PROPERTY TIMES

Retail trade is expected to continue its growth

Baltic Retail Q4 2014

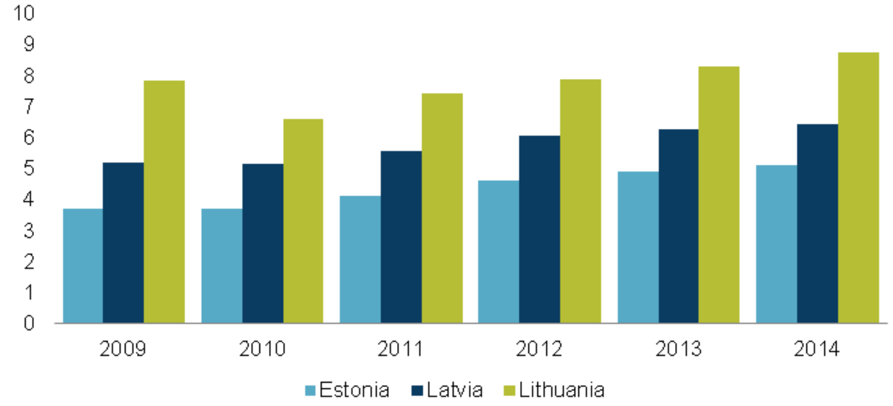
25 March 2015

Contents

- Despite the slower pace of the global economy, the Baltic region's recovery had a positive impact on both consumer confidence and buying behaviour in 2014. Retail trade turnover is expected to continue growing in 2015 in all three Baltic States.
- Tenant mixes in primary schemes are becoming more diverse, raising pressure at the rental level and presenting secondary retail with an opportunity to recover. Popular brands are changing one another, adapting to the constantly fluctuating demands of customers and becoming more subtle.
- Prime shopping centres have reached a very low level of vacancies and secondary properties have increased occupancy rates as well. Street retail is on the road to recovery, as are shopping centres in smaller towns and cities in the Baltic States.
- Rental levels rose incrementally from 2010-2013 but were stable in 2014. No remarkable changes are foreseen in 2015.
- Since the retail market is the most successful of all real estate segments in all three countries and retail trade turnover is still growing, demand for prime retail properties is high. Several such transactions were observed in 2014, pushing yields downwards.

Figure 1

Total retail turnover, in EUR bn



Source: DTZ Research

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Macroeconomic Trends in the Baltic States

Estonia

According to the estimates of Statistics Estonia in the 4th quarter of 2014, the Estonian economy grew 3.0% compared to the 4th quarter of 2013, the annual GDP growth in 2014 was 2.1% compared to the previous year.

According to the Bank of Estonia 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. Economic growth in 2014 will be faster than it was last year but it will only accelerate modestly in future. Estonia is in a different phase of development from that ten years ago and sustainable growth over the long term is 3–4%. Estonian GDP will increase 2.1% in 2015 and 3.3% in 2016.

The change of the consumer price index in January 2015 was -1.3% compared to January of the previous year. Compared to January 2014, goods were 2.3% cheaper and services 0.6% more expensive. Consumer price inflation went below zero in June 2014 for the first time since the crisis. According to forecasts of Bank of Estonia the inflation will pick up in the next two years, but it will remain subdued. Higher labor costs will make the prices of domestic goods and services rise faster than those of imported goods and services. The CPI will be accordingly 0.8% in 2015 and 2.1% in 2016.

According to Statistics Estonia in 2014 the annual average number of unemployed persons was 50,000, which is 9,000 less compared to the previous year. The annual average unemployment rate (7.4%) was 1.2 percentage points lower than in 2013 (8.6%). Compared to the highest unemployment rate of the last decade (16.7% in 2010), unemployment has decreased more than twice. In 2014, the unemployment rate in Estonia was relatively low compared to other European Union countries.

Latvia

According to the Central Statistical Bureau of Latvia, in 2014 compared to 2013, GDP at constant prices grew by 2.4%.

Preliminary data suggests that positive contribution to GDP development came from the households that were the main driver during the first three quarters of 2014 however this trend cannot continue for the long time. Pessimistic mood and consequences of Russia’s embargo caused caution in households and investor plans. Due to geopolitical situation investors prefer not to expend their money for business expansion, but to use already existing resources for production capacity. Another serious negative impact on Latvia's economic progress, particularly affecting the real estate sector and construction are amendments of the Immigration Law and Insolvency Law. The threshold of investments in Latvia’s real estate has been significantly increased as well as the latter stipulate the introduction of liberalised personal bankruptcy regime. The prime factors of the development of Latvia economy are external factors and geopolitical situation. According to the Bank of Latvia the GDP growth forecasts for 2015 is 2.0%.

