

Baltics Retail, H2 2017/Q1 2018

The Baltics anticipating new stock increases in the capitals



*Arrows indicate change from the corresponding period in the previous year

Figure 1: Visualization of the Vilnius Outlet, currently at the planning stage

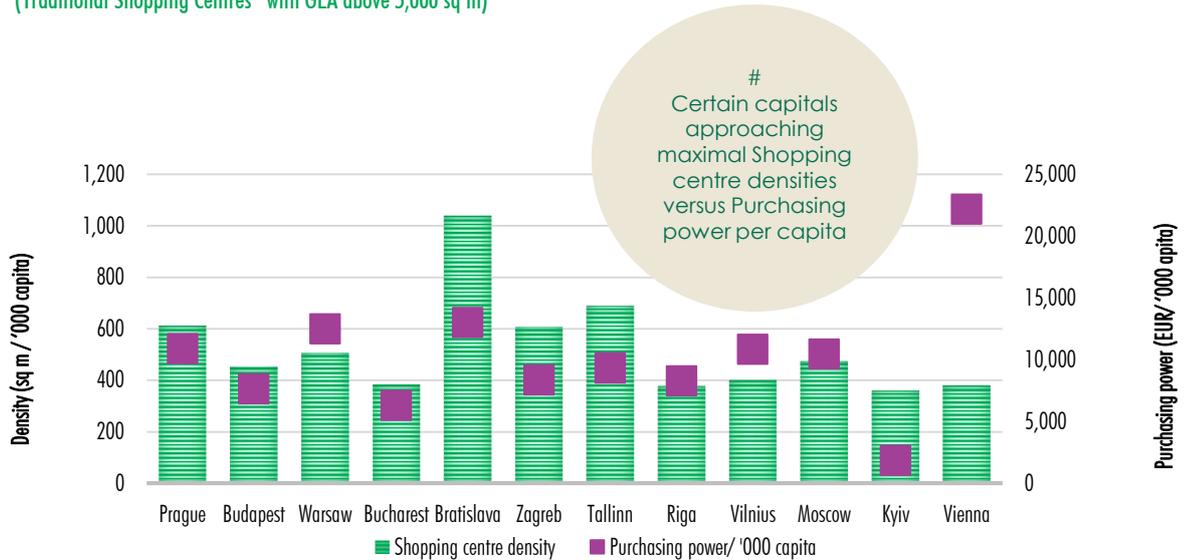


Credit: Ogmios group

KEY POINTS

- Most European economies, including the Baltic states, finished 2017 strongly. Estonia's economic growth was the highest in the Baltic countries last year, totalling 4.9%. In Latvia GDP growth reached 4.5% and in Lithuania the figure was 3.8%.
- Capital cities are still the main investment targets in the Baltic countries with the most expensive yet liquid assets, and the retail sector was the most popular in 2017.
- The traditional stock additions in Tallinn during 2017 were in total 7,500 sq m of GLA, showing an increase of 1.0%. In Q4 2017 Norde Centrum was extended and rebranded as NAUTICA.
- In Tallinn the largest shopping centre developments currently under active construction are - T1: «Mall of Tallinn» and the Ülemiste SC extension.
- Vacancy levels in 2018 will remain low, especially in Riga and Vilnius.
- In Riga, additions to the existing stock were insignificant, reflecting the main tendency for full reconstruction of large retail areas, such as those completed in Domina Shopping and the ongoing re-development in Riga Plaza caused by the Prisma exit.
- Akropolis Group is constructing the first multi-functional centre in Riga, and the developers of ALFA SC and Origo have started their new extension phases to be delivered in 2019.
- IKEA (34,500 sq m) and Outlet Village in Saliena (24,000 sq m) will be new openings in Riga regions during 2018.
- The new stock additions will have uncertain impact on the rental rates and will vary significantly across the industry. Growth of the economy and new incoming retailers will counter balance the supply and demand relationship.
- New large retail concepts in the Baltics during 2018: Decathlon (France) in Vilnius and O'Learys (Sweden) in Tallinn with further expansion plans in Latvia.

