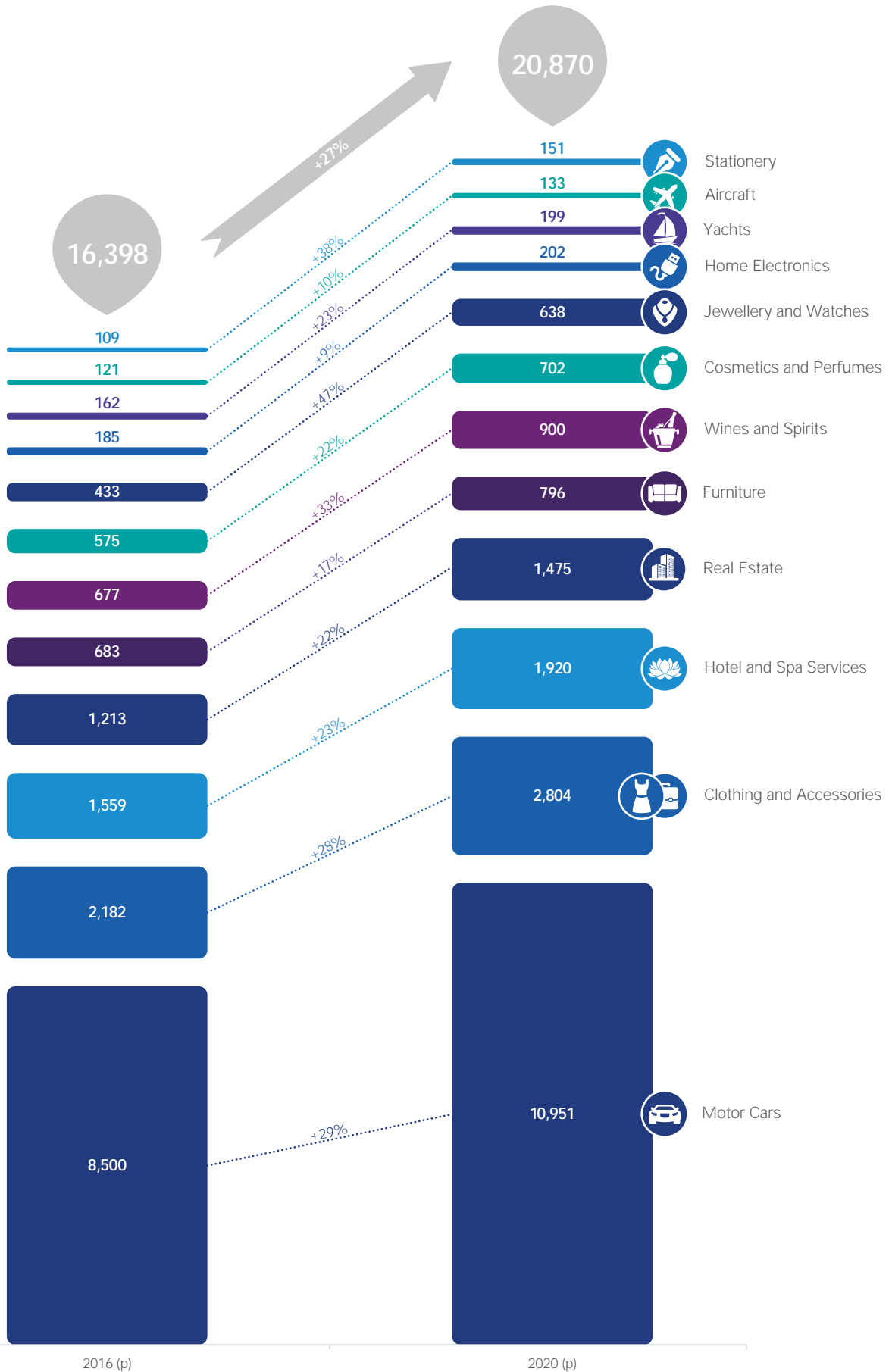
According to KPMG forecasts and data from Euromonitor International, in 2020 the value of the Polish luxury goods market will achieve a level of almost PLN 20.9 billion. This represents an increase of 27% with respect to 2016. Jewellery and watches, stationery, wines and spirits, premium and luxury motor car are segments where the most dynamic growth is observed.



Luxury goods

Any goods bearing a brand universally considered as luxury in a given market or those that, due to their specific features (uniqueness, high price etc.), become a luxurious.

Value and structure of the luxury goods market in Poland (in PLN million)

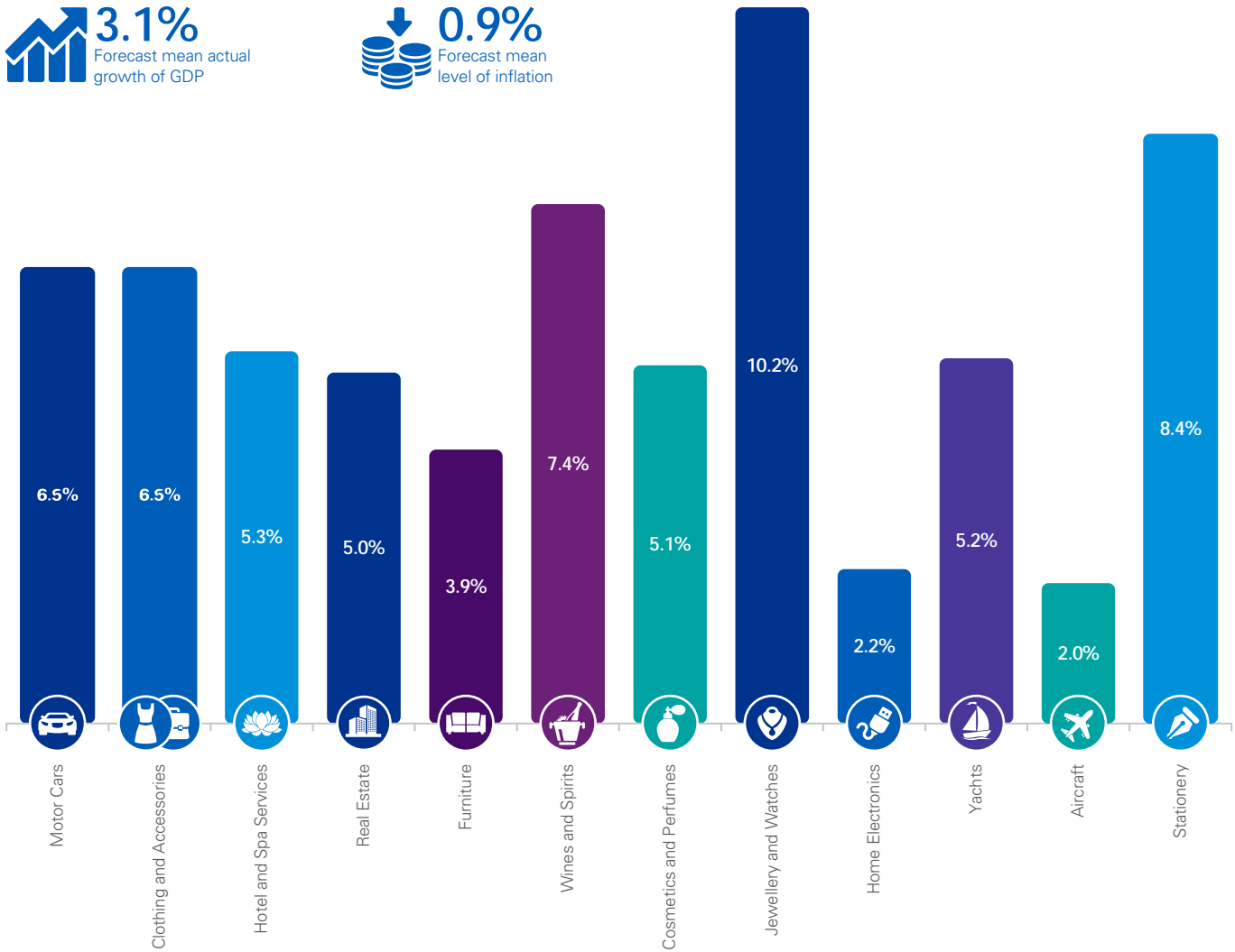


Source: KPMG in Poland based on Euromonitor International, GUS data and desk research; (p) – projection.

Forecast average annual growth rates in the segments of the luxury goods market for the years 2016–2020

3.1%
Forecast mean actual
growth of GDP

0.9%
Forecast mean
level of inflation



Source: KPMG in Poland based on Euromonitor International, GUS, Economist Intelligence Unit data and desk research; (p) – projection.



Luxury brands are identified with excellent quality and long tradition. At the same time luxury brands' items provide their owners with satisfaction, pleasure and allow them to stand out from the crowd. The needs of Poland's rising middle class, in conjunction with increased income, enable a steady growth of the luxury goods market. Its value has increased by 15% in relation to the previous year, reaching almost PLN 16.4 billion. Forecasts show that the value of the market will exceed PLN 20 billion by 2020. Among all of the segments of the luxury goods market, the jewellery and watches category stands out, having achieved a two-digit mean annual growth rate. The premium and luxury motor cars segment remains the biggest one in this market for many years.

Tomasz Wiśniewski
Partner,
KPMG in Poland



For the purposes of this report and the research, of which the respondents were potential purchasers of luxury and premium goods, it was assumed that luxury goods are: any goods bearing a brand universally considered as luxury, or those that – due to their specific features (uniqueness, high price, etc.) – take on a luxurious character.

The purchasing decisions of affluent and rich Poles

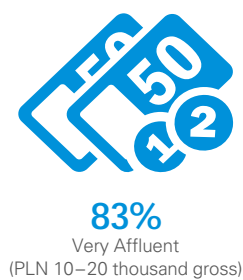
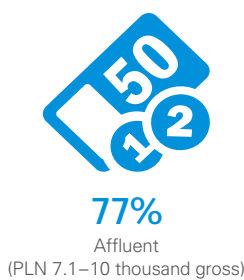
The results of the aforementioned research show that as many as eight out of ten respondents purchase luxury products. Among people earning in excess of PLN 20 thousand gross, as many as 97% declare that they purchase luxury goods.



8 out of 10 respondents

declare the purchase luxury goods

Percentage of respondents declaring the purchase of luxury goods



Source: KPMG in Poland based on consumer research.

Among all respondents, almost one in five people declared that they do not buy luxury goods at all. Over one third believes that luxury goods are not necessary or that often the products are impractical, and their functionality does not improve in proportion to the increased price.

The fact that luxury goods are too expensive and the surveyed group cannot afford to buy them is another mentioned reason, why the surveyed group does not acquire them.

One fifth of the people in this group declared that luxury goods are often not worth the money, and that it is frequently possible to find products with the same functionality but at a lower price, with a less prestigious logo.

Snobbery is the last, least commonly declared reason for not buying luxury goods. Surveyed people consider flaunting their money (which often does not match their true income, needs or lifestyle) as very arrogant behaviour.



Selected statements of respondents who do not buy luxury goods

“80% of the time, I do not need such a luxury, or it is impractical. A watch, whether for PLN 400, 4 thousand or for 40 thousand, tells the time just the same. With a car with leather upholstery, I must constantly wonder if I can eat or drink anything inside, or that the children might stain it and the dog might scratch the leather and so on.”



Woman, 43, gross monthly income: PLN 7.1–10 thousand, Łódzkie Voivodeship

“The price is significantly disproportionate to the true value. Inside the fancy packaging, we usually get a product from the same Chinese factory as the cheaper alternative. With respect to food, the ingredients are usually no different than in the standard product.”



Man, 36, gross monthly income: PLN 7.1–10 thousand, Wielkopolskie Voivodeship

“I can’t afford it.”



Man, 40, gross monthly income: PLN 7.1–10 thousand, Łódzkie Voivodeship



The quality is the most common factor taken into consideration by purchasers of luxury goods. It is the high quality of the products that is linked to their durability and reliability. Secondly, regardless of income, the purchaser of luxury goods consider the aesthetic qualities as a very important feature. They seek products and services with an appearance and design that appeal to their taste and aesthetic preferences. This opinion is shared by 70% of the people that took part in our survey.

The remaining factors were indicated rather more seldom. About 40% of affluent and rich Poles pay attention to the prestige/reputation of the brand. One in three, in turn, claims that uniqueness and rarity play a key part in the purchase of luxury goods. Third parties point of view is also not without significance, since as many as 30% of respondents indicated this as a key factor. Other factors, such as tradition/history of the brand, the price, recognisability, the values represented by the brand or celebrity

endorsements were pointed out by a significantly smaller percentage of respondents and appeared to have a lesser influence on purchase decisions.

According to the participants' statements, it seems that the main reason why respondents buy luxury goods and services is to meet their needs; they feel valued and reward themselves for the hard work they had to do to earn the money.

There is another group of purchasers of luxury goods who pay attention to the comfort involved in using them. They place great stress on the quality of service, which is particularly noticeable while eating in very good restaurants and while purchasing and using luxury brand cars.



Selected statements of respondents who buy luxury goods

"I want to experience exceptional things in life, I look for the best, and I strive to be the best myself in various spheres of my activity; the word 'the best' enthuses me. I consider buying luxury things for myself as a natural thing."



Woman, 41, gross monthly income: PLN 7.1–10 thousand,
Mazowieckie Voivodeship

"Their quality is higher, they stand out and having and using them provide their owners with satisfaction."



Man, 36, gross monthly income: PLN 10–20 thousand,
Śląskie Voivodeship

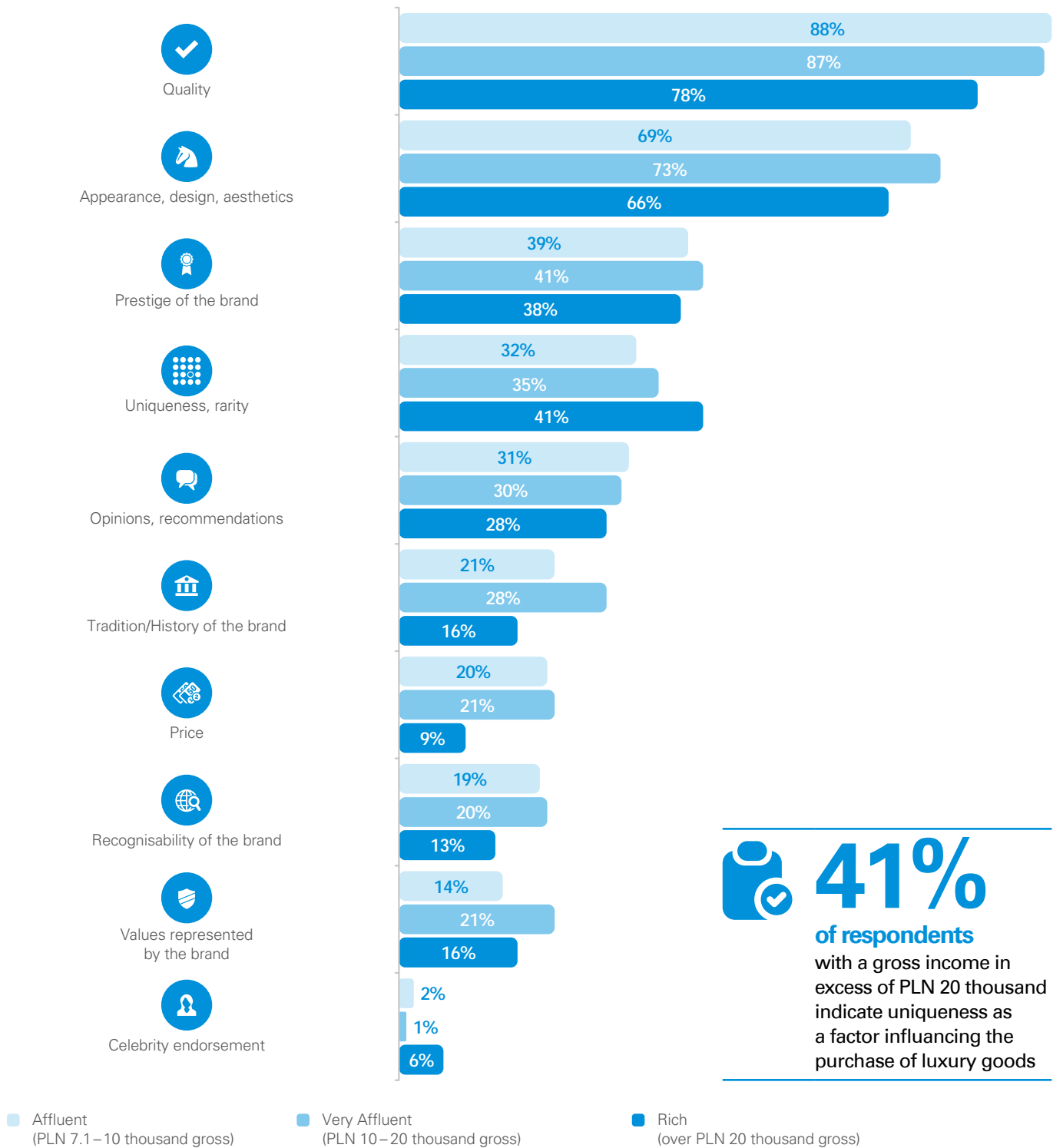
"I look for quality and advanced technologies, and luxury products fulfil these criteria."



Man, 50, gross monthly income: in excess of PLN 20 thousand,
Mazowieckie Voivodeship



Factors that affluent and rich Poles consider in decisions in purchasing luxury goods



Source: KPMG in Poland based on consumer research. Respondents could indicate a maximum of four important factors.

Perception of Luxury

When analysing the luxury goods market, it is worth examining what the products are associated with and what they mean for their purchasers. From our research, it appears that they are primarily associated with high quality and reliability – 84% of all respondents agree with this statement, and this proportion is even higher (94%) among people whose gross monthly earnings exceed PLN 20 thousand. For three out of four Poles with a gross monthly earnings above PLN 7.1 thousand,

luxury enables them to do something nice for themselves or others. A similar group of people are of the opinion that luxury goods and services enable them to stand out from the crowd. Interestingly, as many as 88% think that luxury goods and services allow them to build a professional image and prestige, whereas among the affluent (gross earnings PLN 7.1 – 10 thousand) this ratio was 67%.



94%

of respondents

with a gross income in excess of PLN 20 thousand identify luxury goods with high quality and reliability

The meaning of a luxury for affluent and rich Poles

	Affluent (PLN 7.1 – 10 thousand gross)	Very Affluent (PLN 10 – 20 thousand gross)	Rich (over PLN 20 thousand gross)
High Quality and Reliability	82%	83%	94%
Fun and Enjoyment	76%	74%	85%
Stand Out from The Crowd	73%	74%	76%
Image and Prestige	67%	78%	88%

Source: KPMG in Poland based on consumer research. Respondent had to refer to each statement.

Accessibility of luxury brands

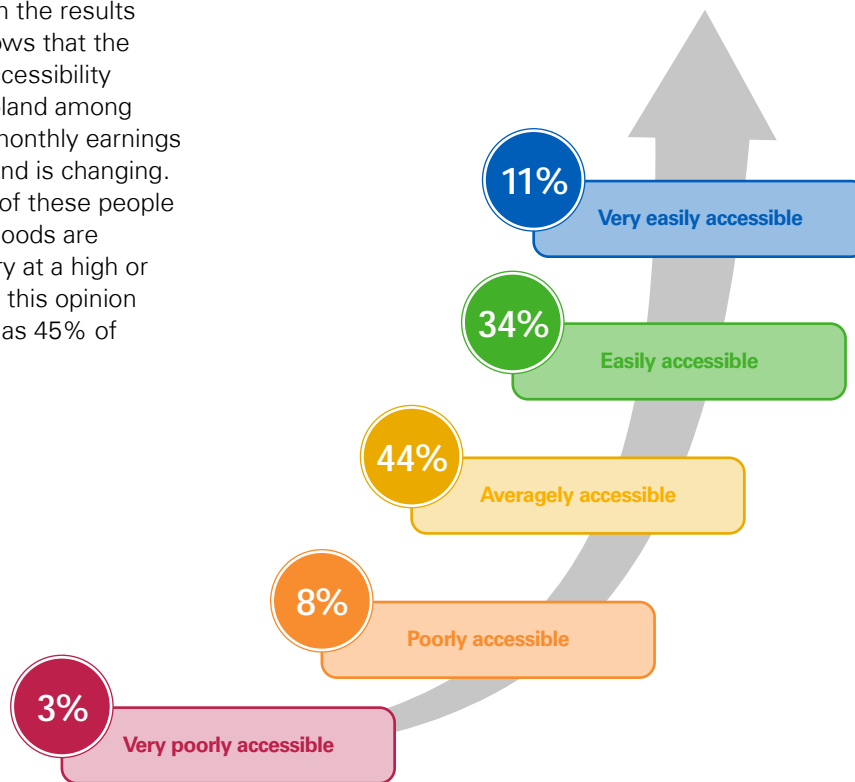
Interest in Poland of world's luxury and premium goods players increase noticeable from year to year. At the same time, we observe the withdrawal of individual companies operating in this market, which is caused mainly by the adopted management strategy. The number of new brands is growing much more slowly than even a few years ago, which clearly indicates a gradual saturation of the market.

accessibility of international luxury brands in Poland. According to 44% of those surveyed, access to luxury goods is average, whereas one in three claims that luxury brands are rather easily available in Poland. When analysing the responses of particular groups (affluent, very affluent and rich people), wealthy people – who potentially have realistic opinion about the condition of the market in Poland – most often express the conviction of easy access to such products.