The average annual inflation in 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. Given the variety of low inflation and rising employment and wages in recent years, traders and manufacturers are testing the limits of consumer spending by raising prices. Though the wages will rise in moderate pace but uncertainty related to external factors will increase the savings. Accounting for the latest global oil price dynamics, the revised inflation forecast of Bank of Latvia for January 2015 is lowered to 0.9% (instead of 1.4% projected in December).

The rate of unemployment has declined in Latvia to 8.3% in the December 2014 or 10.6% of all jobseekers from the economically active population. With the pace of economic growth employment will approach its natural level. Significant decrease of unemployment is foreseen only after implantation of motivating measures for labour market.

Lithuania

In 2014 Lithuania’s economy continued to grow at a healthy pace supported by domestic demand and, in particular by the growth of private consumption. According to Statistics Lithuania the GDP growth in 2014 was 2.9%. 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 as it was in 2013. GDP is projected to increase by 3.1 % in 2015 and 3.3 % in 2016. Despite of losses in Russia, Lithuania's total export in 2015 should grow by 1%, due to recovering economy of the euro area and entering new markets. Inflation has been very low and stable for a while, mostly as a result of consumer-friendly developments in the prices for commodities in the global market and low inflation environment in the euro area. The deflation was 0.3% in 2014. According to Central Bank of Lithuania projected average annual inflation should stand at 0.9% in 2015.

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. According to the Statistics Lithuania, the unemployment rate decreased in 2014 to 10.6% from 11.9% at the end of 2013. Despite improvements in the labour market, structural unemployment remains high, with about half of the unemployed out of work for over a year.

Baltic Retail Q4 2014

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,315	2,002	2,943
Urban population	68%	68%	67%
Area (thousand km²)	45	65	65
Population density (per km²)	29	31	45
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	411	643	529
Currency	EUR	EUR	EUR
GDP at current prices (€ Bn, 2014)	19,5	24,1	36,3
GDP per capita (thousand €, 2014)	14,83	12,04	12,34
GDP growth (%, 2014)	2.1	2.4	2.4
Inflation rate (%, 2014)	-0.1	0.7	0.2
Unemployment rate (%, 2014)	7.4	9.0	9.1

Source: National Statistics

Baltic Retail Q4 2014

Estonian retail market

According to Statistics Estonia, in December 2014 compared to December 2013, the retail sales of goods of retail trade enterprises increased 6% at constant prices. Since August, the retail sales growth has remained within a stable of 5–6% compared to the same month of the previous year (figure 2).

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 beginning of 2015 the retail stock of shopping centres in Tallinn was approximately 340,000 sq m (figure 3).

Development

- The biggest project in 2014 was the expansion of **Ülemiste** centre where the extension added 30,000 sq m retail space and 16,000 sq m parking area. Ülemiste is the largest center in Tallinn with approximately 94,000 sq m GBA.
- **Stroomi Shopping mall** in the Põhja-Tallinna District completed in December 2014. The net area with underground parking level is approximately 15,000 sq m. The anchor tenant is Maxima.
- In Mustamäe district at A. H. Tammsaare Road the shopping centre with total area 13,000 sq m is planned to be open in the end of 2015. About half of the area occupies the cinema and leisure area.
- Two shopping centres are planned to complete in 2015 in Haabneeme, in the centre of Viimsi municipality. The total areas of centres are 14,000 sq m and 11,500 sq m accordingly and the anchor tenants will be Selver and Rimi.
- Maxima XXX hypermarket with the area 6,000 sq m is planned to be open in December 2015.
- Pro Kapital confirms that the continuation of the project in the beginning of Peterburi Road, the former meat factory area, where a large retail centre called Tallinn Europa is planned. The GLA of the centre will be 55,000 sq m.

The projects in pipeline are rather medium or smaller by their size. Large-scale projects, which are based on ideas from the period before recession, have been delayed or extinct.

