Property Times
Baltic Retail Q3 2013
Higher Retail Confidence Produces Opportunities

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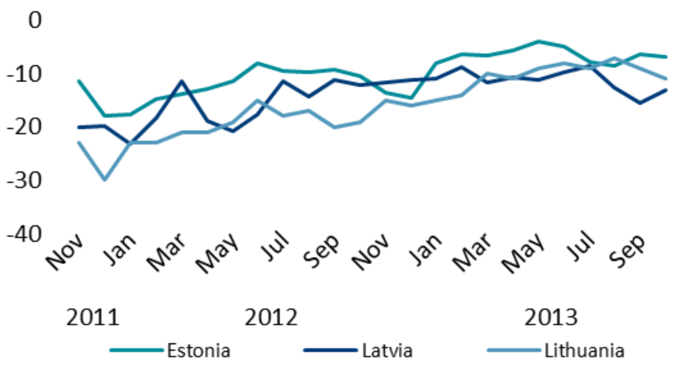
- Although the impact of the crisis in the EU was one of the greatest in the Baltic countries, the retail trade turnover has re-bounced quite rapidly. Consumer confidence has strengthened and private consumption has continuously expanded during 2012 and H1 2013, and is expected to do so in the near future.
- The polarization between primary and secondary retail schemes is still evident across the region; while the first group enjoys natural vacancy rates and optimizes on its tenant mixes, the second group is exploiting windows of opportunity for improving their occupancy rates.
- Several large-scale retail projects are in the pipeline for the upcoming years; some of them have the construction process already initiated. These are expected to exhibit additional pressure on secondary schemes.
- Several investment transactions were completed in H1 2013. The retail properties are also attractive in secondary cities. Given that substantial proportion of retail premises are still owned by occupiers, the region offers good sale-lease back investment opportunities in the upcoming years.

Figure 1

Retail confidence index



Source: Tradingeconomics

Baltic Retail Q3 2013

Macroeconomic Trends in the Baltic States

Estonia

Although the GDP growth has decelerated in 2013, there is a rather positive outlook for 2014 with the recovery of foreign demand and investments.

According to the second estimates of Statistics Estonia, in 2012 the gross domestic product (GDP) increased by 3.2% compared to the previous year, yet only by 1.1% on a quarterly basis in the first quarter of 2013. In Q1 2013, the GDP at current prices was 17.2 billion Euros. In the 1st quarter 2013, the biggest contribution to the economic growth came from the increase in the value added of information and communication, as well as trade and manufacturing segments. The increase in the value added of trade was supported by the increase of retail sales. According to the forecast of the Bank of Estonia (June 2013), the growth in the Estonian economy will decline in 2013 with domestic demand growth, particularly for investments in fixed assets, dropping to 2%. The slowdown will primarily be caused by one-off factors, and growth will return to its equilibrium level when these factors fade out. In 2014 and 2015, GDP growth will accelerate with support from domestic and external demand to a little over 4%.

The consumer price index (CPI) increased by 3.9% in 2012 compared to the average of 2011. In 2013, consumer price index inflation is expected to decrease to 3.0%. The biggest contributor towards prices' increase in 2013 is electricity, which accounts for around one third of the total change. No rapid increase in the electricity price is expected in 2014 and inflation will slow to 2.5%. The pass-through of wage costs into end prices (for services in particular) will push core inflation up and consumer price growth will reach 2.7% in 2015.

According to Statistics Estonia, the unemployment rate was 10.2% in 2012 and 9.3% in the 4th quarter of 2012, and 10.2% in the 1st quarter of 2013. Generally, situation on the labour market continues to improve. Employment growth is becoming increasingly restricted by the shrinking of the working age population. It means that in the next few years, there may for the first time be a drop in employment with unemployment simultaneously falling**.** Unfavourable demographic situation, influenced primarily by ageing population and emigration, will put labour force participation and the efficient use of labour in an ever more important position.

Latvia

Although Latvia is still recording one of the fastest GDP growth rates across EU, in Q1 2013, GDP data in Latvia goes in line with initial predictions and pinpoints towards a substantial deceleration of the national economy's expansion with an annual increase of 3.6% (as compared to 5.1% in Q4 2012). Such a slowdown nonetheless is not a transient weakness inflicted by country specific factors, but rather a logical consequence that falls along the lines of economic realities across Europe and hence can be more reasonably explained than the previous extraordinary growth rate.

The highest contribution to GDP growth meanwhile comes from the household consumption sector, and yet here, too, development is far from being uniform. For example, the most eminent expansion throughout both 2011 and 2012 was in the sub-segment of computer and telecommunications trade (40-60% increase on an annual basis). Latest figures suggest that this segment has reached its point of saturation, and was replaced by more moderate improvements in other segments of the trade, which nonetheless sum up to the highest household consumption growth rate in the EU and hence forces into questioning the long-term sustainability of such a development.

Latvian GDP growth slowdown therefore is not a short-term phenomenon, and in the next few quarters, will remain similar or even fall further; the annual GDP growth forecast stands at about 2.5%.

Given low inflation rate, Latvian competitiveness nonetheless is still holding, as suggested by the real effective exchange rate, which remained stable ever since recession and has shown signs of improvement from the end of 2012.

Unemployment rate is declining quite rapidly and soon is expected to approach its historic average. Employment increased mostly in domestic sector, whereas export-oriented industries naturally enough are wary of hiring, not only due to shrinking growth figures, but also due to investments into machinery (although at a lower rates than in the previous years) with the anticipated increase in productivity and efficiency, and reduced dependency on labour market. And yet, unless the natural level of unemployment is reduced via structural reforms, wage pressures are likely to become more pronounced (similarly to the current situation in Estonia).

