Property Times
Baltic Retail Q1 2014
On to expansion – supply catching up with demand

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- In all three Baltic States, stable economic recovery has made a positive impact on consumer confidence and buying behaviour. Although at moderate pace, increase in retail trade turnover is expected to continue also in 2014.

- Demand for new occupational prime supply is met differently in the three countries:

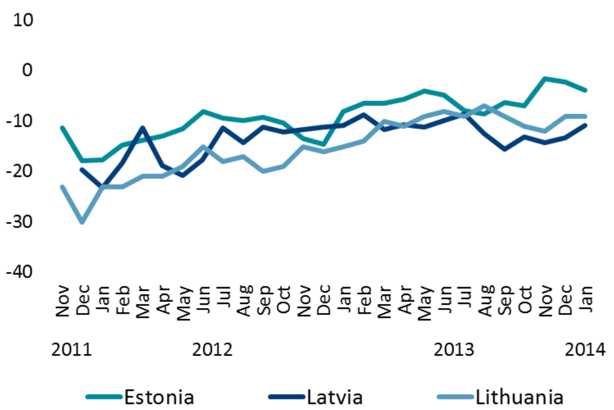
  – In Estonia, new additions mostly come from the expansion of existing schemes. A few large retail schemes are on the future pipeline, but their completion depends on the economic development on the country;
  – In Latvia, one large scheme is already in its first stage of development. In the meantime, secondary retail schemes exploit windows of opportunity to improve their occupancy rates and tenant mixes;
  – In Lithuania, several small-scale specialized developments are under way. Similarly as in Latvia, temporary windows of opportunities are open for secondary schemes.

- The rents in primary retail schemes are slightly pressed upwards; the trend however is only temporary, until new introductions are accommodated on the market.

- In terms of occupiers, the expansion is primarily driven by fashion brands. At the same time, *IKEA* opened its first Baltic store in Lithuania; *H&M,* after tapping into Latvian market, expanded also to Lithuania. After a rapid expansion in 2012, food retail chains were mostly optimizing on their portfolios in 2013, with only a few new secondary introductions across the three countries.

Figure 1

Consumer confidence index



Source: National Statistics, Estonian Institute of Economic Research

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Macroeconomic trends

Estonia

Economic growth continued to be based on domestic demand and this was primarily driven by higher household incomes and consumption. Annual GDP growth was 0.8% in 2013. The support for the Estonian economy from exports has been decreased, because growth in Estonia's main trading partners was weaker. Estonian economic growth is expected to accelerate as export markets recover, reaching 2.6% in 2014 and 3.9% in 2015.

The consumer price index (CPI) increased by 1.4% in 2013. According to Bank of Estonia (December, 2013) consumer price growth will remain moderate in Estonia in the coming years, reaching 2.1% in 2014 and 2.9% in 2015. Prices are expected to rise more slowly than in the previous years, partly because the impact of the sharp rise in electricity prices on the consumer basket will pass out from the comparison base at the start of 2014. Price pressures will also be reduced by a fall in the price of oil. The prices of imported goods will start to rise gradually as the euro area economy recovers. Core inflation will increase at the same time, driven by domestic factors, principally wage rises. The risks to prices are more on the upside, because recovery in the global economic growth that is faster than expected could lead demand for commodities, including oil, to push prices higher.

According to the Statistics Estonia, the annual average unemployment rate was 8.6% in 2013. According to the Bank of Estonia (December, 2013) employment increased rapidly in the first half of 2013, but the growth levelled off in the third quarter. A small but constant fall in employment is expected in the coming years. Employment is mainly falling due to the ageing of the population and emigration, and therefore unemployment will similarly fall in the next few years. Unemployment will fall slowly because the current workforce can be employed more intensively through increases to the working hours that were cut after the crisis.

Latvia

According to the Central Statistical Bureau of Latvia, in Q4 2013, country's GDP increased by 0.7% on a quarterly basis, which is a slowdown when compared to 1.3% quarterly growth in Q3 2013. When set against the corresponding quarter in 2012, the increase amounts to 3.5%, whereas the total aggregate GDP growth in 2013 was 4.0%, which is one of the strongest – if not the strongest, - growth rates in the Euro zone. Preliminary data suggests that positive contribution to GDP development came from the manufacturing sector, which experienced 2.0% output growth, and from 1.0% increase in retail trade turnover. The rest of the industry negatively contributed to GDP development, with mining decreasing by 2.2% and energy sector slowing down by 3.6%.

