

PROPERTY TIMES

Retail Trade in Growth

Baltic Retail Q3 2015

29 October 2015

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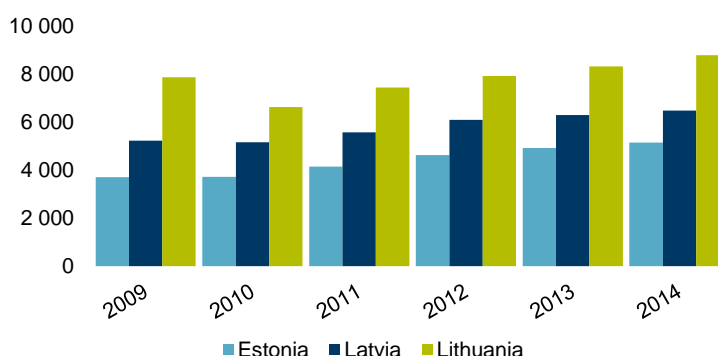
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- The retail trade has continued its growth in all three countries growing at constant prices in range 5-8% on annual basis.
- Prime shopping centres have low or nearly no vacancies, situation of less preferable locations including the street retail is various.
- Rental levels have been stabilised during some last years and no remarkable changes are foreseen in 2016. Although there are some new developments in the pipeline their influence is still limited in short run. Tenant mix is a key question to all newcomers as position of existing shopping centres is strong and it is complicated to attract new brands.
- The retail market in general is the most attractive for investors. However, the number of investment deals is rather limited as usually there is a gap between the yield expectations.

Figure 1

Total retail trade turnover € bln, current prices



Source: National Statistics

Macroeconomic Trends in the Baltic States

Estonia

The annual GDP growth in 2014 was 1.8%. The GDP of Estonia increased 0.5% in the 3rd quarter of 2015 on annual basis. Economy grew in 2014 mainly with support from the domestic market, though the market share of Estonian goods and services in partner countries has also increased. Rapid growth in production from manufacturing and slightly more optimistic expectations for output indicate that economic activity continues to increase. Estonia is in a different phase of development from ten years ago and sustainable growth over the long term is 3-4%. Estonian GDP will increase 1.7% in 2015 and 2.6% in 2016.

The consumer price index (CPI) decreased 0.1% in 2014 compared to the average of 2013. The annual change of the consumer price index was mainly influenced by the 6.2% price decrease of electricity that arrived at homes. The increase in the prices of alcoholic beverages (6.7%) and tobacco (3.1%), and the 3.8% decrease in motor fuel prices also had a bigger impact on the index. The change of the consumer price index in September 2015 was -0.7% compared to September of the previous year. Consumer price inflation went below zero in June 2014 for the first time since the crisis. The inflation will pick up in the next two years, but it will remain subdued. Higher labour costs will make the prices of domestic goods and services rise faster than those of imported goods and services. The CPI will be -0.3% in 2015 and 2.0% in 2016.

The unemployment and employment rates were accordingly 7.4% and 63% in 2014. Compared to the highest unemployment rate of the last decade (16.7% in 2010), unemployment has decreased more than twice. Unemployment has decreased and employment has increased since 2011, but these changes have gradually slowed down.

Source: statistics- Statistics Estonia, forecasts- Ministry of Finance (September 2015)

Latvia

The annual GDP growth in 2014 was 2.4%. Similar growth has characterized current year, in Q3 2015- GDP increased by 2.5% on annual basis. Compared to previous quarter, GDP has risen by 1.2% that is the fastest growth rate since Q3 2013. Growth has been stimulated by continuously expanding domestic consumption, as well as by improvements in export-oriented manufacturing. GDP growth 2.7% in Q2 2015 is a good achievement taking into account the complex geopolitical situation that will remain the main negative risk for further economic growth. Latvian GDP will increase by 2.1% in 2015 and 3.0% in 2016.

The average annual inflation of 2014 was 0.6%, which is one of the lowest levels in a growing economy in Latvia, and it was caused to a large extent by external factors - mostly sustained

by the global prices and postponement electricity market liberalisation until 2015. It is expected that inflation will remain weak until the end of 2015 when impact of oil price decrease that started at the end of 2014 wanes. The CPI will be 0.8% in 2015 and 2.0% in 2016.

Unemployment in Latvia continues on a downward trend. In Q2 2015, unemployment rate fell below 10% level for the first time since 2008 and declined to 9.8% that is by 0.9 pp lower than a year ago. With the pace of economic growth employment will approach its natural level.