Lithuania

According to the Central Bank of Lithuania, country's economy still exhibits strong growth, yet at a slower pace than in year 2012. In the second half of 2012, exports have risen exceptionally strongly, especially due to a good agricultural harvest and intensive re-export, but currently export growth has decelerated, which have had a direct influence on the economic growth in 2013, which is lower than expected. This is, first of all, related to the further decrease in investment volumes. Compared to other EU countries, in Lithuania, the share of investment in non-residential buildings and structures contribution towards GDP remains quite large; therefore, a decline in this type of spending substantially contributes to lower general investment. Among the most rapidly decreasing segments is government investment in infrastructure objects.

Between 2009 and 2012, approximately 216,620 Lithuanians emigrated, while 47,228 returned to the country. During 2012, there were 21,257 emigrants, which is 44% less than in the same period of previous year.

According to the harmonized index of consumer prices (HICP), the calculated inflation in April 2013, compared to March 2013, was 0.1%. The average annual inflation in April 2013 was 2.6% (in March, the average annual inflation was 2.8%).

It is projected that real GDP, which in 2012 grew by 3.7%, will rise by 2.8% in 2013. Predictions for 2014 stand at 3.5%. If global price trends continue to be favourable, it can be expected that inflation will be much lower than in several previous years. In 2013, inflation is projected to be 2.0%, while in 2014 - 2.4% per annum.

According to Statistics Lithuania, the unemployment rate decreased in the 2nd quarter of 2013 to 11.7% from 13.1% in March 2013, and from 13.2% at the end of 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	0.702804	3.4528
GDP at current prices (€Bn, 2Q 2012 - 1Q 2013)	17.2	22.4	33.0
GDP per capita (€, 2Q 2012 - 1Q 2013)	12,800	11,100	9,200
GDP growth (%, 2Q 2012 - 1Q 2013)	1.1	3.6	3.5
Inflation rate (%, July 2012- June 2013)	3.8	0.2	2.8
Unemployment rate (%, June 2013)	8.1	11.5	11,7

Source: National Statistics, Eurostat, Oxford Economics

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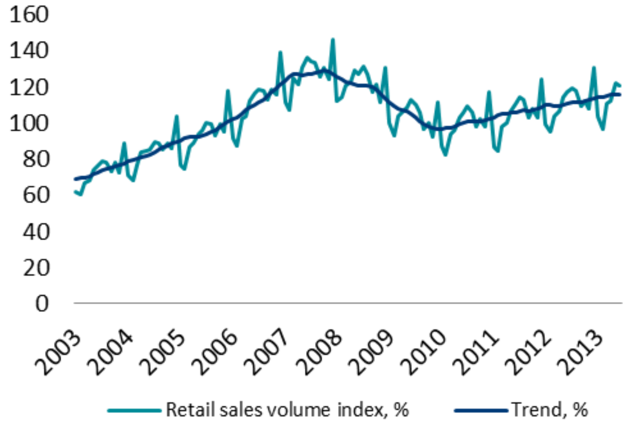
Retail Market in Estonia

Retail Trade Turnover

According to the Statistics Estonia, in June 2013 the retail trade turnover at constant prices increased by 4% on an annual basis, and constituted € 399.8 M (€ 311 per inhabitant). The biggest contributor to the increase was food segment, which is responsible for approximately three quarters of the total increase in retail turnover. The increase in food segment itself was similar to that of total average, i.e. 4% on an annual basis.

Figure 2

Retail sales volume index in Estonia



Source: DTZ Research

Regional View

The first large modern shopping centres in Tallinn were developed at the end of the 1990-ies. Throughout the years, the tendency of major retail brands gathering in large shopping centres became strongly pronounced; although many cities have preserved their central high streets along with small retail districts, their market share is continuously decreasing. Currently, the largest amount of modern retail space as well as the highest number of shopping centres is located in Tallinn. Large-scale shopping centres were developed in Tartu and Pärnu; during the last 10 years, a lot of small to medium scale development also took place in smaller secondary cities across Estonia.

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 separate retail area, with different businesses operating on the first floors along the streets. However, given that these activities are fragmented across the whole Old Town and central area, no single shopping street in Tallinn can be referred to as main high street of the city.

By the end of 2012, the total retail stock in Tallinn (accounting for the premises larger than 5,000 sqm) was close to 500,000 sqm; more than 60% of the total retail 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*.

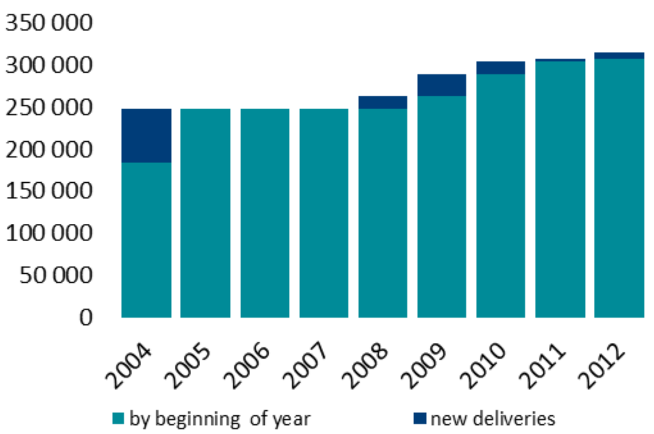
New Supply

Most of the development projects completed in 2012 were medium-scale projects sized 2,400–6,500 sqm:

- *Bauhof DIY* store located in Laagri, in close vicinity of Tallinn, finished their expansion in the beginning of 2012.
- In May 2012, *Magistral Shopping Centre* (owned by *Citycon*) was reopened. Additional 3,000 sqm of new retail space was introduced, along with improved parking possibilities.
- *Konsum* retail store called *Raudalu Konsum* sized 2,000 sqm and located next to Viljandi road (a major road that leads to Tallinn) was completed in September 2012.
- In November 2012, the largest *Maxima* shopping centre (a store in XX format) was opened in Lasnamäe district on Smuuli Road (5,000 sqm).

