

Baltics Retail, 2019/2020

Exponential supply of retail space amidst rapid consumer change

▲ Total Modern Retail Stock
3.10 million sq m

▲ New stock
200,000 sq m

▲ Retail sq m/1,000 pers
512 sq m

▲ Prime SC yield
6.50% - 7.00%

*2020 YTD KPIs, Arrows indicate change from the corresponding period in the previous year



Source: Linstow Center Management
Expanded part of the Origo shopping centre, including Origo One business centre

KEY POINTS

- In 2019, GDP increased within the 2.2-4.4% range and retail turnovers, except for motor and fuel, within the 5-7.2% y/y range in the Baltics. From March 2020, the future growth will be negatively affected by the ongoing Covid-19 pandemic.
- Large scale extensions, redevelopments and new centre openings were realized. Retail stock above a GLA of 5,000 sq m expanded by ca.200,000 sq m, totalling over 3 million sq m in the region.
- Akropole (62,000 sq m of retail GLA) in Riga was the first new regional shopping centre development in Latvia after almost a decade. The Alfa expansion created the largest shopping centre in Latvia with a GLA of 71,000 sq m, while the Ulemiste expansion – the largest shopping centre in Estonia with a GLA of 73,000 sq m.
- Retailers’ appetite for new markets continued. Among the largest cross-border physical space expanders were the Apollo Group in entertainment, Van-Graaf, COS and ‘& Other Stories’ in fashion, the recently announced Burger King in the fast food, and Decathlon in the sports sector.
- Estonia became the first country in the world where Ikea made its first entrance digitally. Among other newcomers which made online openings prior to their physical stores were Monki, Weekday and Arket by H&M.
- Structural changes in retail and consumer behaviour fuelled new retail parks, as well as multifunctional and hybrid future developments, across the Baltics proved the resilience of brick and mortar retail as a sector.
- Annual commercial real estate investment volume surpassed EUR 1.2 bln for a second consecutive year, of which retail investment accounted for approximately EUR 300mln or 22%.
- Investors continued to favour properties dominated by anchors trading essential goods (supermarkets and DIY) and properties located in the city centres.
- The largest retail investment deal in 2019 was the acquisition of Galerija Centrs (GLA of ca.17,000 sq m) in Riga Old Town by Baltic Horizon Fund at EUR 75mln.

RETAIL SPACE SUPPLY IN THE CAPITAL CITIES

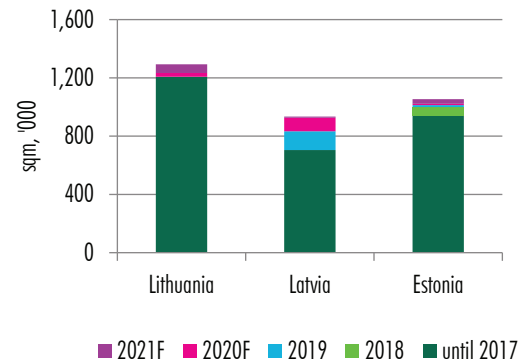
2018 – 2019 were the years of the remarkable growth of retail space in the Baltics which is set to continue in 2020. Latvia and Estonia were the leaders for new deliveries by adding newly built properties as well as extensions to the existing shopping centres.

The most significant deliverables in 2019 and Q1 2020 were in Riga: the new Akropole (62,000 sq m), expanded Alfa (ca.23,000 sq m becoming the largest shopping centre in Latvia – 71,000 sq m) and Origo extension (16,500 sq m totalling 34,000 sq m). Besides the traditional shopping centre formats, the Riga market was also supplemented by Ozols, the retail park concept of almost 30,000 sq m (anchored by the largest DIY K-Senukai) replacing the former traditional scheme Galleria Azur. Another retail & lifestyle park Saga (52,000 sq m) dedicated to home improvement goods, sports and leisure is currently under construction with the planned opening in Q4 2020. Since 2018 the traditional shopping centre stock in Riga in the category above 10,000 sq m GLA increased by 25%. Total retail space supply above 10,000 sq m – by 30%.