Source: statistics- Central Statistical Bureau of Latvia, forecasts- Ministry of Finance (July 2015)

Lithuania

The annual GDP growth in 2014 was 3.0%. The GDP of Lithuania increased 1.8% in the 3rd quarter of 2015 on annual basis. The growth of the domestic economy has decelerated due to the challenging external environment. Lithuania's exports to Russia fell by approximately one-fourth in the first months of this year as a result of economic deterioration in Russia. The fall of exports to Russia have substantial negative repercussions for the transport sector. Another segment of the tradable sector, i.e. industry, appears healthier as the country's manufacturers export the bulk of their output to the European Union's (EU) markets. Manufacturing performance is also supported by domestic demand. Domestic demand remains the key factor of economic growth in the country, with the biggest contribution coming from private consumption, which has been growing amid gradual increase in household income and non-increasing saving as household expectations remain robust. Private consumption is expected to continue strengthening consistently as the growth of wages and employment will augment household income. Lithuanian GDP growth in 2015 foreseen to be 1.6% and 3.2% in 2016.

The consumer price level remains below the one observed a year-earlier, mainly due to a slump in prices for energy commodities. Global oil prices have increased somewhat in recent months, but not enough to offset the fall recorded in the second half of last year. Oil prices are kept lower by both weak demand for this energy commodity and by a supply glut. Hence this fall in crude oil prices is likely to be longer-lived. Stripping out energy costs, the growth of consumer prices has been marginal. The average annual inflation will be -0.3% in 2015 and 1.6% in 2016.

The current unemployment rate is quite close to its estimated natural level, which suggests a slowdown in both unemployment decline and employment growth in the future. Lithuanian unemployment rate in 2014 was 10.7%.

Source: statistics- Statistics Lithuania, forecasts- Bank of Lithuania (September 2015)

Baltic Retail Q3 2015

Table 1

Key Macroeconomic Indicators

| | Estonia | Latvia | Lithuania |
|---|---------|--------|-----------|
| Population (in thousands) | 1,315 | 2,002 | 2,943 |
| Urban population | 68% | 68% | 67% |
| Area (thousand km ²) | 45 | 65 | 65 |
| Population density (per km ²) | 29 | 31 | 45 |
| Capital city | Tallinn | Riga | Vilnius |
| Population in capital cities (thousand) | 411 | 643 | 529 |
| Currency | € | € | € |
| GDP at current prices (€ bln, 2014) | 19.1 | 24.1 | 36.3 |
| GDP per capita (thousand €, 2014) | 14.53 | 12.04 | 12.34 |
| GDP growth (% , 2014) | 1.8 | 2.4 | 2.4 |
| Inflation rate (% , 2014) | -0.1 | 0.6 | 0.2 |
| Unemployment rate (% , 2014) | 7.4 | 9.0 | 9.1 |

Source: National Statistics

Estonian retail market

Economic growth has slowed down, CPI is even on negative side and consumer confidence is close to historical average (it is still -8, i.e. on negative side). According to Statistics Estonia, in August 2015 compared to August 2014, the retail sales of goods of retail trade enterprises increased 8% at constant prices. The retail sales growth has decelerated slightly during some last months.

Tallinn

Retail in Tallinn is mainly gathered to twelve shopping centres and department stores (each of them is sized more than 12,000 sq m). The Old Town and city centre can be considered as a separate trading area, where the main part of businesses operates on 1st floor shopping premises. The most demanded centres are *Viru Centre*, *Kristiine Centre*, *Ülemiste Centre* and *Rocca al Mare Centre*.

In the end of 2015 the retail stock of shopping centres in Tallinn is approximately 340,000 sq m.

Development

Projects completed in 2014 and Q1-3 2015:

- The biggest project in 2014 was the expansion of *Ülemiste SC* where totally the extension added 30,000 sq m areas and a 16,000 sq m parking facility making *Ülemiste* the largest center in Tallinn with 94,000 GBA sq m.
- *Stroomi Shopping mall* in the Põhja-Tallinna District was completed in December 2014. The net area with underground parking level is approximately 15,000 sq m. The anchor tenant is *Maxima*.
- Two shopping centres were completed in Viimsi, in vicinity of Tallinn. One of those is ca 14,000 sq m shopping centre at Sõpruse Road with anchor tenant *Selver* and another ca 11,500 sq m shopping centre close to Randvere Road with anchor tenant *Rimi*.