Figure 2: Shopping Centre Densities in the CEE Region Capitals (including Metropolitan area), SQ M per 1,000 population (Traditional Shopping Centres* with GLA above 5,000 sq m)



*Only traditional schemes above 5,000 sq m of GLA included (according to ICSC-Classification)
Source: CBRE Research, Gfk Incoma, Oxford Economics, Q1 2018

SHOPPING CENTRE SUPPLY

At the beginning of 2017 the total traditional shopping centre (according to ICSC) stock above 10,000 sq m in GLA terms in all three Baltic countries combined was ca. 2.1 mln sq m or ca. 345 sq m per 1,000 persons. In first place came Lithuania with 881,000 sq m followed by Estonia and Latvia with shares of 36% and 22% of the total GLA, respectively.

COMPLETIONS OF TRADITIONAL RETAIL SCHEMES ABOVE 10,000 SQ M

2017 was very active in terms of new development starts, especially in Latvia and Estonia. Only a few expansions/refurbishments of traditional shopping schemes with a GLA above 10,000 sq m were delivered in the market:

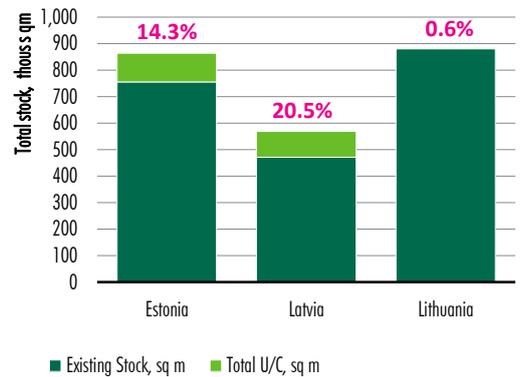
- 1) In Q4 2017 the old Norde Centrum was extended and rebranded by Capfield and delivered as the new centre called NAUTICA. Nautica has an entire gross leasable area (GLA) of 18,500 sq m and approximately 60 shops in total;
- 2) A part of the main building of the Lounakeskus shopping centre located in Tartu was fully reconstructed during 2017 and together with an expansion the total retail GLA was increased to 54,500 sq m;
- 3) An expansion of DAMME shopping centre (16,000 sq m of total leasable retail space) located in Riga.

ESTONIA

At the beginning of 2018 the total leasable traditional shopping centre area (for shopping centres above 10,000 sq m of GLA) in Estonia amounts to ca. 750,000 sq m or 566 sq m per 1000 population, by far one of the highest among CEE and Baltic countries (see Figure 2).

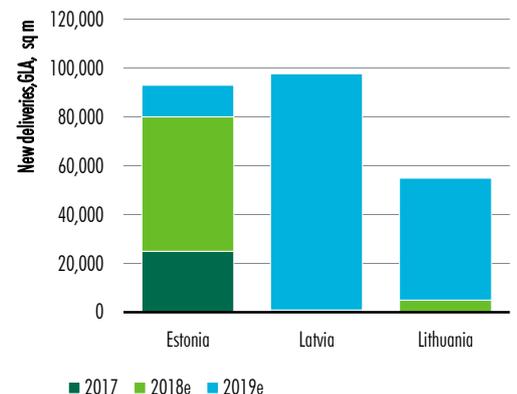
In H1 2017 there was a new opening of the specialized retail scheme - Balti Jaama Market (Balti Jaama Turg) with a GLA of 19,500 sq m in total in Tallinn, providing more than almost 300 different merchants and shops in the market.

Figure 3: Total SC Stock with a GLA above 10,000 sq m by Country and Volumes Currently Under Construction, %



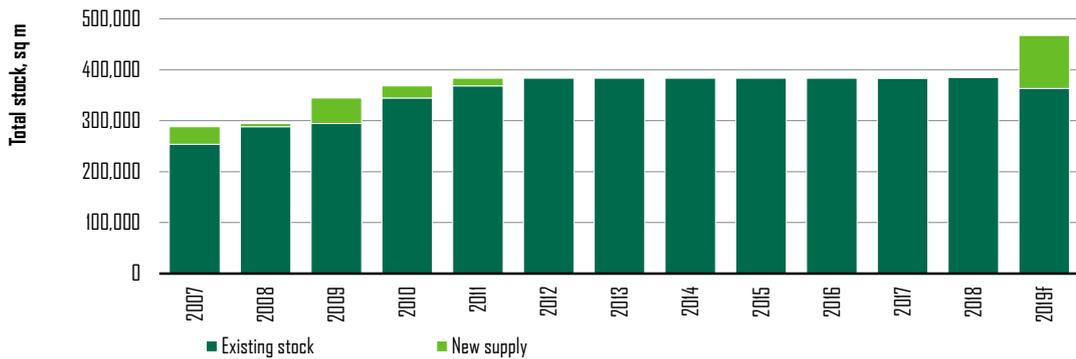
Source: Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