Estonia, the leader of shopping centre space per capita in the Baltics, added a stock as well. After delivering T1 / Mall of Tallinn (55,000 sq m) in late 2018, the next-door competing scheme Ulemiste opened its third phase expansion in June 2019 adding 13,200 sq m of retail space and becoming the largest shopping centre in Estonia exceeding 73,000 sq m. Another large multifunctional project Porto Franco located at the port of Tallinn is under final stages of construction awaiting the daylight in 2021 with a target to become the largest shopping centre in the Tallinn city centre. Once the planned 32,000 sq m retail space is delivered, the city centre food and fashion offer will almost double. Since 2018 the traditional shopping centre stock in Tallinn in the category above 10,000 sq m GLA increased by 17%. Total retail space supply above 10,000 sq m – by 15%.

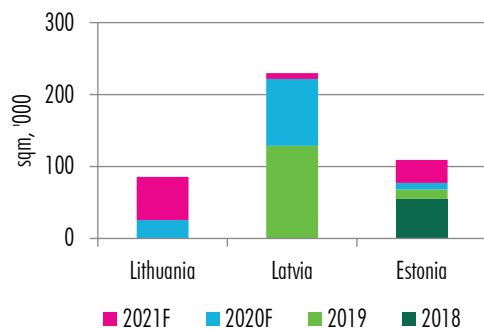
In Lithuania, the largest addition was the retail park of GLA 19,600 sq m by VPH in Klaipeda. New schemes and existing shopping centre extensions and redevelopments were in the active planning stage. In the course of 2020, Ozas shopping centre will open its extension of 6,000 sq m introducing additional leisure options to its customers.

Figure 1: Total Modern Retail Stock in the Baltics until 2021F



Source: CBRE Baltics, Q2 2020

Figure 2: New Deliveries to the Modern Retail Stock until 2021F



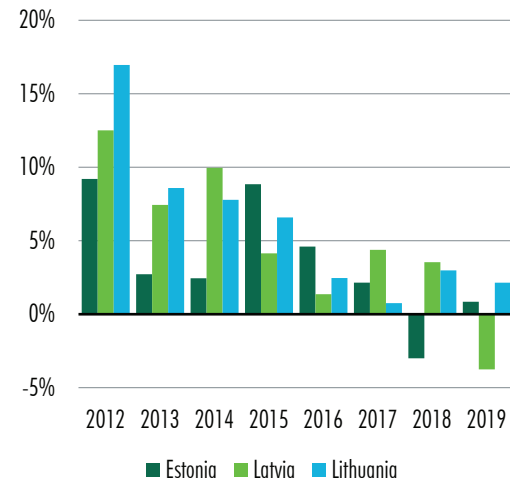
Source: CBRE Baltics, Q2 2020

Figure 3: Modern retail space supply distribution in 2019-2022



Source: CBRE Baltics, Q2 2020

Figure 4: Sales efficiency changes of the dominant traditional shopping centres in the capital cities



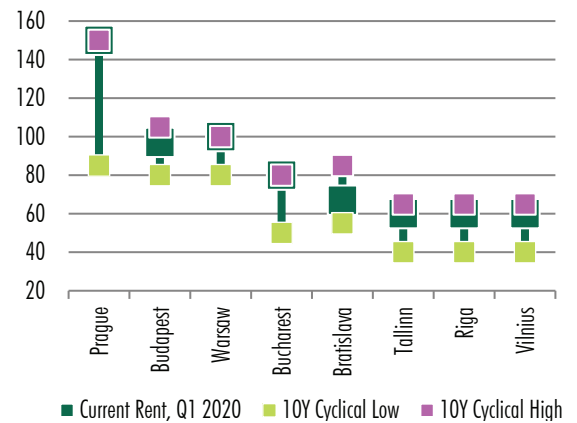
Note: combined data and estimates of GLA 730,000 sq m
Source: CBRE Baltics, Q2 2020

The most substantial deliveries in the coming years are expected from the Akropolis Vingis project in Vilnius (90,000 sq m) which developers have confirmed by revealing the project concept, and Vilniaus Outlet – a hybrid outlet centre of 65,000 sq m under rapid construction which will offer a blend of traditional and outlet space, hypermarket, services and leisure.

Responses to ever-changing consumer demands requiring convenience and experience are increasingly being implemented by both the retailers and landlords. Shopping centres diversify the offer with services, leisure and food and beverages (hereafter F&B). The Go9 reconstruction project by Lords LB opened for customers in Vilnius in July 2019, introduced the first Lidl store in the shopping centre, and replaced the former fashion space on the second floor with a modern food hall. Recent openings and ongoing projects are increasingly being developed with other supportive uses blending retail with a hotel, office, co-working, social venues, sports, wellness and medical. The Ozas extension developed by NEPI Rockcastle will open with a swimming pool, active leisure park and large zoo store with pet services. Akropolis Vingis has announced office space and a concert hall of 4,000 seats to be part of its new development in Vilnius.