Planned retail objects:

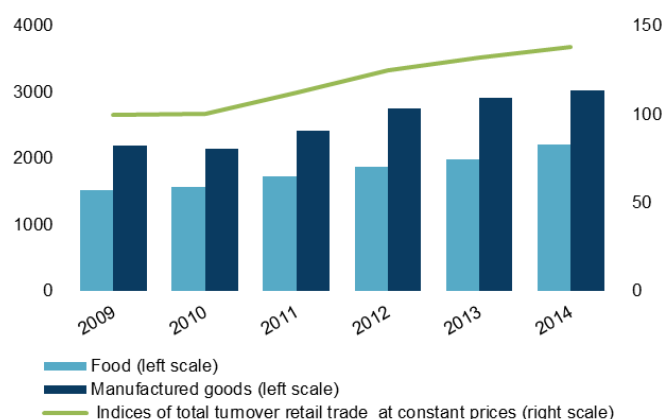
- In Mustamäe district at A. H. Tammsaare Road the shopping and leisure centre with total area 13,000 sq m is planned to be open in the end of 2015. About half of the area occupy the cinema and leisure centre.
- *Maxima XXX* hypermarket at Priisle Road with area 8,000 sq m is planned to be open in December 2015.
- *Pro Kapital* has confirmed continuation of the project in the beginning of Peterburi Road, the former meat factory area, where a large retail centre *T1* is planned to build. The area will be 130,000 GBA sq m and completion of the project will be in 2017.

New construction is relatively active and there are also some projects in the pipeline where construction can start within next one year period. *Rävala 8* between existing *Viru SC* and *Solaris* and *Admiraliteedi* project close to the passengers' harbour area both represent mixed use with remarkable amount of retail space. The detail plan for *Rävala 8* is in the final stage and it is approved already for *Admiraliteedi* project. Tallinna Kaubamaja next to exiting *Viru* centre has announced about enlargement of existing building 2.5 times. Enlargement of *Norde Centre* with another ca 10,000 sq m in harbour area is also in the pipeline. The other projects in the city centre are rather in an expectant status.

There are also some projects outside of the city borders which are still in initial stage. *Retail Park* of Tallinn is close to Pärnu Road and *American Corner* close to Tartu Road. Both of those are ambitious in their scale but as nothing has happened during several years already then most probably it still takes time to hear about real development.

Figure 2

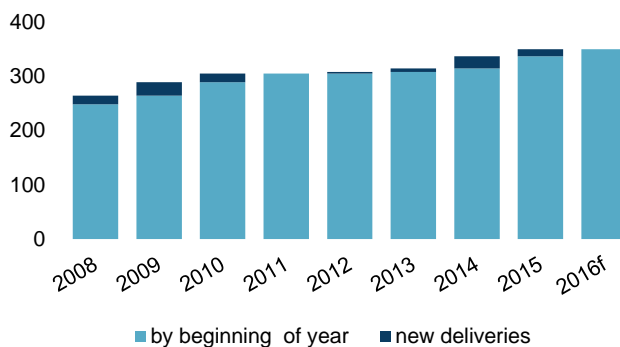
Total retail trade turnover M€, current prices



Source: Statistics Estonia

Figure 3

Shopping centre space dynamics in Tallinn, 000s GLA sq m



Source: DTZ Research

Rents

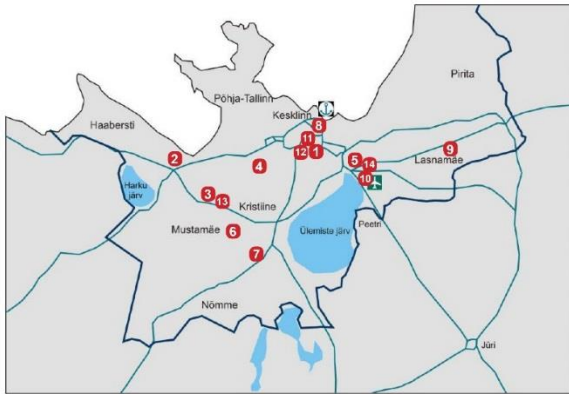
During 2009 there was approximately 10-20% decrease in overall rental flow for shopping centre owners. However the rental fees of anchor tenants remained quite stable and no bigger changes were made in these agreements. The main reason for rent decrease among other agreements was temporary discounts which were actually lengthened for several years. In more popular shopping centres (for example *Viru SC*), the discounts were never applied and rental prices increased even during the low point of the market.

Rental rates have firmly stabilized since 2011. The slight increase took place in 2013 and 2014. The increase of rents in coming years will be similar to the change of CPI.