Although Poland is still not yet a fully mature market, the offer of luxury products has expanded year after year. The respondents participating in our survey were asked for their own, subjective assessment of the

A comparison of the results of this year's survey with the results published in 2012 shows that the assessment of the accessibility of luxury brands in Poland among people with a gross monthly earnings above PLN 7.1 thousand is changing. Four years ago, 34% of these people declared that luxury goods are available in our country at a high or very high level; today, this opinion is shared by as many as 45% of respondents.

Assessment of the accessibility of luxury brands in Poland



Source: KPMG in Poland based on consumer research.

Places, where luxury goods are purchased

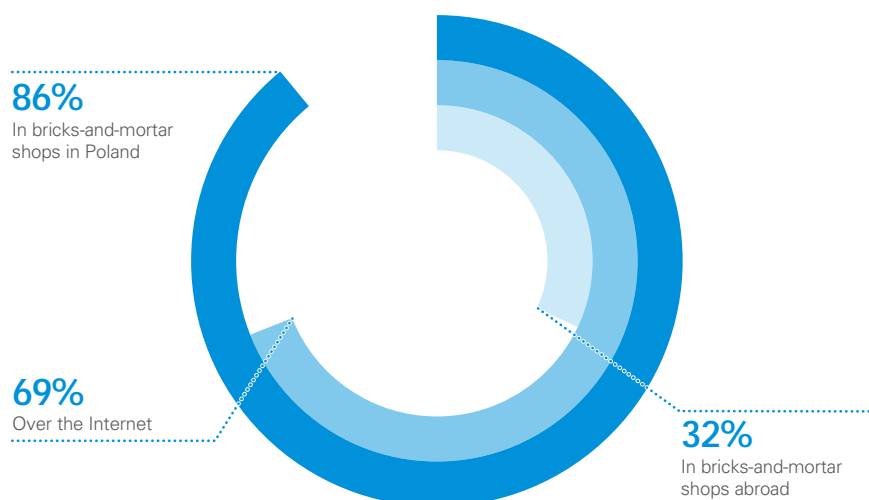
Luxury requires appropriate setting. It is not just the product that matters, but also the packaging and the purchasing process' environment. For many people these factors are equally important as the product itself. For this reason, respondents were asked to indicate the places where they make purchases of luxury goods. The results of the survey conducted by KPMG among affluent and rich people show that, in the case of the purchase of luxury goods, bricks-and-mortar shops play a key role. These are places where the product is presented directly and it's possible to obtain professional advice. For many clients visiting exclusive shops is a pleasant experience and is an essential part of the whole purchasing process.

Bricks-and-mortar shops in Poland are the most commonly indicated places of the purchase of luxury goods in Poland – this answer was chosen by 86% of respondents who buy such

goods. Interestingly, almost one in three people taking part in the survey buys luxury goods in shops abroad – this is decidedly more common (56%) among rich people, that is, those with a gross monthly income in excess of PLN 20 thousand. With regard to luxury goods, almost seven out

of every ten affluent and rich Poles admit that they make purchases over the Internet.

Most important places for purchases of luxury goods



Source: KPMG in Poland based on consumer research. Respondents could indicate more than one factor.

Warsaw emerges from the shadows. The development of exclusive shopping locations in Warsaw



In recent years Warsaw has found itself in the area of interest of many high-end brands, even though it does not belong to the group of European leaders of exclusive shopping locations. In the medium to long-term, the dynamic development of this segment will not wane, which will be assured by several factors ensuring the attractiveness of the market for luxury and premium brands. Amongst those factors are:

1. Macro-economic indicators

Warsaw has the best economic indicators in Poland, and also among Central and Eastern European capitals. In addition, the unemployment rate has remained at a very low level for many years, oscillating between 2.5% and 3.5%. The strong labour market also means that salaries in Warsaw have been rising steadily, and the highest salaries in Poland. Nothing indicates that the above trends will change in medium to long-term.

2. Business-related environment

Warsaw is not only attractive to the business sector, but also to the MICE industry (Meetings, Incentives, Conferences and Exhibitions). This is demonstrated by passenger traffic statistics (2 airports within the agglomeration serving 45% of the passenger travel in Poland), a rise in the number hotels and accommodation, especially in the 4 and 5 star categories, and also by an increase in tourist spending.

3. Commercial indicators

Apart from the low level of saturation with commercial facilities in Warsaw, amounting to 583 sq.m./thousand inhabitants, the capital enjoys the highest disposable income among Central and Eastern European capitals, reaching EUR 11,751 per year (chart: comparison of disposable income Warsaw – Prague – Budapest – Bucharest). Almost 3,400 people earning at least PLN 1 million per year live within the Warsaw agglomeration. This number is growing every year, which means that the target group for high end brands is increasing.

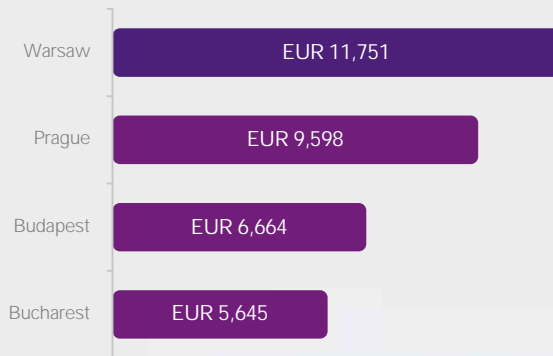
We should also note the gradual rise in the supply meeting the requirements of luxury and premium brands, which until recently was one of the main barriers to entry into the Polish market. A strengthening of the offers of brands in the fashion and accessories sector is to be expected thanks to projects such as ETHOS or Hotel Europejski. A rise in the significance of the area around Plac Trzech Krzyzy is also noticeable. This area has supplanted Nowy Swiat at the top of the ranking of the most expensive streets in Poland, becoming the most prestigious location in Warsaw over the past few years. This is reflected in the rent levels, which over the past 12 months have risen by around 10% in this region, to a level of EUR 120–130 per sq.m. per month. This is not so much in comparison to developed markets such as London, Paris, Milan or Prague. Therefore, tenants still have a chance for favourable terms, because, according to BNP Paribas Real Estate, this trend will continue in the medium term (chart: comparison of rents: Warsaw – Prague – London – Paris – Milan).

Analysing the presence of international brands on the Polish market, some supply-side gaps are noticeable, particularly in the luxury and premium brand segment. The chart below shows the results of an analysis of the maturity of the market, measured by the saturation in selected categories by tenants sorted by target groups, as well as the types of premises (shopping centres and shopping streets).

Anna Staniszewska
Director,
Consulting and Market Analysis Team,
BNP Paribas Real Estate

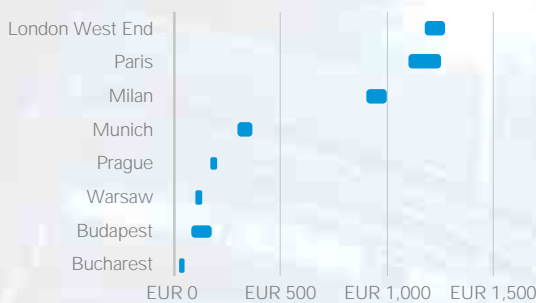


Annual disposable income per 1 inhabitant (2015)



Source: GfK Purchasing Power.

Rent charge for the best commercial locations in selected cities in Europe (EUR/sq.m./mies.)



Source: BNP Paribas Real Estate.

Maturity of the tenancy market in Poland by sectors and segments

Segment	Higher (Premium and luxury)		Mid (Mass market)		Lower (Discount Stores)	
	SC	SS	SC	SS	SC	SS
Accessories and jewellery	■	■	■	■	■	■
Children's articles	■	■	■	■	■	■
Building materials	n/a	n/a	■	■	■	■
Electronics	■	■	■	■	■	■
Fashion – lingerie	■	■	■	■	■	■
Men's fashion	■	■	■	■	■	■
Mixed fashion	■	■	■	■	■	■
Women's fashion	■	■	■	■	■	■
Health and beauty	■	■	■	■	■	■
Decoration	■	■	■	■	■	■
Home furnishings	n/a	■	■	n/a	■	n/a
Leather goods	■	■	■	■	■	■
Multimedia	n/a	■	■	■	n/a	n/a
Footwear	■	■	■	■	■	■
Sporting equipment and clothing	■	■	■	■	■	■

■ – limited potential for business development in a given segment
 ■ – moderate potential
 ■ – high potential
 n/a – does not apply

SC – Shopping Centre
 SS – Shopping Street

Source: BNP Paribas Real Estate.



How much luxury costs

Luxury goods can be defined in various ways – by virtue of their features and satisfying owners’ needs, or by price, which is easily measurable and allows to define the point from which we are dealing with luxury goods. For the purposes of this survey, we selected 17 products and services and we asked respondents to indicate the price above which, in their opinion, a given product or service becomes a luxury.

The analysis of the results of the survey shows that a person wishing to own a luxury car should expect to part with somewhere in the region of PLN 215 thousand; this corresponds more or less to the price of a BMW 5 series, Mercedes E Class, Volvo XC90 or a Range Rover Evoque. The difference must be pointed out, however, in the responses of affluent and rich people;

for people with a gross monthly income of PLN 7.1 – 10 thousand, a luxury car is one bought for just over PLN 195 thousand, whereas a rich person (gross earnings above PLN 20 thousand) considers that the minimum threshold begins from PLN 255 thousand.

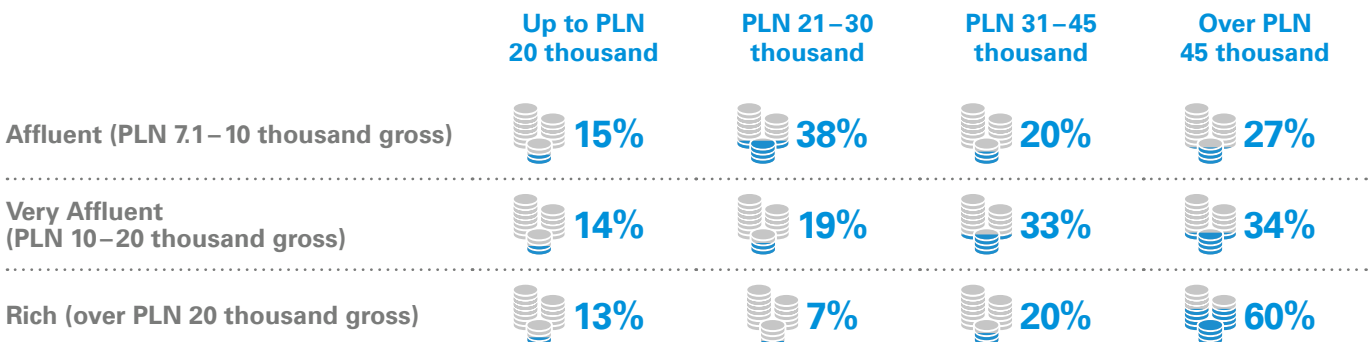
In the case of a necklace, the price should not be less than PLN 5.4 thousand. People from the highest earning group place the bar significantly higher; in their opinion, the price of a luxury necklace is PLN 7.6 thousand, whereas respondents with the lowest income (PLN 7.1–10 thousand gross) feel that the price threshold begins at around PLN 4.9 thousand.

In respondents opinion, the price of the luxury watch begins with

PLN 6.1 thousand (men’s watches) and PLN 4.5 thousand (women’s). Other women’s luxury goods are ladies’ bags, with a minimum price of PLN 1.9 thousand each, and a dress costing around PLN 2.0 thousand. In the case of men, the minimum cost of a luxury suit is about PLN 3.5 thousand whereas a pair of shoes would cost about PLN 1.0 thousand.

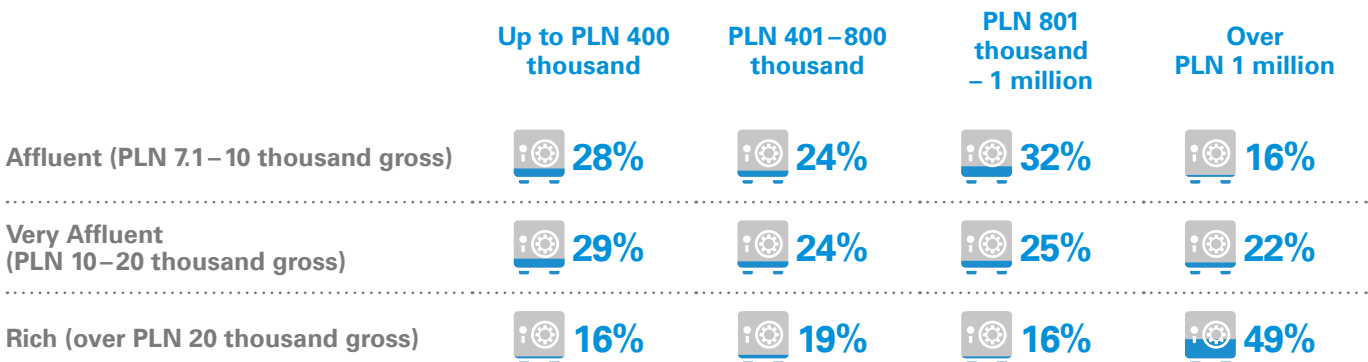
The answers provided by the respondents enabled us to establish also that a luxury apartment in a large Polish city should cost not less than PLN 12.0 thousand per square meter, a week-long trip abroad for one adult is an expense of about PLN 7.2 thousand, and dinner for two in a restaurant involves a bill in the region of PLN 650.

Gross monthly income of a person that respondents would consider rich



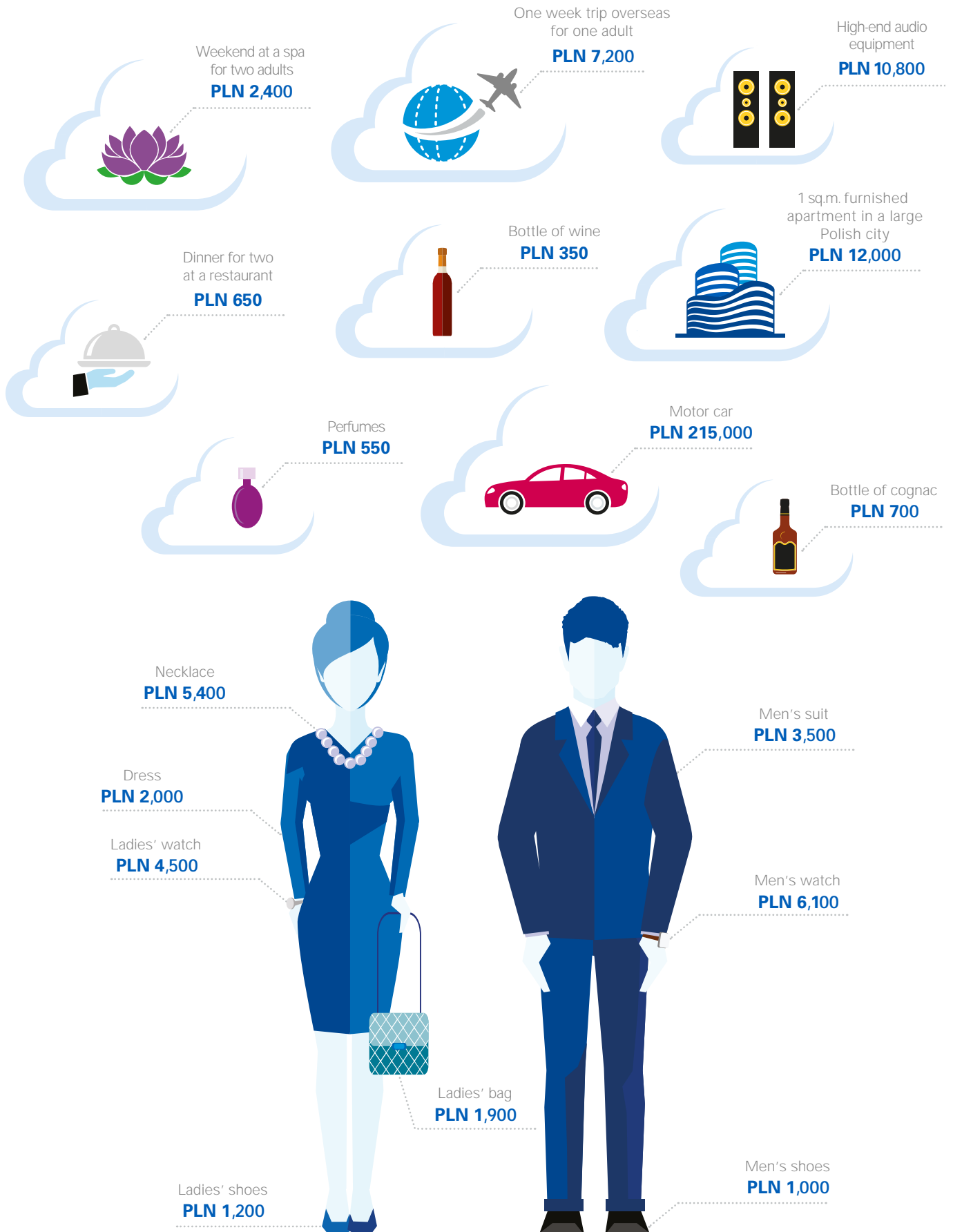
Source: KPMG in Poland based on consumer research.

Savings held by people that respondents would consider rich



Source: KPMG in Poland based on consumer research.

Mean amount from which affluent and rich Poles consider given products and services to be luxury



Source: KPMG in Poland based on consumer research.



Motor Cars

The luxury and premium motor car segment is the largest part of the luxury goods market in Poland. Its value in 2016 is estimated at PLN 8.5 billion, and in 2015 the number of new registrations reached a record level of 40.4 thousand.

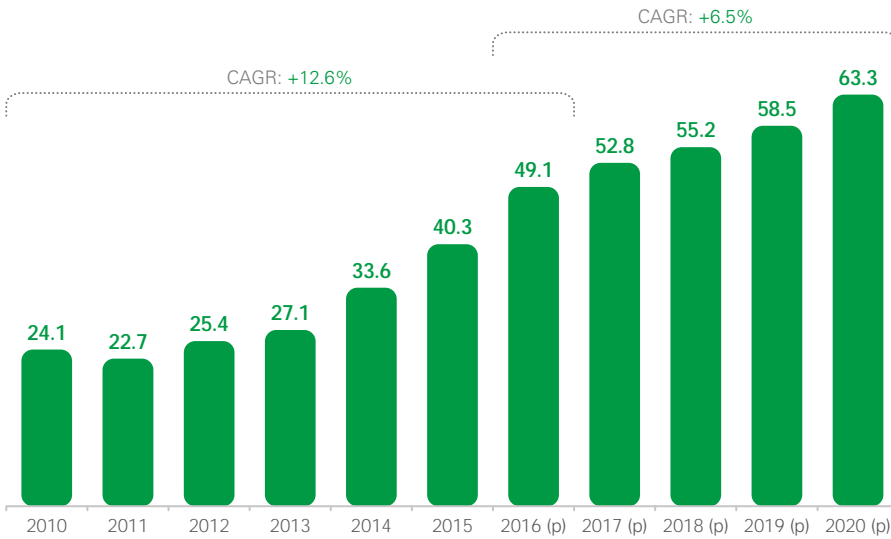
According to the recent data and forecasts, situation from 2011 – when the market shrunk for the first and the last time – will not repeat in the nearest future. Extremely good results were achieved in 2014 and 2015 when the number of registrations of new premium and luxury cars grew by 20% and 24% per year respectively. Data for the first three quarters of 2016 suggest that the number of registrations will be even higher this year than in the record-setting 2015; in the first three quarters, 37.3 thousand cars from this segment have been registered.

The most popular marque in the premium category remains BMW (9.5 thousand cars), and second is Mercedes-Benz, which sold more cars in this segment (8.8 thousand) than third place Audi for the first time since 2011. Sales of Jaguars are rising dynamically – in the first three quarters of 2016, 423 have been sold, 60% more than over the whole of the previous year, as are those of Lexus, which from January to September 2016 has registered 200 more (2.7 thousand) than in 2015.

Luxury cars represent only a small fraction of all car registrations in this category – in 2015 only 99 were sold. The marques that proved most popular amongst clients are Maserati (44 cars), Ferrari (28) and Bentley (15). Data shows that 2016 will be no different – the above-mentioned triumvirate of producers will again sell the most amount of luxury cars. The rising number of affluent and rich people may be responsible for the almost three-fold increase of sales of Rolls-Royce and double the number of Lamborghini (from 3 to 7).