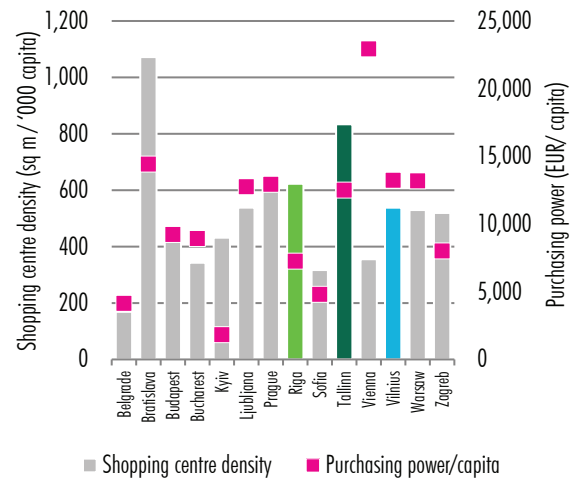
Transit locations are particularly favourable for multifunctional projects. Linstow’s Origo extension of retail and A-class office space takes place alongside the Riga Central Railway station expansion plans. The large-scale Porto Franco complex consisting of a hotel, A-class office, retail and restaurant offer will synergize with the existing and future projects in the Tallinn passenger port area.

Figure 5: Prime shopping centre rent in historical context



Note: Present Rent relative to High & Low (10Y Cyclical)
Source: CBRE Research, CBRE Baltics, Q2 2020

Figure 6: Shopping centre space and expected supply in 2017-2020 Shopping Centre Densities in CEE Region Capitals



Note: shopping centers above 5,000 sq m shopping centre densities in the Baltics - 2020f, rest CEE – 2019 result
Source: CBRE Research, CBRE Baltics, Q2 2020

Figure 7: Retail stock pipeline with a GLA above 10,000 sq m

Project	Country	City	Type of development	Year	Added space, sq m	Total space, sq m
ORIGO ONE	Latvia	Riga	Expansion	2020, commissioned	16,500	34,800
VPH Retail Park	Lithuania	Klaipeda	New	2020, commissioned	19,600	19,600
Via Jurmala Designer Outlet (1 stage)	Latvia	Riga	New	2020, commissioned	13,500	13,500
Saga	Latvia	Riga	New	2020	52,000	52,000
Ozas	Lithuania	Vilnius	Expansion	2020	6,000	68,400
Vilnius Outlet	Lithuania	Vilnius	New	2021	62,000	62,000
Domina Shopping	Latvia	Riga	Expansion	2021	7,000	49,000
Porto Franco	Estonia	Tallinn	New	2021	32,000	32,000
Total:					208,600	

Source: CBRE Baltics, Q2 2020

APPAREL MARKET & E-COMMERCE

In 2019 household spending on textiles, clothing, footwear and leather commodities increased by around 3% in Estonia to 5% in Latvia, and up to 6% in Lithuania.

New brand expansion of the existing retail groups continued. H&M introduced '& Other Stories' in Galleria Riga and the second COS in Go9 in Vilnius. The other brands in the group Monki, Weekday and Arket expanded to the Baltics via the online store.

Apranga Group implemented the largest chain expansion and renewal in its history by opening 11 new stores in Riga Akropole and expanding and upgrading the stores in Alfa, Ulemiste and Rottermann quarter. An online sales platform soulz.lt was introduced to facilitate a faster revenue growth.

LPP Group has been actively restructuring its portfolio by opening in new developments and closing the older portfolio. In the new locations the brands trade in 1.5 to 3 times larger stores.

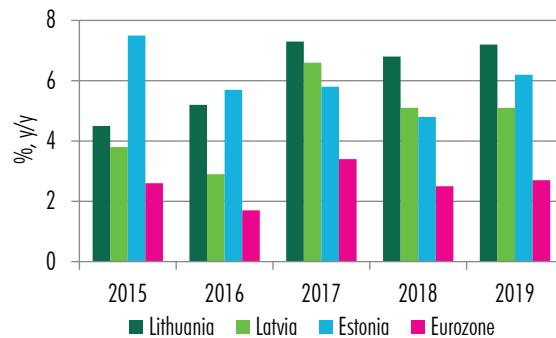
In 2019 a new market entrant – Van Graaf, the company in the Peek&Cloppenburg Group (P&C), opened a ca.2,000 sq m store in Akropole, and P&C expanded its existing store in Riga Plaza becoming the largest fashion store in Riga of ca. 4,000 sq m. P&C announced the opening of its first store in Tallinn in the new Porto Franco development to be opened in 2021.