Figure 3

Shopping centre stock in Tallinn, GLA sq m



Source: DTZ Research

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By the end of H1 2013, the prime retail schemes in Tallinn were fully occupied, creating the situation where demand for retail space in shopping centres strongly exceeds supply. Therefore, the most popular retail schemes (*Rocca al Mare, Ülemiste*) started to plan for and execute their expansions:

- The biggest expansion project on the market is that of *Ülemiste Centre*, where approximately 53,000 sqm of new retail space will be added. Expected delivery to the market - autumn 2014.
- The renewal of the oldest part of *Kristiine Centre* (area of the extension about 1,000 sqm) is already in process.
- Extension of *Rocca al Mare Centre* (additional space to be introduced is around 4,000 sqm) is undergoing planning procedure.
- Renovation of *Mustika Centre* is being implemented, where approximately 4,000 sqm of additional lease space will be introduced.

The former Tallinn Post Office will be fully reconstructed into a modern retail centre with the total leasable area of approximately 7,000 sqm (expected delivery Q3-Q4 2013). One of the key tenants to be introduced in this shopping scheme is the long-awaited *H&M* brand.

The pipeline for the city also includes two large new deliveries in Lasnamäe district, where E.L.L. is planning to introduce fashion and family entertainment centre *Panorama City* (approximately 57,000 sqm GLA), whereas the area in the beginning of Peterburi Road (former meat factory) is scheduled as a large retail scheme *Tallinn Europa* with total GLA of approximately 55,000 sqm, which is comparable to currently existing *Kristiine Centre*. Expected delivery of the centre is spring 2015. However, construction of both of these schemes has not yet started.

There are some other projects in the pipeline (see table 2), but completion of those is still unclear.

Figure 4

Major retail schemes in Tallinn

Source: Google Map, DTZ Research

Table 2

Retail schemes in the pipeline for 2013-2017 in Tallinn

Retail object	Address	Total area, sq m	GLA, sq m	Year of completion
Postal Office	1 Narva Road	n/a	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

Rental Rates

In year 2009, the rental income in shopping schemes across Tallinn dropped by approximately 10-20%. While the rental fees for the anchor tenants remained quite stable, the decrease was primarily attributed to temporary discounts for other tenants, which in the years to follow were prolonged and currently serve as base-rent reference for marginal annual growth. In more popular shopping schemes (ex., Viru Centre) the discounts were never applied and rental prices increased even during the low point of the market.

Therefore, no remarkable changes in rental rates were observed during 2011-2012, whereas the increase for the upcoming years is forecasted to be in line with general CPI changes. At the same time, given that the most successful retail schemes have long ago achieved their natural vacancy levels, in 2013, the rents are expected to exhibit a moderate growth in this particular sub-segment.

Table 4

Rental rates in Tallinn

Type of tenants	Rent, €/sqm/month	2013
Anchor tenants	7,5 – 10	→
The Old Town	14 – 25	→
Areas with high foot fall in city centre	10 – 25	↗
Shopping centres in city centre	12 – 45	↗
Shopping centres outside city centre	12 – 32	↗

Source: DTZ Research

Vacancy

For primary retail schemes, the overall vacancy level average in H1 2013 was 1%. Generally, there is a higher tenant turnover for smaller premises, whereas tenants of large premises stay the same.

Table 5

Vacancy rates in Tallinn

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

Source: DTZ Research

Pärnu

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.

The most successful commercial areas in Pärnu meanwhile are the city centre and the area at Papiniidu crossing. 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. In H1 2013, a new *Maksimarket* (hypermarket) was introduced in the suburban area on the entrance form Audru direction. *Comarket* is under construction in the same area. Recently initiated construction of the parking house in the city centre also includes some retail space on the ground floor. Also, enlargement of *Pärnu Keskus* (total area ca 15,000 sqm) including the cinema and additional retail space was initiated in H1 2013.

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 sqm) and a shopping centre on *Via Baltica* road (100,000 sqm), in the area 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*, were as low as 5%. Vacancy rates in shopping centres with lower foot fall, as well as vacancy rates in commercial premises outside shopping centres, stand at around 10-15%.

Table 6

Rental rates in Pärnu

Type of tenants	Rent, €/sqm/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

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Tartu

Since the majority of modern shopping centres in Tartu are located outside the city centre, in terms of retail landscape, the city can be subdivided into the following areas:

- Retail area on Ringtee Street (Ränilinn borough). Rental rates fall within the wide range of 3-19 €/sqm/month, whereas vacancies in modern schemes do not exceed 5%. Vacancies in older buildings are considerably higher, approximately 15%; average rental rates for such buildings fall within the range of 4-6.5 €/sqm/month. In some of the cases, rental rates for large retail premises start from 2 €/sqm/month.
- Retail area in Annelinn district. Average rental rates in shopping centres range between 5 -19 €/sqm/month, whereas street retail premises come at 3-6 €/sq m/month. In *Annelinna Keskus*, rental rates can go up to 30 – 50 €/sqm/month, adjusted on an annual basis in accordance with CPI.
- Retail area in Raadi district. *Maxima XX* hypermarket is the major shopping centre in Raadi. Average rental fees range remain in the range 11-14 €/sq m/month, for some retail premises range up to 30-40 €/sq m/month. The largest rental premises are 2 800 sq m with a rental fee 7 €/sq m/month. All surfaces in *Maxima XX* hypermarket are rented.