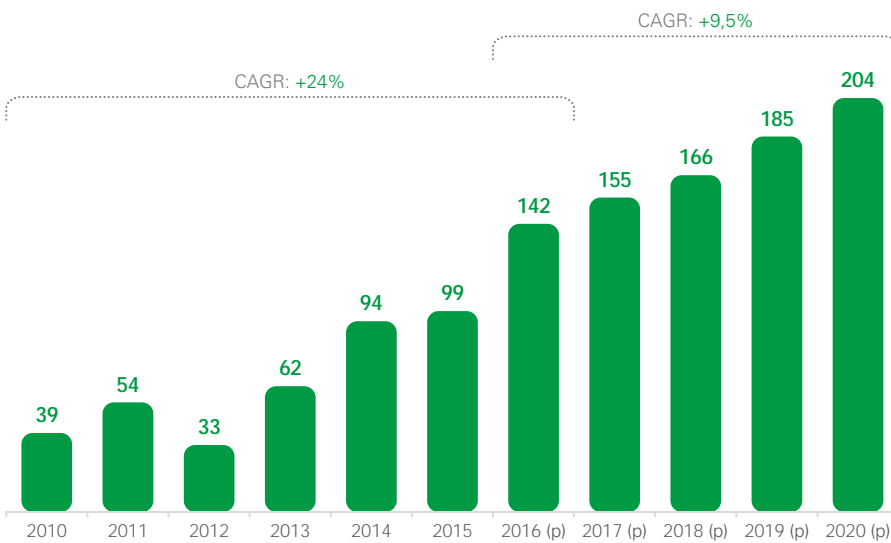
The coming years ought to bring stabilisation to the premium cars market – it will grow at a steady rate, but not as dynamically as in the last two years. The expected mean indicator of annual growth should oscillate around 6.5% up to 2020. The outlook is even better for the luxury car market, which will grow by an average 9.5% over the next five years.

Registration of new premium brand cars (in thousands)



CAGR – Compound Annual Growth Rate
Source: KPMG in Poland based on PZPM/CEP data; (p) – projection.

Registration of new luxury brand cars (in units)



CAGR – Compound Annual Growth Rate
Source: KPMG in Poland based on PZPM/CEP data; (p) – projection.



Prices from which **cars** are considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

Affluent	Very Affluent	Rich
PLN 7.1 – 10 thousand gross	PLN 10 – 20 thousand gross	over PLN 20 thousand gross

Motor Cars **PLN 195,000** **PLN 242,000** **PLN 255,000**

Source: KPMG in Poland based on consumer research.



40.4 thousand

luxury and premium cars were registered in 2015



We are very pleased with the results of the report. It is clear that slowly luxury is becoming an essential component of the life of a growing group of Polish men and women. It is ever more accessible and ever more people aspire to it. Moreover, luxury is a necessary engine of development and civilisation. The automotive industry represents a large part of the luxury goods market. Why? The market today is not a manufacturer's market; it is not even a consumer's market – it is a market of emotion, experience and excitement. Our cars – such as sport convertibles (e.g. Mercedes-AMG SL65) or the most technologically advanced limousine (e.g. Mercedes-AMG E43 4MATIC) – offer these emotions and specific impressions. The car becomes more than a status symbol, but also an expression of individuality, personality and lifestyle.

The luxury product offers not only the feeling of making a good choice, but also a fulfilment of dreams. Reason and emotions are inseparable; they lie together at the root of all our decisions. Luxury provides a guarantee of quality and reliability, that is, the highest usage value, but it also ensures exclusiveness (standing out from the crowd), an additional emotional value. And we can observe this trend very clearly. Yet luxury is not conceit, but achievement, elegance, hand crafted – in a word, advanced individualisation. We call this 'modern luxury'. We also know that a significant group of clients (even 20%) own classic Mercedes, representing also a form of investment.

Dr. Ewa Łabno-Fałęcka
PR Director,
Mercedes-Benz Poland





The luxury and premium car market in Poland is expanding dynamically. From year to year, an ever-greater number of people is interested in purchasing so-called 'high-end' goods, not only for purposes of their own consumption, but also as an investment. The premium automotive segment, including the sales of our brands, is growing by over 30%, in comparison to the double-digit growth in the whole automotive industry and, thanks to modern financial solutions, high-end cars are becoming ever more accessible.

The automotive world is changing before our very eyes. Analysts claim that within the next 10 years, the industry will reinvent itself more than it has done over the past 30 years. The direction of these changes largely depends on the leaders of the motor industry, who shape this business. The best example of this is the rising popularity of electric cars, such our flagship model i8.

Apart from that, we can observe two current trends in the automotive industry. The first one is the interest in modern, particularly digital, technologies. The other interesting trend is the new definition of luxury, which no longer depends on splendor, but on freedom of choice and matching the purchased products to your own aesthetic preferences or even on the active involvement of the client in the process of creating his own car.

Our client is a modern person, satisfied in the area of business, looking for solutions that fit his lifestyle or personal taste. He is interested in technological novelties, as well as in excellent design. What is more – he definitely loves to drive a car.

Małgorzata Cecherz-Kowalska

Marketing Director,
BMW Group Poland



The luxury car segment has enjoyed steady growth for several years, both in terms of sales volume and of enquiries from potential clients. It is noticeable that the luxury car market is maturing; clients are more ready to consider exotic marques that will not only satisfy their requirements regarding quality and performance, but will also ensure a certain kind of inimitability in the street. Just as women like to distinguish themselves by their attire in the street, so men want to have cars that are different from all the others.

The luxury car segment has been growing for several years. This is not a dynamic growth – in quantum leaps – but stable and mature. From year to year the interest in cars is growing, new clients are emerging, and the existing ones are buying additional luxury cars. Clients are looking for new things, to stand out, to own something that no one else has, and at the same time they expect the highest quality with the best performance, technical solutions and safety. They have the requisite financial wherewithal, and consequently they can fulfil their dreams. Also exceptionally important is the question related to the design and performance of the cars. Our clients are independent, decisive people that are not afraid to stand out, to be pioneers.

Karolina Szulęcka

Marketing Director,
Maserati Pietrzak & Ferrari Katowice







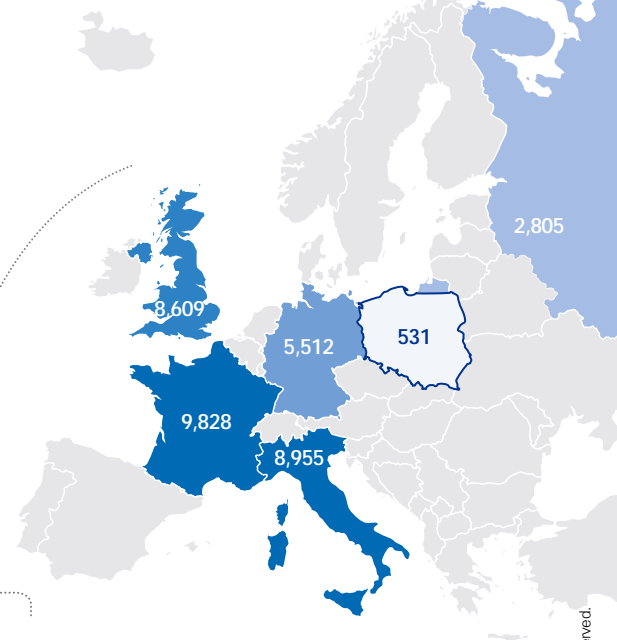
Clothing and Accessories

The luxury clothing and accessories market (including footwear) is the second largest segment of the luxury goods market in Poland. It is estimated that in 2016 its combined value will reach almost PLN 2.2 billion. Over the last few years, this market has been rising systematically, on average by 2.8% per year, and when compared to 2010, it has grown by over PLN 320 million. The prospects for this segment are equally optimistic – it is estimated that in the years 2016–2020 the compound annual growth rate (CAGR) will amount to 6.5%, and the value of the market will exceed PLN 2.8 billion.

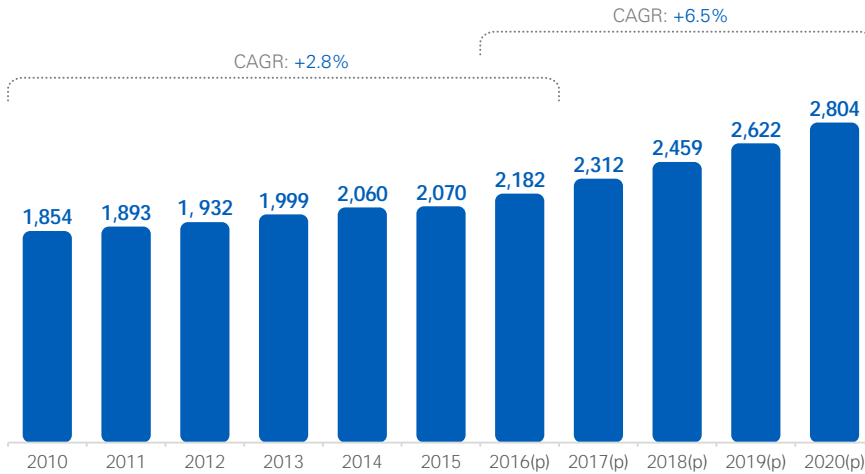
The increasing value of the luxury clothing and accessories market is connected to the continually growing group of potential buyers, that is, affluent and rich people, as well as their growing assets. The increasing availability of global luxury brands and the emergence of new Polish or foreign manufacturers operating in this market segment are also not without significance. The expansion of distribution channels by brand owners is likewise an important issue. It is closely related to the availability of products and ease of making a purchase.

According to data from Euromonitor International, the market for luxury clothing corresponds to only 5.5% of the total clothing market in Poland. This ratio looks somewhat different in Western European countries – for example, 23% of the French clothing market is luxury clothing, in Italy it is 21% and in Germany – about 11%.

Value of the **luxury clothing and accessories** market in selected European countries (combined value in EUR millions, 2016)



Value of the luxury clothing and accessories market in Poland
(in PLN millions)



CAGR – Compound Annual Growth Rate
Source: KPMG in Poland based on Euromonitor International data and projections; (p) – projection.



Prices from which **clothes and accessories** are considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

	Affluent PLN 7.1 – 10 thousand gross	Very Affluent PLN 10 – 20 thousand gross	Rich over PLN 20 thousand gross
Men's Suit	PLN 3,300	PLN 3,700	PLN 4,300
Dress	PLN 1,700	PLN 2,300	PLN 3,100
Ladies' Bag	PLN 1,600	PLN 2,100	PLN 3,100
Ladies' Shoes	PLN 1,100	PLN 1,300	PLN 1,400
Men's Shoes	PLN 900	PLN 1,100	PLN 1,300

Source: KPMG in Poland based on consumer research.



5.5%

of the entire clothing market in Poland is made up of luxury brand products



“

Currently more and more Polish companies expand their offer of luxury clothing and accessories. As a consequence, the saturation of the market is starting to be ever more noticeable. Unfortunately, even though competition is rising, it is clear that the number of people in Poland who can afford to acquire luxury goods is not rising.

Nowadays, clients practically have access to all the brands in the world. They usually make purchases just after the premiere of a new collection, under the influence of freshness' effect. Then they wait for short limited editions of specific products.

Fortunately, Polish brands commonly recognised as luxury have recently begun to invest not only in production, but also in marketing and advertising. The strength of this segment in large part depends on the availability of a given product, mainly by the Internet, a well-functioning sales base and also flexible and creative PR. These companies began to build solid foundations, presenting their products at international trade shows and slowly moving beyond the borders of Poland.

The clients of the Łukasz Jemioł brand are most often fashion-conscious people that have a larger disposable budget. Apart from that, our clients often make purchases abroad, and are fully aware of the offers of those luxury fashion houses. Mostly they are women and men occupying higher positions in corporations: managers, directors and also company owners who, above all, value the quality and uniqueness of products as well as their short, limited series.

Attracting potential clients' attention and preparing a special, individualised offer, are a characteristic trends on the luxury clothing and accessories market.

Łukasz Jemioł
Fashion Designer

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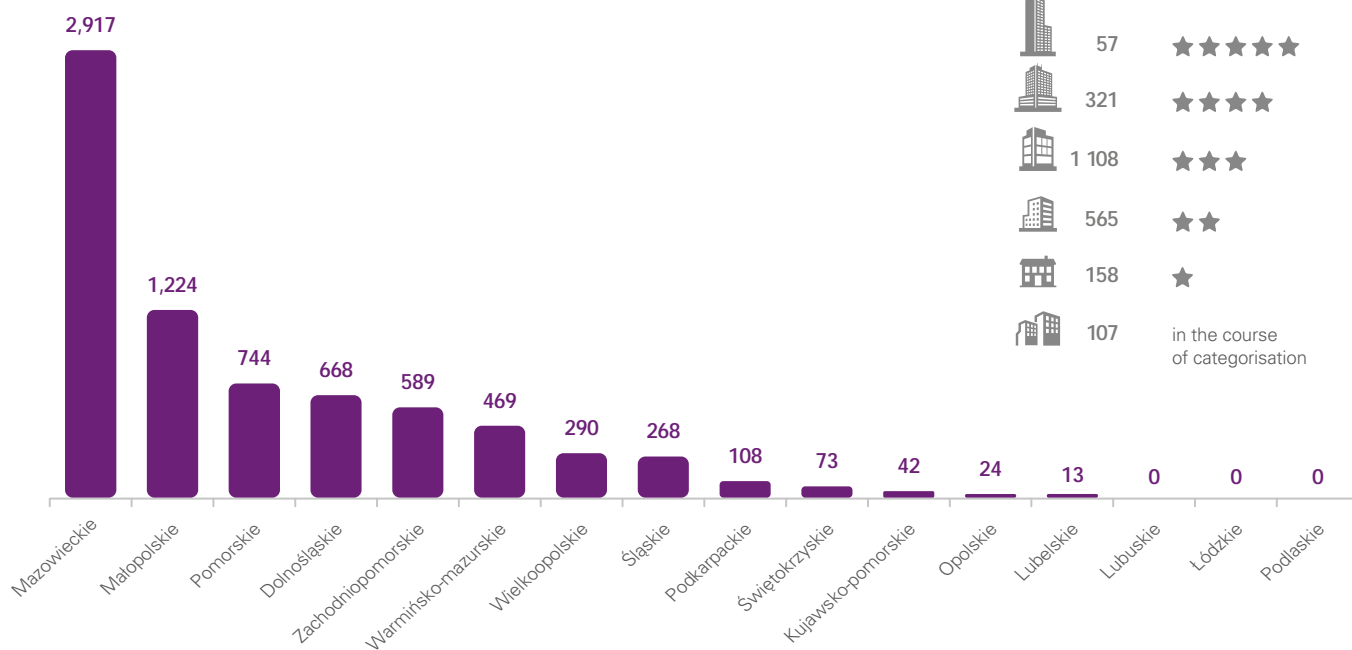
Hotel and Spa services

The luxury hotel and spa services market is the third largest category of Polish luxury market by size. It also belongs to the group of segments with the greatest potential for growth.

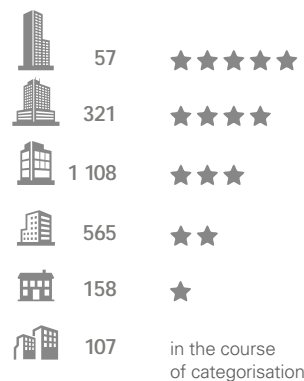
The luxury hotel and spa market in Poland, when compared to the leading countries of the world, is only at an early stage of development, and for this reason shows significant potential for numerous investors and very dynamic growth. As is shown by our own analysis and that of Hotel Professionals, the estimated value of the luxury hotel and spa services market in 2016 will come close to PLN 1.5 billion, and by 2020, an increase in the order of 25% is expected.

For the purposes of this analysis, five-star establishments in the territory of Poland were considered as luxury hotels. As data from GUS (Central Statistical Office of Poland) shows, in 2015 in Poland over 704 thousand rooms were available in this type of hotels. The overwhelming majority are concentrated in Poland's largest cities. Only a few five-star hotels fully match the criteria of global luxury, such as for example Hotel Bristol (a member of Luxury Collection Hotels). Hotel Copernicus also deserves attention because it is the only establishment in Poland belonging to the exclusive Relais & Châteaux fellowship, which gathers almost 500 hotels from around the world.

Number of 5* hotel rooms per voivodeship (2015)*



Number of hotels in Poland (2015)*



Source: KPMG in Poland based on GUS data.
* Status as at the end of July 2015



Prices from which **hotel and spa services** are considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

	Affluent	Very Affluent	Rich
	PLN 7.1–10 thousand gross	PLN 10–20 thousand gross	over PLN 20 thousand gross
weekend at a spa for two adults	PLN 2,400	PLN 2,300	PLN 2,600
week-long trip abroad for one adult	PLN 7,000	PLN 7,300	PLN 7,800

Source: KPMG in Poland based on consumer research.



PLN 2.4
thousand
is the minimum price
for a weekend at a spa
for two adults



A client enjoying luxury hotel and spa services is seeking incomparable locations, new flavours and above all is looking for a place where they can spend exceptional moments together with their family and friends. Hotel Copernicus (which belongs to the Relais & Châteaux Fellowship since 2005) guests expect outstanding service, exceptional cuisine based on local products and an individual treatment. The senses, flavours, colours and surroundings mean that each stay becomes a special event.

Joanna Wilgierz
General Manager,
Hotel Copernicus





“

The situation on the luxury hotel and spa market has improved in recent years, yet this continues to be a difficult and competitive market. These difficulties do not, however, arise from the rivalry between establishments of the same class, but, in my opinion, from the consumers' relatively low awareness concerning premium services.

The client appreciates a pleasant atmosphere, convenience, the individualisation of a broad offer and attention to detail and the highest quality service. A program of attractions is important, both for children and adults. The location of a hotel often defines the profile of the guests; Dr Irena Eris Wzgórze Dylewskie and Krynica-Zdrój spa hotels are most often visited by whole families. Polanica in turn is popular among those who seek peace and the aura of a true sanatorium. But this is not a hard and fast rule. We also receive guests from abroad.

Henryk Orfinger

Chairman of the Board,
Dr Irena Eris

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The hotel services market is growing with respect to luxury locations, and Warsaw, as a tourist and business destination, is becoming more popular from year to year. We observe a rise in premium segment rates; the sale of apartments is also increasing, which must be recognised as a good sign for the market. The prices in Warsaw's best hotels still do not match Western standards, but the rate of growth that we maintain in our establishment is very satisfying.

Guests of our hotel arrive mostly from countries in Western Europe and the United States. Our big market is also Poland. The economic situation, investments coming into Warsaw and new flight connections directly affects the arrival of guests from certain parts of the world. In recent times, we have observed, for instance, an increased interest in travel to Warsaw from the Middle East.

Małgorzata Jankowska

Interim Director of Communications & Marketing, Poland
PR & Marketing Manager at Hotel Bristol, A Luxury Collection Hotel, Warsaw

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The luxury hotel market in Poland is in the initial phase of development. However, we observe an increase in interest of luxury hotel brands in the Polish market. There are two factors which encourage investors to open new 5-star hotels: the growth of the performance metric RevPAR (Revenue Per Available Room) – which is a result of the continuous positive geo-political situation of the country – and the stability of the Polish economy.

Currently, when analysing the luxury hotel market, we are talking about establishments that are officially rated as 5-star. The true 'luxury' segment is only just evolving in Poland. Over the course of the next 2–3 years, the Polish hotel market will be enhanced by new establishments of a quality so far unavailable in our country.

The total number of 5-star establishments in Poland is 65, offering a total of 8,068 hotel rooms, which represents almost 7% of all available rooms available in the hotel market. This analysis includes Hotel Indigo Kraków-Stare Miasto, which opened its doors in September 2016. This hotel is not officially rated, yet in view of the high standard and the location, we presume that this establishment will be included in the 5-star segment. In Q3 2016, the ranks of 5-star hotels were augmented by the newly-opened Hotel Double Tree by Hilton in Wrocław.

As many as 70% of all 5-star hotel rooms are offered in the five largest Polish cities (including Sopot as part of the Tri-City). The top spot goes to Warsaw, which has almost 3,000 hotel rooms at this standard to offer. In second place comes Krakow, where the 5-star segment is represented by just over 1,100 rooms. More 5-star hotels continue to open in seaside and mountain resorts.

Almost 58% of all hotel rooms in the analysed segment are to be found in establishments operating under the banners of global brands. The leading brands are Radisson Blu and Sheraton. Hotel Marriott and Hotel InterContinental – both located in Warsaw – remain the largest hotels in terms of the number of rooms.

Four new 5-star hotels are planned to be opened in the next few years, which will provide almost 800 hotel rooms, with three of these hotels located in Warsaw. In 2017, a hotel of the luxury brand Raffles Hotels and Resorts will open its doors in the restored building of the former Hotel Europejski, increasing the supply of hotel rooms in this segment by 103. In addition to accommodation, this hotel will also offer boutiques of leading global brands and Class A office space. This will undoubtedly be the most distinctive property in Poland in terms of quality, dethroning the establishment currently considered to have the highest standard, Hotel Bristol a Luxury Collection Hotel. The Renaissance Warsaw Airport Hotel, currently being built next to the Chopin Airport, will be the first Renaissance brand of the Marriott chain both in Poland and in Central Eastern Europe. This hotel will offer 225 rooms of 5-star category. In the pre-war building of the former Hotel Warszawa, in turn, another exclusive establishment of the Likus Hotels chain is being built, which will hark back to the classic art deco style of the 1930's. In Q2 2017, the opening of a fifth 5-star Radisson Blu is planned, which will increase the supply of hotel rooms in Swinoujście by additional 340 rooms.