Figure 4: New stock deliveries and expansion of existing centres with a GLA above 10,000 sq m (2017-2019e), GLA sq m



Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

Figure 5: Shopping Centre Stock in Riga (Traditional Shopping Centres* with a GLA above 5,000 sq m)



*Only traditional schemes above 5,000 sq m of GLA included (according to ICSC-Classification)
Source: CBRE Research, Q1 2018

Tallinn remains in the driving seat in terms of new retail space deliveries set for the next year. The largest new shopping centre developments currently under construction are T1: «Mall of Tallinn» with a GLA of 55,000 sq m and Porto Franco with a retail GLA of 40,000 sq m. T1 construction could be finished in Q4 2018. Ulemiste Keskus, a large shopping centre situated in the area of Tallinn Airport, is being extended by 13,000 sq m, which will feature a cinema and gym, as well as a number of new restaurants and stores.

During Q4 2017 the Finnish operator of shopping centres Citycon started the renovation works in the Kristiine SC, which will involve the construction of the O’Learys entertainment centre by spring 2019 and the updating of the centre’s exterior and interior within two years.

In Tallinn turnover growth of the leading four regional shopping centres (Ulemiste, Viru Keskus, Kristiine and Rocca al Mare), was recorded at 2.1% in 2017 compared with 2016, whilst growth during H2 2017 was recorded at 1.1% y/y on average.

LATVIA

Shopping centre stock in Latvia remained practically unchanged during 2017 and at the beginning of 2018 was 471,800 sq m (only traditional schemes above 10,000 sq m of GLA included). Also there have been no traditional shopping centres delivered during the last seven years in the capital city of Riga and by the end of 2017 only expansion of one local shopping centre, Damme of 1,000 sq m of lettable area was completed.

Also, in the Q4 2017, the small specialized retail park Decco centre with GLA 10,500 sq m was completed on Katlakalna street in Riga, thus bringing together interior and design retailers into one place.

It is worth mentioning that currently the first retail park - outlet in Latvia is under construction and will be delivered to the market by the end of 2018.

However, in 2017 several large constructions and expansions were started, which will have an impact on the retail sector in 2019.

During 2017 the expansion of a number of existing projects was started:

- The Akropole Riga entered the active construction phase in 2017. The shopping centre could be finished in H1 2019, adding more than 60,000 sq m of new leasable retail space;
- SC ALFA expansion by Multi Corporation Group will started in Q3 2017. GLA for this expansion is 18,300 sq m, providing a total GLA of 66,000 sq m including the extension;
- ORIGO expansion by Linstow AB could be finished in autumn 2019, thus increasing the leasable retail stock by an additional 16,500 sq m.

Some existing shopping centres are currently undergoing concept re-planning and are adapting retail space to other functions. Shopping centres will continue to work on re-development of the retail space formerly occupied by PRISMA hypermarkets after the official announcements about its exit from the Lithuania and Latvia markets.

Further expansion into the Baltic region has been started by IKEA with the acquisition of a development site in Latvia. The total area of the building is estimated at 34,500 sq m and the scheme could be delivered into the market by the end of 2018.