Tartu central area can be further segmented into:

- *Tartu Department Store, Kaubahall* and *Zeppelin, Tasku centre*. In general, rental fees vary from 15 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. The properties are also struggling with their vacancy rates; for example, *GMP-centre* hosts 150 sqm vacant space on the third floor for already a year, with the asking price 10 €/sqm/month. Additional 120 sqm was recently vacated. *Barclay Hotel* nearby also hosts vacant retail spaces (90 sqm and 120 sqm) on the third floor for almost two years already, with the asking price of 7 €/sqm/month.
- Tartu Old Town, which mostly 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 in this area is between 6-20 €/sqm/month.

2012 in Tartu was mostly about expansion of grocery retailers, with three new hypermarkets completed: *Annelinna Prisma* (the hypermarket's GLA is almost 11,000 sqm, which makes it the largest store in Tartu), *Maxima XX* hypermarket in Raadi area (2,600 sqm), and *Vahi Selver* in Vahi Village close to Tartu city (1,900 sqm). Additional new retail stock was introduced through 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 the shopping centres. In 2012 rents remained stable. In Q1-Q3 2013, a slight price increase has been observed, especially in the centres outside the city centre and in the Old Town/central areas with high pedestrian flow. The vacancy rates in these areas are also gradually shrinking.

By the end of 2012, the major Tartu shopping schemes had already reached their natural vacancy levels; in some of the cases, demand for retail premises already exceeded 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 sqm of retail space. At the same time, given quite large existing provision per capita, no new developments are in the pipeline.

Table 7

Rental rates in Tartu

Type of tenants	Rent, €/sqm/month	2013
In shopping centres in city centre	15 – 32	→
In shopping centres outside the city centre	5 –25	↗
First floor premises outside the city centre	3 – 6.5	→
Old town and city centre with high foot fall	6 – 25	↗
Business districts in suburbs	4 – 20	→

Source: DTZ Research

Forecasts

- Rental rates have stabilized within the last few years; a slight upwards pressure is observed, however, given the development pipelines, the increase is expected to be only marginal.
- With strengthening economy and improving retail indices, yields are subject to a slight compression during the upcoming years.
- Vacancy in popular shopping centres will remain within its natural limits; secondary locations meanwhile will struggle to increase their occupancy rates.
- Moderate new development activity will be evident in the sub-segments of hypermarkets and shopping centres.

Retail Market in Latvia

Retail trade turnover

According to the Central Statistical Bureau of Latvia, seasonally adjusted retail trade turnover in June decreased by 0.8%. Annual growth nonetheless remained quite high, and by the end of H1 2013, amounts to 4.6%. On a quarterly basis, in Q2 2013 retail turnover remained unchanged when set against Q1 2013, however, exhibited a 6.0% increase when set against Q2 2012, which is mirrored in retail trade being the major contributor to the country's GDP growth.

Industry break-down data highlight the trends that remained consistent throughout the first half of the year, where the highest turnover increase comes from the household goods retail segment (35.2% increase on an annual basis) and motor vehicles and motorcycles segment (24.6% increase on an annual basis). Similarly, a significant increase is observed in the sales volumes of fuel (8.5% increase on an annual basis), whereas the lowest growth rate is exhibited by the food retail segment (2.7% increase).

Confidence indicators (compiled by European Commission) highlight a dual trend. On one hand, consumers consistently score high in their confidence; on the other hand, traders' confidence is in decline when set against the figures in the beginning of 2013, both with regard to the past developments within the last three months and with regard to the projected future developments within the upcoming three months. Positive consumer sentiments are mainly attributed to the improving situation on labour market with gradually decreasing unemployment and positive changes in nominal wage. At the same time, inflation remains low, which also brings a positive effect on the nominal purchasing power.

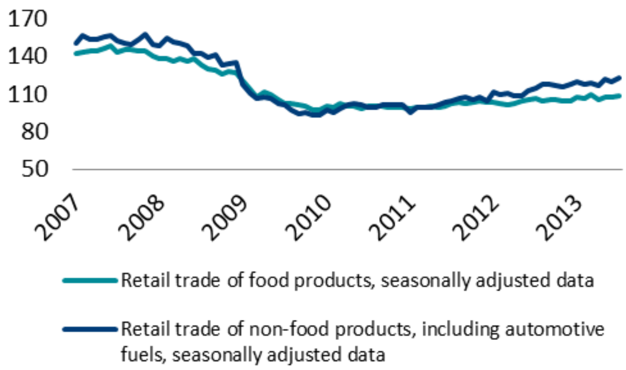
It is expected that in the upcoming months, there will be no radical changes in the retail turnover growth dynamics; evolvement on a monthly basis will remain fluctuant, with the general upward trend, attributed primarily to the gradual improvement on the labour market.

It has to be duly noted that in 1Q 2013, GDP growth in Latvia was mainly driven by private consumption, which implies that as long as European economic situation is undergoing substantial rearrangements, Latvian economic growth relies heavily on private consumption that can only persist as a short-term solution. In order to achieve a balanced long-term growth, Latvian economy needs an increase in investment volumes, which would serve as a basis for export growth.