Baltic Retail Q3 2015

Map 1

Major shopping centres in Tallinn



Source: DTZ Research, Google maps

Table 2

Major shopping centres in Tallinn

| No on the map | Shopping centre | Address | Total area, sq m | GLA, sq m | Year of construction | Year of extension |
|---------------|------------------|-------------------------|------------------|---------------|----------------------|--------------------|
| 1. | Stockmann | Liivalaia Str. 53 | 24,500 | 14,500 | 1996 | 2000 |
| 2. | Rocca al Mare | Paldiski Rd. 102 | 68,800 | 57,300 | 1998 | 2008, 2009, 2013 |
| 3. | Mustika Keskus | A. H. Tammsaare Rd. 116 | 42,500 | 27,000 | 1998 | 2001, 2013 |
| 4. | Kristiine Keskus | Endla Str. 45 | 54,000 | 43,700 | 1999 | 2002, 2010, 2013 |
| 5. | Sikupilli Keskus | Tartu Rd. 87 | 27,300 | 15,100 | 2000 | |
| 6. | Magistral | Sõpruse Ave. 201/203 | 15,300 | 11,900 | 2000 | 2012 |
| 7. | Järve Keskus | Pärnu Rd. 238 | 45,300 | 41,800 | 2000 | 2008 |
| 8. | Norde Centrum | Lootsi Str. 7 | 12,900 | 10,600 | 2002 | |
| 9. | Lasnamäe Centrum | Mustakivi Str. 13 | 23,600 | 19,600 | 2003 | |
| 10. | Ülemiste Keskus | Suur-Sõjamäe Str. 4 | 78,000 | 60,000 | 2004 | 2014 |
| 11. | Viru Keskus | Viru Square 4/6 | 32,500 | 26,300 | 2004 | |
| 12. | Solaris | Estonia Ave. 9 | 42,900 | retail 11,700 | 2009 | |
| 13. | Mustamäe keskus | A.H. Tammsaare Rd. 104a | 21,000 | 13,500 | 2015 | under construction |
| 14. | T1 | Peterburi Rd. 2 | 120,000 | retail 55,000 | 2017 | under construction |

Source: DTZ Research

Investment activity, yields, vacancies

Investment market of commercial properties has been active in Q1-3 2015. The retail market is the most attractive market sector but as the other sectors it is also affected by limited size and liquidity. The prime yields have been compressed in all sectors and retail prime yields for the shopping centres are currently at the level of ca 6.8% but exceptionally the yields can be even lower.

Table 2

| Rent levels in Tallinn | Rent, €/ sq m/ pcm | 2015 Q4-2016 |
|---|--------------------|--------------|
| 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 rate in popular shopping centres is continuously low; the overall average is below 1%. Generally, there is a higher tenant turnover of smaller premises, whereas tenants of large premises stay the same.

Tartu

With the majority of the modern shopping centres in Tartu being located outside the city centre, in terms of retail landscape, there are retail areas on Ringtee Street and in Annelinn district. Rental fees fall within the wide range of 5-19 €/ sq m pcm, whereas vacancy for modern schemes does not exceed 5-10%. Vacancy in older buildings is considerably higher, approximately 15-20%; average rental fees for such buildings fall within the range of 4-10 €/ sq m pcm.

City centre retail area can be subdivided between modern centre (*Tartu Department Store, Kaubahall and Zeppelin, Tasku centre*) and Old Town. The rental fees in the modern centre vary from 15 to 32 €/ sq m pcm although in smaller retail schemes the rental fees can be lower. The number of retailers in the Old Town has decreased but there are still approximately 50 stores and the average rent is between 6-17 €/ sq m pcm.

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. In 2014-2015 the rents have remained stable or slightly risen.

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. *Tartu Tarbijate Kooperatiiv* owned by *TTK Investeeringud LLC* constructs into the place of old *Kaubamaja* Riia Street 2 (54,260 sq m) a new multifunctional centre (retail, office, apartments and SPA hotel) which should be completed in 2016.

Table 4

| Rent levels in Tartu | Rent, €/ sq m pcm | 2015 Q4-2016 |
|---|-------------------|--------------|
| Shopping centres in the city centre | 15 – 32 | → |
| In shopping centres outside the city centre | 4.5 – 20 | → |
| Old town and city centre at the pedestrian flow | 3 – 7 | → |
| Business districts in suburbs | 5.5 – 15 | → |
| Shopping centres in the city centre | 4 – 20 | → |

Source: DTZ Research

Pärnu

The retail in Pärnu is mainly located in two areas- the area between Pikk Street and Pärnu river and area at Papiniidu crossing. The biggest shopping centres in the city centre are *Pärnu Keskus* and *Port Artur* (1 and 2) which together form the biggest retail area in Pärnu. The vacancies have decreased step by step but are still higher compared to *Kaubamajakas* in Papiniidu area. Rüütli Street which has been historically the main pedestrian street has lost its significance for shopping.

Papiniidu is well developed commercial area nearby the biggest junction. The main attraction is the biggest shopping centre in Pärnu *Kaubamajakas* but Papiniidu *Ärikeskus* and DIY stores are also remarkable. After completion of 2,000 sq m extension of *Kaubamajakas* in 2014 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 close to 0% during several years already. The future plans of the centre include increasing of lettable area to 25,000 sq m. However, additional building rights have to be obtained for this purpose and it takes time.