In addition, in the middle of next year, the Mera Hotel and Spa in Sopot will be merged into the Marriott International chain, becoming the second Marriott brand hotel in Poland.

Thanks to the possible entrance of the new hotel brands (previously mentioned Raffles Hotels and Resorts, and perhaps the Four Seasons), the Polish luxury goods market will grow within the next 2–3 years. It is highly probable that yet another 'luxury' property, representing a global brand's debut in Poland, will be opened in Warsaw in the coming years.

Considering the luxury hotel and spa market in Poland, it is also worth mentioning the Dune City project, a winner in the MIPIM Architectural Review Future Project Awards, which proposes a year-round luxury resort on the Baltic. The new resort will include a five-star hotel with spa facilities, holiday villas, a conference centre, trade and services units and restaurants, aimed at the most discerning guests.

Finally, it should be noted that the key role in building the position of a hotel in the luxury goods market is played not so much by an attractive interior décor, prestigious location or sophisticated service offers, but by a highly-motivated, qualified and well-trained staff. This is an area that still requires perfecting in Poland. Ever more tourists visiting our country come from such countries as Germany, France or the United States, where luxury is associated above all with an exceptional level of service.

Jacek Tokarski, MRICS

Partner, Senior Investment Analyst,
Hotel Professionals





Real Estate

In 2015, a significant rise in the sales of luxury apartments and residences took place in Poland. This raised the value of the whole luxury real estate market by 7% in relation to the previous year. Currently, the value of this market amounts to approximately PLN 1.2 billion. From KPMG forecasts it appears that this market has optimistic prospects for development, and in 2020 the value of this segment may reach nearly PLN 1.5 billion. This would represent an increase of 22% with respect to 2016.

The positive statistics were largely buoyed by the results of sales of Warsaw residential towers as well as townhouses and small buildings. Despite the fact that the most celebrated Polish luxury investments of recent years relate to exclusive residential tower blocks, numerous projects are simultaneously under way, depending on the revitalisation of historic buildings (town houses and other historic properties) and the building of smaller residential blocks.

The luxury real estate market in Poland is characterised by a still relatively low level of prices in comparison to Western Europe. Even in the case of the most prestigious properties (Angel Wawel in Krakow, Zlota 44 and Cosmopolitan in Warsaw or La Playa Palace in Sopot), the average price per square meter stands at tens of thousands of PLN at most. An outlay of this kind enables the purchase of a luxury apartment, situated in a good location, with a high standard of service during the buying process and often fixtures and fittings tailored to the individual buyers' preferences.



Prices from which **real estate** is considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

Affluent	Very Affluent	Rich
PLN 7.1–10 thousand gross	PLN 10–20 thousand gross	over PLN 20 thousand gross

1sq.m. of
a furnished
apartment in
a large Polish city

PLN 11,800

PLN 12,200

PLN 12,000

Source: KPMG in Poland based on consumer research.



EUR 300 million

is the current price of the world's most expensive apartment, which is located in Monaco



EUR 5 million

is the current price of Poland's most expensive apartment, Angel Wawel in Krakow

Categories of luxury apartments



Luxury Apartments

– having as standard an attractive location, interesting architecture, amenities for residents in the form of 24-hour security or leisure areas.



Super Luxury Apartments

– featuring an attractive location, high service standards and numerous amenities, provided to a high level.



Ultra Luxury Apartments

– these include the most luxurious properties in the world, featuring a very exclusive location, a recognisable exterior design and service of a 5-star hotel.

Selected investments in Poland

- **Cosmopolitan**, Warszawa (average EUR 6,7 thousand per sq.m.)
- **Angel Wawel, Royal Apartment**, Kraków (EUR 6,8 thousand per sq.m.)
- **La Playa Palace**, Sopot (up to EUR 7,5 thousand per sq.m.)
- **Sky Tower, Penthouse**, Wrocław (EUR 10 thousand per sq.m.)
- **Złota 44**, Warszawa (up to EUR 11,3 thousand per sq.m.)

Selected investments in the world

- **Meier Rothschild**, Tel Aviv (from EUR 8 thousand per sq.m.)
- **Millenium Tower**, San Francisco (from EUR 10 thousand per sq.m.)
- **Apartament przy nabrzeżu**, Sydney (up to EUR 24 thousand per sq.m.)
- **Hyde Park One**, Londyn (from EUR 75 thousand per sq.m.)
- **Tour Odeon, Sky Penthouse**, Monaco (EUR 91 thousand per sq.m.)
- **One Beacon Court**, New York (EUR 95 thousand per sq.m.)
- **Happy Valley**, Hongkong (up to EUR 120 thousand per sq.m.)

Source: KPMG in Poland based on desk research.



Over the last few years, data from the luxury real estate market has indicated a slow but steady rise. The breakthrough moment was 2015, when the market in Poland woke up and started to grow intensively, registering a two-digit growth year after year. This trend is directly connected with the rising of the affluent part of society and the consequent increase in client needs, which are approaching European and world standards.

The increase in demand for the luxury and premium products in the real estate market has encouraged an increase in supply. The real estate offer in Poland is becoming richer from quarter to quarter, and ever more varied – from apartments in revitalised exclusive townhouses to modern apartments in the very centre of large cities. In addition, many clients, taking advantage of foreign models, want to own a second home, located by the coast or in the mountains, which gives rise to an increased activity amongst developers in this segment. Poles are also more adventurously buying luxury properties abroad.

Potential buyer of a luxury property is very demanding and aware of his own value as a client. He enjoys life and the possibilities provided by the modern world. However he avoids making impulsive financial decisions. He is able to appreciate the highest quality services, efficient handling of matters and assistance in saving time and money. This kind of client is aware, that discovering the true pearls on the real estate market is possible only in a discreet manner, and those offers which are widely promoted and commonly available are only the tip of the iceberg. The affluent client covets exceptional, one-of-a-kind things, and that is why they have a need to obtain offers in advance, decidedly earlier than everyone else.

Customer expectations regarding the quality of services increase with the growth of the demand on luxury real estate market. The affluent client expects the highest standards of service and the appropriate presentation of the product, distinct from that in the mass market. And even if the luxury real estate market is not as developed in Poland as it is in the countries of Western Europe, the level of customer service does not deviate from international standards.

Arkadiusz Wojciechowski
Managing Director,
Poland Sotheby's International Realty





On the market there are many – often contradictory – definitions of apartments considered as luxury. For a given property to be counted within the category of luxury apartments, it ought to stand out with an attractive view out of the window, the appropriate layout and functionality of the space, the highest standard of furnishing and also a ceiling height of at least 3 meters. Furthermore, it should have a terrace or balcony, high-end air conditioning and ventilation and installation systems. The building ought to include a garage, swimming pool, gym and club spaces. 24-hour reception, security and monitoring are also essential.

One of the most important things affecting the value of an apartment is professional property management. In accordance with the prevailing regulations, the residents' community is responsible for managing the common assets. This community selects the professional property manager. Unfortunately, there is a shortage of experts in managing a residential building of the highest standards. A luxury property requires luxury management. The manager ought to know and meet the needs of the clients, and to manage the property, in particular ensuring the necessary maintenance. The selection of the best specialists for technical maintenance is a formidable challenge. No longer are these the proverbial 'guy with a hammer and a drill', but qualified engineers of low voltage installations and automation. The administrator should effectively play the role of landlord, and supervise the security, cleaning, gardeners, etc., on a daily basis. From research conducted by Made Concept it transpires that apartments in neglected and poorly managed buildings lose value. Even in new buildings, we have noticed that prices after 2–3 years of occupancy are lower than those in the initial sale. Clients are now so well-informed and aware of other, more developed markets, that they do not accept nonchalance in the service of their property. Professional property management, the highest level of service in every aspect corresponding to the needs of the residents, constitutes one of the key elements of luxury accommodation.

Luxury apartments should be treated as a good investment. In Warsaw, the value of best located apartments may increase up to 50% over five years, up to 100% over ten years. This trend will certainly continue, but it applies only to new developments and restored townhouses and well-managed communities. Apartments in neglected buildings, even those in the best locations, have been losing value for many years. Our analysis shows that about 40% of luxury apartments are bought for investment purposes. These apartments are rented for longer and shorter periods; often entire buildings, over the years, turn into 'apartment hotels'. This trend can be observed in several of Warsaw's tower blocks, and that is why these homes become uninteresting for buyers who want to live in their purchased apartment. We notice that buyers are prepared to pay more for apartments in small buildings, structures not exceeding 50 apartments. They also demand that the community regulations prohibit renting apartments for offices and short-term rentals. Offices and a large number of tenants in a building significantly decrease its standard and the value of the apartments.

Architect Michał Borowski

Chairman,
Made Concept





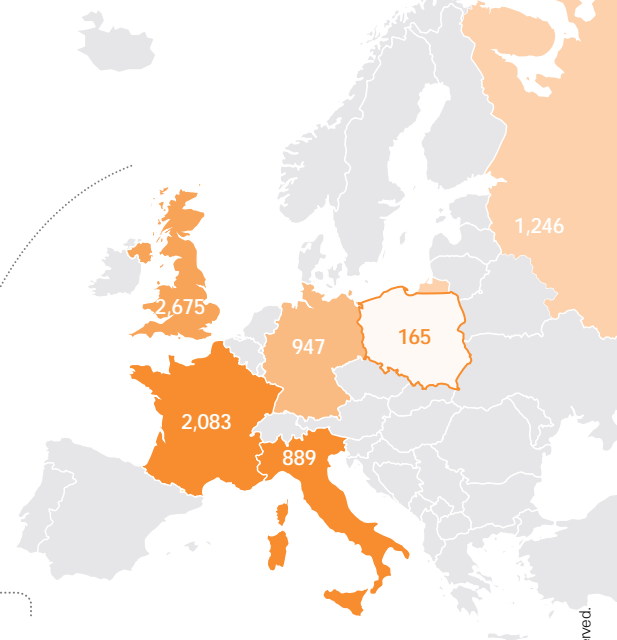
Wines and Spirits

The Polish luxury wines and spirits market is still relatively small in comparison with Western European countries, and yet it does have good prospects for growth. The overall value of the Polish luxury wines and spirits market is estimated at over PLN 670 million and still represents only a fraction of the value of the whole market, estimated at PLN 57 billion.

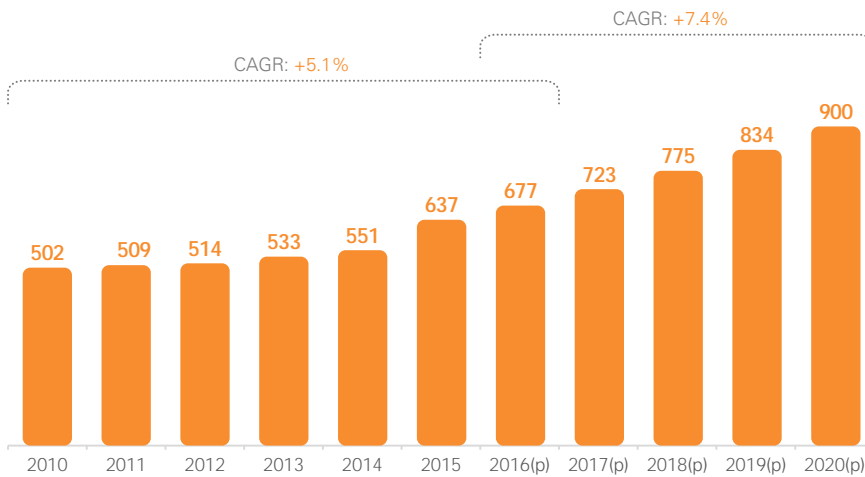
This does not alter the fact that producers of luxury drinks should regard the future with optimism. In contrast to the non-premium wines and spirits sector, the exclusive drinks market did not record a slow-down in recent years, and is rising steadily at a rate of over 5% per year. Dynamic development is observed in every category, yet the segments of luxury champagne and whisky deserve special attention, for their sales increase by over 10% per year. The absolute record belongs to single malt Scotch whisky, which sales is forecasted to reach 19% by 2020.

The rise in popularity of premium brands is also noticeable on the vodka market. Following the increase of excise duty on spirits in 2014, the sales of traditional vodkas are diminishing in contrast to the more expensive versions of this spirit.

Value of the **luxury wines and spirits** market in selected European countries (combined value in EUR millions, 2016)



Value of the luxury wines and spirits market in Poland
(in PLN millions)



CAGR – Compound Annual Growth Rate
Source: KPMG in Poland based on Euromonitor International data and projections; (p) – projection.



Prices from which **wines and spirits** are considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

	Affluent PLN 7.1 – 10 thousand gross	Very Affluent PLN 10 – 20 thousand gross	Rich over PLN 20 thousand gross
Bottle of cognac	PLN 600	PLN 850	PLN 1,000
Bottle of wine	PLN 300	PLN 400	PLN 450

Source: KPMG in Poland based on consumer research.



PLN 300

is the minimum price for
a bottle of luxury wine



The change in the consumers' lifestyles means that there are more opportunities to drink champagne. It is becoming more familiar to us; it is no longer reserved exclusively for celebrating rare, very exceptional events. The number of times when we enjoy a glass of champagne is increasing. There are now new ways of serving it that have expanded the group of users – for example, in summer cocktails, on ice. As a result of these changes, we have observed increased interest in our champagne brands over recent seasons, and particularly in Moët & Chandon, the world's beloved champagne. The whole champagne category has recorded a double digit increase in sales yet again.

Joanna Nowakowska
Marketing Manager,
Moët Hennessy Poland





The development of the premium wines and spirits segment is an excellent illustration of the trends throughout the whole luxury goods market. In this context, we can talk about highly dynamic growth, in particular for premium whisky, and about the globalisation of consumer behaviour.

The dynamic development of the premium wines and spirits segment is confirmed, for instance, by the latest report from the research company IWSR, which considers Poland as one of the markets with the greatest potential for some promising categories (such as deluxe and single malt whiskies). According to IWSR projections, we are also one of the fastest growing markets for blended Scotch whisky (such as Johnnie Walker, for instance), which places us in seventh place in the world among countries with the highest estimated growth in this category up to 2020. What is more interesting – for the single malts category (e.g. The Singleton) – over the same survey period we have a chance to be the market with the highest rate of growth in the world. This can be surmised from the very dynamic trend of recent years, when the sales volume of single malts almost doubled.

The globalization of consumer behaviour can be observed in the context of comparing consumer data for Poland and other markets, and also on the basis of a specially commissioned report by 'Future of Cocktails' for part of our luxury wines and spirits portfolio that we call Diageo Reserve. All over the world, for several years, we can clearly observe a trend of 'premiumisation'. It consists of many various factors, including quality, the appropriate pricing strategy, an elite image or even a specific, more sophisticated approach to marketing activities. What is more, over the past few years, fundamental changes have taken place in Poland. Firstly, Poles are consuming less alcohol during a given event, they are selecting higher-end products with a more aspirational image, and they are prepared to pay more for them. With respect to cocktails, in turn, customers select those with a smaller number of ingredients, but they pay more attention to their quality. Secondly, with access to a multitude of sources of information and product offers, which have become truly global, consumer begin to choose brands that offer truly the highest quality, that have exceptional taste attributes, that are able to stimulate emotions, that are backed by a unique message and at the same time distinguish themselves with innovation and awareness of the community and the environment.

Krzysztof Michalski
Director General,
Diageo Poland



The quality wines and spirits market is one of the oldest categories among luxury goods. Poland is and will always remain a leading market, although in recent years it is possible to observe alcoholic beverage connoisseurs' desire for the proverbial 'travelling the world'. Recently, Scotland, Ireland, Kentucky and Tennessee are the most popular destinations.

With respect to market trends, we currently observe, at last, an increase in interest in traditional Polish luxury wines and spirits. Our clients are people who are looking for not only high quality, but also something that is authentically exceptional. They are easily able to distinguish an ordinary industrial product posing as luxury alcohol from quality vodka.

Paweł Gorczyca
Managing Director Europe,
AG – J.A. Baczewski







Cosmetics and Perfumes

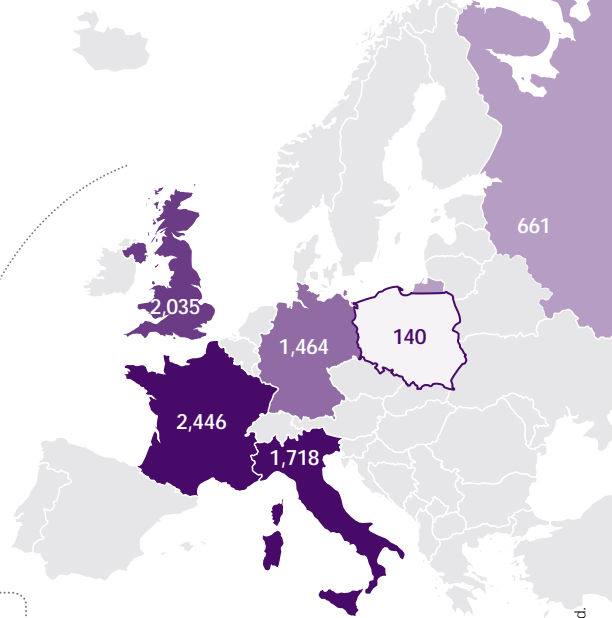
The Polish luxury cosmetics and perfumes market is quite small, similar in value to the luxury jewellery and watches market. According to estimates, in 2016 the value of this segment will come to PLN 575 million.

This segment is growing steadily; in the years 2010–2016, the compound annual growth rate (CAGR) was 2.6%, whereas forecasts for the next four years indicate that this segment will grow on average by 5.1% annually. It is projected that, in 2020, the value of the luxury cosmetics and perfumes market will exceed PLN 700 million.

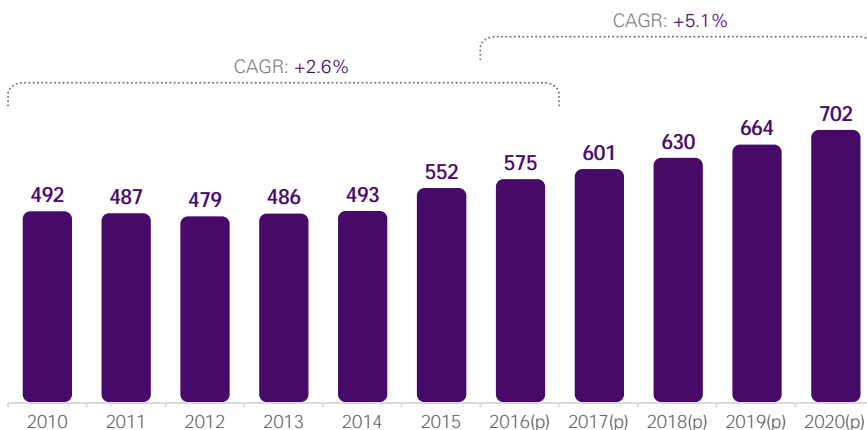
The biggest part of this market in Poland consists of luxury perfumes, which account for nearly 61% of the value of the whole segment. The remaining categories are luxury toiletries for body care and luxury make-up items.

According to data provided by Euromonitor International, almost a half of the value of the luxury cosmetics and perfumes market is generated by five brands: Chanel, Calvin Klein, Christian Dior, Paco Rabanne and Giorgio Armani. It is also worth mentioning the Polish brand Dr Irena Eris, which alone of Polish companies is a member of Comité Colbert, the exclusive club bringing together prestige brands and institutions.

Value of the **luxury cosmetics and perfumes** market in selected European countries (combined value in EUR millions, 2016)



Value of the luxury cosmetics and perfumes market in Poland (in PLN millions)



CAGR – Compound Annual Growth Rate
Source: KPMG in Poland based on Euromonitor International data and projections; (p) – projection.

Prices from which **cosmetics** and perfumes are considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

	Affluent	Very Affluent	Rich
	PLN 7.1–10 thousand gross	PLN 10–20 thousand gross	over PLN 20 thousand gross
Perfumes	PLN 500	PLN 600	PLN 700

Source: KPMG in Poland based on consumer research.

The Polish luxury perfume and cosmetics market is rather small and is developing relatively slowly. At the same time, it is characterised by a strong fragmentation. In spite of this, products from the premium sector enjoy the consumer's interest. Its client is a demanding person, always in search of novelties, who is able to spend a larger budget for luxury purchases. The Dr Irena Eris brand is a selective brand and the only Polish brand in the French luxury brand association Comité Colbert, whose members include Louis Vuitton, Chanel, Dior and Hotel Ritz.

The example of the Dr Irena Eris brand also shows that innovation builds a competitive advantage. Dr Irena Eris is one of very few companies in Europe and the world with its own research and development center. The company constantly invests in science, what is demonstrated by our own patents and numerous patent applications, based on complicated research, and international successes of scientists from the Dr Irena Eris Academic Research Centre.

In conclusion, the potential is vast, but we still have a lot to do.

