

FIGURES | BALTIC RETAIL MARKET | Q1 2020 - Q1 2022

Resurrecting Retail Market: Seizing the Post-Pandemic Opportunity

▲ 1.11M sqm
EE Total stock

▲ 3.6k sqm
EE Completions
Q1 2020 - Q1 2022

▲ 1.07M sqm
LV Total stock

▲ 132k sqm
LV Completions
Q1 2020 - Q1 2022

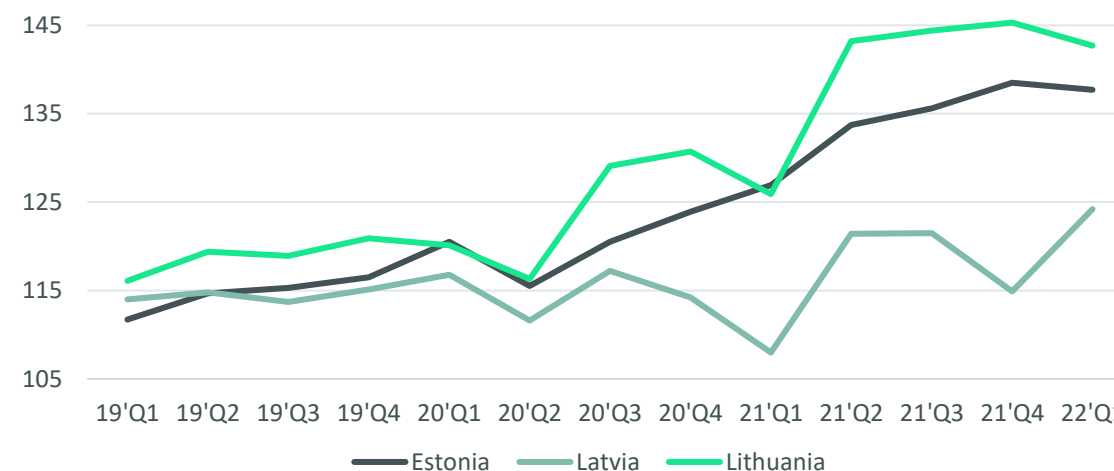
▲ 1.23 mln sqm
LT Total stock

▲ 84.6k sqm
LT Completions
Q1 2020 - Q1 2022

HIGHLIGHTS

- The largest retail projects to supplement the retail stock in 2021 were Vilnius Outlet (Q3 2021) and Pašilaičiai Retail park (Q4 2021) in Lithuania, Prisma Hypermarket scheme in Estonia (Q3 2021), and DIY Depo in Riga (Q3 2021), while in Q1 2022 – the expansion of Domina Shopping in Riga.
- Retail growth in Latvia was hit the hardest by the implemented strictest pandemic measures among the Baltic states. In the meantime, Lithuanian retail market grew the most robust over the pandemic period.
- The remarkably high share of retail investments in the Baltics has demonstrated both buyers' and seller's' increasing ability to estimate the market growth prospects and required future investments, especially in the second year of the pandemic.
- The shortage of tourists and remote working patterns will result in a slower recovery for urban retail formats in both essential and non-essential retail goods sectors.
- Grocery led community centres, big box, and retail parks will remain the focus of developers and investors. With the pandemic fading away and cost uncertainty stabilizing, there are signs that other retail formats are to regain an attraction in 2022.

FIGURE 1: Retail Trade, Except for Motor Vehicles, Motorcycles and Fuel, Q1 2019- Q1 2022; 2015=100



Source: Eurostat, CBRE Baltics Research

Trends in Retail

Investment reaching an all time high

Alike in Europe, the total investment volume in the Baltic states has reached the highest ever recorded amount in 2021. Retail had the biggest share of CRE investments in Baltics, with 25% in 2020 and 41% (almost EUR 650M) in 2021. In Q1 2022, retail continues to dominate, with 48% share of the CRE investment volume in the Baltic states.