- Gate Tallinn is a multifunctional retail park planned next to Pärnu Road and Tallinn city border. In August 2014 the new detail plan was initiated to increase the building right of earlier plan (gross area over 240 000 sq m on a 620,000 sq m large land lot).
- There are detailed plans in Rävala quarter between Tallinn Department store and Solaris to develop the commercial and office premises or near passengers' harbour area to establish the 60,000 sq m leisure centre in the city centre of Tallinn. Both projects are still in planning phase.

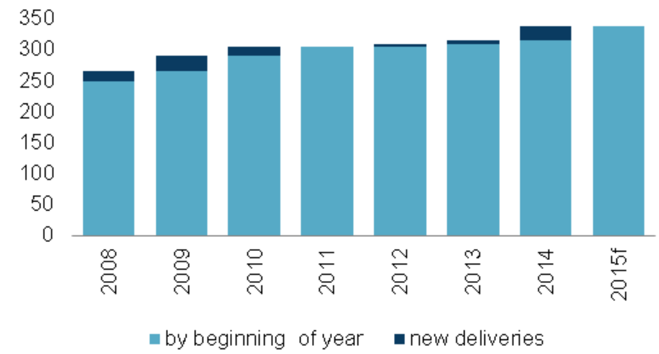
Figure 2

Total retail trade turnover (000 €), indices at current prices (%)

Source: National Statistics

Figure 3

Retail space dynamics in Tallinn, GLA, 000 sq m



Source: DTZ Research

Map 1

Major Shopping centres in Tallinn

Google Maps, DTZ

Vacancies

Vacancy rate in popular shopping centres is continuously low; the overall average was below 1% in 2014.

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 the other agreements was temporary discounts which were actually lengthened for several years. In more popular shopping centres (for example Viru Centre), the discounts were never applied and rental prices increased even during the low point of the market. Rental rates have firmly stabilized since 2011. A slight increase took place in 2013 and 2014 and the increase of rents in coming years will be similar to the change of CPI (table 2).

Table 2

Rent in Tallinn (size approximately 50-300 sq m)

Type of location	Rent, €/ sq m/ pm	2015
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

Table 3

Main shopping centres in Tallinn

Shopping centre	Address	Total area, sq m	GLA, sq m	Year of construction	Year of extension
Stockmann	53 Liivalaia Str.	24,500	14,500	1996	2000
Rocca al Mare	102 Paldiski Rd.	68,800	57,300	1998	2008, 2009, 2013
Mustika Keskus	116 A. H. Tammsaare Rd.	42,500	27,000	1998	2001, 2013
Kristiine Keskus	45 Endla Str.	54,000	43,700	1999	2002, 2010, 2013
Sikupilli Keskus	87 Tartu Rd.	27,300	15,100	2000	
Magistral	201/203 Sõpruse Ave.	15,300	11,900	2000	2012
Järve Keskus	238 Pärnu Rd.	45,300	41,800	2000	2008
Norde Centrum	7 Lootsi Str.	12,900	10,600	2002	
Lasnamäe Centrum	13 Mustakivi Str.	23,600	19,600	2003	
Ülemiste Keskus	4 Suur-Sõjamäe Str.	78,000	60,000	2004	2014
Viru Keskus	4/6 Viru Square	32,500	26,300	2004	
Solaris	9 Estonia Ave	42 900	12 800	2009	

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.

After completion of 2000 sq m extension of *Kaubamajakas* in 2014 the lettable area of the centre will amount to 18 500 sq m, and there are 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 lettable area to 25 000 sq m, however, additional building rights have to obtained for this purpose.

Table 4

Rents in Pärnu

Type of location	Rent, €/ sq m pm	2015
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

Pärnu Keskus renovated its first building in 2012, and gradually adds more space to the property. The lettable area in Pärnu Keskus has crown to 10 000 sq m, whereas new tenants include multi-cinema *Apollo*, high street fashion brands *H&M* and *Lindex*. Together with *Port Artur* they form the biggest retail area in Pärnu. However, because tight competition they do not use well enough possible synergy and there is relatively higher vacancy compared to *Kaubamajakas*. 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. Part of the space previously used for the retail is used for some other purposes today.

Rimi has initiated two developments- on the crossroad of Pikk and Ringi Streets and on the crossroad of Jannseni Street and Tallinna Road.

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 pm, 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 4-6.5 €/ sq m pm.
- Retail area in Annelinn district. Average rental fees in shopping centres range between 5 -19 €/ sq m pm, whereas street retail premises come at 4-10 €/ sq m pm. Average vacancy rate for shopping centres is approximately 5-10%; in secondary locations, it goes up to 15%.

