Property Times
Baltic Retail H2 2012
New projects in the pipeline

8 February 2013

Contents

Author

Aivar Tomson
Baltic Head of Research
+ 372 6 264 250
aivar.tomson@dtz.ee

Contacts

Magali Marton
Head of CEMEA Research
+ 33 (0)1 49 64 49 54
magali.marton@dtz.com

Hans Vrensen
Global Head of Research
+ 44 (0)20 3296 2159
hans.vrensen@dtz.com

Consumer confidence strengthened and household consumption expanded during 2012. The turnover of retail trade is expected to continue its growth also in 2013.

Most of the development projects completed in 2012 were medium-scale (mainly hyper- and supermarkets); several large-scale retail projects are in the pipeline for the upcoming years, but only a few of them have the construction process already initiated.

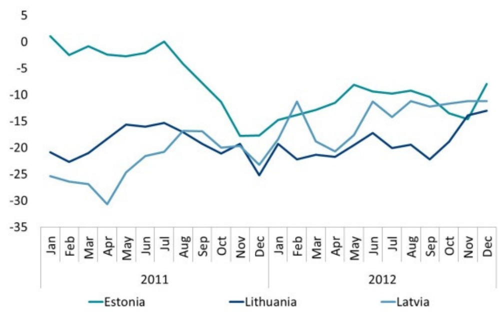
Vacancy rate is close to 0% in the shopping centres with successful management. However, shopping centres with ineffective organisation or less favourable locations still struggle over their occupancy rates.

Improving retail trade turnover and increased occupancy has upward pressure on rents in prime shopping schemes. There are no notable rental rate changes in secondary cities and secondary locations in capital cities.

The retail investment market saw an increased interest from foreign property investors. Several investment transactions in retail segment were in process in 2012, with two of them being closed by the end of the year (*Gedimino 9* SC in Vilnius and *Mustika* SC in Tallinn). Retail investment prospects for 2013 are also promising.

Figure 1

Retail confidence index



Source: National Statistics, Estonian Institute of Economic Research

Baltic Retail H2 2012

Macroeconomic Trends in the Baltic States

Estonia

Estonian economy is in quite a good health, with strengthened domestic demand playing the major role in economic development. Nonetheless, despite promising GDP growth, the uncertainty towards surrounding environment is still evident.

Based on the information presented by the Bank of Estonia and Statistics Estonia, in Q3 2012, GDP increase was 3.5% on a year-on-year basis and 1.6% on a quarterly basis, with construction sector being the largest contributor to the economic growth. According to the Bank of Estonia forecasts (published in December 2012), GDP growth shall round up to 2.9% in 2012, is expected to reach 3.0% in 2013 and 4.0% in 2014.

The year-on-year CPI change meanwhile was 3.7% in Q3 2012. Inflation was mainly caused by the increase in food, housing and fuel prices. According to the Bank of Estonia forecasts, the annual CPI change in 2012 would round up to 4.3%, and is expected to slow down in the upcoming two years, with the forecasted change of 3.6% in 2013 and 2.4% in 2014. Such a deceleration however is only possible with no substantial upward changes in the global fuel prices; another underlying assumption is that global food prices that have heavily increased in 2012 will exhibit a decline within the upcoming two years.

Statistics Estonia informs that the unemployment rate within the population group aged 15-74 years dropped from 10.2% in Q2 2012 to 9.7% in Q3 2012. More than one third of these officially registered unemployed have been unoccupied for more than two years already. Most of the unemployed workforce finds occupancy in construction and industrial sectors, as well as in the sector of seasonal works.

Latvia

In 2012, Latvia, the country famous for its austerity measures, has managed to accomplish something unattained by any other country severely affected by the recent crisis, namely, to maintain its currency exchange rate fixed. On top of that, Latvia's economy, after shrivelling by more than 20% from its peak, remarkably outperformed the cautious government forecasts for 2012 of 1-2% growth and rose by more than 5% instead, making it the best performer in the 27-nation European Union.

The budget deficit is also down sharply (1.7% from GDP as compared to 4% at the end of 2011); both manufacturing (10.5% growth within a year, more than 35% growth from December 2009) and exports (22.6% growth within a year, as compared to 12.1% annual growth in import rate) are soaring, and already exceed pre-crisis levels.

Annual inflation meanwhile has reached its historical minimum ever since autumn 2010, and averaged at about 1.6% at the end of 2012, coming primarily from globally evident increase in fuel and food prices.

The problems that still persist are those of high unemployment rate (although it is almost twice as low as in Greece or Spain, the rate of 13.5% is still too large) and social inequality. It is worth mentioning that unemployment was relatively high in Latvia ever since the re-establishment of independence; yet during the last eight years (and thus also during the economic boom) it was also higher than that experienced by the closest neighbours, Lithuania and Estonia.

The commonly held opinion however is that the hardest times are behind. 2013 therefore is expected to be marked with slower, but still one of the highest GDP growth rates in Europe (3-3.8% per year). The average income level, which currently stands at about 60% of EU average (as compared to 30% in 1995), is expected to grow slowly and reach its pre-crisis level, about 711 EUR before taxes. As usual, the income in Riga will be about 15% higher than that in the rest of the country; heavily pronounced segmentation in employment sector will still persist.

The government meanwhile has set the target of meeting Maastricht criteria (inflation not exceeding 2.7%, budget deficit up to 3.0%, debt-to-GDP ratio up to 41.9%) and thus to receive an invitation to join Eurozone in 2013, with the subsequent Euro introduction in early 2014.

Lithuania

Statistics Lithuania informs that in Q3 2012, the real GDP growth was 4.4% on a year-on-year basis. At the same time, the GDP that was produced within the three quarters of 2012 outperformed the same period of 2011 by 3.5%. Central Bank of the Republic of Lithuania meanwhile goes more moderate in its forecasts, and predicts a 3.0% annual GDP growth by the end of 2012, along with the 3.1% increase forecast for 2013 (down from the previous forecast of 3.4%).