The recent news from European markets is therefore all the more pleasant, with gradually improving confidence indicators not only in the centrally located countries, but also in the periphery, which might be the first signs of gradual pan-European recovery, hopefully to be reflected in a more balanced Latvian economic growth.

Figure 5

Retail trade turnover indices in Latvia at constant prices (2010=100)



Source: DTZ Research, Central Statistics

Supply and occupiers' market

By the end of H1 2013, the total stock of modern shopping space in Riga remained unchanged and amounted to almost 450,000 sqm (the number accounts for shopping centres and department stores with the area above 5,000 sqm), which in terms of shopping space provision per capita, stands at the ratio of 0.69.

New additions to the market came only in the sub-segment of supermarkets. Hence in H1 2013, Swedish *Rimi* added one new hypermarket to its chain (located in Riga district, Kekava), and currently runs 114 units in total of three different formats across Latvia; Lithuanian *Maxima* expanded by opening three new supermarkets, of which one is located in Riga, one in Jurmala, and one in Jekabpils, and currently runs 144 units in total of three different formats across Latvia.

It has to be duly noted that *Rimi* currently is the market leader in grocery retail segment with 1/3 of the total market share in 2012, which is an increase from around ¼ in 2009, whereas *Maxima* is the third largest grocery retail market player, with a market share of around 1/5 in both 2009 and 2012 (the second biggest player is local SIA "VITA markets" which operates *Elvi* grocery stores and shares approximately ¼ of the total market in 2012, which nonetheless is a decrease from approximately 1/3 in 2009).

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Given that the active expansion trends of *Rimi* and *Maxima* continue already for a few years in a row, it can be maintained that these two international chains are using the post-crisis improvements in private consumption to strengthen their positions and to supplant other players. Hence rumors about SIA "Palink" (owned by a major pan-European retail player *Coopernic,* operating *Iki* retail chain in the Baltic States) partially withdrawing from the Latvian market comes as little surprise.

As far as shopping centers' occupiers market is concerned, at the end of 2012, the polarization between primary and secondary retail schemes was heavily expressed through subdued and highly selective occupier demand. In H1 2013, the segment of prime schemes has already turned into 'supplier's market', with the owners further reinforcing strengthening of their existing assets in terms of optimal tenant mix. This, coupled with high private consumption growth rates, opened windows of opportunity for secondary retail schemes that by the end of 2012 were still struggling with high vacancy rates.

In H1 2013, tenant mixes in primary schemes are therefore becoming more diverse (for example, in H1 2013, originally French, now Lebanese owned luxury brand *Faconnable* opened in *Domina Shopping* centre, whereas British high street label *Blue Inc* became available in *Origo*), whereas secondary retail schemes can finally recover their breath after a prolonged after-crisis follow-up (for example, *Reserved* and *Mohito* took up approximately 2,000 sq m in *Galeria Riga,* the centrally located multi-storeyed shopping centre that has one of the highest vacancy rates in Riga).

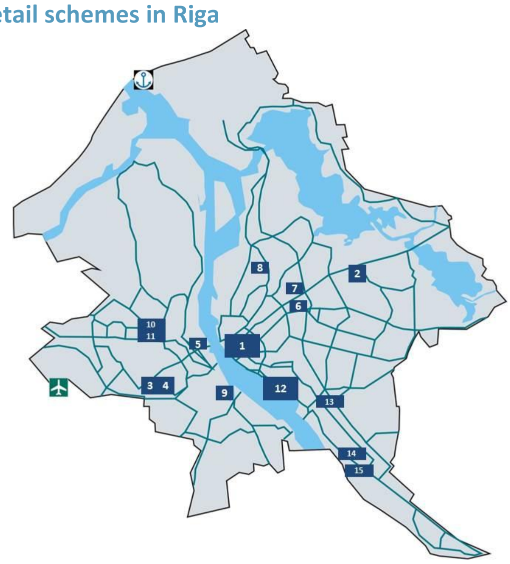
And yet similarly as in the case of grocery chains, occupiers' market development is twofold. Hence in H1 2013, Norwegian *Varner Gruppen*, which more than 15 ago brought to the local market such high street brands as *Cubus, Bik Bok,* and *Dressman*, announced its intentions to halt all operations in Latvia by the end of 2013, explaining it with decreased profit margins and hence lower than expected return on areas leased.

Since shopping centre floor space provision in Riga is above average European levels, Latvia in general and Riga in particular is quite stable market, in which existing schemes are benefiting greatly from the robust retail turnover growth, whereas potential for new developments has to be measured carefully against higher than average risks coming from evident signs of market saturation in terms of shopping space provision.

The pipeline of new deliveries in the sub-segment of shopping centres 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 sqm 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 2014-2015.

Figure 6

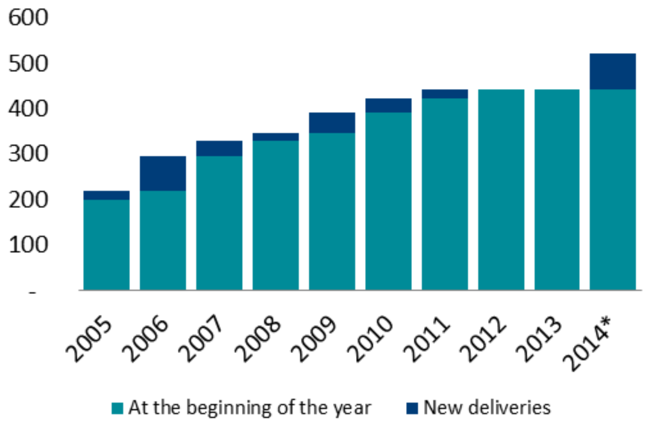
Major retail schemes in Riga



Source: Google Map, DTZ Research

Figure 7

Retail stock in Riga, GLA (accounting for shopping centres and department stores above 5,000 sq m), 000 sq m



Source: DTZ Research

Table 8

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.	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

Source: DTZ Research

Rental rates and vacancy

Given the market developments highlighted above, the rents in primary shopping schemes are pressed upwards, especially for other than anchor tenants, in some of the cases by as much as 10%. Fixed rental fees have also substituted for turnover rent practice, which was widely spread practice in the immediate crisis aftermath.