The Bank of Latvia predicts a 4.1% GDP growth rate in 2014. Similarly as in the previous years, economic growth will be tightly linked to the developments on the foreign markets. While in 2013, investment growth slowed down in the country, thus leading to a situation where some of the industry sub-sectors operate at a fully saturated production capacity, the next economic jump will certainly require additional investments, hence setting additional challenges for 2014.

In December 2013, the annual rate of inflation remained negative (-0.4%), which was mostly sustained by the drop in energy prices. Although price increase was observed in fuel prices and in many food groups, the overall effect was offset by declining prices for heating, clothing and footwear; a month-on-month inflation change was therefore 0.0%. Consequently, the average annual inflation rate in 2013 reached a record level under growth conditions and amounts to 0.0%, which by far and large is the result of supply-side factors, the influence of which within the upcoming few months is expected to shrink. The annual inflation rate in 2014 will therefore return to positive numbers; the Bank of Latvia predicts it to stand at around 2.0%.

The rate of unemployment has declined in Latvia to 11.8% in the Q3 2013 (slightly below the euro area average unemployment rate). 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 developments in Estonia within the last few years).

Lithuania

The growth of Lithuania's economy is rather stable. Real GDP grows slightly more than 3 per cent over the year. Nevertheless the development of different sectors is uneven. While the construction activity dropped in previous years, now it is increasing.

The gross fixed capital formation and household consumption remains the key drivers of the economy. Real GDP, which grew by 3.2% in 2013, is projected to increase by 3.6 % in 2014 and 3.8 % in 2015. Compared with 2012, exports of Lithuanian goods in 2013 increased by 6.5%.

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Despite the restrictions on the import, the growth was mainly determined by the export of the food industry, which increased by 8.1%.

Consumer prices are rising slightly and less than expected. The average annual inflation in 2013 was 1.2%. The global prices of food, energy and other commodities will continue to decrease. If global price trends continue to be favourable, it can be expected that inflation will be as low as in 2013 or even lower.

According to Statistics Lithuania in December 2013, average annual inflation (2013, against 2012) calculated based on the harmonised index of consumer prices (HICP), which is methodologically harmonised with those of other EU member states, stood at 1.2%. Projected average annual inflation should stand at 1.5% in 2014.

According to the Statistics Lithuania, the unemployment rate decreased in 2013 to 11.9% from 13.2% at the end of 2012. Despite improvements in the labour market, structural unemployment remains high, with about half of the unemployed out of work for over a year.

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,340	2,033	2,971
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)	430	649	534
Currency	EUR	EUR	LTL
Exchange rate (€)	X	X	3,4528
GDP at current prices (€Bn, 2013)	18,40	23,31	34,60
GDP per capita (€, 2013)	13,73	11,75	11,69
GDP growth (%, 2013)	0.8	4.0	3.2
Inflation rate (%, 2013)	2.8	0.0	1.2
Unemployment rate (%, 2013)	8.7	11.3	11.9

Source: National Statistics, Eurostat, Oxford Economics

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Estonia

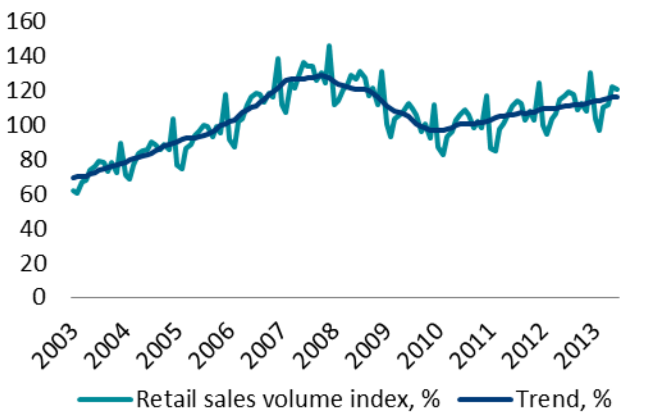
Retail Trade Turnover

According to the Statistics Estonia the retail sales of goods at constant prices increased in 2013 by 5% on a y-o-y basis. The highest growth contribution came from the increase in grocery store turnovers, which in itself grew by 4%, and constituted three quarters of the total turnover increase.