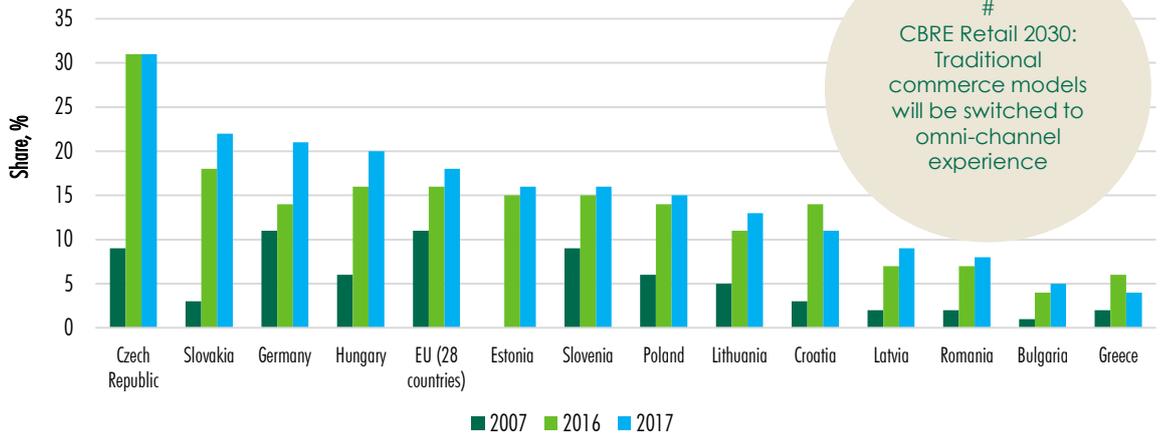
LITHUANIA

During 2017 the total stock has not changed amounting to more than 880,000 sq m (only traditional schemes above 10,000 sq m of GLA included) or 309 sq m per 1000 of population.

The Lithuanian shopping market is observing some activity after a calmer period. There are announcements in the market regarding new retail schemes at the planning stage, such as Vilnius Outlet and VNO Business and Retail park (1st stage currently under construction for Decathlon).

Ogmios group has announced plans to develop a new shopping centre of 60,000 sq m in Vilnius. To be known as ‘Vilnius Outlet’, this new centre plans to distinguish itself

Figure 7: Share of enterprises' turnover on e-commerce, %



*All enterprises, excluding the financial sector (10 persons employed or more)
Source: Eurostat, December 2017

with a variety of entertainment services. The shopping centre is planned to have a floor dedicated to entertainment, catering and children's activities. The group already has experience in developing several shopping centres and retail parks in Lithuania.

Furthermore, Akropolis Kaunas has announced a EUR 10 million refurbishment project over a period of 1.5 years. During the process, the catering and entertainment area will be expanded and the ice-skating arena will be closed. Akropolis Vilnius also has plans for reconstruction. However, detailed plans of the Vilnius based shopping centre have not yet been announced.

A Latvian DIY retail operator, Depo, has finished construction works on its new site in Vilnius and the 17,750 sq m size DIY big box retail shop is expected to be opened soon.

INFLATION AND RENT RATES

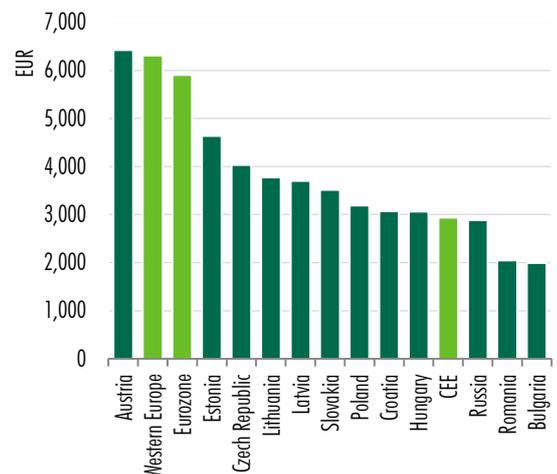
Inflation is picking up in the Baltics partly because of gently rising commodity prices, 'base effects' and because past growth has gradually eroded spare capacity. For 2017 as a whole, Baltics CPI inflation was 3.2%, up from 0.6% in 2016.

Economic growth is also starting to push up wage inflation meaning that real wages will still increase helping to support consumer demand. In Lithuania and Latvia prime rents were stable during 2017, and this situation is expected to be maintained during 2018.

In Tallinn and Riga, prime shopping rents in Q4 2017 remained stable on an annual basis, and there is no upward pressure evidenced despite the high demand for prime space, which may be partly attributable to the new supply delivery in the market. In the longer term construction of new shopping centres and existing extensions will put pressure on rental rates, especially in the secondary shopping centres.