The rents for anchor tenants currently vary between 4-12 EUR/sqm/month; the rents for small area premises (up to 100 sqm) stand at 13-50 EUR/sq m /month (a lower base rent is usually topped with a turnover rent component); the rents for medium size premises (100-350 sq m) vary between 20-50 EUR/sq m/month.

Table 9

Rental rates in Riga

	Rent, €/sqm/month	2013
Anchor tenants	4 – 12	→
<100 sq m	13 – 50	↗
>100 sq m	20 – 50	→
Street retail	15 – 35	↗

Source: DTZ Research

Baltic Retail Q3 2013

Primary shopping schemes have reached their natural vacancy levels already in 2011-2012, and as noted earlier, currently are preoccupied with maximizing rental income and optimizing tenant mix.

Shopping schemes with less favourable location and/or planning struggle with vacancy rates around 10% and not optimized income flows from the areas already leased; a few still have vacancy rates around 15%. Attempts to improve the situation by engaging into reconstruction and/or concept change are also evident.

Table 10

Vacancy rates in Riga

	Vacancy, %	2013
Prime shopping centres	1 – 4	→
Secondary shopping centres	5 – 15	↘

Source: DTZ Research

Forecast

- Impressive growth rates in private consumption will sustain in the short-term, however, unless the economic development becomes more balanced, the sustainability of the trend in the long-term perspective is rather doubtful. Optimistic consumer sentiments can also be jeopardized by Euro introduction in 01/01/2014.
- Gradual market monopolization by major grocery retail chains will persist through competition for key locations across Latvia, which in turn would make the market more hostile for potential entry of new players.
- Further strengthening of prime assets in terms of tenant mix, with downward pressure on potential disposal yields. The trend is to be supported by attracting new small- to medium-scale occupiers into the market.
- Downward trends in vacancies in the secondary shopping schemes, with only marginal upward potential in rental rates and stabilization in potential disposal yields. Introduction of *Akropolis* retail scheme in 2014-2015 is expected to bring additional major corrections into occupiers' market, as well as vacancy rates and rental rates for less established shopping centres.

Baltic Retail Q3 2013

Retail Market in Lithuania

Retail trade turnover

Based on provisional data of the Statistics Lithuania, by the end of H1 2013, retail trade turnover at constant prices amounted to LTL 1,985.5 M, which was a 6.5% decrease against January 2013.

On a monthly basis, food trade turnover decreased by 5%, whereas turnover in non-food group by 6.6% (a 9.6% decrease is attributed to the turnover of automotive fuels). The largest 18.9% turnover decrease comes in the group of audio and video equipment; clothing sales turnover decreased by 17.2%; trade turnover of chemicals decreased by 11.1%.

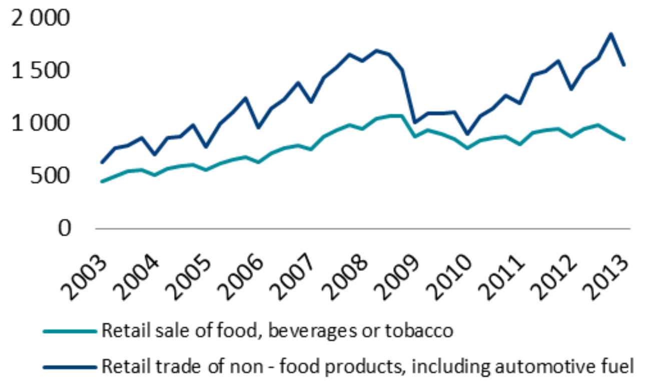
On an annual basis (February 2013 against February 2012) the retail trade turnover exhibited a 1.5% increase, with food trade turnover decreasing by 0.2%, whereas non-food group turnover increasing by 4.1%. Sector-wise, automotive fuels trade turnover increased by 0.9%, whereas the largest increase is attributed to distanced retail channels (mail and Internet), where the turnover went up by 22.4%, and to second-hand goods sector, where the turnover increased by 16.2%.

In February 2013, the turnover of food and beverage trade amounted to LTL 92.8 M and on a monthly basis, decreased by 8.2% at constant prices. Compared to February 2012, the drop was 3.4% at constant prices.

The overall growth rates in Q1 2013 compared to Q1 2012 were still positive.

Figure 8

Retail trade turnover in Lithuania, million €



Source: DTZ Research

Retail stock in Lithuania

By the end of 2012, the total stock of modern retail space in Lithuania amounted to 892,000 sqm (accounting for the properties with 5,000 sqm GLA). In 2012, the only new addition to the market was *Prisma* hypermarket of 7,000 sqm GLA in Kaunas.

The largest shopping schemes across the country are located in the main cities, namely, Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys. In terms of retail space per capita provision, Klaipeda currently exceeds the ratio of 1.0, Siauliai is close to the ratio of 1.0, Vilnius and Kaunas stand at around 0.7, whereas Panevezys at around 0.5.