The total retail turnover in December 2013 volume amounted to 448.3 M EUR, or 340 euros per inhabitant.

Figure 2

Retail sales volume index in Estonia



Source: DTZ Research

Regional View

The first large modern shopping centres in Tallinn were developed in the end of the 90ies. Ever since then, the tendency of major retail brands to gather to large shopping centres has become ever more prominent. 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 in 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 are also present in Tartu and Pärnu; even smaller secondary cities have seen a lot of development during the last 10 years period.

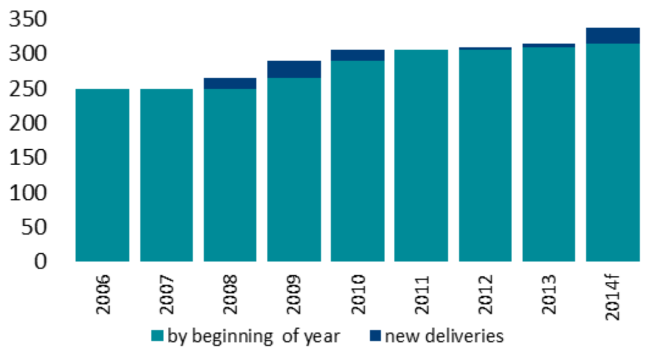
Tallinn

Retail in Tallinn is mainly concentrated in twelve shopping centres and department stores with the area over 12 000 sq m. The Old Town and city centre can be considered as a separate shopping area, where the majority of businesses operate on the 1st floors of the buildings. The most demanded centres are *Viru Centre*, *Kristiine Centre*, *Ülemiste Centre*, and *Rocca al Mare Centre*.

By the end of 2013, the total retail stock of Tallinn (accounting for the buildings over 5 000 sq m) amounted to slightly over 500,000 sq m. New deliveries in 2013 amounted to approximately 20 000 sq m.

Figure 3

Shopping centre stock in Tallinn, GLA, 000s sq m



Source: DTZ Research

New Supply

Most of the development projects completed in 2012 were medium-scale projects sized 2 400–6 500 sq m. In 2013, the following additions came to the market:

- New shopping centre *Läänemere Keskus* in Lasnamäe district at Läänemere Road. Area of the shopping centre is approximately 9 000 sq m.
- Full renovation of the former Postal Office into a modern shopping centre, completed in October 2013. Size of the rental premises is 7 100 sq m. Renovation works in the oldest part of *Kristiine centre* resulting in additional 1 000 sq. m.
- Renovation works in *Mustika centre* resulting in additional 4 000 sq m.

The biggest project in the pipeline for 2014 is the expansion of *Ülemiste centre*, where additional 27 000 sq m of retail area and 15 000 sq m of parking facilities are to be introduced by autumn, thus making it the largest shopping centre in Tallinn with approximately 92 000 sq m GBA.

The former meat factory area in the beginning of Peterburi Road is planned as a large retail centre called *Tallinn Europa*, with expected delivery in spring 2015. Gross leasable area of the centre will be 55,000 sq m, which is comparable to *Kristiine* shopping centre. In the first phase of *Retail Park of Tallinn*, the former *Ameerikanurga* retail and logistic park, 20 000 sq m of retail space are planned, 65% of which will be occupied by the local retail chain ETK. This project however is currently on hold due to limited access to financing.

The pipeline into the further future (2016/18) also already includes a few projects. The first is *Gate Tallinn*, a retail and industrial park planned next to Pärnu Road, close to city border. Gross planned area of the project is 240 900 sq m, to be accommodated on the 62 ha land plot. This potential development enjoys quite attractive location, since the land plot is situated on the crossroad of major Tallinn exit road and Tallinn ring road to be developed within the upcoming few years. The second is 60 000 sq m leisure centre near passengers' harbour area in the city centre of Tallinn to be developed by SRV. Besides retail premises, the project also foresees development of a cinema hall or a library, and possibly a hotel. The third is Rävala quarter between *Tallinn Department Store* and *Solaris*, for which planning is currently in process in order to clarify the potential amount of building right.