Joanna Łodygowska
Head of Communications Department,
Dr Irena Eris



Luxury perfumes account for almost 2/3 of the entire luxury cosmetics and perfumes segment



Trends on the luxury perfume market can be summed up simply – seeking an unrepeatably fragrance. Nowadays, this is a rather difficult challenge: almost everything has been invented, but today's client wants to smell 'different'. They want to highlight their inimitable style and image. That is why even select brands, available in perfumery chains, also create limited, exclusive perfume lines, reaching for ingredients that once were considered quite unusual. For instance, three years ago I mentioned a trend for agarwood (oud), which is very rare and more expensive than gold. This is an ingredient that you either love or hate, known for centuries in Arab countries. At the largest perfume shows in Milan this year, every producer had a fragrance with Oud in the name in their offer. We observe a great affection for oriental perfumes, even among young people. The luxury brands do not invest in broad advertising; a product of limited availability is made known to a narrow group of clients. That is why they can afford rare, expensive ingredients, used for creation of an incomparable compositions.

Tatiana Grabowska
Proprietor,
La Selection



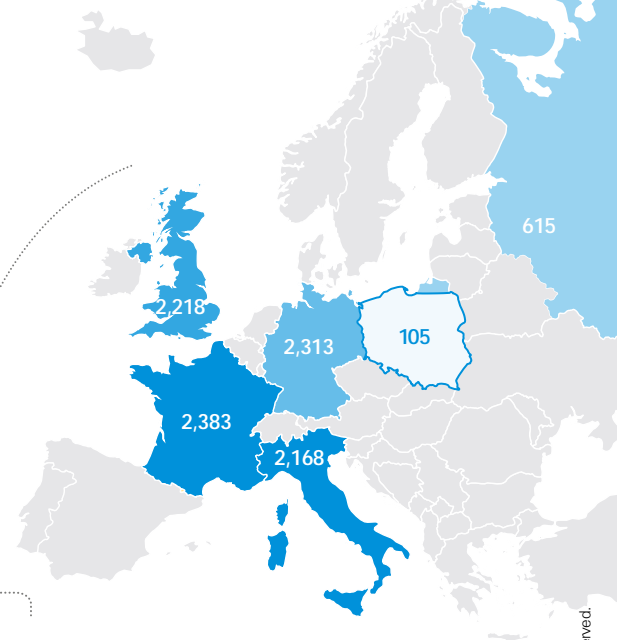
Jewellery and Watches

The luxury jewellery market in Poland is almost three times the size of the luxury watches market (PLN 322 million and PLN 111 million respectively). A similar ratio can be observed in other developed countries – for instance, the Italians, Americans, French and Germans also spend significantly more on luxury jewellery than on watches. The opposite is true in Sweden and China, where expenditure on luxury timepieces significantly outweighs that on luxury jewellery.

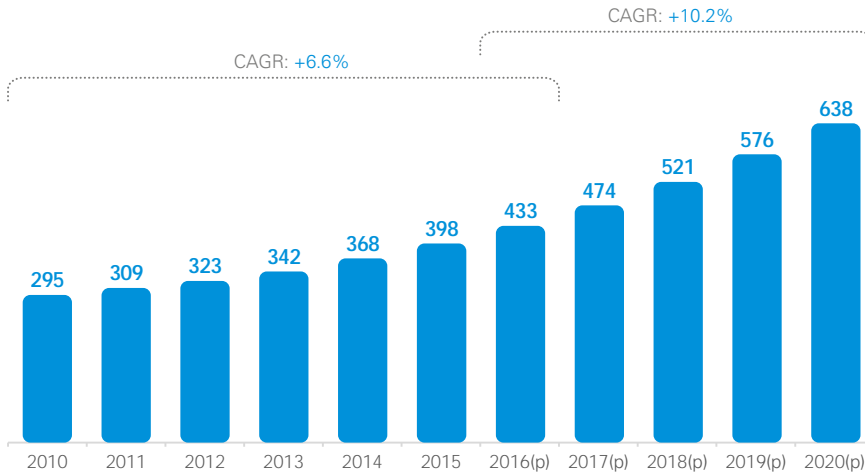
The luxury watches market is one of the fastest growing segments of the luxury goods market in Poland – in the years 2010–2016, the compound annual growth rate (CAGR) was 13%. It is estimated that, in the years 2016–2020, it will grow even faster, on average 15% each year. In terms of value, 81% of the luxury watch market consists of men's watches, and in recent years their value has risen faster than the value of the ladies' luxury watch market.

There are more international and home grown brands of luxury jewellery and watches on the Polish market. The majority of the products of this segment are sold in multi-brand stores. Despite this, it is worth noting that in recent years, mono-brand salons have been also rising in popularity, which may be connected with the trend which depends on striving towards the individualisation and personalisation of luxury products. This tendency is particularly evident in the jewellery and watches segment.

Value of the **luxury jewellery and watches** market in selected European countries (combined value in EUR millions, 2016)



Value of the luxury jewellery and watches market in Poland
(in PLN millions)



CAGR – Compound Annual Growth Rate
Source: KPMG in Poland based on Euromonitor International data and projections; (p) – projection.

Prices from which **jewellery and watches** are considered as luxury by people with a gross monthly income in excess of PLN 7.1 thousand

	Affluent PLN 7.1–10 thousand gross	Very Affluent PLN 10–20 thousand gross	Rich over PLN 20 thousand gross
Ladies' watch	PLN 4,000	PLN 5,200	PLN 5,200
Men's watch	PLN 4,700	PLN 7,900	PLN 8,000
Necklace	PLN 4,900	PLN 5,600	PLN 7,600

Source: KPMG in Poland based on consumer research.

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Our clients seek jewellery that will move their heart and soul. They pay attention to the detail and quality of workmanship. One group contains women, who – through jewellery – wish to highlight their personality. It is immensely important to them, it is their private language, a journal filled with memories, where the most important moments are recorded. They are willing to see the designer's personality and his concept which encourages them to select the original YES collections. The second group are men, seeking the ideal present or engagement ring.”

Monika Klejewska
Marketing Manager,
YES

 **The luxury jewellery market in Poland is almost three times the size**
of the luxury watches market



The consumer awareness of the Polish client grows constantly. From year to year, clients more often and more readily seek mechanical wristwatches. The definition and consciousness of appearance takes on an ever-greater significance as a man's image (since, above all, this group represents the overwhelming majority of clients) and, like his outfit (clothing), the watch is perceived as an element distinguishing the man from his surroundings. This phenomenon is strictly connected to the increase in the dynamically growing group of affluent clients in Poland. Those people are the leaders in making purchases of the luxury watches. The prospects in this field are optimistic since, according to statistics, Poland continues to significantly diverge from European averages. Despite the road already swiftly conquered by Poles, the distance to reach these averages is still large.

Our clients are usually well-established men, aged around 40, for whom watches are familiar as a part of man's jewellery; they appreciate them and distinguish brands. These clients build their watch collections depending on their lifestyle needs (e.g. casual watches, watches for formal meetings, for extreme sports, etc.), and they are looking for something new, original, with the aim of expanding their collection.

Marek Filipczyk
Chairman of the Board,
Copernicus Watch Sp. z o.o.



The luxury jewellery and watches segment is developing all the time, and Poles, interested in exclusive jewellery products, are prepared to allocate ever larger sums for them at ever shorter intervals.

Systematically, from year to year, we have observed an increased interest from the clients, who are becoming ever more open to buying another watch or diamond jewellery for their collection. This is a sign of a developed, very mature market.

In terms of luxury products, which are available above all in the Apart Exclusive stores, they are bought by the wealthy part of society, for example, company owners, managers, or lawyers.

Customers certainly pay attention to Apart designs, the selection of exclusive jewellery and high-end Swiss watches. In addition, customer service is important to them, as is the possibility of making their purchase in an elegant brand salon, which guarantees high quality and prestige.

Michał Stawecki
Marketing Director,
Apart







Yachts

Polish yachts enjoy increasing popularity and reputation all over the world. Over 95% of yacht production is designated for export, above all due to the relatively small demand for this type of boats in our country.

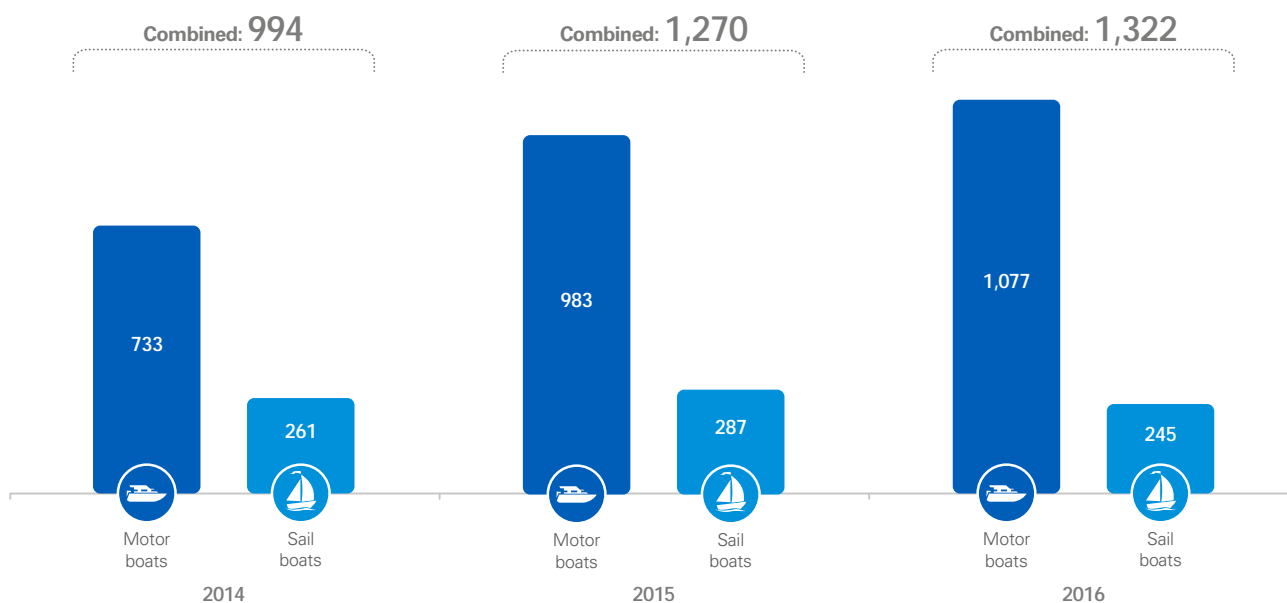
The yacht market in Poland is made up of almost one thousand companies operating in the sector. There are a couple of large producers selling yachts under their own brand, as well as companies producing them primarily on order for other entities as well as numerous sub-contractors and companies selling yachts of foreign producers.

Yet since 2013, we can observe an increase in the number of boats of this type registered in Poland. In 2016 people registered 1,322 units, what is 4% more than in the previous year. The type of registered yachts in Poland is, as always, dominated by small and medium size sailing yachts.

Producers and distributors confirm that constantly Poles are making purchases of luxury yachts more willingly.

Polish producers enjoy many successes in the world, and the recognition and long experience of Polish boatyards is reflected by the numerous prizes awarded to them.

Number of yachts registered in Poland in 2014–2016 in the Polish register of sea-going yachts



Source: KPMG in Poland on the basis of Polish Sailing Society data.



The yachting industry in Poland employs 35 thousand people and numbers about 900 businesses (these are commercial entities dealing not only with production but also water tourism in general). The production potential of our boatyards is about 22,000 vessels per year. These are both boats produced under a Polish brand and for large foreign boat-builders. The potential is huge, bearing in mind the fact that our factories are among the most modern ones in Europe.

Many years' experience, modern infrastructure, cooperation with the best designers, access to the latest solutions regarding technology and quality control enable the manufacture of products of the highest class in the world, able to successfully compete on international markets. 6–9 meters motor boats are the main speciality of our industry. Poland is the top producer in this category after the United States.

Ownership of a high-class yacht remains beyond the means of most Poles, and that is why currently over 95% of production goes to foreign markets. The high quality of the offered products and the meticulous workmanship allows Polish firms to secure stable positions on the global luxury goods market. This is proven by numerous awards from international exhibitions. Last year Galeon Yachts from Straszyn won the exceptionally prestigious 'European Powerboat of the Year' award at the BOOT show in Dusseldorf, Sunreef Yachts was celebrating a triumph at the World Yachts Trophies during the Cannes Yachting Festival, and Delphia Yachts won the 'Boat of the Year 2016 in Japan' award with the Maxi 1200.

An efficient and dynamic network of dealers – reaching Europe, America, Asia and Australia – results in constantly growing sales. The prospects for the future for the whole yacht industry are positive. Yet the greatest increase can be expected in the luxury yacht segment.

Sebastian Nietupski

Chairman,
The Polish Chamber of Marine Industry and Water Sports – Polskie Jachty



Over
95%

of the production of yachts
in Poland goes for export



From the global perspective, the competition in the nautical industry, much like in other premium-luxury sectors, is greater every year. Yacht manufacturers try to outdo each other in ideas and in ever more advanced projects. The environment is becoming aggressive in terms of both sales and marketing practices; boatyards and brokers are fighting for customers. It is true that the number of clients is rising, but so is the number of yacht manufacturers. The second-hand market has also grown significantly. Some buyers begin their adventure in yachting from a used vessel and only later perhaps take the decision to buy a new, often fully customised boat.

However, it can be confidently stated that in recent years the Polish nautical industry and our home-grown producers have been doing well in recent years. Yachts are one of our country's best export goods. Among nautical customers, the 'Made in Poland' brand is associated with excellent workmanship, quality, precision and flawless finishing. Western boatyards are often unable to match us in this. Several of them have even decided to transfer part of their production to Poland, which no longer is the result (as in the past) of the possibility to cut costs, but from the desire to maintain a level of production that our qualified workers guarantee, thanks to their experience in building boats.

Fourteen years ago, when we opened our boatyard, no one from abroad connected our country with luxury products. Now the situation is entirely different. Today we are at the forefront, and we are not inferior in this respect to the best manufacturers from Italy, France and The United Kingdom. Currently, the Polish yacht industry is able to respond to the requirements of buyers from around the world. In Poland, we have manufacturers of smaller sailing yachts, motorboats, superyachts and luxury catamarans, such as Sunreef Yachts.

Innovation and the desire to stand out from the crowd combined with precision and quality are the clear driving forces of the whole yacht industry. People do not want to own the same items as others; they like to highlight their personality and taste, and that is why we build only fully customised yachts, a process in which the client truly takes part. This trend has continued steadily since 2002, the year that our company was founded.

From the very beginning, we have specialised in the design and building of custom-made luxury 18-meter catamarans. We offer our clients a comprehensive service, including an individual approach to each of them. We believe that each boat that we launch is different – just like its owner. Our clients live in various parts of the world: in the USA, Israel, Russia, Dubai, France, Mexico, Australia and even South Africa.

Why do they choose us? Clients know that we build the most technologically advanced and innovative projects in our class. Due to the fact that all production halls, design offices and workshops are located under one roof, in our boatyard in Gdansk, we are in a position to control immediately all of the stages of the manufacture of our yachts. Add to this the possibilities provided by catamarans, thanks to their construction and two independent hulls. These are very stable vessels, with double the space possessed by single-hulled vessels of the same length.

Francis Lapp
President and founder,
Sunreef Yachts



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Luxury goods, such as our yachts, are enjoying a growing popularity. The growth of yachting is assisted by the expansion of infrastructure – the creation of new waterways and marinas all over Poland. Sailing clubs and charter companies are opening, and more and more people are deciding to take their first steps in water sports.

Previous years were characterised by an increase in orders from Poland and abroad. Currently we can observe a rise in the values of orders. This is because clients can enhance already high standards with numerous options.

Our clients are not only sailing yacht enthusiasts, for whom the seaworthiness of our boats is paramount, and who continually take part in long cruises over the seas and oceans. They are, above all, people who value luxury, and for whom sailing is a way to relax with their family and friends.

Among the admirers of our boatyard's vessels are private entrepreneurs, presidents and directors, representatives of independent professions, such as doctors or lawyers, but also charter companies.

Owners of sailing yachts return to us sooner than in previous years, to exchange their boat for a bigger one. It also happens that they decide to change their method of spending time on the water, and buy a motor yacht. Producers have to carefully follow trends, continually improving their yachts and expanding their portfolio.

Ewa Kot
Public Relations Manager,
Delphia Yachts

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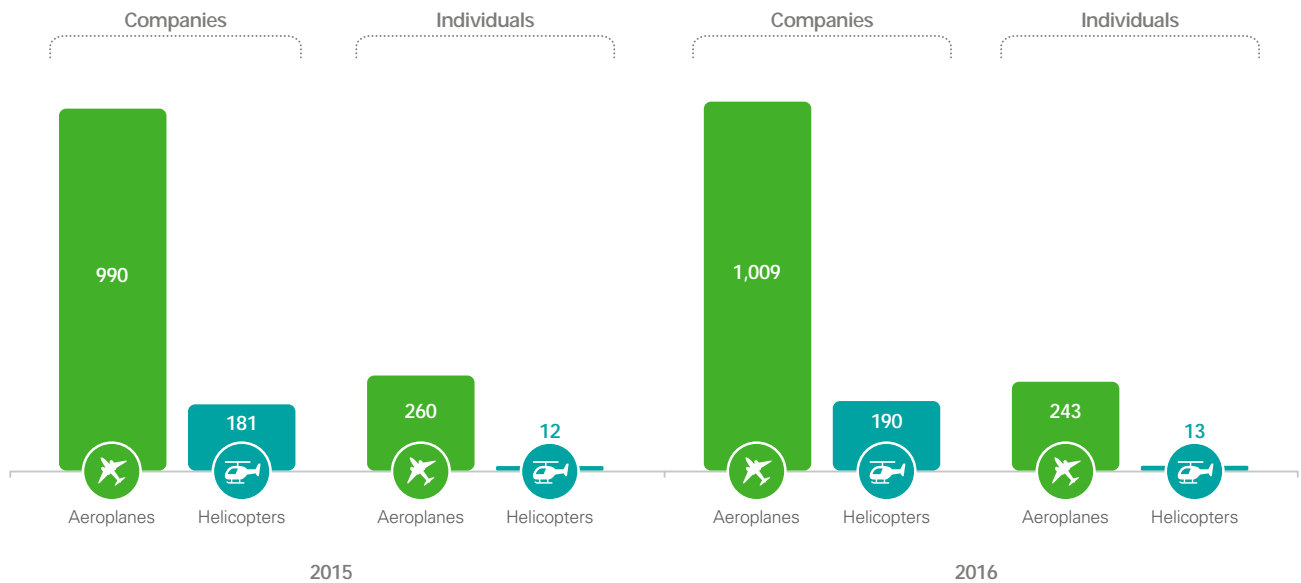
Aircraft

In 2016, the Civil Aviation Authority reported the largest number of registered executive aircraft in several years. From KPMG analysis and conversations with company representatives, it is apparent that the value of the private aircraft market in Poland can be valued at about PLN 109 million. Forecasts indicate that this segment will grow and in 2020 will exceed PLN 151 million.

According to data from the General Aviation Manufacturers Association (GAMA), which encompasses 90 companies producing aeroplanes, helicopters and aviation components, in the first nine months of 2016, 1,504 executive jets were delivered to clients around the world (3.5% drop in relation to the same period of the previous year). The number of new helicopters was 16% lower than in the first three quarters of 2015 and amounted to 615 units. In general, on an annual basis, from January to September 2016, the value of this market in the world has shrunk from USD 19.1 billion to USD 15.9 billion.

The development of infrastructure is an essential factor in enabling the growth of this segment. In recent years, the number of airports has been growing, as has the number of aviation companies and schools where people interested in learning to fly are trained. This is perhaps connected to the increase in the number of places where it is possible to refuel an aircraft. From year to year, the number of people interested in owning their own plane has likewise increased, as has the number of people who can afford to do so. It is worth mentioning that the number of people for whom air travel becomes a necessity – since it is a way of efficient and swift movement, saving their valuable time – is growing.

Number of aeroplanes and helicopters registered in Poland in 2015–2016



Source: KPMG in Poland on the basis of Civil Aviation Authority data.



Aircraft (aeroplanes and helicopters) in the luxury goods category represent a group where the usage value, mainly associated with optimizing travel and saving time, is the leading motive of purchase. The prestige associated with their ownership is generally a secondary motive, and sometimes it is even minimalised. Another important factor is the relatively tax-friendly rule for the settlement of the cost of acquisition and operation of aircraft in Poland. For this reason, the owners of the majority of newly-acquired aeroplanes and helicopters are commercial entities. It would also appear that the bare statistics from the Civilian Aircraft Register do not fully reflect the dynamism of this market in recent years, since the effect of new registrations is often offset by the deletion from the register of aged and worn-out aeroclub aircraft hailing from a different era. Today's high-end light aircraft are equipped with technical solutions that often outstrip those that are employed in mass-transit aircraft. Finally, after years of rebuilding aircraft industry from the effects of the financial crisis, the first aeroplane that creates its own new category (the personal jet), hit the market in 2016. The global demand for this type of aircraft is so huge that currently the producer has already taken almost 600 orders, including five from Poland.

Piotr Długiewicz

Founder, Platinum Cirrus Instructor Pilot
Cirrus Poland & Baltics



243 aeroplanes

The number of aeroplanes registered to private individuals at the end of September 2016

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From year to year we observe an increase in interest in aviation, both in relation to aeroplanes and to helicopters. This is noticeable, above all, in the increase in aviation operations, and also in the growing number of people who want to learn to fly or that use an 'air-taxi'. One can seek the causes of this phenomenon in the increasing wealth of Polish society. On the one hand, this means that the value of their time is increasing, and they are all the more prepared to rent helicopters or aeroplanes from us, so that instead of travelling, they can spend more time working or with family.