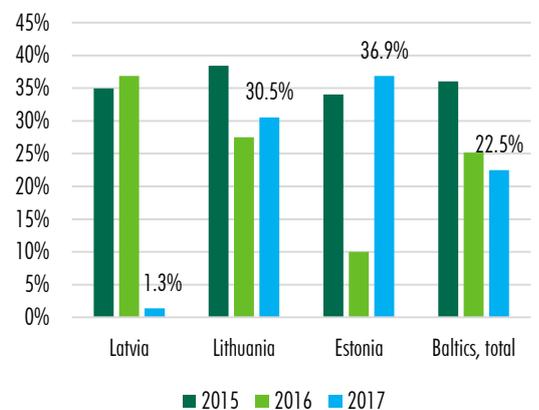
In Vilnius, prime shopping rents have remained stable on annual basis. However, the absence of new completions and increasing consumer expenditure have supported the low vacancy rate within the major shopping centres and high-streets.

Figure 8: Retail Spending per Capita in 2017



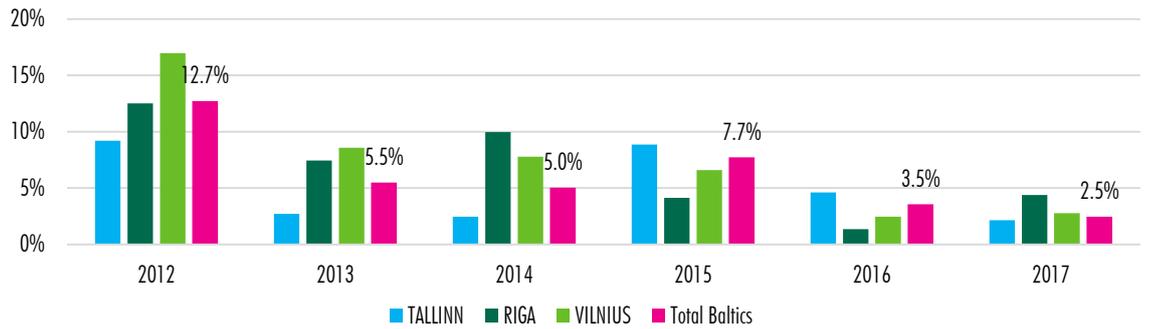
Source: CBRE research, Oxford Economics, February 2018

Figure 9: Retail sales via mail order houses or via Internet growth, change, y/y, %



Source: National Statistics Bureaus, Q1 2018

Figure 10: Turnover Growth to Continue in 2018; growth of the leading twelve shopping centres in capital cities, y/y, %, 2012-2017



*CBRE Baltics estimations
 Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

E-COMMERCE IN THE BALTICS

According to the EU Statistics Bureau Eurostat, in 2017 Latvia had the smallest e-commerce development indicator (only 9% from all retail sales) among all three Baltic countries. Online sales are more developed in Lithuania and Estonia, showing shares of 13% and 16% respectively (see Figure 7). This also shows the potential of Latvia in reaching the level of neighboring countries during the next few years.

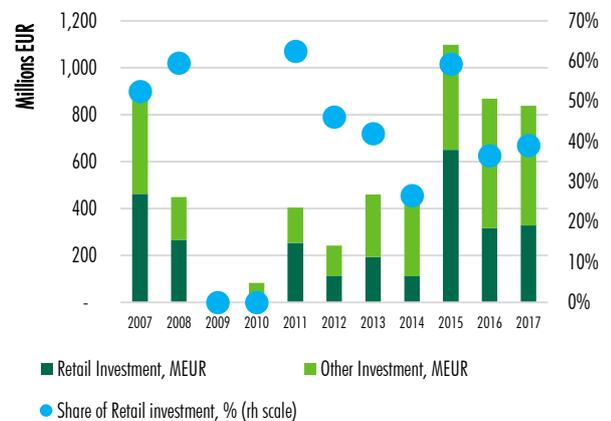
During 2017 Lithuania showed growth of 30.5% in e-commerce in total when compared with the same period in 2016. Estonia showed 36.9% growth if compared with 2016 (see Figure 9).