Rental Rates

In year 2009, the rental income in shopping centres decreased by approximately 10-20%. However, the rental fees for anchor tenants remained quite stable and no bigger changes were made in these agreements, and decrease in rental income came primarily from temporary discounts for other than anchor tenants. While in less popular shopping centres these discounts had to be prolonged for the upcoming few years, in some of the prime properties (ex., *Viru Centre*) the discounts were never applied, and rental rates increased even during the low point of the market.

Within the last two years, rents stabilized for all types of retail properties, and in the upcoming few years are expected to increase in accordance with CPI.

Map 1

Major retail centres in Tallinn

Source: Google Map, DTZ Research

Table 2

Retail projects in pipeline for 2013-2015 in Tallinn

Retail object	Address	Total area, sq m	GLA, sq m	Year of completion
Ülemiste Keskus	2 and 4 Suur-Sõjamäe Str.	42,000	22,000	2014
Tallinn Europa	2 Peterburi Road	n/a	55,000	n/a
Retail Park of Tallinn	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	37,000	1998
3	Mustika Keskus	116 A. H. Tammsaare Rd.	20,300	27,000	1998
4	Kristiine Keskus	45 Endla Str.	53,000	43,700	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.	50,000	38,000	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	2014
Anchor tenants	7,5 – 10	→
At pedestrian flow in Old Town	14 – 30	→
At pedestrian flow in city centre	11 – 25	→
In shopping centres in city centre	15 – 47	↗
In shopping centres outside the city centre	12 – 32	↗

Source: DTZ Research

Vacancy

Prime shopping centres enjoy natural vacancy levels of around 1% for a few years in a row already. In this segment, the tenant turnover is higher for small premises, whereas tenants in large premises stay the same.
Vacancy rates for secondary shopping centres have stabilized on a 5-15% level.

Table 5

Vacancy rates in shopping centres in Tallinn

Type of tenants	Vacancy, %	2014
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 around Jannseni Street and Tallinna Road;
- Ülejõe area;
- Area at Papiniidu crossing.

Generally, commercial landscape in Pärnu city is dominated by mixed-use commercial buildings, in which most of the retail and service premises find their occupiers in due time, whereas office premises struggle with vacancies for rather prolonged periods of time.

In 2013, *Kaubamajakas* initiated ca 2 000 sq m extension to be completed by May 2014. After this completion, the lettable area of the centre will amount to 18 500 sq m, and there will be 65 leaseholders all together. The vacancy in this centre has been less than 5% during several years already, and it is expected to stay relatively low also after extension. The future plans of the centre include increasing lettable area to 25 000 sq m, however, additional building rights have to obtained for this purpose.

Pärnu Keskus renovated its first building in 2012, and gradually adds more space to the property. The stage that is currently under development includes construction of new parking house to be completed in spring 2014. The lettable area will increase to 10 000 sq m, whereas new tenants include multi-cinema *Apollo*, high street fashion brands *H&M* and *Lindex*.

With major shopping centres expanding, Rüütli Street, the main pedestrian street in the city centre, gradually loses its position. Some well-known brands moved to the shopping centres in the beginning of 2014, and street retail vacancy rates exceed 20% level already.

Table 6

Rental fees in Pärnu

Type of tenants	Rent, €/sq m/month	2014
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 the city centre, in terms of retail landscape, the city 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.

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 2012/13 rents remained stable.

The major Tartu shopping schemes have reached their natural vacancy levels already by the end of 2012; 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

- Healthy economic recovery has made a positive impact on both consumers' confidence and their buying behaviour during last year; the retail trade turnover is expected to continue its growth also in 2014.
- Rental rates have firmly stabilized within the last few years; in 2014, slight upwards pressure is expected, yet given the development pipeline, the actual changes will be modest.
- With strengthening economy and improving retail indices, retail 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.