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. The project in the pipeline represents mixed use in the city centre- the scheme contains ca 4,700 sq m including ca 900 sq m retail space on the ground floor (Rimi), offices and apartments on upper floors.

Table 5

| Rent levels in Pärnu | Rent, €/ sq m pcm | 2015 Q4,-2016 |
|---|-------------------|---------------|
| Shopping centres in the 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 | → |
| Shopping centres in the city centre | 8-14 | → |

Source: DTZ Research

Forecast Q4 2015-2016

- Economic growth has slowed down in Estonia and uncertainty of economy can affect consumer confidence although wages are still growing and the amount of deposits is on high level.
- Rental rates have firmly stabilized within the last few years, a little decrease of rental levels have been followed in certain locations and no growth is expected in Q4 2015 and 2016. The yields are subject to a slight decrease in the same period.
- Vacancy in popular shopping centres will remain within its natural limits; secondary locations meanwhile will struggle to increase their occupancy rates.
- Moderate development activity will be evident in the sub-segments of hypermarkets and shopping centres.

Latvian retail market

Until the first shopping centre, Dole opened in Riga in 1997, most retailers were located in the downtown. Since that time situation has changed significantly as consumers have enjoyed the convenience of “shopping under one roof” and the number of super/hypermarkets and well developed modern shopping centres has increased year by year.

Latvia's capital city Riga is the biggest cultural and industrial centre as well as being the major port in the country. Riga and its surroundings account for almost half of Latvia's population, making it the main retail market which is hard to compare with any other Latvian city.

Starting from 2010 the retail market has begun a constant recovery and growth but still not reached the level of pre-crises period. In 2014 annual retail trade turnover grew by 2.88% with total volume reaching € 6.47 bln. Compared to August 2014, the total retail trade turnover in August 2015 increased by 5.4%, according to calendar adjusted data at constant prices.

Supply

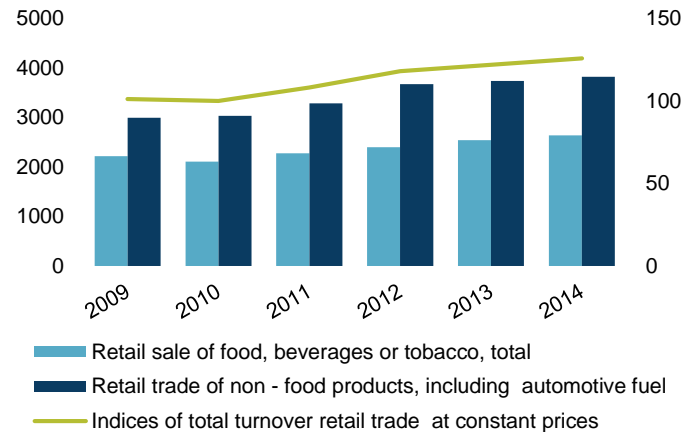
Q1-3 2015 the retail stock was complimented by several supermarkets with anchor tenants *Rimi* and *Maxima* and DIY store *DEPO* on Krasta Street. In H1 2015 Rimi opened new shops in Zolitude, Marupe and city Jekabpils and today they are in the process to expand the existing supermarket to hypermarket in Adaži.

By the end of 2015, the total stock of modern shopping space in Riga remained unchanged and amounted to almost 450,000 sq m (the number accounts for shopping centres and department stores with the area above 5,000 sq m), 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. *Rimi* added three new hypermarkets (Ogre, Jelgava and Liepaja) to its chain. They currently run 113 units in total of three different formats across Latvia. Maxima expanded by opening two new supermarkets of which one is located in Riga and one in Kraslava and currently runs 143 units in total of three different formats across Latvia. At the end of 2013 about SIA “Palink” (owned by a major pan-European retail player *Coopernic*, operating *Iki* retail chain in the Baltic States) 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.

Figure 4

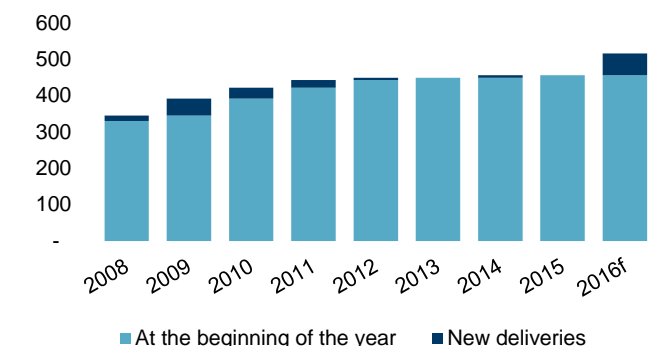
Total retail trade turnover M€, current prices



Source: Central Statistical Bureau of Latvia

Figure 5

Retail space dynamics in Riga, 000s GLA sq m



Source: DTZ Research

Map 2

Major shopping centres in Riga



Source: Google Maps, DTZ Research

Baltic Retail Q3 2015

Table 3

Major shopping centres in Riga

| No on the map | Shopping centre | 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

The tenant mix in successful Riga shopping centres became more subtle and this trend will continue in 2016 while in secondary shopping centres tenants will be more moderate in representation of popular fashion brands.