On the other hand, they can afford a more sophisticated way of spending their leisure time or holidays, such as perhaps learning to fly or travelling Europe from on board a helicopter.

It is not necessary to buy an aircraft to fly one – people can rent one, which is a very convenient solution.

The overwhelming majority of clients deciding to hire a helicopter are people running their own commercial business. On the one hand, by learning to fly, they are fulfilling their childhood dreams. On the other it's necessary for them to learn how to fly, if they want to buy a helicopter or a plane in the future and combine the joy of flying with shortening travel time. The possibility of piloting an aeroplane involves a cost of about PLN 30 thousand in the event of a tourist licence or PLN 80 thousand for a helicopter licence.

Marcin Szamborski

Helicopter instructor,

Member of the National Helicopter Team

Co-Owner of Salt Aviation

”

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The value of the new general aviation aircraft market in Poland has decidedly grown in comparison with 2015, and will close with a value in the region of USD 47–50 million. This is the cost of only 8 aircraft. Such a large value, and the difference in relation to previous years, is due to the fact that three executive jets have been imported and registered in Poland, with a combined value of over USD 30 million. The remaining 8 aircraft are turboprop-powered machines. The purchase price of these aeroplanes mostly wavers around USD 4 million each.

The general aviation market also includes helicopters – 8 new machines were sold on the Polish market in 2016, with an accumulated value of around USD 17 million.

In summary, the value of the GA market rose in 2016, which was coupled with a significant decrease in the number of machines bought.

In light of the political situation in Poland, it is hard to predict the sale of aircraft in the coming years. Large commercial entities conducting operations on international markets will represent the biggest purchase potential. These businesses are the least dependent on the economic situation in the country. Here we can expect a demand for expensive aircraft, both jet and turboprop-powered.

Increasingly, large commercial enterprises employ the practice of registering aeroplanes abroad; many expensive aircraft, the property of Polish entrepreneurs, fly under German or American markings. Frequently, these aircraft are used commercially by foreign entities, which manage and rent them.

Despite interest and many enquiries, the purchase capability and activity on the aviation market of smaller entities remains at a low level.

In 2016, aeroplanes and helicopters in the USD 500 thousand – 1.5 million price range were bought mostly by flying schools on the basis of public procurement. Small commercial enterprises, from which one would expect demand for piston-engined aeroplanes and helicopters, remain cautious. They concentrate on maintaining and expanding their commercial activities rather than on the purchase of aircraft.

Wojciech Jeziorski

Sales Director,

J.B. Investments

”



3

Investment in collectible luxury goods

Investing is not the simplest method of making money. It is an art, since you need to demonstrate skill in the appropriate selection of assets in order to achieve an effect in line with the expected result. The clever capital investment can be compared to the work of a painter, or a musician who – according to his qualifications – creates a work of art in such a way that someone is willing to enjoy and pay for it.

Where to invest, so as to achieve the maximum return? Or maybe the question is not about profit at all, but about the security of investment? And what if the purchased item could be used on a daily basis, to impress friends and acquaintances? Opportunities that combine all of the elements of an ideal investment are rare, and most often this is an investment in luxury goods.

According to research conducted by KPMG, luxury goods are considered to be those that endow the owner with prestige (recognition in the eyes of the surrounding community) and their value significantly exceeds the price of popular, readily-available products.

Many of those are consumer goods which are perhaps not intended for everyday use, but that can be used in everyday life. We only need to consider whether such a purchase is a good investment, and this is best verified at the moment of resale – if we sell it for more than we bought it for (taking into account inflation and the costs involved in the purchase itself, e.g. expert evaluation, or the allocation of one's own time in the search for the appropriate item), then the investment can be considered successful.

There is one more adjective that is inextricably associated with investment in luxury goods. Such goods should be



The situation on the collectible luxury goods market looks promising although, in comparison to Western European countries, this market continues to be in the initial stages of development. The investments of affluent and rich Poles are becoming ever bolder and more considered. High returns and the exclusive character of the market encourage potential investors to make further purchases.

Andrzej Marczak
Partner,
KPMG in Poland



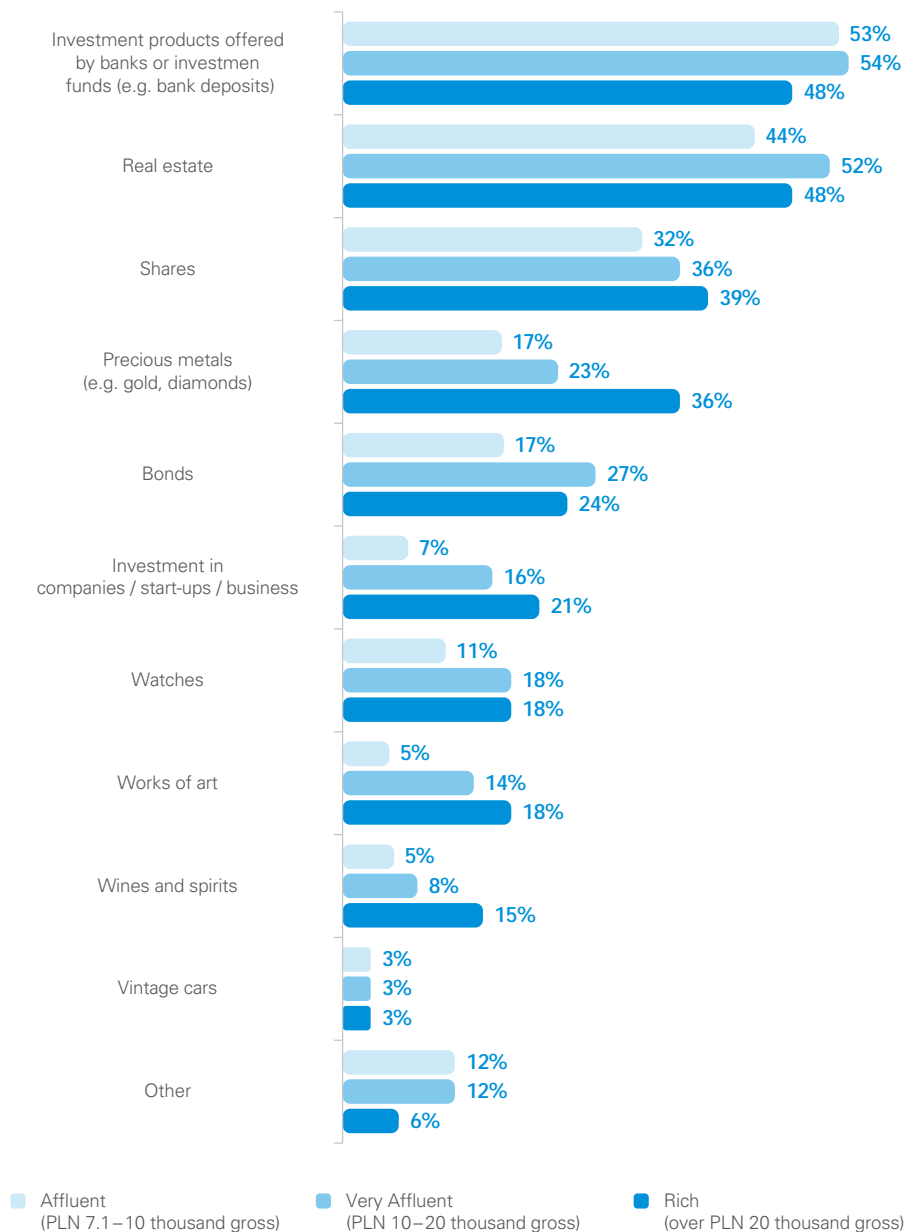
'collectible' – that means they should not be easily accessible for everyone, they require much more effort during search and purchase than the ordinary goods. Moreover, those items may be included in the buyer's investment portfolio.

The perception of what is a luxury item depends on affiliation to a salary group and usually shifts upward along with a rise in income.

But why invest at all? These are the factors that determine a good investment:

- **High return** – the difference between the price at purchase and at sale taking into consideration costs of both transactions (economic, technical and business plans analyses are relevant).
- **Security** – achieving a guaranteed return in times of changing perspectives and an unstable economic situation.
- **Prestige** – the acquisition of an investment item, the ownership of which engenders recognition and respect in society.
- **Snobbery** – the desire to copy a certain group of people or even a single individual; that is why the 'ambassadors' of luxury brands are well-known people/celebrities, and for this reason the services of 'trendsetters' are frequently employed in the promotion of luxury goods.
- **Sentiment** – e.g. when I remember that during the war my grandfather had to sell his Omega pocket watch, and I have the opportunity to buy a similar one in an antique shop.

Investments of affluent and rich Poles



Source: KPMG in Poland based on consumer research. Respondents could indicate more than one factor.

Artworks

With the rise in their affluence, Poles select various methods of investment. They no longer restrict themselves to buying shares in companies listed on the stock exchange, but more often they invest in artworks (including painting, sculpture or artistic handicrafts). KPMG analysis shows that only 5% of people with a gross monthly income of PLN 7.1 – 10 thousand invest in works of art. Yet among Poles with higher incomes, this figure rises to 18%, and 36% are planning such an investment in the future.

Works of art can be considered emotional assets, which are more frequently perceived as investments. The numerous rankings and price indexes of artworks are aids to investors, and some of the best known are those published by the artprice.com portal.

The high prices of these items mean that they are available to only a small group of affluent and rich

people. They are motivated not only by the prospect of making a quick profit, but by the desire to possess given works of art for their own enjoyment. The restricted availability of artworks reinforces the need in investors to possess them, which results in such high prices. This market is characterised by a relatively high level of uncertainty, and the dependence on current trends and buyer preferences means that it is extraordinarily hard to forecast future changes in the values of artworks. An example of this could be the work of Wilhelm Sasnal, whose paintings could be bought for a couple of hundred PLN just a few years ago: today, his works are sold all over the world, and their prices often exceed several hundred thousand PLN.



USD 180 million

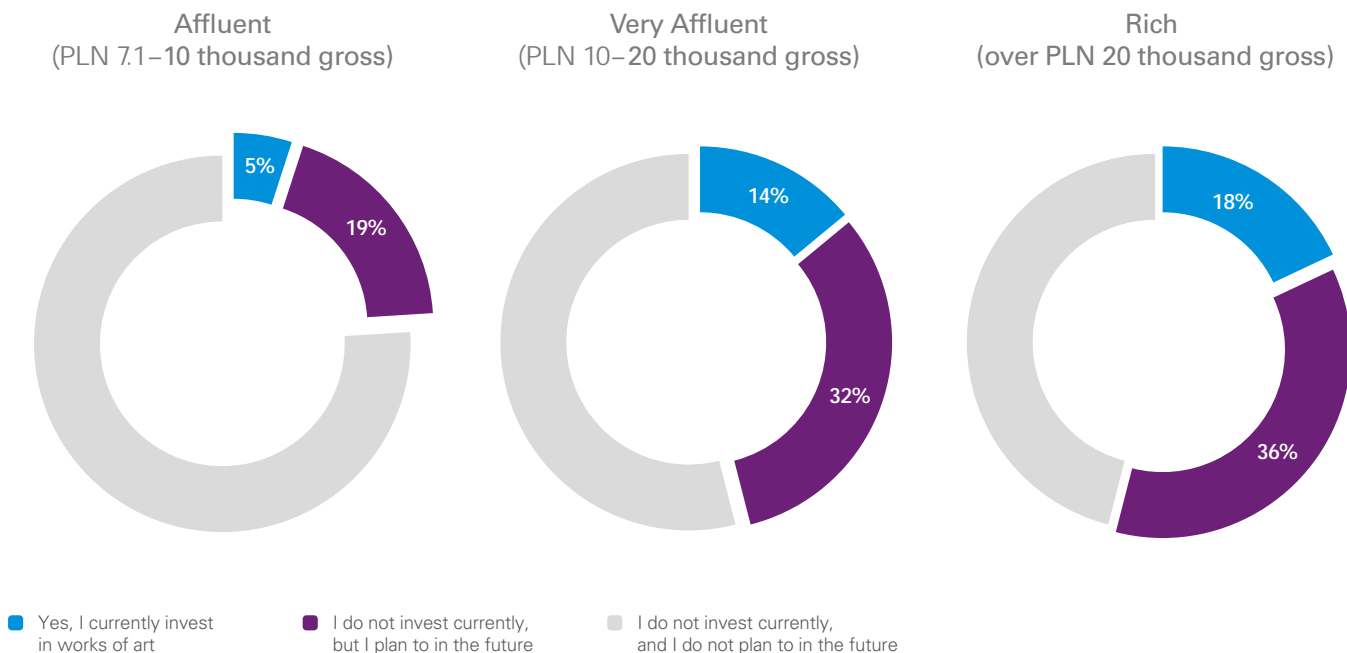
was the price of the most expensive work of art – “Les Femmes d’Alger (Version ‘O’)” painted by Pablo Picasso in 1955



35%

of affluent and rich Poles invest in artworks or are planning to do so in the future

Investment in works of art by affluent and rich people



Source: KPMG in Poland based on consumer research.

According to data provided by artprice.com, currently the most expensive work of art is a painting by Pablo Picasso, 'Les Femmes d'Alger (Version 'O')' (1955). It was sold at auction in New York for nearly to USD 180 million. Also on the list of most expensive artworks are works by Amadeo Modigliani (Nu Couché, USD 170.4 million), Francis Bacon (Three Studies of Lucien Freud, USD 142.4 million), Alberto Giacometti (L'homme au Doigt, USD 141.3 million) and Edvard Munch (The Scream, USD 119.9 million).

The characteristic feature of the art market is the relatively high cost of transaction, which shapes the evaluation and ultimate profitability of the investment in a fundamental way. These costs consist mainly of fees collected by the auction houses putting the artworks up for sale, the rigidity of the market (costs generated by the time and effort dedicated to evaluating artworks and seeking out buyers) and other fees, such as taking out insurance and the appropriate storage of the items. People who invest in artworks try to meet the challenge of optimizing risk, making use of

an analysis of planned investment indexes, among other things. They take into consideration factors such as historical changes in the value of given artworks or current market trends.

Price indexes for art works around the world are regularly published by, among others, the artprice.com service, both for the global market, and for its particular segments,



The purchase of artworks and antiques is driven by emotional and economic considerations. In the first case, we take into account whether the buyer likes the given piece, whether it will be displayed in a prominent location in the home and whether he will take pride in his purchase.

Emotional and economic considerations both play a significant role in the selection of a work of art. The buyer makes his decision based on several factors: the cost of the artwork, the renown of the artist and his perception in the art market, and also the current price. The buyer may pay more, on condition that he work of a given artist stands out from the rest of his output and also that the provenance, the origin and history, of the work is known.

A beginning collector may feel cheated if the price is greatly elevated. If we do not have information about market prices, we should consult an expert.

Dr. Jerzy Huczkowski

Honorary President of the Association of Polish Antique and Art Dealers,
The Cracow Andrzej Frycz Modrzewski Academy in Krakow
Head of Postgraduate Studies "Art and Antiques Market"





The artworks market in Poland is looking exceptionally promising; the forecasts for its development are very optimistic. This situation of great revitalisation is in its third year.

The 2009 financial crisis did not cause a fall in prices, and yet the stagnation on the market was painful and affected all participants in the market. Currently we can observe a steady increase in the number of auctions. The number of companies specialising in the sale of artworks at auction is rising, and new clients are emerging. According to information collected by the artinfo.pl portal, there will be 240 auctions in 2016; this is a record on the market. Previous years were also abundant in a large number of auctions, and yet these did not exceed 150–180 auction events per year. Only in 2015 did we record 240 auctions, which confirms the strong rising trend.

The turnover on the market was estimated at about PLN 60–80 million for many years. Both this year and 2015 emphatically demonstrated that the value of the auction market has lastingly exceeded PLN 100 million. The potential of the market is demonstrated by events like last year's December auction in Desa UNICUM. In the course of two auction sessions, a turnover of PLN 13.6 million was achieved. Following the model of world-famous auction houses, such as Christie's or Sotheby's, the result comes from an exceptional offer. Tadeusz Kantor's acrylic/paper glued on board entitled 'Man Dummy' a costume project (1984) sold for a record PLN 640 thousand, Tadeusz Brzozowski's oil on canvas painting 'The Wench' (1959) was auctioned for PLN 800 thousand, and Wladyslaw Hasior's assemblage 'A Bust' (before 1967) fetched PLN 500 thousand. Customarily, most auction houses add a fee to the above prices, amounting to 18% of the hammer price.

The record price for sale at auction belonged for a long time to Henry Siemiradzki's 'Castaway' (1878), knocked down in 2000 at PLN 2.1 million at the Polswiss Art auction house. The auction house improved the record in 2013, selling Jacek Malczewski's 'Polish Hector' for the sum of PLN 2.6 million which, when the fees were added, came to almost PLN 3 million.

When speaking of emotions at auction, two auctions of works by Rafal Malczewski in 2015 will go down in the history of the Polish market. The first of these – 'Skiers in the Tatras' (1927) oil on canvas 100x80 cm, had an estimate of PLN 30 thousand, and was sold for PLN 680 thousand. The second, with the same dimensions and estimate, entitled 'In Zakopane' reached a price of PLN 950 thousand. These sales took place at Desa Unicum and changed the asking price for Rafal Malczewski's works forever.

The auction market in 2015 and 2016 is dominated, however, by contemporary art. At the final auction of 2016, Desa Unicum put up a picture by Roman Opalka with an estimate of PLN 2.3–3 million. The December auctions are also graced by numerous works by Wojciech Fangor. His circles and waves frequently achieve prices higher than at world auctions. In May 2016, Polswiss art sold one of his works for half a million PLN, and at the same time Desa Unicum sold one for PLN 780 thousand. Current estimates for Fangor's best work approach PLN 1.3 million.

The sculpture and collectible photography market is developing very strongly and promisingly. At the November auction by the Collectible Photography project, a print of Witkacy's 'Monster of Dusseldorf' from 1932 was sold for the record price of PLN 170 thousand. Sculptures by Polish artists are appreciated in Poland and abroad – the works of Alina Szapocznikow, Magdalena Abakanowicz and Igor Mitoraj achieve record prices.

On the home market, a very distinct tendency is the blossoming of auctions of young art, also known as promotional, young, superyoung. Almost 90 auctions per year concern this type of art. These are usually the works of young artists who receive their first recognition among collectors thanks to the auctions. Estimates range from PLN 500 to 1,000 and for this reason garner great interest. Really modest resources are required to obtain sometimes very interesting work. The investment aspect in this instance is particularly strong. Many clients expect that they find artists, who in future will be as successful as ilhelm Sasnal, Pawel Althamer or Marcin Maciejowski.

When it comes to the condition and the future of the Polish artworks market, there is a big difference in prices between Poland and the rest of the world. Valuations of Polish artists, particularly those belonging to classic contemporary art, are frequently lower than those of comparable artists on the foreign market. Even a slight levelling of this situation will bring rapid changes. The Polish market has been awaiting a rise in prices for many years – it is possible that we are in the last good moment for the purchase of exceptional works of art by Polish artists.

Rafal Kamecki
Chairman of the Board,
www.artinfo.pl



Motor Cars

Low interest rates and low returns on investment in classic financial instruments drive the search for alternative methods of investing capital. Those who expect double digit annual returns should investigate the collectible cars market.

From the consumer survey commissioned by KPMG, it is shown that only 3% of surveyed Poles with a gross income in excess of PLN 7.1 thousand invest in classic cars. This means that this is one of the least popular assets considered in our analysis. This segment of the market is evidently underappreciated, what stands inversely proportional to the rate of return, which was possible to achieve over the last ten years. According to the London-based Historic Automobile Group International, which prepares a monthly index describing the changes in value of rare collectible cars, this rate came to almost 500% and was about twice as high as the return on investment in art or wine, and almost six times higher than that in watches.

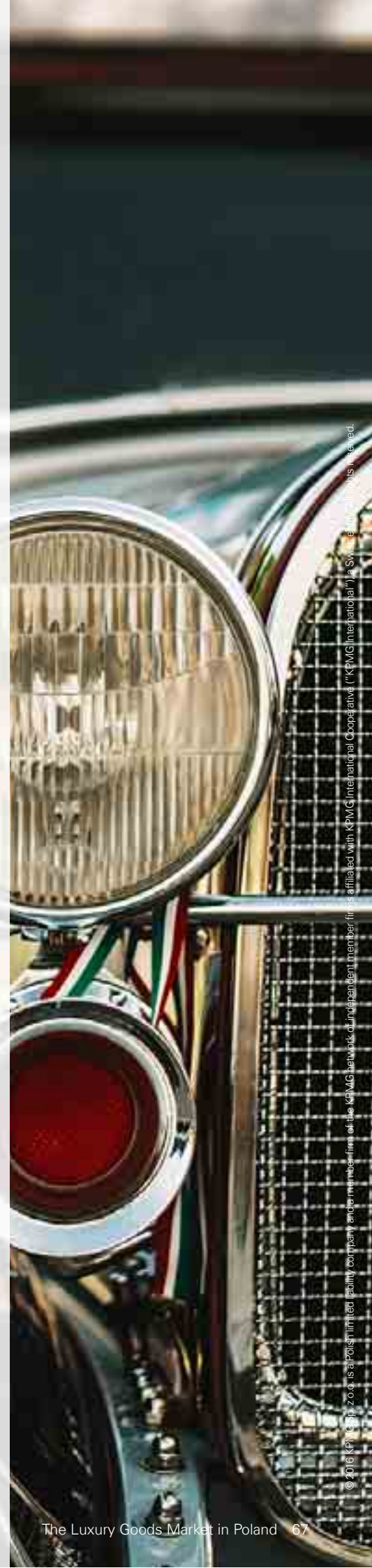
The prices of classic cars depend, among other things, on the brand, condition of the vehicle, uniqueness, number of cars produced and the age. Equally important are less quantifiable features – among them the most important seems to be nostalgia, also known as the 'generation effect'; here the investor is keen to buy a car that he dreamed of as a child.