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Latvia

Retail trade turnover

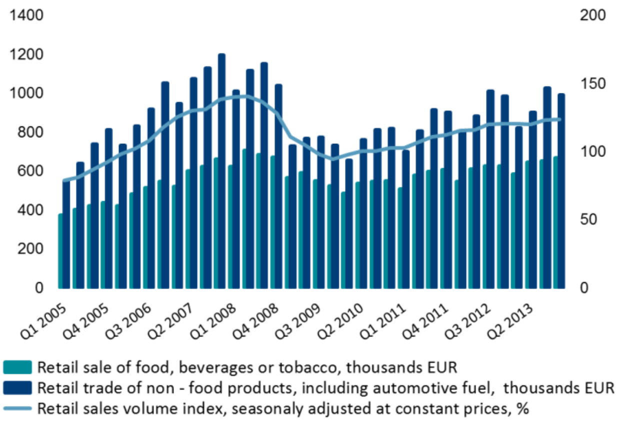
According to the Central Statistical Bureau, total retail trade turnover in 2013 increased by 3.8% on a y-o-y basis, in seasonally adjusted terms. Retail trade in food products has grown by 4.4%, whereas of non-food products – by 3.4%.

Within the last month of 2013, retail sales increased by 4.2%, when set against December 2012. The largest turnover growth was recorded in the trade of food products, which incresed by 20.8%, as well as in segments providing goods that are traditionally purchased for Christmas presents.

Consumer confidence in Latvia increased to -10.80 in December 2013 from -13.20 in November 2013. Between the years 2010-2013, the average consumer confidence index figure was -18.2; it reached an all-time high level of -8.6 in June 2013 and a record low level of -30.8 in December 2010. Positive consumer sentiments are mainly attributed to the improving situation on the labour market with gradually decreasing unemployment and positive changes in nominal wage. At the same time, inflation remains unusually low; this also brings a positive effect on the nominal purchasing power.

Figure 4

Retail sale volumes at current prices



Source: DTZ Research, Central Statistics

Supply and occupiers' market

By the end of 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, although the expansion of this sub-segment was generally much slower that in 2012. Within the year, Swedish *Rimi* added one new hypermarket to its chain (located in Riga district, Kekakva), two supermarkets in Riga and one in Talsi, and currently runs 111 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. The chain currently runs 143 units in total of three different formats across Latvia.

At the end of 2013, Lithuanian *Palink,* which used to operate *Iki* retail chain in Latvia, sold all of its operations (51 retail units across Latvia) to local *Mego.* After the acquisition, *Mego* operates almost 100 retail units across Latvia, thus firmly establishing itself among the top three retail chains within the country.

In the sub-segment of large shopping centers, the prime schemes in 2013 have reinforced their position as 'supplier's market', with the owners further strengthening 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 (ex, *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).

The general trend in primary retail schemes was to introduce more diversified portfolio of fashion tenants, in some of the cases at the expense of household and electronic goods. Hence 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*; household goods seller *JYSK* was relocated from shopping centre *Spice* to *SpiceHome*; electronics retailer *Elkor* vacated some of the premises in shopping centres and opened its own centre on Krasta Street. *H&M,* which opened its first store at the end of 2012, operated already three stores by the end of 2013, and is planning to add three more spots in 2014. Also, in April 2014, British *Debenhams* is expected to open its store in *Spice* with the total area of 2 900 sqm.

At the same time, while new brands are carving out their market niche, 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.

The pipeline of new deliveries in the sub-segment of shopping centres for the next two years 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.

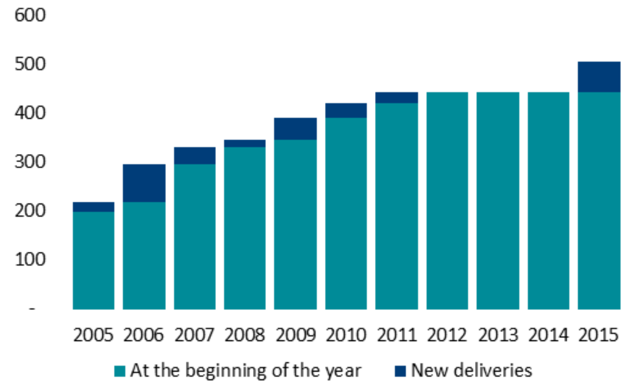
Map 2

Major retail centres in Riga

Source: Google Map, DTZ Research

Figure 5

Retail stock in Riga, GLA (accounting for shopping centres and department stores above 5,000 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.	**Imanta Retail Park**	Small, traditional, choice	16,000	13,000	2011
11.	**Damme**	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