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. 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.

A large-scale new development, *Akropolis* (more than 60,000 sq m of GLA) by Lithuanian holding VP. *Linstow* has announced their expansion plans for shopping centre Alfa increasing leasable area up to 65,600 sq m.

Construction works will be started in by the end of 2015. A year later Norwegian developer plans the construction works of shopping centre *Origo* to expand retail premises with additional office.

Occupier demand, vacancy rates and rental fees

Due to stable development of retail market during several years more new retail chains consider to open their stores in Riga shopping centres. Planning the expansion of existing shopping area shows the trend of growing demand from tenants. In addition consistently decreasing vacancy is another factor of new developments.

Q1-3 2015 has shown stable demand from investors to place their funds in retail properties with well-known anchor tenants mainly in properties with groceries. Small and medium scale transactions with retail properties took place in 2014 exceeded € 40 M, the turnover in 2015 will be much higher.

Only three of those sales were related to the smaller shopping centres, the other deals were with supermarkets or department stores around Latvia. Shopping schemes with less favourable location and/or planning struggle with vacancy rates around 5% and not optimized income flows from the areas already leased; a few still have vacancy rates around 10%. Attempts to improve the situation by engaging into reconstruction and/or concept change are also evident.

During 2014-2015 rental rates in SC and high street retail premises has not changed.

The rents for anchor tenants in Riga shopping centres currently vary between 4-12 €/ sq m pcm; the rents for small area premises (up to 100 sq m) stand at 15-55 €/ sq m pcm; the rents for medium size premises (100-350 sq m) vary between 10-40 €/ sq m pcm.

Table 7

| Vacancy rates in Riga | Vacancy, % | 2015 Q4-2016 |
|----------------------------|------------|--------------|
| Prime shopping centres | 1 – 4 | → |
| Secondary shopping centres | 5-10 | → |

Source: DTZ Research

Table 8

| Rent levels in Riga | Rent, €/ sq m pcm | 2015 Q4-2016 |
|---------------------|-------------------|--------------|
| Anchor tenants | 4-12 | → |
| <100 sq m | 15-55 | ↗ |
| >100 sq m | 10-40 | → |
| Street retail | 15-60 | → |

Source: DTZ Research

Forecasts Q4 2015-2016

- Annual retail turnover growth will continue in the same pace – up to 6% annually.
- The major grocery retail chains will persist through competition for key locations across Latvia however the market is oversaturated already.
- Further strengthening of prime assets in terms of tenant mix, with downward pressure on yields. The trend will 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 2015-2016 is expected to bring additional major corrections into occupiers' market and vacancy rates for less established shopping centres.

Lithuanian retail market

Retail trade turnover

Based on provisional data of the Statistics Lithuania, by the end of 2014, retail trade turnover at constant prices amounted to € 8.76 bln, which is a 5.3% increase when set against 2013. By the end of 2014, the total stock of modern retail space in Lithuania amounted to 918,000 sq m (accounting to the properties with 5,000 sq m GLA). In 2014, the only new addition to the market was *Domus Pro* shopping centre of 8,100 sq m of gross area in Vilnius. In September 2015, *Nordika SC* with area 20,000 sq m was opened near *IKEA* shopping centre.

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 and Siauliai currently exceeds 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*), the other shopping centres are located in major city residential districts, such as *Seskinė*, *Siaurės miestelis*, *Viršuliškės*, *Pilaitė*, *Zvėrynas*, *Perkūniškis*.

The anchor tenants in shopping centers are *Maxima*, *IKI*, *RIMI*, *Norfa* and *Prisma*. *Maxima* anchors *Akropolis*, *VCUP*, *Europa*, and *BIG*, *IKI* in *Mada* and *Link Moletu*, *RIMI* in *Panorama*, *Gedimino 9* and *Mandarinai*, *Prisma* in *Ozas* and *Norfa* in *Parkas Outlet*. Additionally, each grocery chain operates the network of hyper- and supermarkets.