The biggest investment transaction in 2021 occurred in Q3 with the real estate development and management company Akropolis Group purchasing Alfa Shopping Centre in Riga. With this asset, Akropolis Group has 5 SCs in their portfolio. In addition, new investor Titanium came into the Latvian market with the purchase of SC Ozols of 30,000 sqm. At the end of 2021, Viru Keemia Grupp expanded their portfolio with the sale and leaseback deal of two Stockmann SCs in the Baltic capitals – Tallinn and Riga, consisting of 55,000 sqm of modern retail space. T1 Mall (55,000 sqm) in Tallinn which opened just in 2018 was forced to declare bankruptcy in April 2021 and was acquired in an auction by Lintgen Adjacent Investments S.à.r.l. In Lithuania, the largest retail investment transaction was the 20,000 sqm acquisition of SC Liepų 81 by NDX Group in Klaipėda.

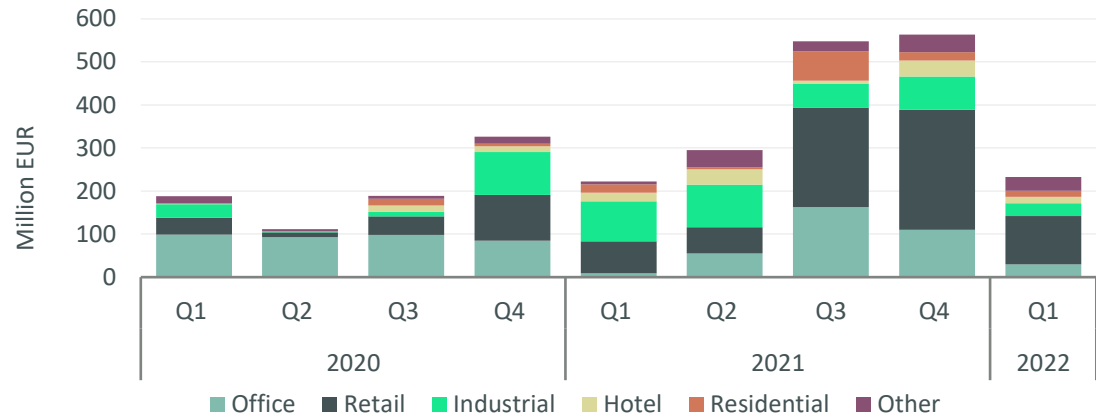
While shopping centre prime yields have been softening, supermarket yields across the Baltics showed compression and yields hardened to around 6.25%.

Declining tourism and impact of subdued mobility

Passenger numbers in Baltic capital airports increased by 33% in 2021 compared to 2020 although the figures reflect around 65% less travellers than in 2019. International travel and office visiting frequency will take more time to recover impacting urban retail formats in city centres and boosting essential retail format attractiveness in the suburbs.

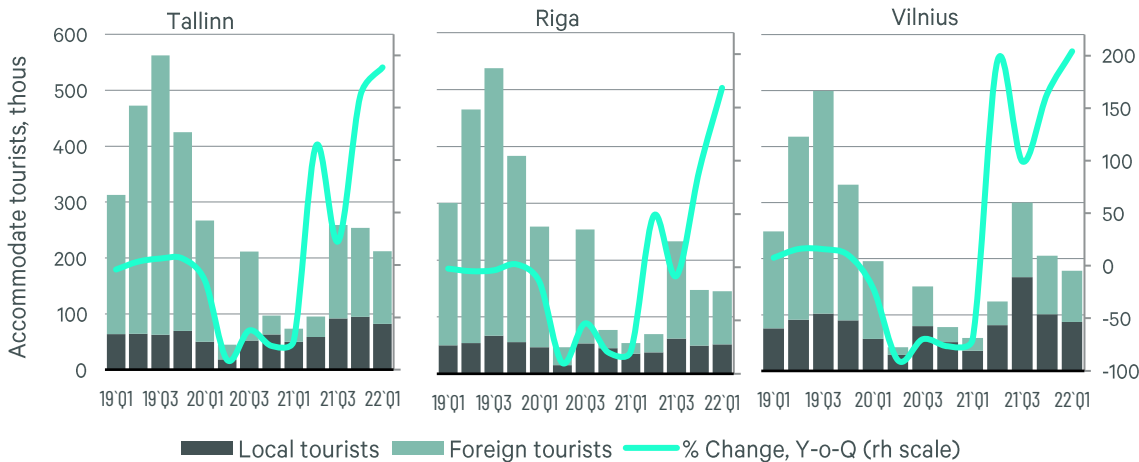
On the flip side - international trade numbers showed an impressive increase in 2021. Exports and imports increased by ca. 11% and 18%, respectively, reaching the highest exporting value of goods ever recorded in Baltics. Although demand for manufacturing, consumer purchasing power resilience and strong fundamentals for retail growth across all channels are expected to continue in 2022, inflationary pressures and geopolitical tensions are creating some headwinds.