Perhaps this is why the most valuable classic cars are currently sports car models from the 1950s

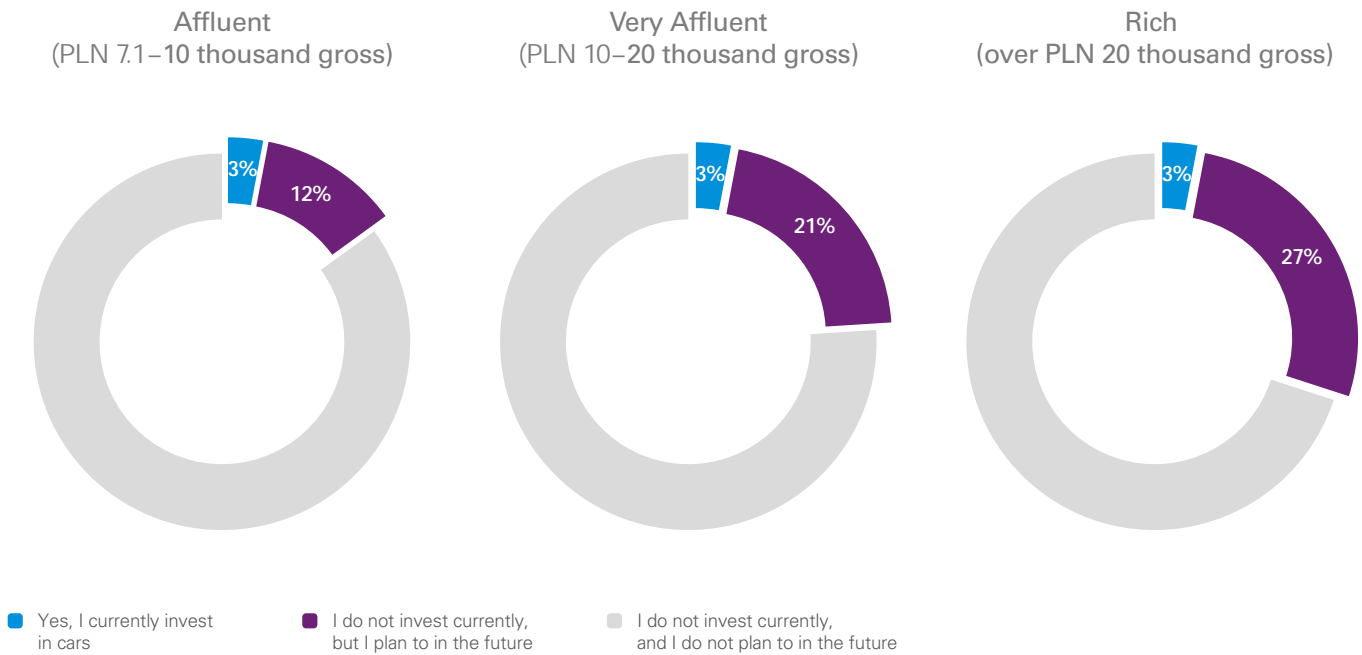
and 1960s that were produced in limited series. The record sum of USD 38.1 million was achieved at auction in 2014 for a Ferrari 250 GTO, which had a production run of 39 cars. At the time of its launch in 1962, it cost 'only' USD 18 thousand, but to become an owner, one had to obtain the personal approval of Enzo Ferrari.

The second most expensive car in the world is even more exceptional. Sold in February 2016 for USD 37.7 million, the 1957 Ferrari 334S Spider Scaglietti was one of only four ever produced. This small number is a result of the fact that in the 1950s producers designed racing cars that were to compete on the race track for only one season. Once the season was over, the cars were considered obsolete, and their life was effectively over. Furthermore, some of the manufactured cars were smashed in crashes during races, and that is why the auctioned model was exceptionally rare and a gem for the richest collectors. According to unofficial information, the purchaser of this unique car was the famous Argentinian footballer Leo Messi. It turned out that he outbid his main football rival Cristiano Ronaldo, who also desired to possess this rarity.

The domination of the Ferrari brand among the most expensive cars in the world is evident – cars from the Italian manufacturer occupy four of the top five spots. They are joined by a Mercedes-Benz W196, whose price at auction in 2013 reached USD 30.1 million, which is followed by two more Ferraris



Investment in cars by affluent and rich people



Source: KPMG in Poland based on consumer research.



almost
500%

is the rise in the value of the HAGI index, which covers selected collectible cars

– a 290MM worth USD 30 million and a 275 GTB, sold for USD 28 million. It is no wonder that, according to the insurance company Hagerty, the return on investment of the Italian manufacturer's cars from the years 1950–1970 reached 600% between 2007 and 2015.

Although it appears as if investing in old cars is an excellent opportunity to practically eliminate risk, this is not strictly true. A story from the end of the 1980s, when investors from Japan drove up the prices in the classic car market, is instructive. When the bubble burst, the value of collectible cars collapsed, and the rises throughout the 1990s were negligible. The market history of the most expensive Ferrari model that was mentioned above is a good example of the chaos. In 1989, just before the collapse of prices, one of the 250 GTOs was sold to a Japanese investor for USD 14.6 million, which turned out to be a worthless investment, since five years later, it was worth just USD 3.5 million.



USD 38.1 million

was the sale price of the most expensive car in history – a Ferrari 250 GTO

Of course, the examples of collectible cars mentioned above are opportunities only for the richest investors, but those with a somewhat slimmer wallet can also find something for themselves. The cheapest classic cars cost less than USD 25 thousand, but the annual profit from such an investment is correspondingly lower. It is also worth looking at cars that were still on the roads relatively recently, but today are a rarity. One such example from the 1980s, which today is starting to become an object of interest for investors, is the BMW M3 (E30). Just a few years ago, this car cost the equivalent of USD 12.4 thousand, and in 2016 it is being sold for USD 37.2 thousand.

Despite the fact that the prices of the assets in question have been rising relentlessly for the last decade, just like before, the supply is in large part driven by investors from Asia. Clearly, nothing suggests that history must repeat itself, but it is good to remember that classic cars are an investment like any other, and give no

guarantee of infinite growth. When deciding to purchase a collectible car, investor must be aware that this market is not really very flexible, and he should be prepared to freeze the capital for a longer period. This means that investment in classic cars ought to represent a supplement to, not the foundation of, an investment portfolio. In addition, the costs of garaging, repairs, conservation and insurance should be considered. It is also possible to make use of special funds that specialise in investing in old cars, but this naturally involves additional costs.

It is also worth paying attention to new cars, which can be bought today from the showroom, and which will likely appreciate in value soon after purchase. Such cars include, for example, the Porsche Carrera R for PLN 1 million, of which only 911 have been produced, or the Lamborghini Aventador SV, with a price tag by PLN 2 million higher, which has been launched for sale in a limited series of 60. In the nearest future the new Ferrari – LaFerrari Aperta – will ignite the investors' senses, but if someone wants to become the happy owner of one of these, around PLN 6 million may not be enough to cover the investment. Due to the large number of willing customers, potential buyers are selected by the head office in Maranello, and rumour has it that, in order to gain the favour of the manufacturer, it is a good idea to have five Ferraris in your garage already.

Some consolation to those who do not have so much capital at their disposal may be the changing landscape of the automotive market. With the dynamic development of the electric car segment and planned regulations leading to a total ban on the registration of internal combustion vehicles, perhaps even the popular car purchased today in the showroom will be a treat on the collectible car market in a few years.



Wines and Spirits

In English-speaking countries, investing capital in expensive wines and spirit is called 'sinful investing'. Engaging capital in this type of asset may in fact be worth the risk, bearing in mind that in recent years the rate of return has exceeded the profits from more traditional investments.

Over the last several years, the global market for investment in wines and spirits has developed significantly, the most popular ones are wines, whiskies and brandies. The rising interest in these kinds of assets is a result of their specifics, which allow one to assume that, with time, they will appreciate in value. In the case of wine, this is influenced by the limited quantities of high quality wine that is produced – it is estimated that only about 1% of the world's entire wine production can be considered as investment wine. There are two additional aspects influencing the rising prices: the diminishing supply caused by the consumption and the maturation of the wine in the bottle, which means that after some time it improves its quality. In addition, the rising global interest in investing in alternative assets driven by demand from Asia means that there are more and more takers for limited and disappearing resources.

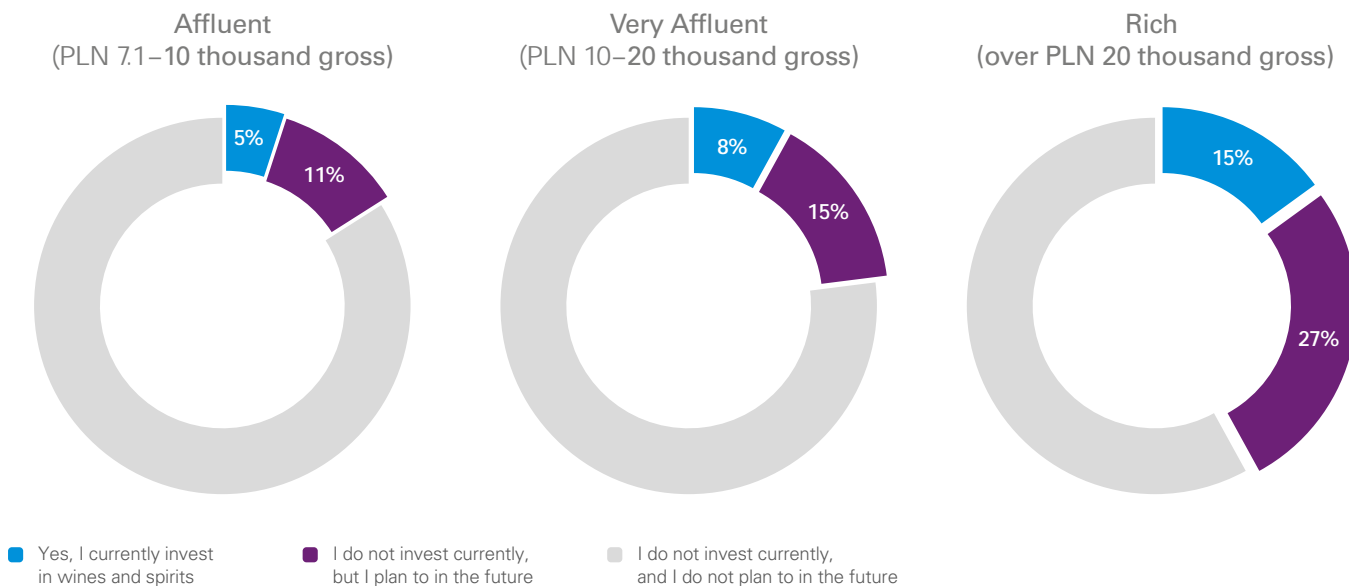
The most expensive wine in the world was sold in 2000 for half a million USD: a six-litre bottle of Screaming Eagle Cabernet Sauvignon 1992. Exceptionally positive reviews and a limited release

of 175 cases into the market influenced the high price, one unusual for such a relatively young wine. Yet it should be highlighted that the Napa Valley vineyard product was sold at a charity auction, so the final price may have been somehow inflated. There are, however, no doubts as to the true value of the second most expensive wine in the world, which fetched a price of USD 304.3 thousand at auction in 2010. A French Cheval Blanc 1947 is one of only four Bordeaux that have achieved the highest classification of Premier Grand Cru Classé (A) in the famous Saint-Émilion AOC.

Among the five most expensive wines of the world, the most interesting story is that of the 1787 Château Margaux. While the vintage alone would ensure a high price, the value of this wine was increased for another reason. The wine, marked with the initials 'Th J', belonged to the collection of Thomas Jefferson, one of the Founding Fathers of the United States. The price of USD 225 thousand was not, however, achieved at auction, as usually happens in these circumstances, but was paid by... an insurance company. A French collector, who in the 1980s found himself in possession of this Bordeaux, wanted to present it at the dinner in the Four Seasons restaurant. During the meal, the bottle had been broken by the waiter, who carried it.

Investment wines are usually bought in sealed wooden cases, which must

Investment in wines and spirits by affluent and rich people



Source: KPMG in Poland based on consumer research.

be stored in appropriate conditions, so that the wine will retain its attributes. Many investors use the services of external companies and store their wine in specialized wine cellars, such as the London City Bond or Octavian Vaults, also in London. Professionals, for an appropriate fee, will take care about proper temperature, humidity or microclimate. Investors can also decide to buy wines en primeur, when it is still maturing in the barrel. Lower price is the advantage of this solution, but it comes with a certain risk, since the final product may diverge in quality from the samples tested during the year following the harvest. When deciding to buy expensive wines, attention must be paid to those originating from the Bordeaux region – it is estimated that almost 90% of investment wines come from there. Other popular regions for wines are Burgundy, Champagne and the Rhone Valley.

Investing in whisky is very similar to investing capital in wine, with the important difference that whisky ceases to mature once it is bottled. This does not mean, however, that the value of this spirit rises more slowly than the value of wine. The Rare Whisky 101 Icon index, which lists 100 exclusive whiskies, has appreciated by more

than 300% between 2008 and 2016. They are dominated by spirits from the Macallan, Ardbeg and Port Ellen distilleries. Apart from buying and collecting rare bottles of whisky, investors can also buy a whole barrel. Its contents are used to produce blended whiskies, and supplies of old, older than 12 years, single malts quickly diminish.

The most expensive whisky in the world was sold in 2014 for USD 662 thousand at an auction in Hong Kong: one of four 6-litre carafes of Macallan M. The handmade bottle required the work of seventeen craftsmen – each of them spent fifty hours working on achieving the perfect shape. Before this wonder was achieved, 40 flagons were destroyed that did not meet the exacting standards. This special bottle was used to hold a mixture of distillations, of which the oldest was 75 years old and the youngest was 25 years old. The master distiller responsible for this task spent two years carefully selecting the ingredients from over 2,000 barrels.

When deciding to invest in luxury spirits, you should be prepared to shelve your investment for several years as well and to bear the costs of storage. You should also remember that the expensive wines and spirits are usually sold at

auction, and the commission of auction houses may reach 15–20%. And although the value of assets should rise, there is no guarantee that this will be so. In the worst case, however, the investor will be left with several bottles of excellent alcohol, which should help take away some of the sting of falling prices.



USD 0.5 million

was the price of the most expensive wine in history – a 6-litre bottle of 1992 Screaming Eagle Cabernet Sauvignon, produced in a limited edition of 175 cases.



Both awareness on the subject of whisky and interest in investing in this type of spirit are continually growing. The popularity of alternative investment rises particularly during periods of low interest rates and a bear market in the stock exchange. In comparison, however, to the financial markets or commodities exchanges, the whisky barrel market is tiny. Due to the dynamic increase in the production of whisky, we observe a shortage of barrels, and the situation when demand far exceeds the supply, which means that this investment will never be universally available. On the other hand, however, it guarantees a steady growth, independently of the capital markets.

This form of investment is most popular in The United Kingdom, and especially in Scotland. In that country, whisky is not only a cultural heritage, but it is also the most important branch of industry, which employs over 50 thousand citizens. Consumption of Scotch whisky is rising inexorably, generating export revenue at the level of GBP 4 billion per year, accounting for 11% of the GDP of this country. Americans also readily invest, as do investors from Asia. Thanks to our activities, Poles also have access to this form of investment and are more prepared to make use of it.

The most important aspect of investing in a barrel of whisky is the age of the distillation. On the Scottish market, whisky aged more than 12 years represents only 10% of all reserves. Despite the fact that demand for whisky is rising dynamically, distilleries cannot increase production quickly, since Scotch whisky must spend at least 3 years in oak barrels, and those of higher quality must mature for 12, 15 or even 21 years. For this reason, we observe a shortage of barrels on the whisky market that could serve in the production of blends. Consequently, the prices of barrels of consumer whisky (inexpensive, single malt, a few years old) rise very quickly.

The average investor is a person who wants to diversify their investment portfolio. We recommend to clients that the share of alternative investments in their portfolio should not exceed 20% of capital. The most important things when investing in alternative markets are knowledge, experience and international contacts. Rather hermetic environment may be a problem for potential investors – without appropriate acquaintances, the purchase of barrels of whisky is virtually impossible.

Krzysztof Maruszewski
President,
Stilnovisti Investments SA



Watches

The world market for investment in watches has been consistently growing for several years. Depending on the wealth of the purchasers portfolio, they can choose an item with a corresponding price, enjoy being an owner of a beautiful item – often considered as a form of art – and expect high rate of return on investment.

The values of the most prized timepieces are estimated at up to tens of millions of dollars. The important point, however, is that this market is also open to neophyte investors with a much more modest budget. The cheapest examples that will maintain or increase their value can be acquired for several thousand dollars.

The essential factors for determining the value of a watch are definitely the brand of the manufacturer and the uniqueness of a given example, as well as the material from which it was made. A timepiece made of gold by a small Swiss company in a small number of units will be naturally more expensive than a mass-produced Japanese steel watch.

The item's design and its technology are equally important factors which determine possibilities to obtain a high rate of return from investment. These manifest themselves primarily in the 'complications', that is, the functions of the watch. They are obtained by using

gears, springs, wheels and other components of the mechanism. The more of such complications, and the more unusual they are, clearly the more difficult they are to make and so the higher the price of the watch.

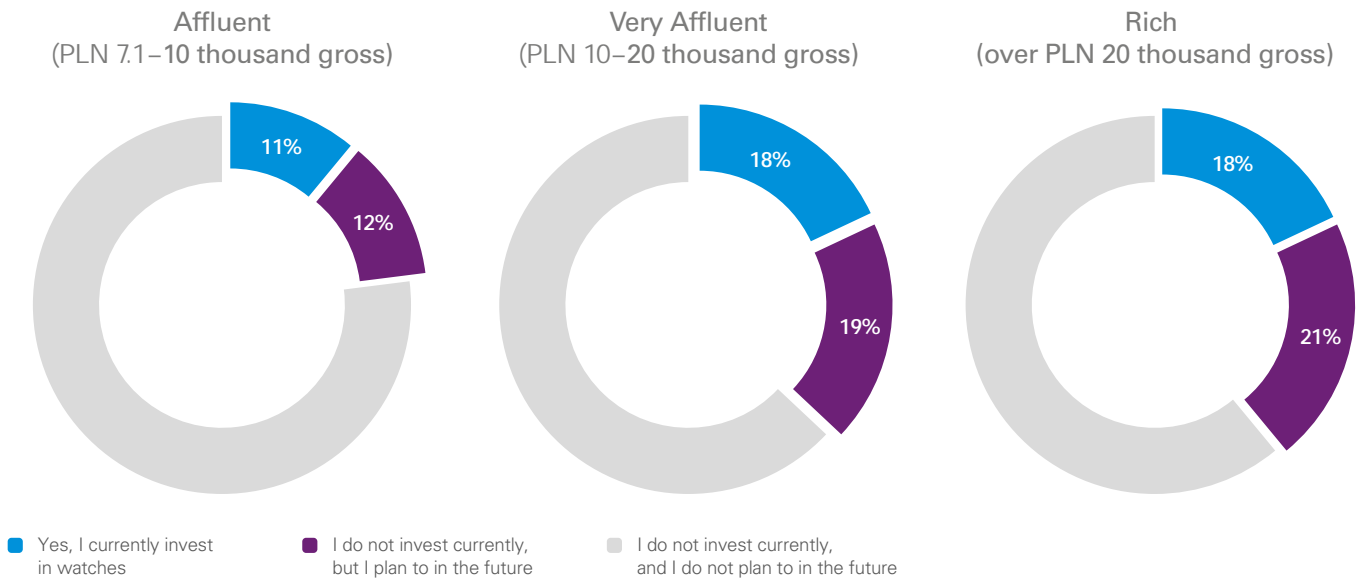
Producers also demonstrate their technological advantage by the number and variety of complications, what results in manufacturing beautiful, collectable timepieces.

An example of an excellent investment may be the 'Henry Graves Supercomplication' produced by the Swiss company Patek Philippe in 1933, commissioned by the New York banker Henry Graves. This watch has 24 complications, and its mechanism consists of almost 1000 parts.

In 2014, this pocket watch was sold at auction by Sotheby's in Geneva for USD 24 million. This set the record price for any timepiece, whether pocket or wrist watches. The previous record was established in 1999 by a Qatari Sheikh, who bought same watch for USD 11 million. In this case, the rate of return on investment has reached unimaginable levels because the cost of production of it was 'only' a little more than USD 200 thousand.