Average annual inflation meanwhile stood at 3.2% as of November 2012 (calculated on the basis of HICP, the harmonised index of consumer prices), and is 0.4% down as compared to the annual inflation figure a year ago. The year 2012 is expected to round up with the 3.1% annual inflation rate, as compared to 4.1% figure at the end of 2011. In 2013, the forecasted inflation rate is 2.8%.

The unemployment rate, which stood at 13.3% in Q2 2012, decreased by 1% within a single quarter (12.3% in Q3 2012). The forecasts for the upcoming year are more moderate; by the end of 2013 the unemployment is expected to reach 11.6% figure.

Baltic Retail H2 2012

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,340	2,033	3,008
Urban population	65%	68%	67%
Area (thousand km²)	45	65	65
Population density (per km²)	30	31	46
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	401	649	534
Currency	EUR	LVL	LTL
Exchange rate (€)	X	0.7028	3.4528
GDP at current prices (bn €, 4Q 2011 - 3Q 2012)	16.8	21.6	32
GDP per capita, at current prices (€, 4Q 2011 - 3Q 2012)	12,503	10,618	10,701
GDP growth (%, 3Q 2012)	3.5	5.3	3.5
Inflation rate (%, 3Q 2012)	3.7	1.7	3.2
Unemployment rate (%, 3Q 2012)	9.7	13.8	12.3

Source: National Statistics, Oxford Economics

Baltic Retail H2 2012

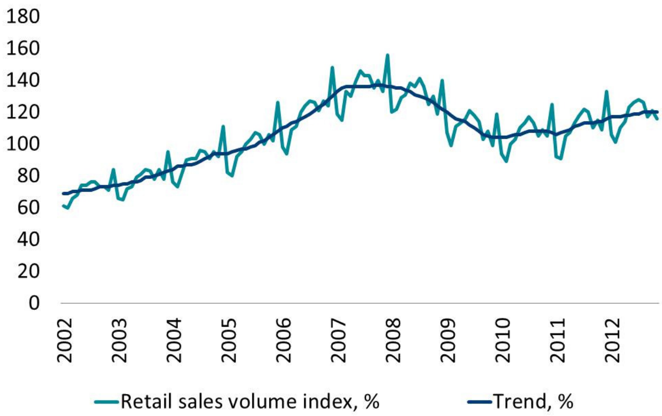
Retail Market in Estonia

Retail Trade Turnover

Retail market started to show stable signs of recovery already in 2010. Within the first 11 months of 2012, total retail trade turnover (at constant prices) increased by 7%, as compared to the same period in 2011.

Figure 2

Retail sales volume in Estonia



Source: DTZ Research

Regional View

The first large modern shopping centres in Tallinn were developed already in 1998. Ever since then, the tendency of major retail brands gathering to large shopping centres has only strengthened. Although many cities have preserved their central high streets along with small retail districts, their market share is continuously decreasing, as people prefer large centres where most shopping and service needs can be satisfied with a single visit. The largest amount of retail space as well as the highest number of shopping centres is located in Tallinn, the capital of Estonia. Large scale shopping centres were also developed in Tartu and Pärnu, whereas smaller scale modern shopping schemes can also be found in smaller cities such as Viljandi, Narva, Jõhvi, Rakvere and Paide.

Tallinn

The lion share of retail activity in Tallinn is gathered to twelve major shopping centres and department stores. The Old Town and city centre can be considered as a separate retail area, with different businesses operating on the 1st floors along the streets.

By the end of 2012, the total retail stock in Tallinn (accounting for the premises larger than 5,000 sq m) was approximately 495,000 sq m; 62% of this stock falls under the category of shopping centres, the most demanded of which are *Viru Centre, Kristiine Centre, Ülemiste Centre* and *Rocca al Mare Centre*.

New Supply

Most of the development projects that were completed in 2012 were small- to medium-scale properties sized 2,400–6,500 sq m.

Hence in the beginning of 2012, *Bauhof* DIY store, located in close vicinity to Tallinn, Laagri hamlet, finished its expansion. In May 2012, *Magistral Shopping Centre* (owned by *Citycon*) that was closed in September 2011 for renovation and expansion, re-opened with 3,000 sq m of additional retail space and improved parking possibilities in extra parking area developed on the centre's roof. In September 2012, *Konsum* retail store called *Raudalu Konsum* with 2,000 sq m of leasable area was completed next to Viljandi road (a major road that leads to Tallinn). In November 2012, the largest *Maxima* shopping centre (XX format) was introduced, offering 5,000 sq m of shopping space on J. Smuuli Road. The total development costs for this centre exceeded 5 M EUR.

The last large-scale development was the 12,000 sq m expansion of *Kristiine* SC back in 2010. By the end of 2012, however, most of the prime shopping centres were fully let, with demand for prime retail space already exceeding the supply available on the market. Therefore, the most popular shopping schemes, such as *Rocca al Mare* and *Ülemiste,* are not only planning, but also already initiating their expansions.

In addition, two new large-scale retail projects have a high probability of being completed in 2013-2014 and thus bringing additional 64,000 sq m of retail space into the market; three more large-scale projects with the total leasable area 315,900 sq m are in the pipeline for the upcoming 4-5 years. It should be dully noted, however, that such a substantial amount of new shopping space can be a serious threat for the market becoming oversaturated.

Map 1

Major retail centres in Tallinn

Source: Google Map, DTZ Research

Rental Rates

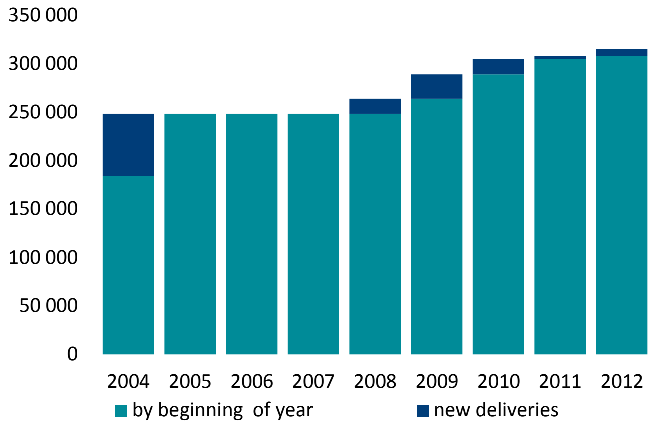
The last significant change in rentals shook the market in 2009, with the rates dropping by 10-15% in shopping centres outside city centre and street retail premises in city centre; in some of the cases, the downward adjustment was as high as 20-30%. While the rates were mostly reduced on a temporary basis, additional incentive for tenants was the release from the annual rental rate indexation.