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Rental levels and vacancy

Positive consumer sentiments coupled with favourable economic development resulted in upward pressure on rents in primary retail schemes, especially for small and medium size premises. By the end of 2013, the rents for anchor tenants varied between 4-12 EUR/sqm/month; the rents for small area premises (up to 100 sqm) stood 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) varied between 20-50 EUR/sq m/month.

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 9

Vacancy rates in shopping centres in Riga

	Vacancy, %	2014
Prime shopping centres	1 – 4	→
Secondary shopping centres	10-15	↘

Source: DTZ Research

Table 10

Rental fees in shopping centres in Riga

	Rent, €/sq m/month	2014
Anchor tenants	4-12	→
<100 sq m	13-50	↗
>100 sq m	20-50	→
Street retail	15-35	↗

Source: DTZ Research

Forecast

- In the long run, optimistic consumer sentiments can be jeopardized by slower than expected improvement on the foreign markets, to which Latvian external trade is tied. The short-term prospects however will hardly be affected, and after the introduction of Euro on 01/01/2014, positive consumer sentiments are expected to pertain into 2014;
- 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. However, the introduction of *Akropolis* retail scheme in 2014-2015 is expected to bring additional major corrections into occupiers' market and vacancy rates for less established shopping centres;
- 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.

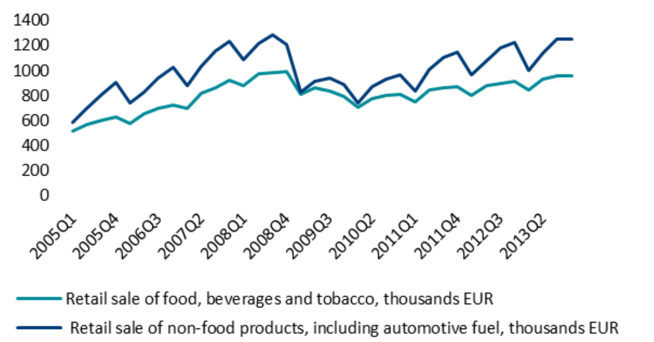
Lithuania

Retail trade turnover

Based on provisional data of the Statistics Lithuania, by the end of 2013, retail trade turnover at constant prices amounted to EUR 11 280 M, which is a 5.8% increase when set against 2012. On a quarterly basis, food trade turnover increased by 9.3%, whereas turnover in non-food group increased by 0.3% (a 8.4% increase is attributed to the turnover of automotive fuels). Wholesale and retail trade and repair of motor vehicles and motorcycles exhibited a 9.1% annual increase.
In H2 2013, the turnover of food and beverage trade amounted to EUR 226.3 M and on a semi-annual basis, increased by 15.1% at constant prices. Compared to H2 2012, the growth was 5.6% at constant prices.
The overall growth rates in 2013 compared to 2012 were positive.

Figure 6

Retail trade turnover in Lithuania



Source: DTZ Research

Retail stock in Lithuania

By the end of 2013, the total stock of modern retail space in Lithuania amounted to 892 000 sqm (accounting for the properties with 5 000 sqm GLA). 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 (*Gedimino 9* and *Flagman*) are situated on Gedimino Street, the central high street of the capital city. Other shopping centres are located in major city sleeping districts, such as Šeškinė, Šiaurės miestelis, Viršuliškės, Pilaitė, Žvėrynas, Perkūnkiemis.