FIGURE 2: Distribution of Investment by sector, Q1 2020- Q1 2022



Source: CBRE Baltics Research

FIGURE 3: Foreign and Local Tourists in Baltic States Capitals, Q1 2019- Q1 2022



Source: CBRE Baltics Research

Physical and online retail trends

Grocery and DIY stores continued enlarging their market shares, with some newcomers having been observed. In 2021, Svetafor Group food chain Mere and Lidl opened their stores across Latvia and are working on their expansion plans towards the Estonian market. DIY stores are still showing strength in the market, with store DEPO having opened in Riga (20,000 sqm) and Senukai Pociuno (6,000 sqm) opening in Q4 2021 in Vilnius.

One of the most rapidly expanding trends across the Baltics was the appearance of dark store and kitchen concepts. Wolt Market and Bolt Market started to operate in all of the Baltic countries and together with continuing pandemic restrictions benefitted with rapid growth and increased competition for existing small format supermarkets. Independent dark kitchen concepts are continuing to gain in popularity among the urban population.

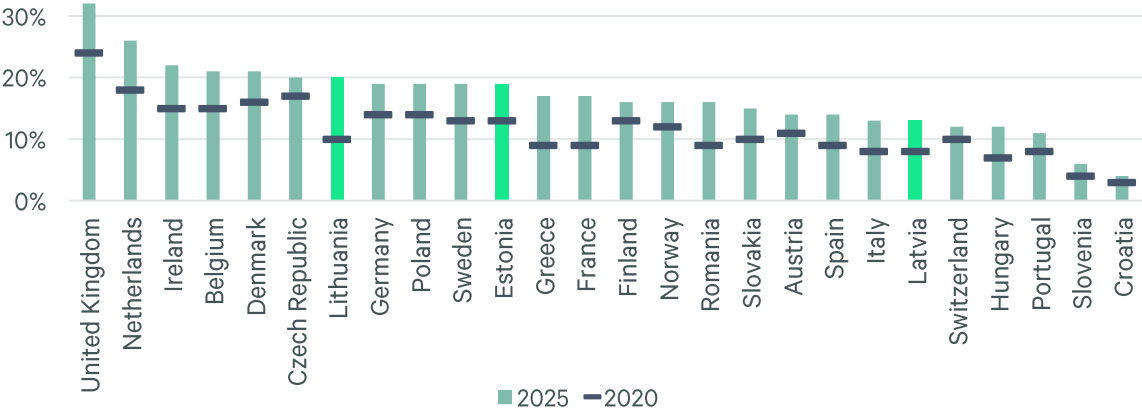
New e-commerce stores entered the Baltics, including well recognized brands, fashion, and cosmetic stores, such as Zalando, Notino, and Boozt.

E-commerce is increasingly blending with physical store formats to gain more customers and brand awareness. Pigu group, which is one of the leading e-retailers in the region, opened new stores across the Baltics, while Weekendshoes demonstrated an example of e-commerce stores going physical.

With pandemic restrictions fading, postponed openings of large entertainment venues have taken place over a recent period driven by Apollo group concepts – Riga Plaza, a new restaurant and entertainment cluster, - the largest of its kind in the Baltics (9,000 sqm). The second largest project has just opened in Riga Domina Shopping (7,000 sq m), while another 3,500 sqm in Ozas SC in Vilnius.