SHOPPING CENTRE RETAIL SALES (TURNOVERS)

Fueled by low interest rates, growing salaries, increases in tourism and good economic growth in the region, the purchasing power in the Baltics has continued to grow. This is the main reason that the total turnovers of the leading shopping centres in the Baltic region continued to increase during 2017, providing, on average, growth estimated at 2.5% when compared with 2016. The turnover growth in 2017 continued, largely achieved on account of the increasing average purchases' price showing the same tendency as for 2016.

In Tallinn growth was recorded at 2.1% in 2017 when compared with 2016. In Latvia the growth in turnover for the leading shopping centres was the highest among all three Baltic countries in 2017, showing 4.4% if compared with 2016. In Vilnius the estimated leading shopping centres' turnover growth in 2017 was ca. 2.8% if compared with 2016.

Figure 11: Investment into the Retail Sector in the Baltics | 2007 - 2017



Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

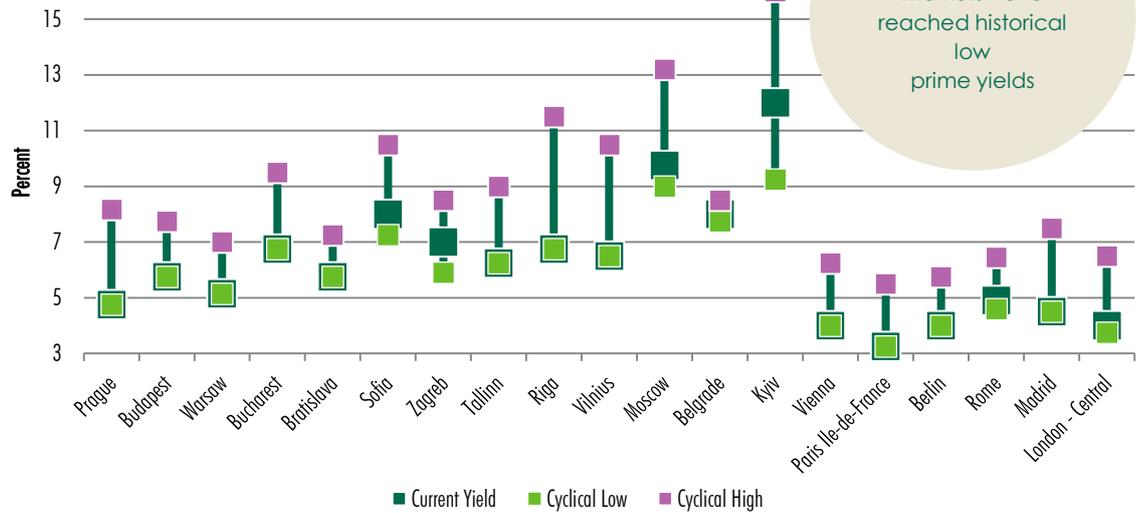
The retail market will continue to be active, however the increase in sales turnovers will be mainly driven by the increase of average purchase prices and an increase of the retail sales area

Figure 12: New traditional retail stock currently under construction with a planned GLA above 10,000 sq m | 2018

Project	Country	City	New GLA, sq m	Year of completion	Total retail GLA of the whole project, sq m
ALFA SC expansion	Latvia	Riga	18,300	2019	65,600
ORIGO ONE (expansion)	Latvia	Riga	15,750	2019	34,800
Akropole Riga	Latvia	Riga	62,000	2019	62,000
T1: «Mall of Tallinn»	Estonia	Tallinn	55,000	2018	55,000
Ulemiste expansion	Estonia	Tallinn	13,000	2019	71,300
VNO Business and Retail park, 1st stage	Lithuania	Vilnius	5,000	2018	30,000
Porto Franco	Estonia	Tallinn	40,000	2020	40,000

Source: Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

Figure 13: Prime shopping centre Yields in Historical Context
Present Yield relative to High & Low (Q1 2005– Q4 2017)



Source: CBRE Research, Q1 2018

PERFORMANCE OF RETAILERS IN THE BALTICS

In comparison to 2016, last year the top four fashion retail groups increased their sales area by more than 10% across the Baltics and showed good performance indicators in the Baltic market. Retail sales were EUR 451 million, having grown by 8.0% compared to 2016, with the Latvian retail market growing the most – by 8.6% (see Figure 13).