Grocery chain stores

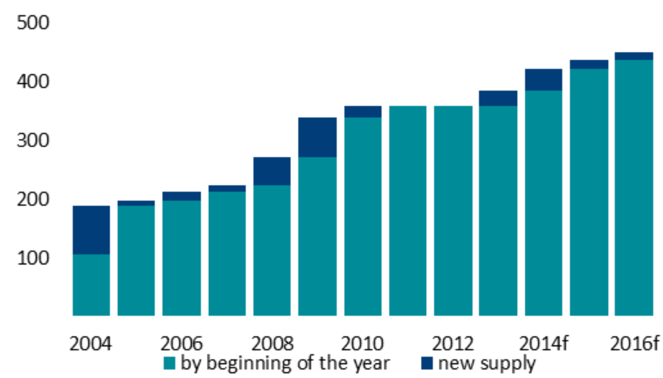
The anchor tenants in shopping centers are *Maxima, IKI, RIMI, Norfa*, and *Prisma*. Maxima anchors *Akropolis, VCUP, Europa,* and *BIG*. *IKI* is the anchor tenant in *Mada* and *Link Moletu*. *RIMI* is the anchor tenant in *Panorama, Gedimino 9,* and *Mandarinas*. *Prisma* is the anchor tenant in *Ozas*. *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 in Vilnius.

New supply

In terms of occupiers' market, 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 in Q1 2013. 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 opened in autumn 2013, in S/C *Akropolis*. Later in 2014, the chain is also planning to open its stores in Kaunas, Siauliai, and Klaipeda.
In terms of new deliveries, *IKEA* opened its first Baltic store in Vilnius in summer 2013, offering approximately 26 000 sqm of trade area. At the same time, the pipeline promises two new projects 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 7

Shopping centre stock in Vilnius, GLA, 000s sq m

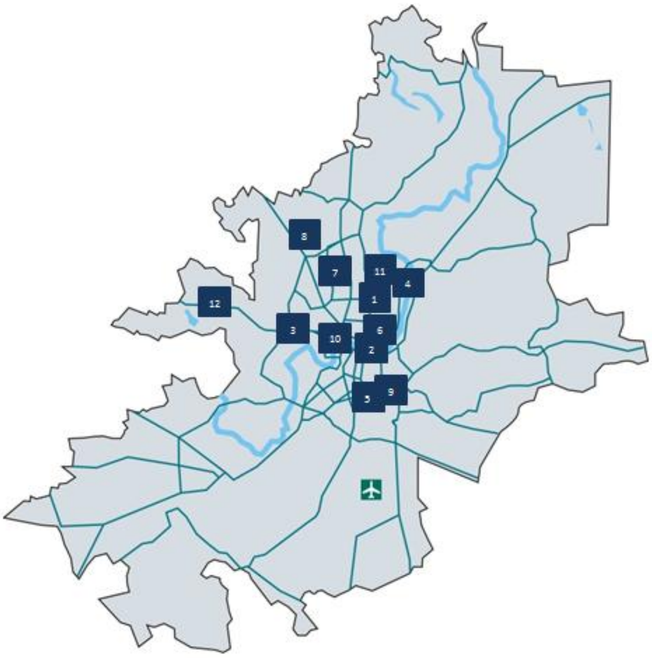


Source: DTZ Research

Baltic Retail Q1 2014

Map 3

Major retail centres in Vilnius



Source: Google Map, DTZ Research

Table 11

Main shopping centres in Vilnius

No. on the map	Main shopping centres in Vilnius	Address	Total area, sq m	GLA, sq m	Year of construction
1	**Akropolis**	Ozo 25, Vilnius	109.000	91.200	2002
2	**VCUP**	Konstitucijos pr.16, Vilnius	19.800	19.800	2003
3	**Mada**	Virsuliskiu 40, Vilnius	18.500	16.000	2003
4	**Domus Galerija**	P. Lukšio 32, Vilnius	14.000	14.000	2003
5	**Flagman**	Gedimino 16, Vilnius	7.000	5.600	2004
6	**Europa**	Konstitucijos 7A, Vilnius	22.600	17.400	2004
7	**Mandarinas**	Ateities St. 91, Vilnius	9.300	7.900	2005
8	**BIG**	Ukmergės 369, Vilnius	18.800	15.600	2006
9	**Gedimino 9**	Gedimino Ave. 9, Vilnius	16.600	10.200	2007
10	**Panorama**	Saltoniskiu 9, Vilnius	65.000	49.500	2008
11	**Ozas**	Ozo 18, Vilnius	93.000	62.000	2009
12	**Pupa**	Priegliaus 1, Vilnius	6.300	5.300	2009