The years 2011 and 2012 brought no remarkable changes in rental fees, including the rates of anchor tenants. In many cases, the rent discounts negotiated during the economic decrease were prolonged for a few years.

Nonetheless, given the current non-existence of vacant spaces in successful retail schemes, the rents are expected to exhibit a moderate growth in 2013.

Figure 3

Shopping centre stock in Tallinn, 000 GLA sq m



Source: DTZ Research

Table 2

Retail projects in pipeline for 2013-2017 in Tallinn

Retail object	Address	Total area, sq m	GLA, sq m	Year of completion
Postal Office	1 Narva Road		7,000	2013
Panorama City	1 J. Smuuli Road	77,000	57,000	2014
Ülemiste Keskus	2 and 4 Suur-Sõjamäe Str.	53,000	31,000	2015
Tallinn Europa	2 Peterburi Road	n/a	55,000	n/a
Retail Park of Tallinn (former American Corner)	Rae Parish	n/a	20,000	n/a
Gate Tallinn	Saue Parish	240,900	n/a	n/a

Source: DTZ Research

Table 3

Main shopping centres in Tallinn

No. on the map	Main shopping centres	Address	Total area, sq m	GLA, sq m	Year of construction
1	**Stockmann**	53 Liivalaia Str.	24,520	14,500	1996
2	**Rocca al Mare**	102 Paldiski Rd.	64,640	53,300	1998
3	**Mustika Keskus**	116 A. H. Tammsaare Rd.	20,300	16,970	1998
4	**Kristiine Keskus**	45 Endla Str.	53,000	42,600	1999
5	**Sikupilli Keskus**	87 Tartu Rd.	27,300	15,100	2000
6	**Magistral**	201/203 Sõpruse Ave.	15,300	11,900	2000
7	**Järve Keskus**	238 Pärnu Rd.	62,100	41,800	2000
8	**Norde Centrum**	7 Lootsi Str.	14,200	10,600	2002
9	**Lasnamäe Centrum**	13 Mustakivi Str.	23,600	19,600	2003
10	**Ülemiste Keskus**	4 Suur-Sõjamäe Str.	49,700	37,500	2004
11	**Viru Keskus**	4/6 Viru Square	32,000	26,300	2004
12	**Solaris**	9 Estonia Ave.	42,900	12,800	2009

Source: DTZ Research

Table 4

Rental fees in shopping centres in Tallinn

Type of tenants	Rent, €/sq m/month	2013
Anchor tenants	7,5 – 10	→
Old Town	14 – 25	→
At pedestrian flow in city centre	10 – 25	↗
In shopping centres in city centre	12 – 45	→
In shopping centres outside the city centre	12 – 32	→

Source: DTZ Research

Vacancy

Vacancies in popular shopping centres have reached their natural rate; the overall average was below 1% by the end of 2012. The only centres still suffering from a low level of demand and high vacancy are *Mustika* SC and *Sikupilli* SC. At the same time, given recent change in the ownership, *Mustika* SC might be subject to change in overall concept and design and, as a result, decreasing vacancy.

Table 5

Vacancy rates in shopping centres in Tallinn

Type of tenants	Vacancy, %	2013
Prime retail schemes	›1	→
Secondary shopping centres	5 – 15	→

Source: DTZ Research

Pärnu

The most successful commercial areas in Pärnu are:

- The city centre area;
- Area around Jannseni Street and Tallinna Road;
- Ülejõe area;
- Area at Papiniidu crossing.

During the last couple of years, several new commercial buildings were completed in Pärnu, such as buildings on 5 and 7 Aida Street and Port Artur 2 expansion. Most of the retail and service premises find their occupiers in due time, whereas office premises struggle with vacancy for rather prolonged periods of time.

During the last few years, Papiniidu commercial area was rapidly expanding; in total, there were nine buildings completed, with 27,000 sq m of commercial leasable space.

Future pipeline is also quite extensive, with two new shopping centres undergoing the planning phase. Hence Port Artur 3 next to Pärnu River (79,000 sq m) and a shopping centre on *Via Baltica* road (100,000 sq m), on the plot of the former Pärnu dairy plant, are expected to be introduced into the market within the upcoming few years.

Rental rates in Pärnu experienced a major downward adjustment of 20-30% in the years 2008-2009. Throughout 2010, the fees remained mainly stable, whereas the beginning of 2011 brought slight increase to be followed by a stable period in terms of rental rates up till the end of 2012.

By the end of 2012, the vacancies in successful retail schemes, such as *Kaubamajakas*, *Port Artur 2* and *Pärnu Keskus*, are as low as 5%. Vacancy rates in shopping centres with lower customer flow, as well as vacancy rates in commercial premises outside shopping centres, stand at around 10-15%.

Table 6

Rental fees in Pärnu

Type of tenants	Rent, €/sq m/month	2013
In shopping centres in city centre	8 – 14	→
In shopping centres outside the city centre	4 –10	→
Old town and city centre at the pedestrian flow	3 – 8	→
Business districts in suburbs	2.5 – 7.5	→

Source: DTZ Research

Tartu

With the majority of the modern shopping centres in Tartu being located outside city centre, in terms of retail landscape, the city as such can be subdivided into the following areas:

- Retail area on Ringtee Street. Rental fees fall within the wide range of 5-19 €/sq m/month, whereas vacancy for modern schemes does not exceed 5%. Vacancy in older buildings is considerably higher, approximately 15%; average rental fees for such buildings fall within the range of 4-6.5 €/sq m/month.
- Retail area in Annelinn district. Average rental fees in shopping centres range between 5 -19 €/sq m/month, whereas street retail premises come at 3- 6 €/sq m/month. Average vacancy rate for shopping centres is approximately 5-10%; in secondary locations, it goes up to 20%.
- City centre retail area, further subdivided into:
  - *Tartu Department Store, Kaubahall* and *Zeppelin*, *Tasku* centre. In general, rental fees vary from 13

to 32 €/sq m/month, however for smaller retail schemes, such as former *Tartu Department Store*, *GMP-centre, Kapitali House*, the rental fees are lower.