The average sales efficiency per sq m during 2017 showed a slight increase by 3.9% when compared with the same period of 2015. Latvia has shown the highest increase by ca. 7%.

The Baltics has seen the most rapid expansion of the LPP Group, increasing their sales areas by 6.6% in 2016.

Decathlon has already opened an e-commerce store in the Baltics during 2017 and are now set to open the first concept store of 5,000 sq m in Vilnius by the end of 2018.

OUTLOOK 2018-2019

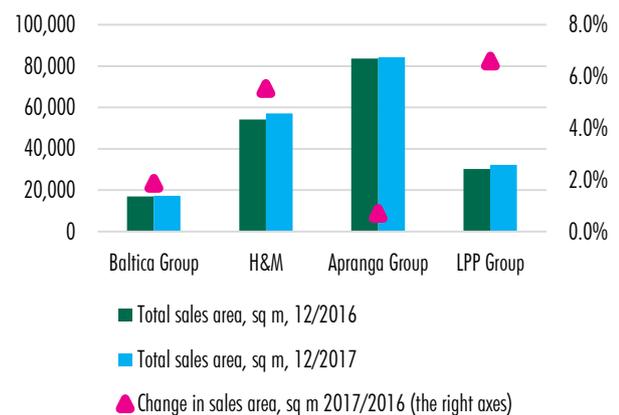
The gap between prime and secondary shopping centres will increase; more developers are considering mixing retail space together with entertainment, food and beverage and other social function areas thus providing more services to customers who are seeking new experiences.

New, more modern developments will gain momentum in Riga and Tallinn during the few next years to keep up with the customer demands, occupier technology and design requirements.

Changes in consumer behavior will continue to motivate retailers to switch traditional commerce models to an omni-channel experience.

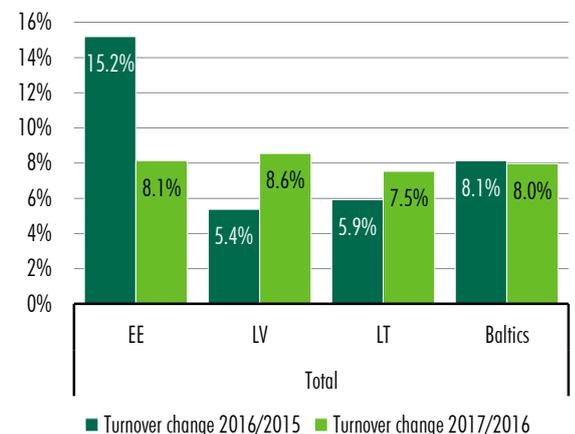
Vacancy levels in 2018 will remain low, especially in Riga and Vilnius. Provided the economy keeps its pace and expected new retailers enter the market during 2019 / 2020, the new stock additions will not have significant impact on the prime rental rates in the long term.

Figure 14: Top Four Fashion Retailers' Sales Areas and Changes y/y in the Baltics



Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

Figure 15: Top Four Fashion Retailers' Turnover Changes, %, y/y



Source: CPB Real Estate Services, part of the CBRE Affiliate Network, Q1 2018

RESEARCH DEFINITIONS

Central and Eastern Europe (CEE) – includes the following countries: Bulgaria, Croatia, Estonia, Latvia, Lithuania, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Ukraine.

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

Average Prime Rent – represents the Average Prime Rent for all prime units that were taken-up during the survey period as specified in the definition for the Prime Rent variable. This rate indicates an average of what it would have cost to lease space in the market.

Average Rent – represents the Average Rent for all units that were taken-up during the survey period. This rate indicates an average of what it would have cost to lease space in that market.

Shopping Centre Stock – represents the total completed retail space (occupied and vacant) in the traditional shopping centres at the survey date, recorded as net rentable retail area. Included are traditional shopping centres with a gross lettable area above 10,000 sq m, excluding hypermarkets, DIY stores, retail parks and other specialised stores.

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 - **Consulting & Research,**
 - **Property Sales,**
 - **Property & Asset Management,**
 - **Tenant Representation,**
 - **Agency Services – Retail, Offices, Industrial & Logistics.**



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