City centre retail area, further subdivided into:

- Tartu Department Store, Kaubahall and Zeppelin, Tasku centre. In general, rental fees vary from 15 to 32 €/ sq m pm, however for smaller retail schemes, such as former Tartu Department Store, GMP-centre, Kapitali House, the rental fees are lower. The leased premises with the lower surfaces are usually higher price per sq m.
- 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 6-17 €/ sq m pm. The leased premises with the lower surfaces are usually higher price per sq m.

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 the rents have remained stable or slightly risen.

Table 5

Rents in Tartu

Type of location	Rent, €/ sq m pm	2015
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

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 TTK Investeeringud LLC constructs into the place of old Kaubamaja Riia Street 2 (54,260 sq m) new retail- and business centre. The multifunctional building contains retail-, business and office premises, apartments, SPA and Hotel also.

In 2014 the new 1 floor business building was built in borough Ropka Tööstusrajoon Võru Street 244 (195 sq m), the rental are 14 €/ sq m pm. The free rental space is 81 sq m. The building has one anchor tenant already – R-kiosk, the rental range was 14 €/ sq m pm also.

Forecast

- 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.
- Rents have firmly stabilized within the last few years; a slight increase related to indexation can be expected in 2015.
- 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 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.

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.

After years of continuing growth, in 2009 Latvia experienced a rapid 32.0% year-on-year drop in retail turnover. Retailers, like other businesses, have been affected by the economic downturn, primarily through a decline in consumer purchasing power and growing operating costs. Local companies were panicking and froze their expansion plans for the years; they had no experience in operating in a falling market. There is an obvious correlation between consumer spending, rents and vacancy rates. The decline of consumer purchasing power, smaller retailer turnover, continuous tenant rotation and weak demand caused the high vacancy rate which we saw peaking in 2009. Starting from 2010 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 € 6.47bn (figure 4).

The same trend of development shows shopping centres in Riga where 4-7% increase of total retail turnover were observed during 2014. It can be explained by hike of purchasing power as well as rise of commodity prices.

Supply

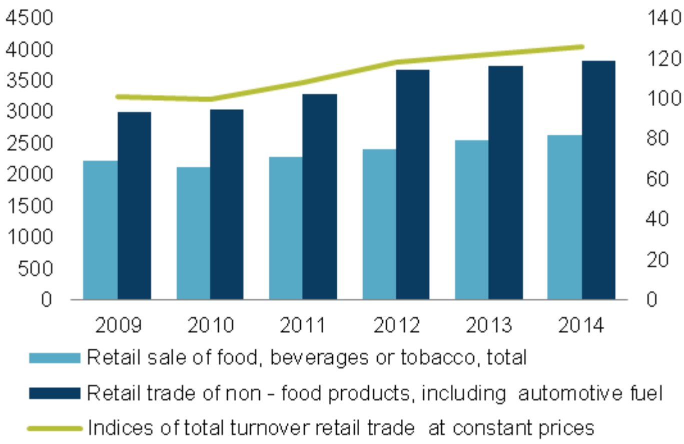
By the end of 2014, the total stock of modern shopping space in Riga remained unchanged and amounted to almost 450,000 sq m (the number accounts for shopping centres and department stores with the area above 5,000 sq m), which in terms of shopping space provision per capita, stands at the ratio of 0.69 (figure 5).

New additions to the market came only in the sub-segment of supermarkets. Hence in September 2014 Rimi added three new hypermarkets to its chain (located in Riga district, Ogre, Jelgava city and Liepaja city), and currently runs 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. Maxima runs currently 143 retail objects across Latvia divided between three different formats.

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 objects 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

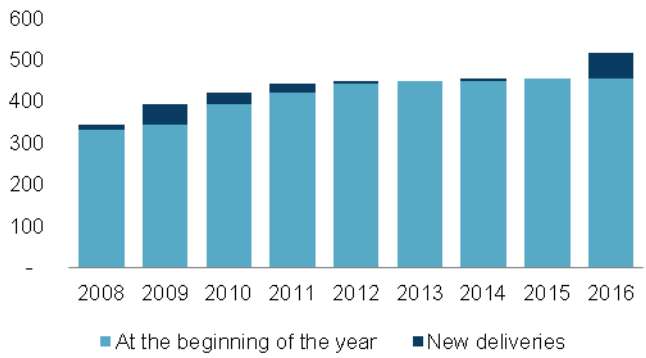
Total retail trade turnover (000 €), indices at current prices (%)



Source: National Statistics

Figure 5

Retail space dynamics in Riga, GLA, 000 sq m



Source: DTZ Research

Map 2

Major Shopping centres in Riga

Source: Google Maps, DTZ Research

Table 6

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

The tenant mix in successful Riga shopping centres became more subtle and this trend will continue in 2015 while in secondary shopping centres tenants will be more moderate in representation of popular fashion brands.