Olinda SC (20,000 sq m GLA) near Western Bypass should be completed by the end of 2017. During 2014 vacancies decreased. Primary retail schemes (such as *Akropolis*, *Panorama*, *VCUP* and *Ozas*) have reached their natural occupancy rates and enjoy vacancies close to 0%, most of secondary retail schemes have vacancies up to 2%. Only *Gedimino 9* has had up to 35% vacancy after repairment. The vacancy rate in Vilnius shopping centres is currently ca 2%.

Table 9

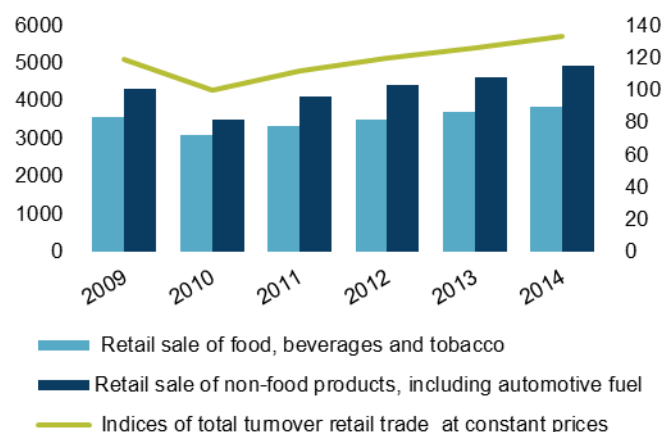
| Rents in Vilnius | Rent, €/sq m pcm | 2015 Q4-2016 |
|------------------|------------------|--------------|
| Anchor tenants | 6-9 | → |
| >100 sq m | 9-23 | → |
| <100 sq m | 13 – 43 | ↗ |
| Street retail | 6-26 | ↗ |

Source: DTZ Research

Table 11

Figure 6

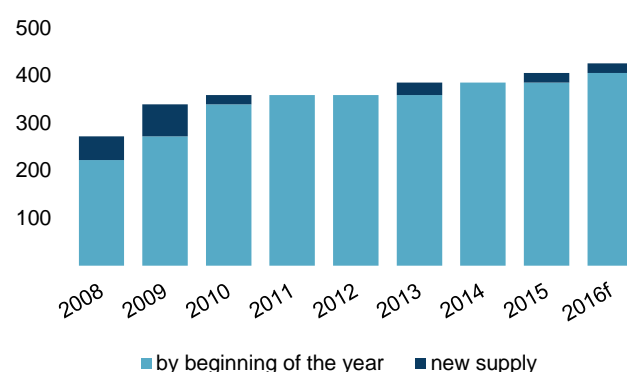
Total retail trade turnover M€, current prices



Source: DTZ Research

Figure 7

Shopping centre stock in Vilnius, 000s GLA sq m



Source: DTZ Research

Table 10

| Vacancy rates in Vilnius | Vacancy, % | 2015 Q4-2016 |
|----------------------------|------------|--------------|
| Prime shopping centres | 1-4 | → |
| Secondary shopping centres | 4-20 | ↓ |