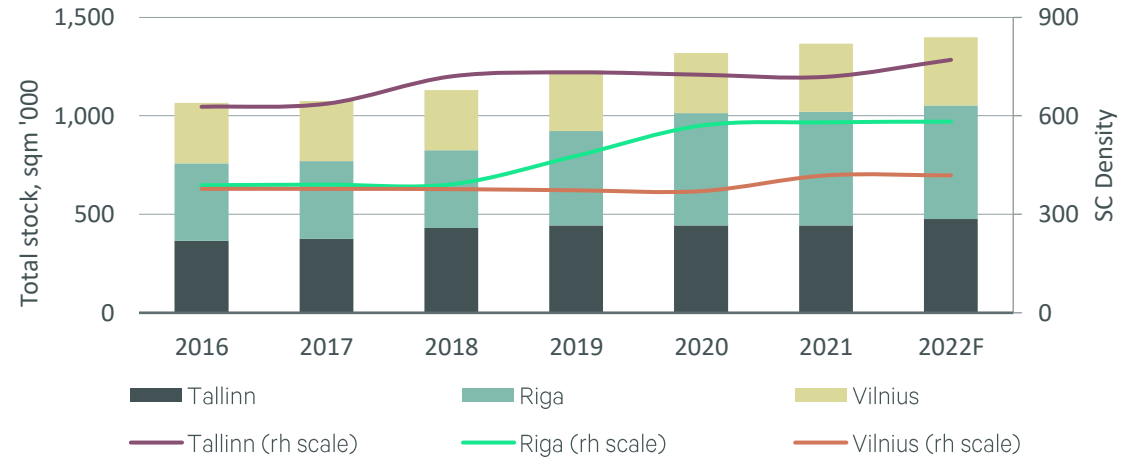
New ambitious development projects will continue in all three Baltic states characterized by a multi-use approach where retail is partnered with residential, hospitality, office, and other sector developments. The strongest pipeline of new retail sqm in the next few years is expected in Vilnius which has lagged behind its Baltic neighbours in previous years.

FIGURE 4: Forecasted E-commerce Share of Total Retail Sales, in %



Source: Eurostat, CBRE Baltics Research

FIGURE 5: Shopping Centre Stock in the Baltic Capitals; Shopping Centre Density (GLA sqm/'000 capita)