Yet similarly as in the case of grocery chains, occupiers' market development is twofold. Like in H1 2013, Norwegian Varner Gruppen, with such high street brands as Cubus, Bik Bok, and Dressman, announced its intentions to halt all operations in Latvia, Stockmann group Seppala has started to close stores in shopping centres in the end of 2014, explaining it with decreased profit margins and hence lower than expected return on areas leased. Another brand MEXX has faced financial difficulties and bankruptcy procedure has been initiated in December 2014.

Since shopping centre floor space provision in Riga is above average European levels, Latvia in general and Riga in particular is quite stable market, in which existing schemes are benefiting greatly from the robust retail turnover growth, whereas potential for new developments has to be measured carefully against higher than average risks coming from evident signs of market saturation in terms of shopping space provision. The pipeline of new deliveries in the sub-segment of shopping centres for the next two years therefore comes primarily from potential expansion and upgrade plans of already established retail schemes; one large-scale new development, Akropolis (more than 60,000 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 autumn 2015. A year later Norwegian developer Linstow 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 newcomers consider to open their stores in Riga shopping centres. Planning the expansion of existing shopping area shows the trend of growing demand. In addition consistently decreasing vacancy is another factor of new developments (table 8).

Small and medium scale transactions with retail properties took place in 2014, exceeding EUR 40 M. Only three of those were related to the 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 the rents in shopping centres and high street retail premises did not change.

The rents for anchor tenants in Riga shopping centres currently vary between 4-12 EUR/ sq m pm; the rents for small premises (up to 100 sq m) stand at 15-55 EUR/ sq m pm; the rents for medium premises (100-350 sq m) vary between 10-40 EUR/ sq m pm (table 7).

Forecasts for 2015

- Annual retail turnover growth will continue in the same pace – 3-6% per year.
- The major grocery retail chains will persist through competition for key locations across Latvia. However, the market is oversaturated already.
- Further strengthening of prime properties 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 secondary shopping schemes, with only marginal upward potential in rents 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.

Table 7

Rents in Riga, EUR/ sq m pm

By size	Rent, €/ sq m pm	2015
Anchor tenants	4-12	→
<100 sq m	15-55	↗
>100 sq m	10-40	→
Street retail	15-60	→

Source: DTZ Research

Table 8

Vacancy rate in Riga shopping centres

Type of shopping centres	Vacancy, %	2015
Prime shopping centres	1 – 4	→
Secondary shopping centres	5-10	→

Source: DTZ Research

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 EUR 8.76bn, which is a 5.3% increase when set against 2013 (figure 6).

By the end of 2014, the total stock of modern retail space in Lithuania amounted to 918,000 sq m (accounting for the properties with 5,000 sq m GLA). In 2014, the only new addition to the market was Domus Pro shopping centre with 8,100 sq m GBA in Vilnius.

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 (figure 7).

Vilnius

Two major shopping centres are situated on the main city high street, Gediminas Avenue (Gedimino 9 and Flagman). Other shopping centres are located in major city residential districts, such as Seskine, Siaures miestelis, Virsuliskes, Pilaite, Zverynas, Perkunkiemis.

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 hyper- and supermarkets.

Olinda SC (20,000 sq m GLA) near Western Bypass and Prekybos parkas SC (20,000 sq m GLA) near IKEA shopping centre are another two assets which append the existing retail stock in 2015.

Vacancies decreased during 2014. Primary retail schemes (such as *Akropolis, Panorama, VCUP* and *Ozas*) have reached to their natural occupancy rates and enjoy vacancies close to 0%, the secondary retail schemes have low vacancies also and these vacancies reached to 2%. Only Gedimino 9 had a refit and the vacancy rate is about 35%. The overall vacancy rate in Vilnius was 2% in December 2014.