Sportland Group continued expansion by opening the first USC store in Akropole and the first Van store in Alfa. The Sportland store in Ulemiste was expanded, becoming the largest in the Baltics. Another sporting goods retailer Decathlon announced the largest Baltic store opening with over 5,000 sq m in Riga in autumn 2020.

The transformation of the fashion chains by the closing and opening of stores has resulted in the net addition of new square metres and together with online sales and other efficiency measures the total revenues have continued to grow. However, the market has become extremely competitive. Baltika Group started a reorganization to merge the brands, redevelop manufacturing and simplify the business processes, thus reducing the costs and reconsidering the strategy.

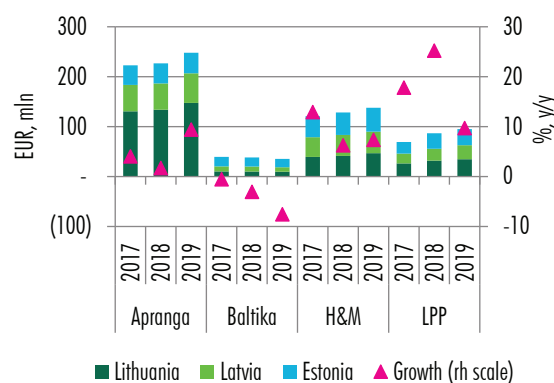
The emergence of the Covid-19 in Q1 will most certainly deepen the transformation processes requiring retailers to invest in online platforms, logistic solutions and physical wellbeing.

Figure 8: Retail trade growth, 2015-2019



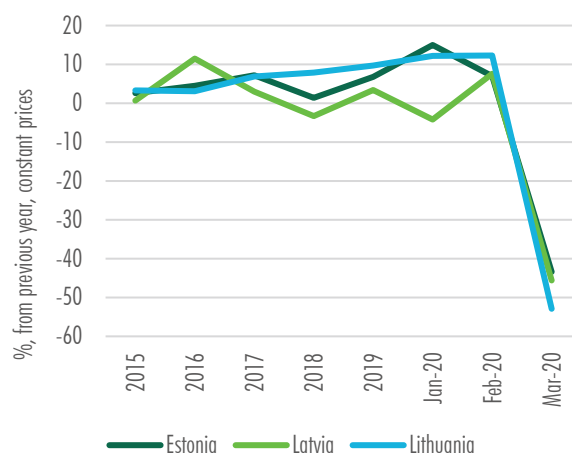
Source: Eurostat, National Statistics Agencies, Q2 2020

Figure 9: Revenues of the largest apparel retailers



Source: the companies, CBRE Baltics, Q2 2020

Figure 10: Retail sales' changes: apparel and footwear, since 2015



Source: National Statistics Agencies, CBRE Baltics, Q2 2020

GROCERIES, F&B MARKET, E-COMMERCE

In 2019 retail sales of food, beverages and tobacco grew by between 1% and 4% in the Baltics.

Grocery chains continued to be active both on refurbishing the existing stock and expanding to new locations. Due to increasing competition and consumer preferences, food store operators are increasingly paying attention to the location and innovative solutions – more locally sourced produce, more diverse diet requirements, qualitative food-to-go and F&B offering inside the store, selective co-tenancy in their own developments paying high attention to services and leisure.

Lidl is the most recent market player in the region. After having opened almost 50 stores in Lithuania it aims to reach pan-Baltic coverage by opening of no less than 10 stores in Latvia together with a logistics centre in 2020.

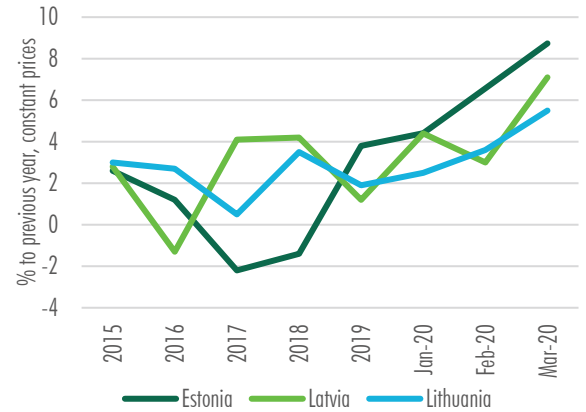
The main pan-Baltic grocery chains Rimi and Maxima, and other largest food retailers such as Iki, have paid particular focus to be closer to customers by opening smaller store formats in the city centres, residential and office areas. Another common effort is introducing technology in both customer service and online deliveries.