- Old Town mainly offers service, entertainment, accommodation and catering options for visitors and locals alike. Although within the last few years, the number of retailers decreased, there are still approximately 50 stores operating in the Old Town; the average rent is between 5-14 €/sq m/month.

2012 was marked by the expansion of grocery retailers. Hence three new hypermarkets were completed: *Annelinna Prisma* (the leasable area of the hypermarket is almost 11,000 sq m, which makes it the largest store in Tartu), *Maxima XX* hypermarket in Raadi area (2,600 sq m), and *Vahi Selver* in Vahi Village close to Tartu city (1,900 sq m). Additional new retail stock comes from residential developments (for example, on Fortuuna and Raatuse Streets), since in quite many cases the ground floors in apartment buildings are intended for retail purposes.

While major downward adjustment in rental fees hit the city in the second half of 2009 (total decrease averaged at around 20%), to be followed by quiet year 2010, year 2011 has already brought moderate upwards adjustment, especially for the premises located in shopping centres. In 2012 nonetheless rents remained stable.

By the end of 2012, the major Tartu shopping schemes has already reached their natural vacancy levels; in some of the cases, demand for retail premises already exceeds available supply. Therefore, *Tasku* SC was the first one to expand, whereas Tartu *Kaubamaja* has announced potential expansion (detailed planning already in process) that is expected to bring additional 3,600 sq m of retail space. At the same time, given quite large existing provision per capita, no new developments are in the pipeline.

Table 7

Rental fees in shopping centres in Tartu

Type of tenants	Rent, €/sq m/month	2013
In shopping centres in city centre	15 – 32	→
In shopping centres outside the city centre	5 –20	→
Separate premises outside the city centre	3 – 6.5	→
Old twn and city centre at the pedestrian flow	5.5 – 15	→
Business districts in suburbs	4 – 20	→

Source: DTZ Research

Forecasts for 2013

Healthy economic recovery has made a positive impact on both consumers' confidence and their buying behaviour; during the year 2013, the retail trade turnover is expected to continue its growth.

Rental rates have firmly stabilized within the last few years; in 2013 therefore there is a slight pressure for them to increase, and yet the change will be only modest.

With strengthening economy and improving retail indices, yields are subject to a slight decrease during the upcoming year.

Vacancy in popular shopping centres will remain within its natural limits; secondary locations meanwhile will struggle to increase their occupancy rates.

Moderate to high new development activity will be evident in the sub-segments of hypermarkets and shopping centres.

Baltic Retail H2 2012

Retail Market in Latvia

Retail Trade Turnover

The data on retail trade turnover from Q3-Q4 2012 conveys a rather mixed message with respect to private consumption dynamics in Latvia. The growth dynamics on a month-on-month and on a year-on-year basis present us with quite diverse development scenarios; therefore, any definite conclusions on significant trend reversals in the medium term are too early to judge.

On one hand, for the first time since the year 2010, retail trade turnover (in seasonally adjusted constant prices) on a month-on-month basis dropped for two consecutive months, namely September-October 2012 (-0.1% and -1.4% correspondingly), yet picked up again with a 1.4% increase in November 2012. On the other hand, the annual growth rate (at constant prices) although remaining quite sizeable (8.7% in November 2012) plunged from 9.5% annual change in Q3 2012. The increase itself mainly affects non-food group of products (in November, 11.9% increase as compared to 2.1% increase in the food group of products).

At the same time, in November 2012, European Commission confidence indicators reassured once again that business and consumer confidence sentiments in Latvia are currently among the highest ones in European Union member states. Economic Sentiment Indicator shows prolonged sustainable trends and within the recent months, stabilized on the level of the beginning of 2008; Retail Trade Confidence Indicator remains on a positive side ever since April 2010. Consumer Sentiment Indicator with regard to the general economic situation in Latvia within the upcoming 12 months can be characterized as optimistic for the first time since August 2007.

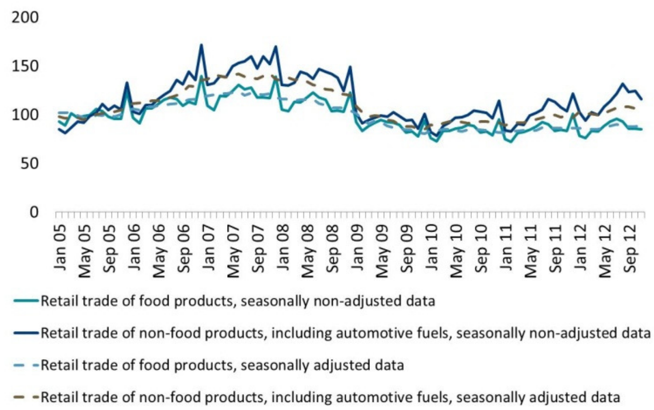
All in all, given the marginal downward changes in personal income tax (decreased by 1% as of 1 January 2013), as well as positive forecasts with regard to average wages in Latvia, retail trade turnover year-on-year changes in 2013 are expected to continue to grow at a rate comparable to that of the end of 2012; at the same time, sudden large fluctuations on a month-on-month basis can hardly be expected.

New supply

Although 2012 was still a struggle for Latvian economy with strict austerity measures, low wage growth and high unemployment rate, grocery retail chains were confident enough to take further advantage of lower development costs and, similarly as in year 2011, continued to optimize on their market shares.

Figure 4

Retail Trade Turnover Indices at Constant Prices (2005=100)



Source: National Statistics, DTZ Research

Development pipeline in 2012 therefore consisted solely from new additions coming from the opening of new grocery superstores and reconstruction of already existing ones all around the country. Within a year, Swedish Rimi added three new stores to its chain, of which only one is located in Riga; Lithuanian Maxima expanded by opening four new supermarkets, of which one is in Riga. Finnish Prisma meanwhile substantially strengthened its position in Riga market by adding two new hypermarkets (11,500 sq m and 8,000 sq m of GLA) to the three already existing (opened in 2006, 2009, and 2011).