Vilnius

Two major shopping centres are situated on the main city high street, Gediminas Avenue (*Gedimino 9* and *Flagman*). Other shopping centres are located in major city residential districts, such as Šeškinė, Šiaurės miestelis, Viršuliškės, Pilaitė, Žvėrynas, Perkūnkiemis.

Grocery chain stores

The anchor tenants in shopping centers are *Maxima, IKI, RIMI, Norfa* and *Prisma*. *Maxima* anchors *Akropolis, VCUP, Europa,* and *BIG. IKI* is the anchor tenant in *Mada* and *Link Moletu. RIMI* is the anchor tenant in *Panorama, Gedimino 9,* and *Mandarinas. Prisma* is the anchor tenant in *Ozas. Norfa* is the anchor tenant in *Parkas Outlet*. Additionally, each grocery chain operates the network of supermarkets and hypermarkets. Hence *Maxima* currently operates 53 retail units, *IKI* has 55 retail units, *Norfa* has 20 retail units, *RIMI* has 14 retail units, and *Prisma* operates one additional hypermarket.

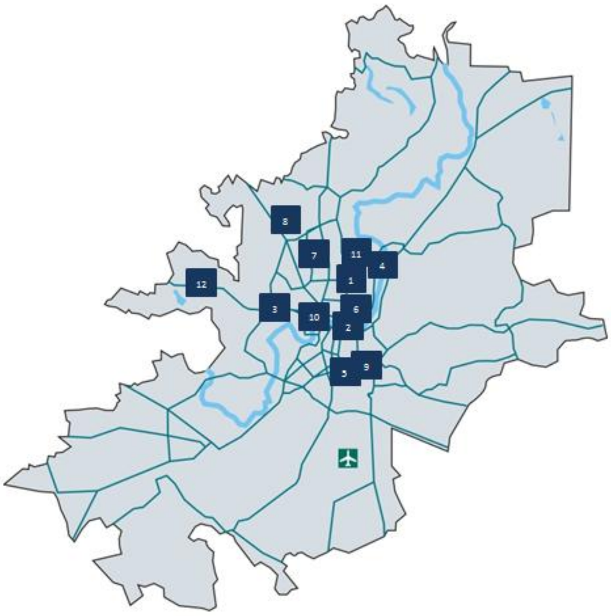
New supply

In terms of occupiers' market, in Q1 2013, the first shops of such brand names as *Desigual, NoLo, Cortefiel, Pedro del Hierro,* and *Springfield* were opened in the biggest shopping centres across the city. At the same time, Swedish multinational retail-clothing company *"Hennes & Mauritz"* (*H&M*) has signed lease agreement with *East Capital Real Estate* to open a store in *Gedimino 9* in spring 2014, the most famous high street shopping centre in the heart of Vilnius. The first *H&M* store in the country nonetheless is expected to open in autumn 2013, in *S/C Akropolis*.

In terms of new deliveries, in summer 2013, *IKEA* opened its first Baltic store in Vilnius, offering approximately 26,000 sqm of trade area. At the same time, the pipeline promises two new additions during 2013-2015, namely, *Olinda SC* (22,000 sq m GLA, anchored by *Prisma* grocery, developed by Finnish developer *Vicus*), and *Domus Pro Retail Park* (total area 13,600 sq m, specialized in interior and home goods, developed by Danish developer *TK Development*).

Figure 9

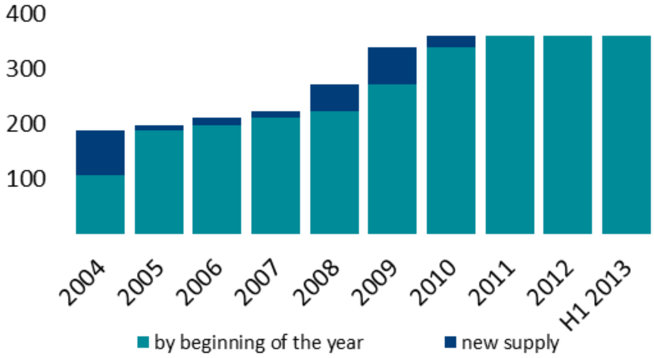
Major retail centres in Vilnius



Source: Google Map, DTZ Research

Figure 10

Shopping centre stock in Vilnius, 000 GLA sq m



Source: DTZ Research

Table 11

Main shopping centres in Vilnius

No. on the map	Name	Address	Total area, sqm	GLA, sqm	Year of construction
1.	Akropolis	25 Ozo Str, Vilnius	109,000	91,200	2002
2.	VCUP	16 Konstitucijos Ave, Vilnius	19,800	19,800	2003
3.	Mada	40 Virsuliskiu Str, Vilnius	18,500	16,000	2003
4.	Domus Galerija	32 P.Lukšio Str, Vilnius	14,000	14,000	2003
5.	Flagman	16 Gedimino Ave, Vilnius	7,000	5,600	2004
6.	Europa	7A Konstitucijos Ave, Vilnius	22,600	17,400	2004
7.	Mandarinas	91 Ateities Str, Vilnius	9,300	7,900	2005
8.	BIG	369 Ukmergės Str, Vilnius	18,800	15,600	2006
9.	Gedimino 9	9 Gedimino Ave, Vilnius	16,600	10,200	2007
10.	Panorama	9 Saltoniskiu Str, Vilnius	65,000	49,500	2008
11.	Ozas	18 Ozo Str, Vilnius	93,000	62,000	2009
12.	Pupa	1 Priegliaus Str, Vilnius	6,300	5,300	2009
13.	IKEA	Zirnių Str. 56, Vilnius	26,000	26,000	2013

Source: DTZ Research

Rental rates and vacancy

While primary retail schemes (such as *Akropolis, Panorama, VCUP* and *Ozas*) have reached their natural occupancy rates and enjoy vacancies well below 4%, the secondary retail schemes are still struggling with the vacancies that reach up to 10-20%.