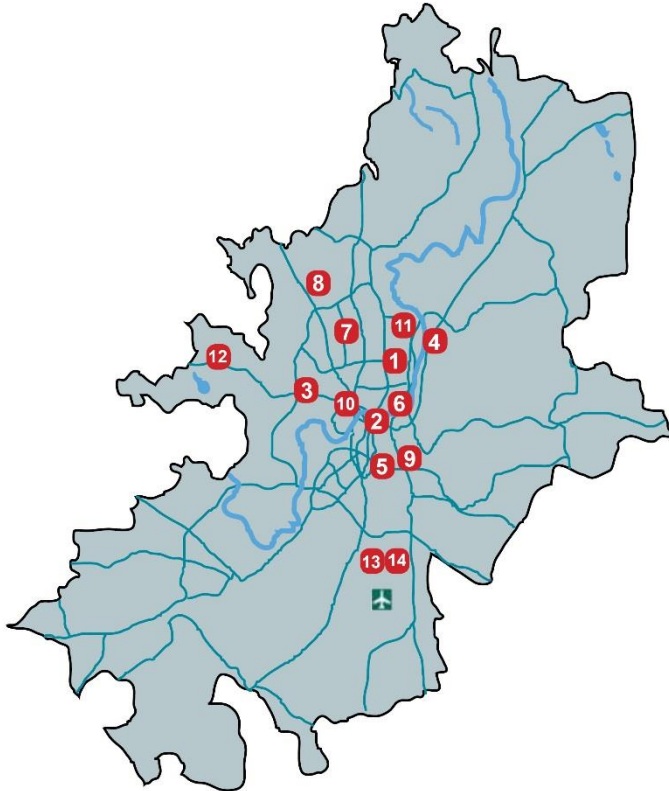
Source: DTZ Research

Major shopping centres in Vilnius

| No on the map | Shopping centre | Address | Total area, sq m | GLA, sq m | Year of construction |
|---------------|-----------------|----------------------|------------------|-----------|----------------------|
| 1. | Akropolis | Ozo 25 | 109,000 | 91,200 | 2002 |
| 2. | VCUP | Konstitucijos Pr. 16 | 19,800 | 19,800 | 2003 |
| 3. | Mada | Virsuliskiu 40 | 18,500 | 16,000 | 2003 |
| 4. | Domus Galerija | P. Lukšio 32 | 14,000 | 14,000 | 2003 |
| 5. | Flagman | Gedimino 16 | 7,000 | 5,600 | 2004 |
| 6. | Europa | Konstitucijos 7A | 22,600 | 17,400 | 2004 |
| 7. | Mandarinas | Ateities St. 91 | 9,300 | 7,900 | 2005 |
| 8. | BIG | Ukmergės 369 | 18,800 | 15,600 | 2006 |
| 9. | Gedimino 9 | Gedimino Ave. 9 | 16,600 | 10,200 | 2007 |
| 10. | Panorama | Saltoniskiu 9 | 65,000 | 49,500 | 2008 |
| 11. | Ozas | Ozo 18 | 93,000 | 62,000 | 2009 |
| 12. | Pupa | Priegliaus 1 | 6,300 | 5,300 | 2009 |
| 13. | IKEA | Vikingu 1 | 25,000 | 25,000 | 2013 |
| 14. | Nordika | Vikingu 3 | 20,000 | 19,500 | 2015 |

Source: DTZ Research
Map 3

Major shopping centres in Vilnius



Source: Google maps, DTZ Research

Kaunas

The total stock of modern retail premises in Kaunas amounts to approximately 215,000 sq m. The biggest schemes are *Molas*, *Mega*, *Prisma*, *Savas*, *Banginis*, and *Akropolis*. Akropolis which was opened in 2007 is the most popular retail scheme with approximately 60,000 GLA sq m. This centrally located has been successful attracting substantial pedestrian flow from the main Kaunas high street, Laisves Avenue.

The only project in the pipeline is shopping centre *Mega II* with approximately 22,000 GLA sq m. However, the time-frame for delivering is unclear.

Table 4

| Rents in Kaunas | Rent, €/ sq m pcm | 2015 Q4-2016 |
|-----------------|-------------------|--------------|
| 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 sq m.

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

In Q2 2014, shopping centre *Luizé* was introduced. It is anchored by *RIMI* and offering approximately 6,200 GLA sq m.

Table 5

| Rents in Klaipeda | Rent, €/ sq m pcm | 2015 Q4-2016 |
|-------------------|-------------------|--------------|
| Anchor tenants | 4-7 | → |
| >100 sq m | 8-12 | → |
| <100 sq m | 12-21 | → |
| Street retail | 5-15 | → |

Source: DTZ Research

Forecast Q4 2015-2016

- Vilnius pipeline amounts to approximately 20,000 sq m until the end of 2016.
- While recently, marginal increase in rental rates was observed for the new market entrants, the upward pressure is not expected to last.
- Vacancy rates in primary retail schemes will remain at its natural levels.

Siauliai, Panevezys

The total stock of modern retail premises in Siauliai amounts to approximately 106,000 sq m and comes primarily from shopping centres schemes - *Akropolis*, *Arena*, *Saules miestas*, *Tilze*, and *Bruklinas*. There are no new developments in the pipeline. The dominant anchor tenants in shopping centers are *Maxima*, *IKI*, *RIMI* and *Norfa*. *Maxima* is the anchor tenant in *Akropolis* and *Tilze*; *RIMI* in *Arena* and *Saules miestas*; *Norfa* in *Bruklinas*.

Modern retail in Panevezys is represented by single project *Babilonas SC* (42,100 GLA sq m plus 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, in Panevezys, *Maxima* has 11 shops, *IKI* has 10 shops, *Norfa* has 8 shops, and *RIMI* has 1 shop. Although the city is usually titled as the least saturated retail landscape in Lithuania, the vacancy rates currently range between 5-20% and are expected only marginally decrease in the nearest future.

Table 6

| Rents in Siauliai and Panevezys | Siauliai, €/ sq m pcm | Panevezys, €/ sq m pcm | 2015 Q4-2016 |
|---------------------------------|-----------------------|------------------------|--------------|
| Anchor tenants | 4 – 7 | 4 – 6 | → |
| >100 sq m | 5 – 12 | 4 – 12 | → |
| <100 sq m | 12 – 20 | 10 – 18 | → |
| Street retail | 5 – 10 | 5 – 9 | → |

Source: DTZ Research



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