Within the segment of the shopping centres, given the above average shopping centre floor space provision (0.7 sq m of GLA per capita in Riga) that is coupled with above European average retail sales growth forecasts, Latvia in general and Riga in particular can be characterized as a stable market, where existing schemes will benefit greatly from the robust retail turnover growth, whereas potential future developments have to be measured carefully against higher than average risks coming from evident signs of market saturation in terms of shopping space provision.

The forecast of new deliveries for the next two years therefore comes primarily from potential expansion and upgrade plans of already established retail schemes; one large-scale new development, *Akropolis* (more than 60,000 sq m of GLA) by Lithuanian holding *VP Market* nonetheless is also in the pipeline ever since 2006, with the construction works being gradually initiated, and expected completion announced for 2014.

Demand, Vacancy and Rental Rates

In 2012, although improving, but still uncertain market conditions created subdued and highly selective occupier demand, with retailers being still cautious and thus favouring prime space in prime schemes. This even further reinforced the polarization between prime and secondary shopping centres, a trend which was apparent already in 2011. As a result, secondary shopping centres are lagging behind with higher vacancy rates and lower rental fees.

At the same time, given that the prime schemes already reached their natural vacancy rates, and provided that retail sales will continue to grow, the situation is expected to exhibit reversed trends in the upcoming year.

While the segment of prime schemes is about to turn into the 'supplier's market', with the owners focusing on maintaining and even further strengthening their existing assets in terms of optimal tenant mix, as well as through engaging into extensions and upgrades, secondary shopping centres can hope for the downward pressure on their vacancy rates. The rents meanwhile will be pressed upwards in the prime retail schemes, and shall remain stable with only marginal upward potential in the secondary shopping centres.

In year 2012, two major world-wide brands, Swedish *Hennes&Mauritz* (H&M) and British *Burberry* opened their first flagship stores and thus secured their trust in the recovery of Latvian economy for income segments ranging from mass to luxury goods. While the former went with its traditional layout over two floors in two major retail centres, *Alfa* and *Galerija Centrs* (both managed by *Linstow Center Management*), the later has chosen in favour of a street retail spot.

One more addition to Latvian fashion retail industry came from *Max Mara Fashion Group* (*Max Mara* itself being one of the very first fashion boutiques opened in Riga); in year 2012, the group expanded its presence by opening first *PennyBlack* store in *Spice* shopping centre.

Table 8

Rental fees in shopping centres in Riga

Type of tenants	Rent, €/sq m/month	2013
Anchor tenants	4 – 12	→
>100 sq m	15 – 25	→
<100 sq m	20 – 40	↗
Street retail	10 – 30	↗

Source: DTZ Research

Table 9

Vacancy rates in shopping centres in Riga

Type of tenants	Vacancy, %	2013
Prime retail schemes	1 – 5	→
Secondary shopping centres	5 – 20	↘

Source: DTZ Research

High Street Retail

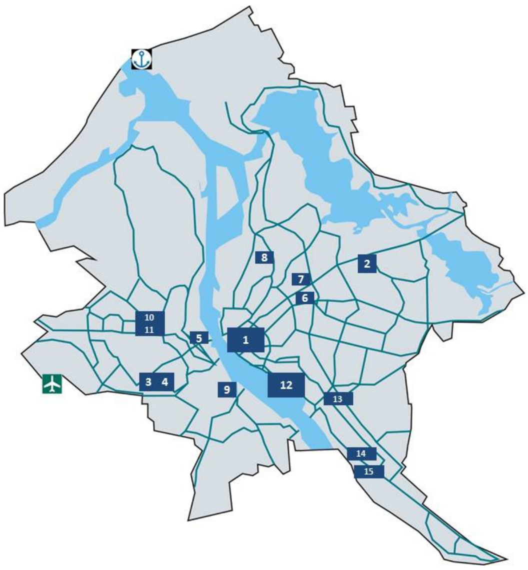
Historically, there was no single street in Riga that would comply strictly with the definition of high street retail; rather, two geographically separate blocks of streets, one in the Old Town and the other in the city centre (15-20 min walk between the two), were referenced to while denoting this particular retail sector.

The Old Town street retail block is centred by *Galerija Centrs* shopping centre, and with the introduction of *H&M* store, the area developed heavily throughout 2012, with the tenants coming primarily from catering, entertainment, and fashion boutique sub-segments.

The city centre block meanwhile is arranged around *Galleria Riga* shopping centre that was introduced into the market in 2010, is scattered throughout seven floors and is still struggling with the vacancy rate close to 20%. While the shopping centre itself managed to relocate most of the high street fashion brands from the surrounding area into its premises, the central area as such developed into the 0.7 sq km district with the tenants ranging from coffee shops and catering, through small locally owned boutiques, to international luxury brand stores.