The food retail shift to e-groceries is accelerating. In a month since the state of emergency was declared in March Barbora.lv (Maxima) capacities were increased by 30% with aim to double in the near future, and average purchase increased from 25kg to 40kg. Rimi rushed to finalize Rimi Drive in Tallinn, and Stockmann implemented an online sales platform in several weeks.

Under the restrictive conditions related to the pandemic outbreak, food sales have remained strong. March 2020 sales in each country have already outperformed the average growth rate of any month in 2019 ranging from a 6% to a 9% increase in the region.

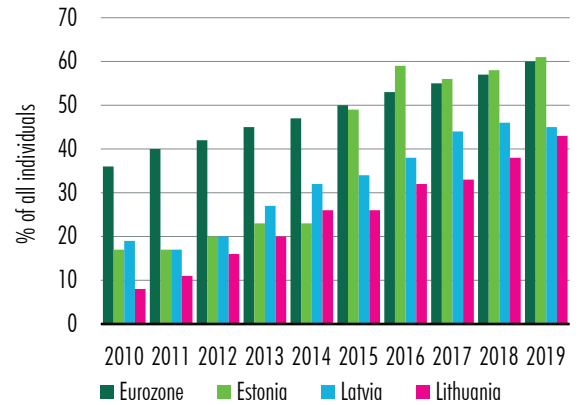
F&B sector – cafes, restaurants, and also leisure significantly increased the amount of square in the new and redeveloped spaces. The Ulemiste expansion welcomed the second Vapiano in the shopping centre. The American style food & leisure trend has reached the Baltics. KFC re-started opening new locations, Baby Back Ribs and London Grill expanded outside their home countries into the new shopping centre developments, O’Learys entertainment grew pan-Baltic, and Burger King announced new Baltic openings from 2020.

Figure 11: Retail sales changes: food, beverages and tobacco, since 2015



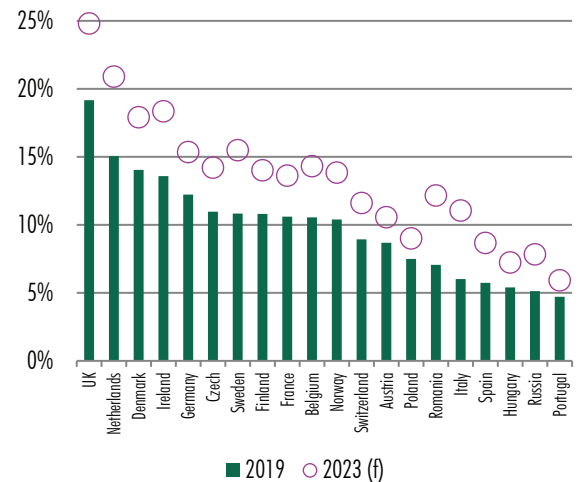
Source: National Statistics Agencies, CBRE Baltics, Q2 2020

Figure 12: Individuals ordering goods or services in internet, 2010-2019



Source: Eurostat, CBRE Baltics, Q2 2020

Figure 13: Internet sales penetration in Europe



Source: CBRE Research, CBRE Baltics, Q2 2020

ECONOMY

In 2019 economic growth in all three Baltic countries was slightly slowing. GDP grew by over 2% - 4%. Inflation stayed at a moderate 2% rate.

Private consumption expenditure in the Baltics increased by ca.6% and retail spending – by 9% in 2019. Last year the labour market continued positive development with comparatively low unemployment rates (at 5.7% on average) and growing wages.

According to the latest official forecasts of the European Commission, the GDP decrease due to pandemic might be 6.9% in Estonia, 7% in Latvia, and 7.9% in Lithuania while EU average is expected 7.4%.

INVESTMENTS

In 2019 the annual investment volume surpassed EUR 1.2 bln for the second consecutive year. The retail sector constituted ca. 22% of the volume, but was 21 % less in comparison to 2018.