Source: Eurostat, CBRE Baltics Research

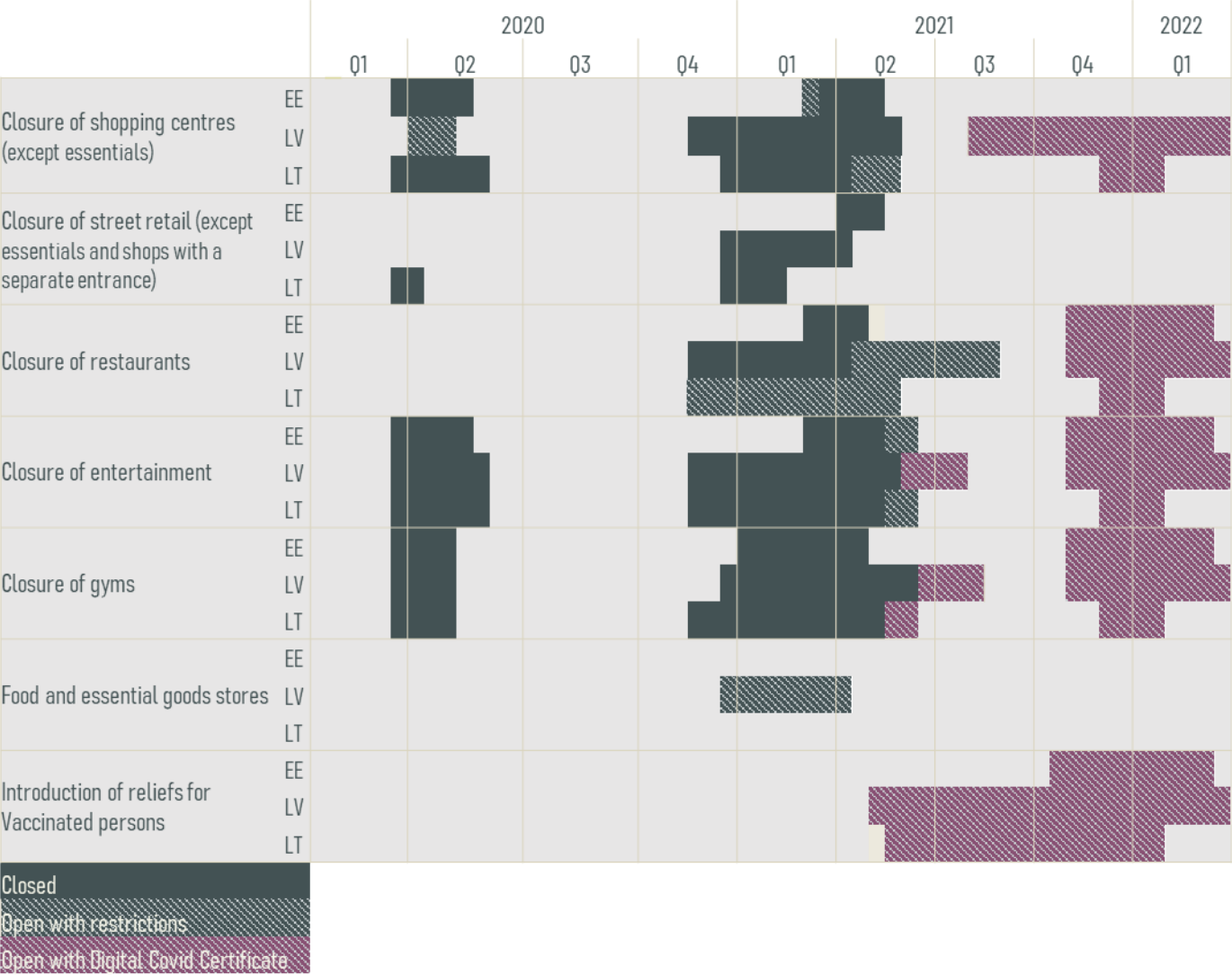
Restrictions in the Baltic states

Retail trade in Q1 2020-Q1 2022 has been deeply impacted and characterized by governmental restrictions regarding Covid-19 control.

In 2021, the percentage of those fully vaccinated in the population increased, the virus modified to a less aggressive strain, while consumers got accustomed to life in a pandemic surrounding. The reliefs for vaccinated persons benefitted retail growth in 2021. Control measures differed across countries, but the basic rules were similar. Occupancy limitations for in-door shopping, restaurants, and entertainment (varying from 25% to 50% of the full capacity or ensuring at least 15-30 sqm per person), working time regulations during the ‘peak months’, as well as a cap on the number of participants, along with 2 meters movement restrictions, and masks were mandatory in public indoor spaces.

People who have not been vaccinated against COVID or suffered from an illness could no longer take part in organized activities where COVID certification was required. At the beginning of summer 2021, in Lithuania – the Opportunity Passport and in Latvia – SafePass were implemented, and restrictions were reduced with more opportunities for visiting indoor places for those carrying such certification, although Estonia made Digital certification related easing only in late October. Such necessary certification need was lifted in 2022 from the 5th of February in Lithuania, 15th of March in Estonia, and 1st of April in Latvia.

The pandemic surrounding has reshaped the Baltic retail market. During this period, e-commerce has gained importance for retailers to adapt in changing times. The retail sector was obliged to balance the compromises among requirements for different sectors, consumer needs, and economic growth. Thus, short-term pandemic restrictions may bring long-term structural changes in retail, especially for the brick-and-mortar stores.



Source: CBRE Baltics Research

Market Area Overview



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 10,000 sq m, excluding hypermarkets, DIY stores, retail parks and other specialised stores. Included are shopping centres with an anchor tenant, for which leasable area does not exceed 60 percent of GLA.

Total Modern 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 with a gross leasable area from 5,000 sqm. Space under construction is excluded from the Total Retail Stock until development completion.

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