Map 2

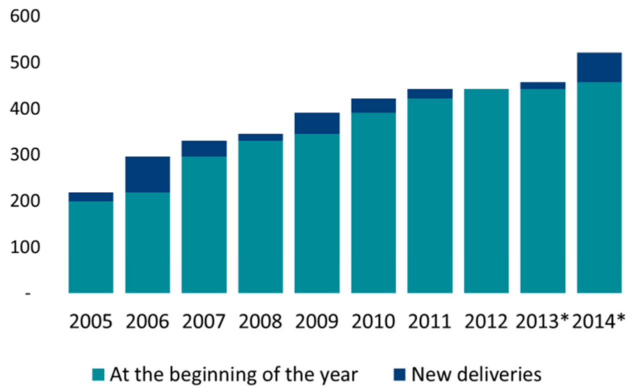
Major shopping centres in in Riga



Source: DTZ Research

Figure 5

Shopping Centres Stock in Riga, 000s GLA sq m



Source: DTZ Research

Table 10

Main shopping centres in Riga

No. on the map	Shopping centres in Riga	Type of shopping centre	GBA, sq m	GLA, sq m	Year of construction/ reconstruction (expansion)
1.	THE OLD TOWN and CITY CENTER, includes all of the following:				
	Galerija Centrs	Medium, traditional	23,800	23,000	1936/2006
	Galerija RIGA	Medium, traditional	41,000	29,700	2010
	Stockmann	Department store	14,000	14,000	2003
	ORIGO	Medium, traditional	35,300	27,000	2004
	Barona Centrs	Small, traditional, choice	7,000	5,200	2001
2.	ALFA	Big, traditional	62,000	56,500	2000/2005/2009
3.	SPICE	Big, traditional	77,000	40,000	2000/2006
4.	SPICE HOME	Non-leisure oriented, special	30,000	22,000	2007
5.	OLYMPIA	Medium, traditional	25,200	18,500	2003
6.	DOMINA Shopping	Big, traditional	110,000	42,000	2003
7.	ELKOR PLAZA	Department store	9,000	9,000	2006
8.	SKY&MORE	Medium, traditional	16,900	12,000	2007
9.	RIGA PLAZA	Big, traditional	67,000	47,000	2009
10.	DAMME	Small, traditional, choice	16,000	13,000	2011
11.	Imanta Retail Park	Small, traditional, choice	9,500	8,000	2011
12.	KRASTA STREET AREA, includes all of the following (and a number of other small retail and leisure units):				
	MOLS	Medium, traditional	32,800	29,000	1999
	MC2	Non-leisure oriented, special	13,500	9,500	2002
13.	Galerija AZUR	Medium, traditional	25,000	20,500	2006
14.	DOLE	Small, convenience, traditional	17,000	9,600	1982/2002
15.	ZOOM	Small, convenience, traditional	7,500	7,000	2006

Baltic Retail H2 2012

Forecasts for 2013

- Higher than Euro-zone average sustained growth in retail sales;
- Optimistic consumer sentiments can be jeopardized by the prospects of introducing Euro;
- Potential of new deliveries coming only from the extensions and upgrades of already existing retail schemes;
- Upward pressure on rents in prime shopping schemes;
- Further strengthening of prime assets in terms of tenant mix, with downward pressure on potential disposal yields;
- Downward pressure on vacancies in the secondary shopping centres, with only marginal upward potential in rental rates and stabilization in potential disposal yields;

In 2013, there are windows of opportunity for the tenants already present on the market and ready to expand through facing certain risks intrinsic to the secondary retail schemes, as well as for the international tenants that are still not present on the market, yet are ready to test their brands in the dynamic context of a small country with high retail sales growth;
2013 is also a window of opportunity for the acquisition of retail assets that while still in an uncertain position today, have positive prospects of being strengthened in the future, securing a durable revenue stream for the owner.

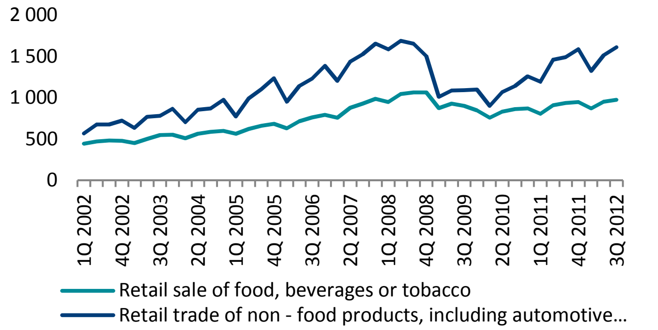
Retail Market in Lithuania

Retail trade turnover

The first signs of recovery on Lithuanian retail market were already evident in 2010, followed by 4.1% increase in the retail turnover of food, beverage, and tobacco products and 7.5% increase in the retail turnover of non-food products (including fuel) in 2011. As far as 2012 is concerned, the provisional data from Statistics Lithuania indicates 4.9% overall increase on a year-on-year basis as of October 2012.

Figure 6

Retail trade turnover in Lithuania, millions €



Source: DTZ Research

Retail stock in Lithuania

By the end of 2012, the total stock of modern retail stock in Lithuania was 892,000 sq m (accounting for the buildings that exceed 5,000 sq m), distributed among five largest cities, Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys.

In terms of shopping floor space provision, Klaipeda (more than 1.0 sq m of GLA per capita) and Siauliai (close to 1.0 sq m of GLA per capita) fall into stagnating category, where the performance of existing schemes or future growth prospects are hampered by moderate economic development. Vilnius and Kaunas (approximately 0.7 sq m per capita in each) are stable markets, where existing provision can benefit from strong retail growth, yet new developments are at risk due to market saturation in terms of total shopping space. Panevezys (ca 0.5 sq m per capita) is still emerging, whilst offering potential as it is under-supplied in terms of shopping space provision, and yet display rather weak retail sales growth forecast figures.

Vilnius

Swedbank subsidiary *Ektornet Lithuania SPV 1* sold the shopping center *Gediminas 9* (GLA ca 16,000 sq m) in November 2012. The shopping center was bought by *East Capital* investment fund *East Capital Baltic Property II*.

The property sold is situated on the major Vilnius high street, Gedimino Avenue. The area stretches for nearly 2 km alongside Vilnius Old Town, hosts one more major retail scheme, *Flagman,* and a substantial amount of street retail spots.

The rest of the major retail schemes are scattered throughout Vilnius sleeping districts, such as Šeškinė, Šiaurės miestelis, Viršuliškės, Pilaitė, Žvėrynas, Perkūnkiemis.