Source: DTZ Research

Baltic Retail Q1 2014

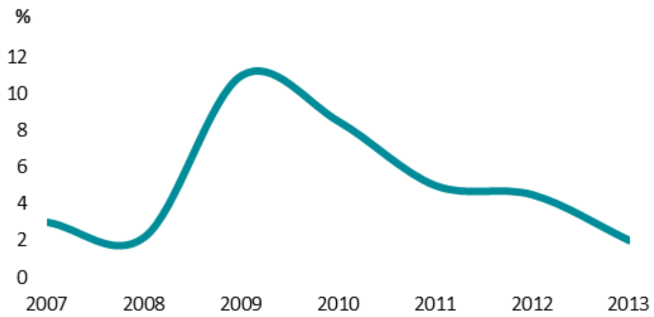
Rental levels and vacancy

While primary retail schemes (such as *Akropolis, Panorama, VCUP* and *Ozas*) have reached their natural occupancy rates and enjoy vacancies well below 4%, 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 rental rates that are on average 5% higher. No major upward shifts are expected in the nearest future.

Figure 8

Dynamics of vacancy rate in Vilnius Shopping Centres, %



Source: DTZ Research

Table 12

Vacancy rates in shopping centres in Vilnius

	Vacancy, %	2014
Prime shopping centres	1 – 4	→
Secondary shopping centres	4– 20	→

Source: DTZ Research

Table 13

Rental fees in shopping centres Vilnius

	Rent, €/sq m/month	2014
Anchor tenants	3 – 8	→
>100 sq m	9 – 23	↗
<100 sq m	13 – 43	↗
Street retail	6 – 26	↗

Source: DTZ Research

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 former is the most popular retail project with approximately 60 000 sqm GLA, located in the central part of the city. Ever since opening in 2007, *Akropolis* has attracted a substantial pedestrian flow from the main Kaunas high street, Laisves Avenue, which currently struggles with high vacancies and high tenant turnover. 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 Kaunas pipeline is shopping centre *Mega II* with approximately 22 000 sqm GLA. Commissioning is planned for 2014.

Table 14

Rental fees in Kaunas Shopping centres

Type of tenants	Rent, €/sq m/month	2014
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 shopping centres. Good access by car and sufficient parking possibilities quite often are determining factors upon selecting the location.

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

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

New supply

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

Table 15

Rental fees in Klaipėda Shopping centres

Type of tenants	Rent, €/sq m/month	2014
Anchor tenants	4-7	→
>100 sq m	8-12	→
<100 sq m	12-21	→
Street retail	5-15	→

Source: DTZ Research

Panevezys and Siauliai

The total stock of modern retail premises in Siauliai reaches approximately 106 000 sqm, comprising mainly from shopping centre project - *Akropolis, Arena, Saules miestas*, *Tilze*, and *Bruklinas*. No new developments are planned in the next 2-3 years in Siauliai and Panevezys.

The dominant anchor tenants 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*.

Furthermore, *Maxima* operates 22 stores, *IKI* – 11, *Norfa* – eight, and *RIMI* has two units in Siauliai.

Panevezys modern retail property market is represented by one single project *Babilonas Shopping Centre* (42 100 sq m GLA and 18 000 sq m 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, *Maxima* has 12 stores, *IKI* - 10 stores, *Norfa* - eight stores, and *RIMI* has one shop in Panevezys. Although the city is usually titled as the least saturated retail landscape in Lithuania, the vacancy rates currently range between 10-30%, and only marginal decrease is expected in the nearest future.

Table 16

Rental fees in Siauliai and Panevėžys, €/sq m/month

	Siauliai	2014	Panevėžys	2014
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

Forecasts for 2014

- 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 on rents is not expected to pertain.
- Vacancy rates will remain at the same level in prime retail projects. Vacancy rates that are currently pressed downwards, will rebound after the new deliveries will appear in secondary retail.

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