While the multi-tenancy retail experiences a major transformation, some retail submarkets show resilience in the eyes of both developers and investors: among them – financially and commercially sound big-box formats, shopping galleries in the city centres, retail in transit locations, retail as part of mixed-use schemes, as well as the usual ‘bread and butter’ formats driven by the supermarket and convenience sector.

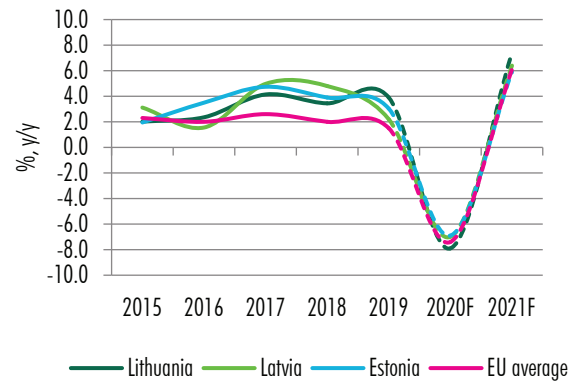
The acquisition of Galerija Centrs in Riga Old Town by the Baltic Horizon Fund was the largest retail investment deal - EUR 75mln.

Two significant sale-and-leaseback transactions were recorded during H2 2019, both in Lithuania. Two DEPO DIY stores were sold to French asset managers Corum with a total transaction value of EUR 53.6 mln.

At the beginning of 2020 the acquisitions of a SKY supermarket and the A7 shopping centre in Riga, and a supermarket Riia mnt 106 in Parnu exceeded EUR 15 mln in total.

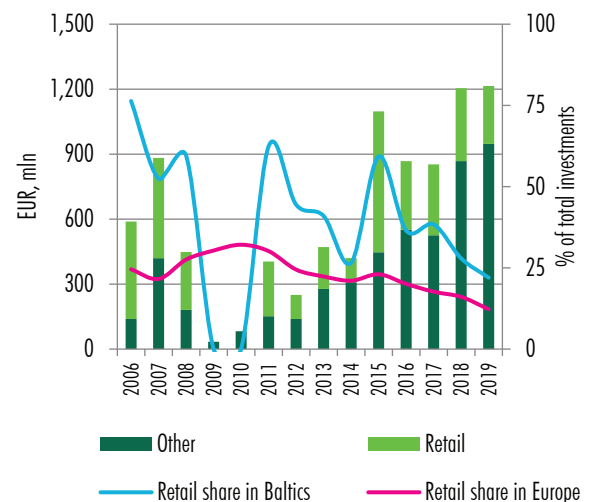
Retail constituted a substantial part of the Riga Old Town portfolio acquired by VIG. Retail and office use properties were acquired at the highest square meter price within the EUR 3,500 -4,400 per sq m range.

Figure 14: GDP growth, 2015-2021



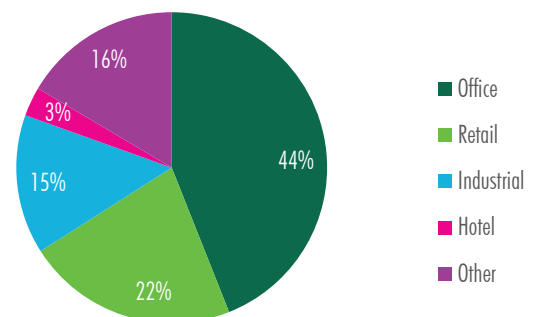
Source: Oxford Economics, European Commission, CBRE Baltics, Q2 2020

Figure 15: Investment into the Retail Sector in the Baltics



Source: CBRE Research, CBRE Baltics, Q2 2020

Figure 16: Investment volumes by sector in Baltics, 2019



Source: CBRE Research, CBRE Baltics, Q2 2020

RESEARCH DEFINITIONS

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

Shopping Centre (SC) Stock – represents the total completed retail space (occupied and vacant) in the shopping centres at the survey date, recorded as net rentable retail area. Included are shopping centres with a gross lettable area above 5,000 sq m, excluding hypermarkets, DIY stores, retail parks and other specialised stores. Included shopping centres with anchor tenant, which leasable area does not exceed 60 percent of GLA.

Total Retail Stock - represents the total completed modern retail space (occupied and vacant). Total Retail Stock includes purpose-built, space converted from other uses and independent space forming part of a mixed-use development. Includes shopping centre stock, total retail space in retail parks, theme-oriented centres and department stores. Space under construction is excluded from the Total Retail Stock until development completion.

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