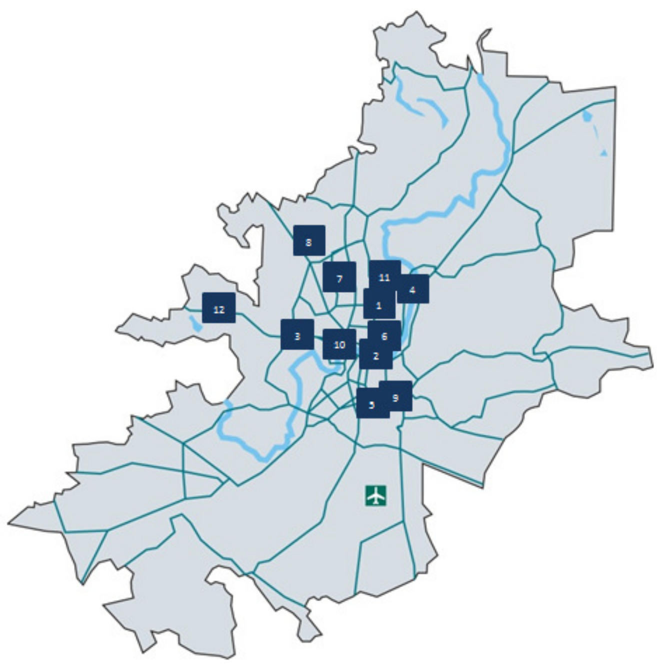
New supply

By the end of 2012, the total modern retail space stock in Vilnius was 500,000 sq m. The year was mostly populated with the introduction of new hypermarkets; hence Lithuanian chains *Iki, Norfa,* and *Maxima* opened new stores. At the same time, the construction of the franchise agreement based *Ikea* store commenced in 2012 (to open in autumn 2013), next to Vilnius International Airport. The development is being undertaken by Iceland's *Felit.*

The pipeline for the upcoming two years meanwhile promises two more major retail schemes for Vilnius. The first is *Olinda* shopping centre (GLA 22,000 sq m) to be developed by Finnish *Vicus* and anchored by Finnish *Prisma*. The second is *Domus Pro Retail Park* (GLA 13,600 sq m), to be developed by Danish *TK Development* and targeted towards offering interior and household goods.

Map 3

Major retail centres in Vilnius

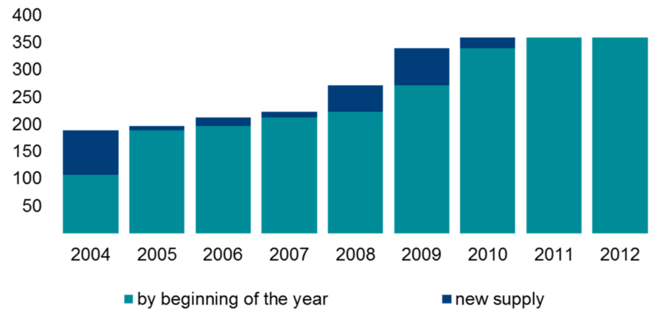


Source: Google Map, DTZ Research

Baltic Retail H2 2012

Figure 7

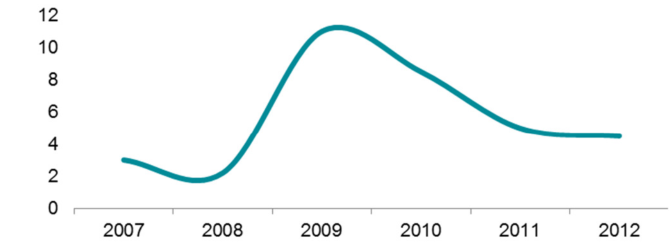
Shopping centre stock in Vilnius, 000s GLA sq m



Source: DTZ Research

Figure 8

Dynamics of vacancy rate (%) in Vilnius Shopping Centres



Source: DTZ Research

Table 11

Main shopping centres in Vilnius

No. on the map	Main shopping centres in Vilnius	Address	GBA, sq m	GLA, sq m	Year of construction
1.	**Akropolis**	24 Ozo Street	109,000	91,200	2002
2.	**VCUP**	16 Konstitucijos Avenue	19,800	19,800	2003
3.	**Mada**	40 Virsuliskiu Street	18,500	16,000	2003
4.	**Domus Galerija**	32 P. Lukšio Street	14,000	14,000	2003
5.	**Flagman**	16 Gedimino Street	7,000	5,600	2004
6.	**Europa**	7A Konstitucijos Avenue	22,600	17,400	2004
7.	**Mandarinas**	91 Ateities Street	9,300	7,900	2005
8.	**BIG**	369 Ukmergės Street	18,800	15,600	2006
9.	**Gedimino 9**	9 Gedimino Avenue	16,600	10,200	2007
10.	**Panorama**	9 Saltoniskiu Street	65,000	49,500	2008
11.	**Ozas**	18 Ozo Street	93,000	62,000	2009
12.	**Pupa**	1 Priegliaus Street	6,300	5,300	2009

Source: DTZ Research

Rental levels and vacancy

In major Vilnius retail schemes, rental rates remained quite stable throughout 2012, and no significant changes are forecasted for H1 2013.

The largest demand was observed for small to medium sized premises, hence leading to an increase in asking rents; the most active tenants come from catering group.

In terms of occupancy trends, the most demanded shopping schemes are *Akropolis, Panorama, VCUP,* and *Ozas,* who reduced their vacancies to natural levels (4.5% and lower) by the end of 2012. The rest meanwhile are still struggling with the vacancy rates that reach up to 10-20%.

Table 12

Rental fees in shopping centres Vilnius

Type of tenants	Rent, €/sq m/month	2013
Anchor tenants	3 - 8	→
>100 sq m	9 - 23	→
<100 sq m	13 – 43	→
Street retail	6 - 26	→

Source: DTZ Research

Table 13

Vacancy rates in shopping centres in Vilnius

Type of tenants	Vacancy, %	2013
Prime shopping centres	1 – 4.5	↘
Secondary shopping centres	4.5– 20	↘

Source: DTZ Research

Baltic Retail H2 2012

Kaunas

The total stock of modern retail premises in Kaunas amounts to 215,000 sq m, one fourth of which is single the most popular retail scheme, *Akropolis* (60,000 sq m).

The city saw one new delivery at the end of 2012, *Prisma* hypermarket with 7,000 sq m GLA.

Rental rates remained stable throughout 2012.

Table 14

Rental fees in Kaunas Shopping centres

Type of tenants	Rent, €/sq m/month	2013
Anchor tenants	4-7	→
>100 sq m	8-12	→
<100 sq m	13-21	→
Street retail	6-20	→

Source: DTZ Research

Klaipeda

The total provision of modern retail premises in Klaipeda amounts to 160,000 sq m, which is more than 1.0 sq m per capita, and therefore drives city's retail landscape into temporary stagnation with no new deliveries in the pipeline and no forecasted changes in rental rates.