Asking rental rates are nonetheless increasing, especially for small retail premises. At the same time, while many tenants present on the market have secured their discounted base-rates within the last few years, newcomers are facing the base-rents that are on average 5% higher. Given the pipeline, however, no major upward shifts are expected in the near future.

Kaunas

The total stock of modern retail premises in Kaunas amounts to approximately 215,000 sqm. The biggest schemes are *Molas, Mega, Prisma, Savas, Banginis,* and *Akropolis.* The later, being opened in 2007, is the most popular retail scheme with approximately 60,000 sqm GLA. Being located in the central part of the city, ever since opening, it has attracted a substantial pedestrian flow from the main Kaunas high street, Laisves Avenue, which currently struggles with high vacancies and high tenant turnover.

Grocery chain stores

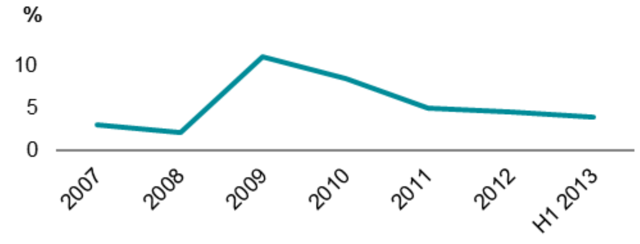
In Kaunas, *Maxima* operates 22 retail units, *IKI* has 33 units, *Norfa* has eight units, *RIMI* has five units, and *Prisma* operates two hypermarkets.

New supply

The only future delivery in the pipeline is shopping centre *Mega II* with approximately 22,000 sqm GLA, to be introduced in 2014.

Figure 11

Dynamics of average vacancy rate across Vilnius shopping centres



Source: DTZ Research

Table 12

Vacancy rates in Vilnius

	Vacancy, %	2013
Prime shopping centres	1 – 4	↘
Secondary shopping centres	4– 20	↘

Source: DTZ Research

Table 13

Rental rates in Vilnius

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

Source: DTZ Research

Rental rates in Kaunas

Type of tenants	Rent, €/sqm/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 stock of modern retail premises in Klaipeda amounts to approximately 210,000 sqm.

On occupiers' side, the most demanded premises are between 50-100 sqm, situated in the shopping centres. The demand for the premises in the city centre is gradually decreasing, primarily because of the sufficient supply in new business and shopping centres. Good access by car and sufficient parking possibilities quite often are determining factors upon selecting location.

Grocery chain stores

The dominant anchor tenants in shopping centers are *Maxima, IKI, RIMI,* and *Norfa. Maxima* is the anchor tenant of *Akropolisi* and *Banginis. IKI* is the anchor tenant of *Studlendas* and *BIG. RIMI* is the anchor tenant of *Arena. Norfa* is the anchor tenant of *Grandus* and *Liepa.*

Additionally, in Klaipeda Maxima has 12 units (supermarkets and hypermarkets included), IKI has 19 units, both *Norfa* and *RIMI* has five units each.

New supply

In Q2 2014, shopping centre *Luizė* will be introduced to Klaipeda market, anchored by *RIMI* and offering approximately 6,200 sqm total GLA.

Siauliai and Panevezys

The total stock of modern retail premises in Siauliai amounts to approximately 106,000 sqm and comes primarily from shopping centres schemes - *Akropolis, Arena, Saules miestas, Tilze,* and *Bruklinas.* No new developments are planned in the next 2-3 years.

The dominant anchor tenants in shopping centers are *Maxima, IKI, RIMI* and *Norfa. Maxima* is the anchor tenant in *Akropolis* and *Tilze*; *RIMI* is the anchor tenant in *Arena* and *Saules miestas*; *Norfa* is the anchor tenant in *Bruklinas.*

Additionally, in Siauliai, *Maxima* operates 22 shops, *IKI* has 11 shops, *Norfa* has eight shops, and *RIMI* has two units.

Panevezys modern retail property market is represented by one single project *Babilonas Shopping Centre* (42,100 GLA sqm plus 18,000 sqm of modern automotive retail area), which was introduced to the market in several stages during 2005-2008. The shopping centre is anchored by *Norfa.* Additionally, in Panevezys, *Maxima* has 12 shops, *IKI* has 10 shops, *Norfa* has eight shops, and *RIMI* has one shop.

Although the city is usually titled as the least saturated retail landscape in Lithuania, the vacancy rates currently range between 10-30% and are expected only marginally decrease in the near future.

Table 14

Rental rates in Klaipėda

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

Source: DTZ Research

Table 15

Rental rates in Siauliai and Panevėžys

	Siauliai, €/sqm/month	2013	Panevezys, €/sqm/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 – 10	→	3 – 9	→

Source: DTZ Research

Forecast

- Vilnius pipeline amounts to approximately 65,000 sqm in the upcoming three years.
- While recently, marginal increase in rental rates was observed for the new market entrants, given the pipeline, the upward pressure is not expected to last.
- Vacancy rates in primary retail schemes will remain at its natural levels; vacancy rates in secondary retail schemes, currently pressed downwards, will rebound given the new deliveries in the pipeline.

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