Investment in watches by affluent and rich people



Source: KPMG in Poland based on consumer research.

According to experts, today it is best to invest in old watches with remarkable histories. When it comes to new watches, the highest prices are achieved by those from limited editions.

However, spectacular transactions worth millions of dollars are a rarity, although this does not alter the fact that the rate of return is impressive. As reported by Coutts, which studies the investment watch market, in the years 2005–2014 it was possible to earn average of 86% on watches.

A very good example of a watch as an investment is the Rolex Daytona. Half a century ago, this watch cost barely USD 200. In view of the very limited production, its collectible value rose sharply. The most expensive one was sold for over USD one million, and currently finding a specimen for less than USD 100 thousand is a huge achievement.

Experts also point out watches originating from small manufacturers such as, for instance, Bernhard Lederer Universe. This company produces only a couple of hundred watches per year, and each one is marked by hand. Some of this company's models can be bought for less than PLN 50 thousand which, according to experts, could be a very good investment.

Most people investing their money in watches do so not only for profit, but also for the satisfaction of possessing them. We should, however, remember to buy them in a considered and sensible manner. The biggest or most expensive ones need not indicate that it is the best or that it is a good investment. It is worth adding that for years, and particularly in modern times, watches have been regarded as an excellent status symbol and a complement to the image of its owner.



USD 24 million

was the price of the most expensive watch in history – 'Henry Graves Supercomplication' produced by the Swiss company Patek Philippe in 1933





In the world of luxury goods, there are certain purchases that can be moved in the budget from the expenses column into investments. Among these we could find transactions involving works of art, unique bottles of wine or spirits, limited edition watches and other collectible items.

On the one hand, net financial results may provide an encouragement to this type of activity, since possession of a collection of truly unique objects can be a good investment of the capital. On the other hand, our predisposition to this form of investment arises from the possibility of combining a passion with making money. Being an owner of a unique item not only gives pleasure, but at the same time it allows to earn some money. We can boast of a rare bottle of whiskey to our friends, impress someone with a classic car and the walls of an office or living room can be graced by an exceptional painting. We call this phenomenon an 'emotional dividend', and similar feelings are hard to find in financial markets.

Often such a form of investment is selected for tax purposes. In many countries, tax regulations are either favourable to the purchase of artworks or reduce the tax burden on profits gained from the sale of collectible items. In Poland, for example, profits from the sale of such objects are exempt from income tax, on condition that the sale does not take place sooner than after 6 months, counting from the last day of the month from when the purchase took place. In addition, depositing capital in alternative markets often stems from the need to increase the independence of an investment portfolio from the vagaries of the financial markets.

Artworks in your portfolio

The art market in Poland continues to develop, and the number of art collectors and people who decide to build their own collection from financial motives is also on the rise. We are, however, still a long way away from investors from Western Europe or North America, where artworks have long featured in investment portfolios.

In Poland, for many reasons, art collecting remains the domain of affluent people. Our company's clients, who seek assistance in building a collection of artworks, primarily belong to one of two groups: the first, which dominates, generally consists of people aged around 50 who do not have to worry about their material future and can devote themselves to building a collection of artworks. However, people in their thirties more and more often come to us in order to introduce them into – so far unknown – the world of art.

It is difficult to precisely define the size of the art market in Poland. We can measure only the value of the auction market, but providing even an approximate value of turnover on the primary market is simply impossible. This is because of its fragmentation and structure. Purchases on the primary market can be made at an art gallery, directly from the artist or even through the offices of a middleman or advisor.

Yet we can show the turnover on the auction market, which grows from year to year. Compared to 2014, in 2015 the turnover of the four key auction houses in Poland increased by almost 49% (from PLN 77 million to almost PLN 115 million). These sums represent only a fraction of the world auction market, the yearly turnover of which (excepting China), according to ArtPrice, reach USD 11.2 billion. The biggest market is the United States, which represents 38% of the world market. Poland's position only in Europe is not strong; for example, the annual turnover on the art auction market in The United Kingdom is USD 3 billion, in France USD 580 million and in Germany, USD 260 million.

Although the Polish art market does not belong to the biggest ones, it does not mean that it is not possible to find interesting investment opportunities here. These are to be found particularly in the contemporary art market. Buying the work of a young artist who, in the perspective of several years, might find success outside Poland, may indeed be very worthwhile. This phenomenon could be observed in the last few years in the case of such artists as Tomasz Kowalski, Jakub Julian Ziółkowski and Przemysław Matecki.

Four wheels not only in the garage

There are few objects in our lives that can provoke such emotions. For a large part of the inhabitants of the globe, a car is not just a mode of transport, but a fulfilment of dreams, a symbol of freedom, a definition of social status, a way of expressing our own personality. Where heated emotions can be found, there is also a way to make lots of money.

There are many reasons why classic, collectible cars are exploited as an investment of capital. Obviously, we are not talking here about the majority of vehicles available on the roads, but about the monuments to motorization – the cars that, in specific decades, set trends, led the way to development, were icons. They were manufactured dozens of years ago, and often in limited numbers. Consequently, nowadays they are true rare birds on the motoring market. There is no shortage of private and institutional collectors hunting for such vehicles. In Europe alone, there are 670 thousand people who belong to organizations for historic car enthusiasts. In the course of a year, there are close to 200 thousand events around the old continent dedicated to the aficionados of such cars.

Having something truly unique in your own garage is, for many, the fulfilment of childhood dreams, a way of life, but for some it is also a way to secure their financial future. Wherever we have, on one side, rare and difficult-to-obtain objects, and on the other a large and growing group of collectors, there we can observe rising prices. Investing in classic cars is further validated by the fact that this market has constantly demonstrated its independence of the vagaries on financial markets. In addition, in many countries, such an investment is advantageous from a tax perspective.

These facts encourage the use of classic cars as an investments of the capital. In Poland, it is no different, although, obviously, our market is still modest in comparison to the countries of Western Europe and North America. We are, however, quickly bridging the gap; the number of platforms and companies assisting in the creation and expansion of private collections is growing, and in 2015, we witnessed the first institutionalized auction of classic and historic cars. The number of garages specialising in the restoration and maintenance of such vehicles is also increasing, and the information coming from their owners regarding the condition of the market is very optimistic.

Wines and spirits not only for drinking

The world's oldest whisky, cognac from the 19th century, unique rums or exclusive wines are not only luxury goods, but also a form of investment. In Poland, the group of collectors collecting rare, limited editions of old wines and spirits is now so numerous that we have become an attractive market for the producers of luxury alcoholic beverages.

It is still perhaps not the most popular form of investment, but in certain categories, we are a significant player. For instance, we are the leader in this part of Europe on the wine investment market. The sum of PLN 130 million that Poles have thus far designated for this purpose guarantees us not only first place in the region, but makes us a serious player in the whole European market. Our collectors are visible in the rare bottles of whisky, cognac or rum market. The scale of our involvement even means that we have become an attractive client for producers of the most unique drinks.

Who in Poland decides to invest in such a way? The answer to this question is immeasurably difficult, since no one conducts comprehensive research of this market. Apart from that, the motivations that attract particular individuals to the rare, exclusive wines and spirits market are various and do not have to be in conflict with one another; you can drink these wines and spirits, collect them, and also invest in them. The motives driving people who view such a purchase as an investment are known, at least in part: in times of instability on capital markets and of unexpected changes in the local and global political arena, investors often look more favourably on physical objects as a form of investment. Frequently, they also diversify risk, relocating funds to markets other than Polish ones, e.g., investing in great wines.

Obviously, the potential gains are also quite significant. One example may be, for instance, the series of 48-year-old whisky from the now-closed distillery Karuizawa (Karuizawa 1964), which in 2013 we could offer to our clients at a price of GBP 4,700 per bottle. Today, should it appear at auction, it is sold for four times more. Yet it is not just whisky that can be attractive in this respect. We can already observe an increased interest in cognac and rum, and it is here that the next interesting investment opportunities may emerge.

Alternative investment – watches

Watches are not a typical investment item, but unique specimens can prove a successful investment, such as artworks, classic cars or other collector's items. Obviously, this applies to a small sample of the watches available on the market. We are talking about Swiss (and, to a lesser extent, German) mechanical watches, produced in limited editions (the shorter, the better), by brands that are recognized among watch enthusiasts and collectors. It is also important that they possess those elements distinguishing a given edition on the market and building its uniqueness.

Capital can be invested above all in unique, older models of watches attractive for investment from brands such as Rolex, Omega and Patek Philippe from the 1940s, 1950s or 1960s, ones that are currently hard to find and need to be hunted on the auction market. Amongst these, it is not hard to find examples of successful investment. One could mention, for instance, the Omega 1968 Seamaster 300, which in 2007 could be acquired at Bonham's auction house for GBP 11 thousand, and after a couple of years was auctioned by the same institution for GBP 25–38 thousand. One might add that at its last auction it was sold for GBP 69.7 thousand. A 1949 Rolex Oyster Perpetual appreciated in a similar time from USD 83.2 thousand (at auction at Christie's in 2005) to USD 1.2 million (at Christie's in 2015).

An interesting option may be also the acquisition of watches from limited series offered by renowned independent Swiss producers, enjoying the recognition of watch aficionados for their characteristic style, interesting history behind the brand or technical achievement. This group may include such watchmakers as Louis Moinet, Speake-Marin or Christophe Claret. A good example from this segment may be the Vagabondage I series, produced by the manufacturer F. P. Journe in 2005. The price of one watch from this edition quickly rose from an initial CHF 54 thousand to 60–70 thousand, and the record price achieved so far is 81.6 thousand.

A separate subject is the use of the watch that we want to treat as an investment. In this case, it should simply not be worn on the wrist, but safely stored in a secure place and conserved, treated exactly as one would treat a work of art or other historic object. In the case of watches that have been worn (e.g. by a famous person) the principle is the same – the condition of the watch must not deteriorate from the moment of purchase.

Maciej Kossowski
Chairman of the Board,
Wealth Solutions



4

Research Methods

The study was carried out in October 2016 by the market research company Millward Brown, commissioned by KPMG in Poland, using the CAWI (Computer Assisted Web Interview) method on a sample of 354 adult Poles with a gross monthly income in excess of PLN 7,127.

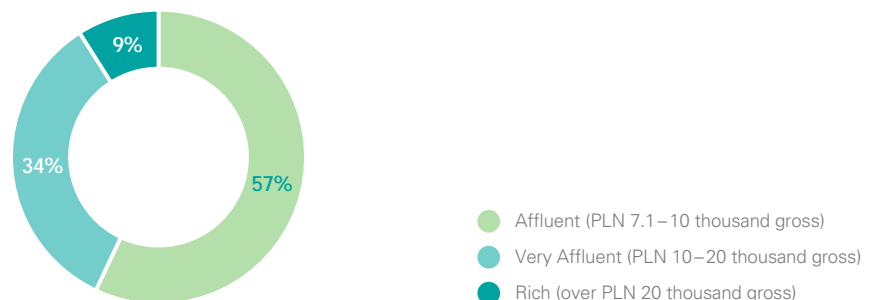
When analysing the luxury goods market in Poland, we distinguished the following three groups of respondents:

- **rich people** – people earning a gross monthly income in excess of PLN 20,000;
- **very affluent people** – people earning a gross monthly income between PLN 10,001 – 20,000;

- **affluent people** – people earning a gross monthly income between PLN 7,127 – 10,000.

The most numerous group of respondents consisted of affluent people (57%). 34% were very affluent people, and 9% were rich people.

The structure of respondents by monthly gross income



Source: KPMG in Poland based on consumer research.

Good job or a successful career are the most important sources of income for people with a gross monthly salary around PLN 7.1 thousand. Investments were named as one source of income by 23% of very affluent people, 21% of rich people and 16% of affluent people. Other sources of income, such as inheritance, rich family or winnings were indicated by a smaller percentage of respondents.

Of 354 people that took part in the survey, 62% were men and 38% women. The largest group of respondents were people aged between 30 and 39 years old – in total they accounted for 40% of all respondents. The next largest groups were people between 40–44 years old (18%) and 45–49 years old (12%). The smallest group were people under 25 (1%).

When analysing the respondents with respect to their place of residence, it is worth noticing that as many as 47% of those taking part in the survey live in a city of more than 500 thousand inhabitants. One respondent in four is a resident of a city of between 100 and 500 thousand inhabitants, and the remaining people surveyed are from towns and villages of fewer than 100 thousand inhabitants.

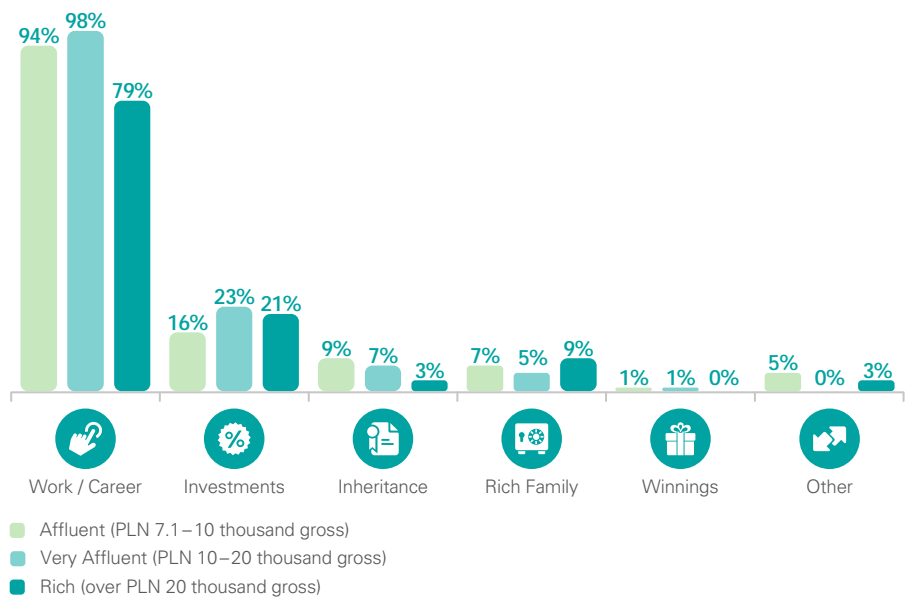
The results of the consumer survey were supplemented by analyses of the particular segments of the luxury goods market and statements of specialists of the sectors analysed.

For the purposes of this report it was assumed, that luxury goods are defined as any goods labelled by a brand universally recognised as luxury in a given market, or those, that adopt a luxury character due to their specifics (uniqueness, high price, etc.).

The report also used data from the following sources:

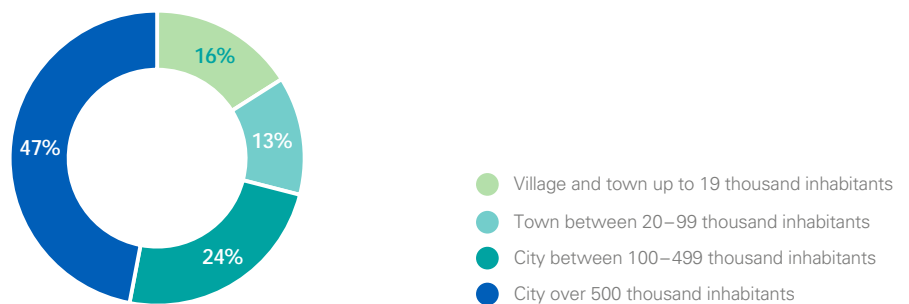
- Artprice.com;
- Credit Suisse;
- Economist Intelligence Unit;
- Euromonitor International (the data in the report represent the state at the end of October, 2016);
- General Aviation Manufacturers Association;
- Central Statistical Office;
- Ministry of Finance;
- National Bank of Poland;
- Polish Automotive Industry Association;
- Polish Sailing Association;
- Civil Aviation Authority.

Structure of respondents by source of income



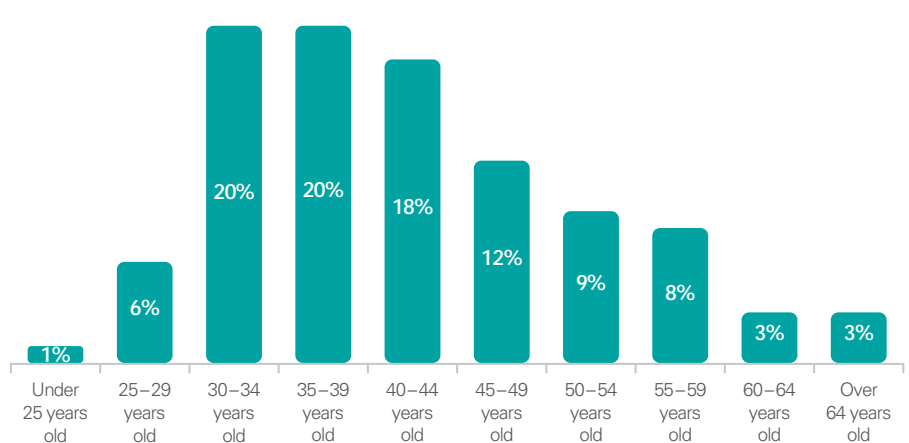
Source: KPMG in Poland based on consumer research.

Structure of respondents by place of residence



Source: KPMG in Poland based on consumer research.

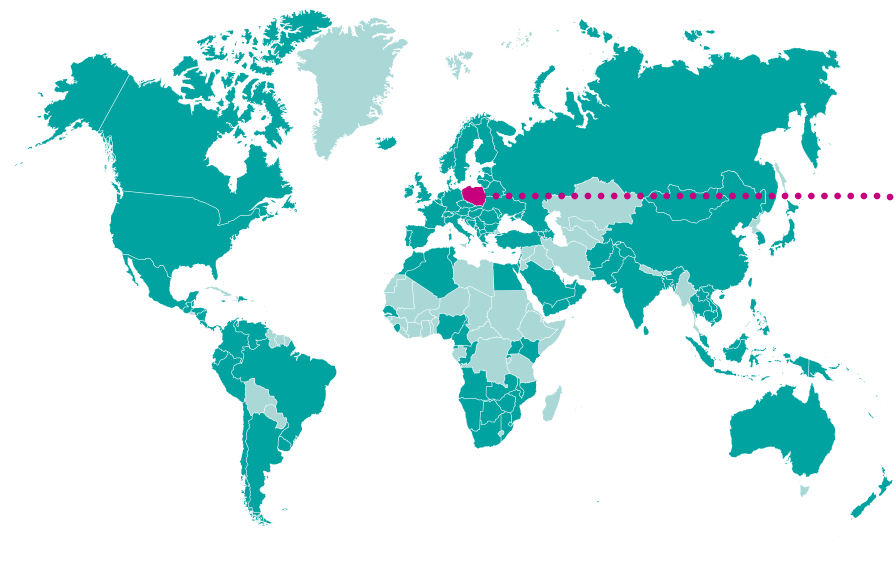
Structure of respondents by age



Source: KPMG in Poland based on consumer research.



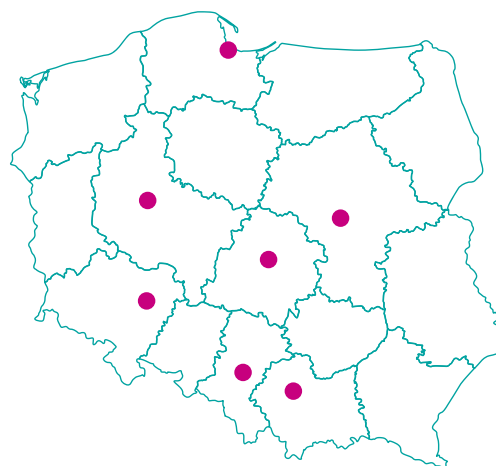
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Since 1990 KPMG in Poland has been providing Audit, Tax and Advisory services, while D, Dobkowski sp.k., a law firm associated with KPMG, has been assisting clients in a wide range of legal matters. Currently we employ more than 1,500 professionals in seven offices located in Warsaw, Kraków, Poznań, Wrocław, Gdańsk, Katowice and Łódź.

Fundamental to KPMG's approach is our focus on sectors from a wide range of industries including Consumer Markets, Financial Services, Private Equity, Automotive, Building, Construction & Real Estate, Technology, Media & Telecommunications, Transport, Shipping & Logistics, Industrial Manufacturing as well as government and public sector agencies. We believe that we can add value for clients if we truly understand their industry. Our industry-driven structure has enabled us to develop deep knowledge of clients' businesses and provide them with an informed perspective on the issues they face.

Our success is based on the high-quality of KPMG's services and more than 174,000 outstanding professionals working together to deliver value in 155 countries worldwide. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



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At KPMG, we believe that businesses have a role to play in making the world a better place. Our commitment to our communities is one of our core values, and we embrace our corporate citizenship through many activities that support the community.

Based on specialist knowledge, experience, and familiarity with the local market, we have created a multi-disciplinary team that comprehensively supports companies operating in the luxury goods market. We offer audit consultancy services, aimed at improving the functional effectiveness of enterprises and their stable growth. We help identify and manage the legal, tax, business, and technological markets, as well as dealing with increasing regulatory demands. We support clients in resolving current problems related to strategic and operational management and in conducting transactions and restructuring.

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Notes

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