Table 15

Rental fees in Klaipėda Shopping centres

Type of tenants	Rent, €/sq m/month	2013
Anchor tenants	4-7	→
>100 sq m	8-12	→
<100 sq m	12-21	→
Street retail	5-15	→

Source: DTZ Research

Panevezys and Siauliai

In terms of shopping space provision, Siauliai, similarly as Klaipeda, is among the most saturated cities in Lithuania. The total stock here amounts to 106,000 sq m GLA, which is close to 1.0 sq m per capita; this geographical sub-market therefore is in temporary stagnation with no new developments in the pipeline for the upcoming 2-3 years.

Panevezys, on the other hand, is usually referred to as the least saturated Lithuanian city in terms of modern retail space provision (0.5 sq m per capita). The absolute majority of the modern retail space here comes from the single shopping scheme, *Babilonas* (42,100 sq m GLA for retail and 18,000 sq m GLA for car showrooms and repair services), which was developed through several stages in 2005-2008.

Yet given weak economic in general and retail sales in particular currents and forecasts, city's retail landscape is marked with the vacancy rates ranging from 10-30%. Therefore, no new deliveries are in the pipeline.

Table 16

Rental fees in Siauliai and Panevėžys

Type of tenants	Rent, €/sq m/month	2013	Rent, €/sq m/month	2013
Anchor tenants	2-7	→	1-6	→
>100 sq m	5-12	→	4-12	→
<100 sq m	12-20	→	10-18	→
Street retail	5-15	→	3-9	→

Source: DTZ Research

Forecast

- In Vilnius, 65,000 sq m GLA of new supply is about to come within the next 1–3 years;
- Rental rates are expected to remain stable throughout the country in 2013;
- Vacancy in popular shopping centres will remain on a natural level; secondary locations will still struggle to increase their occupancy rates.

Other DTZ Research Reports

Other research reports can be downloaded from www.dtz.com/research. These include:

Occupier Perspective

Updates on occupational markets from an occupier perspective, with commentary, analysis, charts and data.

Global Occupancy Costs Offices 2012
Obligations of Occupation Americas 2012
Obligations of Occupation Asia Pacific 2012
Obligations of Occupation EMEA 2012

Property Times

Regular updates on occupational markets from a landlord perspective, with commentary, charts, data and forecasts. Coverage includes Asia Pacific, Bangkok, Beijing, Berlin, Brisbane, Bristol, Brussels, Budapest, Central London, Chengdu, Chongqing, Dalian, Edinburgh, Europe, Frankfurt, Glasgow, Guangzhou, Hangzhou, Ho Chi Minh City, Hong Kong, India, Jakarta, Japan, Kuala Lumpur, Luxembourg, Madrid, Manchester, Melbourne, Milan, Nanjing, Newcastle, Paris, Poland, Prague, Qingdao, Rome, Seoul, Shanghai, Shenyang, Shenzhen, Singapore, Stockholm, Sydney, Taipei, Tianjin, Ukraine, Warsaw, Wuhan, Xian.

Investment Market Update

Regular updates on investment market activity, with commentary, significant deals, charts, data and forecasts. Coverage includes Asia Pacific, Australia, Belgium, Czech Republic, Europe, France, Germany, Italy, Japan, Mainland China, South East Asia, Spain, Sweden, UK.

Money into Property

For more than 35 years, this has been **DTZ's flagship research report, analysing invested stock and capital flows into real estate markets across the world.** It measures the development and structure of the global investment market. **Available for** Global, Asia Pacific, Europe and UK.

Foresight

Quarterly commentary, analysis and insight into our in-house data forecasts, including the DTZ Fair Value Index™. Available for Global, Asia Pacific, Europe and UK. In addition we publish an annual outlook report.

Insight

Thematic, ad hoc, topical and thought leading reports on areas and issues of specific interest and relevance to real estate markets.

India Special Economic Zones-December 2012
Singapore Executive Condominiums -December 2012
European Retail Guide- Shopping Centres-December 2012
UK Secondary market pricing-December 2012
Singapore office demand-November 2012
Ecommerce & Logistics -November 2012
Net Debt Funding Gap-November 2012
German Open Ended Funds-October 2012
London office to residential conversions-October 2012
Great Wall of Money-October 2012

DTZ Research Data Services

For more detailed data and information, the following are available for subscription. Please contact graham.bruty@dtz.com for more information.

Property Market Indicators

Time series of commercial and industrial market data in Asia Pacific and Europe.

Real Estate Forecasts, including the DTZ Fair Value IndexTM

Five-year rolling forecasts of commercial and industrial markets in Asia Pacific, Europe and the USA.

Investment Transaction Database

Aggregated overview of investment activity in Asia Pacific and Europe.

Money into Property

DTZ's flagship research product for over 35 years providing capital markets data covering capital flows, size, structure, ownership, developments and trends, and findings of annual investor and lender intention surveys.

DTZ Research

Contacts

DTZ Baltic

Tambet Tiits
Managing Director
Phone: +372 626 4250
Email: tambet.tiits@dtz.ee

Estonia

Aivar Roosik
Director, Development
Phone: +372 626 4250
Email: aivar.roosik@dtz.ee

Peeter Prisk
Director, Property Management
Phone: +372 442 0700
Email: peeter.prisk@dtz.ee

Latvia

Andris Juršāns
Director, Latvian office
Phone: +371 6 724 4811
Email: andris.jursans@dtz.lv

Jurga Kupstytė
Project Manager
Phone: +371 6 724 4811
Email: jurga.kupstyte@dtz.lv

Lithuania

Valdemaras Ivaško
Director, Valuation & Consulting
Phone: +370 5 210 0252
Email: valdemaras.ivasko@dtz.lt

Jurgita Banytė
Property Expert
Phone: +370 5 210 0254
Email: jurgita.banyte@dtz.lt

DTZ
a UGL company