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,* which has been opened in 2007, is the most popular retail scheme with approximately 60,000 sq m GLA. Being located in the central part of the city, ever since opening, it has attracted a substantial pedestrian flow from the main Kaunas high street, Laisves Avenue.

The only delivery in the pipeline is shopping centre *Mega II* with approximately 22,000 sq m GLA, to be introduced in 2015.

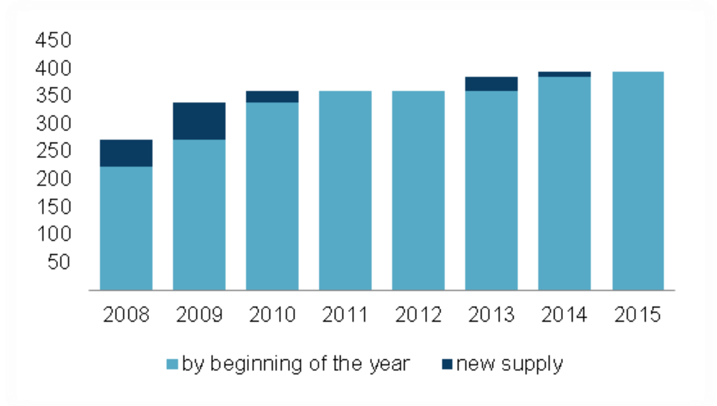
Figure 6

Total retail trade turnover (000 €), indices at current prices (%)

Source: DTZ Research

Figure 7

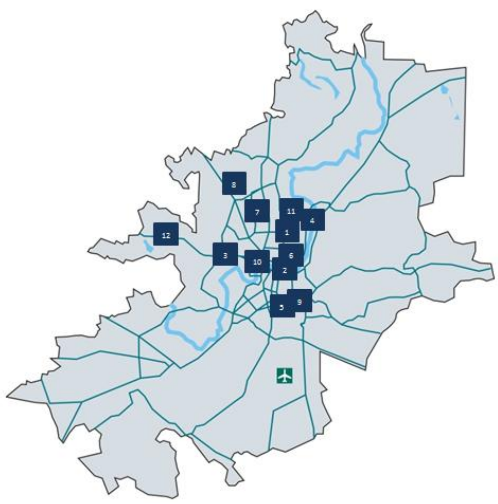
Shopping centre stock in Vilnius, GLA, 000s sq m



Source: National Statistics

Map 3

Major Shopping centres in Vilnius



Google Maps, 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 in new business and shopping centres. Good access by car and sufficient parking possibilities quite often are determining factors upon selecting location.

In Q2 2014, shopping centre *Luizė* was introduced to Klaipeda market, anchored by *RIMI* and offering approximately 6,200 sq m total GLA.

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.* No new developments are planned in the future.

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

Panevezys modern retail property market is represented by one single project *Babilonas Shopping Centre* (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 near future.

Forecast

- Vilnius pipeline amounts to approximately 40,000 sq m in the upcoming 1/2 years.
- While recently, marginal increase in rental rates was observed for the new market entrants, given the pipeline, the upward pressure is not expected to last.
- Vacancy rates in primary retail schemes will remain at its natural levels; vacancy rates in secondary retail schemes, currently pressed downwards, will rebound given the new deliveries in the pipeline

Table 9

Rents in shopping centres Vilnius

Size	Rent, €/sq m pm	2015
Anchor tenants	6-9	→
>100 sq m	9-23	→
<100 sq m	13 – 43	↗
Street retail	6-26	↗

Source: DTZ Research

Table 10

Vacancy rates in shopping centres Vilnius

Type of shopping centres	Vacancy, %	2015
Prime shopping centres	1-4	→
Secondary shopping centres	4-20	↓

Source: DTZ Research

Table 11

Rental fees in shopping centres Kaunas

Size	Rent, €/ sq m pm	2015
Anchor tenants	4-7	→
>100 sq m	8-12	→
<100 sq m	13-21	→
Street retail	6-20	→

Source: DTZ Research

Table 12

Rents in shopping centres Klaipeda

Size	Rent, €/ sq m pm	2015
Anchor tenants	4-7	→
>100 sq m	8-12	→
<100 sq m	12-21	→
Street retail	5-15	→

Source: DTZ Research

Table 13

Rents in shopping centres Siaulia and Panevezys

Size	Siauliai, €/ sq m pm	Panevezys, €/ sq m pm	2015
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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