Baltics Retail, 2018

Shopping centres are eagerly renewing in order to keep up with the latest retail trends

Total SC Stock
2,390 million sq m

New stock
55,000 sq m

SC sq m/1,000 pers
394 sq m

Prime yield
6.0%-6.75%

*Arrows indicate change from the corresponding period in the previous year

Figure 1: Photo of T1 Mall of Tallinn

Credit: T1 Mall of Tallinn

KEY POINTS

- In 2018 GDP increased more than 3.0% y/y for the second consecutive year in the Baltic states.
- The labour market continues to heat up as the unemployment rate has decreased and salaries have been hiked across the Baltics.
- In 2018 Estonia observed 4.7% y/y higher private consumption expenditure, Latvia followed with 4.5%, and Lithuania with 3.9%.
- Inflation in the region is expected to moderate at the ca. 2% level in 2019 and 2020.
- In 2018 retail turnover increased by 6.8% y/y in Lithuania, 5.1% in Latvia, and 4.8% in Estonia. Sales of electronic household appliances, pharmaceuticals, communication, and recreation goods were the most notable.
- Results of the leading shopping centres were mixed. It was mainly due to ongoing multiple refurbishments, renovations, and expansions.
- Competition among grocery stores as well as home improvement retailers is intensifying. New and existing players are intensively opening new sites.
- Largest apparel retailers are restructuring portfolios to increase efficiency in the brick and mortar distribution channel.
- In 2018, a single shopping centre was commissioned in the Baltics. T1 Mall of Tallinn, which is located just next to the Ulemiste shopping centre in Tallinn, adding 55,000 sq m of new retail stock.
- In April 2019, Akropole Riga was launched. The shopping centre adds 62,000 sq m to the total retail stock.
- Prime high street retail rents averaged at ca. EUR 30-60 sq m per month. At the same time, space in prime shopping centres averaged at ca. EUR 35-40 sq m per month.
- In 2018, investment volume in retail properties increased by 3%. A few large transactions sustained the investment pace in the retail sector.

SPACE SUPPLY

The shopping centre market in the Baltics is very active. The major shopping centres in the capital cities were commissioned before or right after the last financial crisis. This fact, combined with the high demand for quality retail space in shopping centres, has resulted in almost all of the shopping centres undergoing major or at least some refurbishment, renovation, and expansion to remain competitive. Additionally, many shopping centres are implementing more leisure time activities, food and beverage spaces at the expense of existing tenants to attract visitors and keep them longer. The total of recent or soon to be executed expansions and internal redevelopments of the lettable area of existing shopping centres in the Baltics accounts to more than 163,000 sq m.

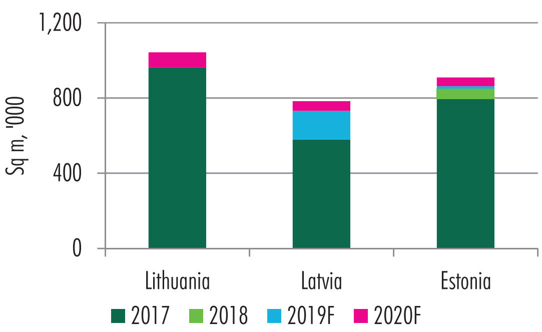
Last year Tallinn was the only city, which observed a new opening of a major shopping centre. In November T1 Mall located next to Ulemiste shopping centre was opened, which supplied 55,000 sq m of new retail stock. According to Estonian property developer Pro Kapital Grupp, it had invested EUR 70 mln into the project. However, despite this sizeable investment, the shopping centre maintains a relatively high vacancy. It is likely that it will take several years to generate a considerable flow of visitors and to reach its full potential.

PIPELINE

Akropole Riga was launched in April 2019. It is the first development in Latvia by Akropolis Group, which already manages three shopping centres in Lithuania. Investment in the project, including the linked office centre and infrastructure, was announced to be EUR 180 mln. The shopping centre adds 62,000 sq m to the total retail stock.

Additionally, several smaller-scale projects should be opened by the end of 2019. Galerija Azur in Riga is being redeveloped by the Kesko Senukai DIY operator active in Lithuania and Latvia. The announced investment in the 29,500 sq m shopping centre should reach EUR 35 mln with the DIY store taking the majority of it.

Figure 2: Shopping centre space and expected supply in 2017-2020



Source: CBRE Baltics, Q1 2019

Figure 3: SC stock currently under construction with a planned GLA above 10,000 sq m

Project	*Country*	*City*	*Type of development*	*Year*	*Added space, sq m*	*Total space, sq m*
Alfa	Latvia	Riga	Expansion	2019	18,300	65,600
Origo One	Latvia	Riga	Expansion	2019	16,500	35,550
Akropole Riga	Latvia	Riga	New	2019	62,000	62,000
Ulemiste	Estonia	Tallinn	Expansion	2019	13,200	72,400
Galerija Azur	Latvia	Riga	Redevelopment	2019	29,500	29,500
Roboti - Rimi	Latvia	Riga	New	2019	11,000	11,000
Via Jurmala Designer Outlet (I stage)	Latvia	Riga	New	2019	15,000	15,000
Lasnamae Centrum	Estonia	Tallinn	Expansion	2019-2020	5,000	25,000
Porto Franco	Estonia	Tallinn	New	2020	32,000	40,000
VPH Home and Lifestyle Centre	Latvia	Riga	New	2020	52,000	52,000
VPH Shopping Centre	Lithuania	Klaipeda	New	2020	19,000	19,000
Vilnius Outlet	Lithuania	Vilnius	New	2020	65,000	62,000
				Total:	**338,500**	

Source: CBRE Baltics, Q1 2019

MARKET RENTS

In 2018, despite low vacancy rates and high demand retail rent prices did not change or observed only marginal increases. Prime high street retail rents averaged at ca. EUR 30-60 sq m per month. At the same time, prime shopping centre prices averaged at ca. EUR 35-40 sq m per month. As new openings of the T1 Mall of Tallinn and Akropole Riga coincides with strong growth of private consumption, the downward pressure on rents in the largest shopping centres in Tallinn and Riga is unlikely to be observed during 2019.

INVESTMENTS

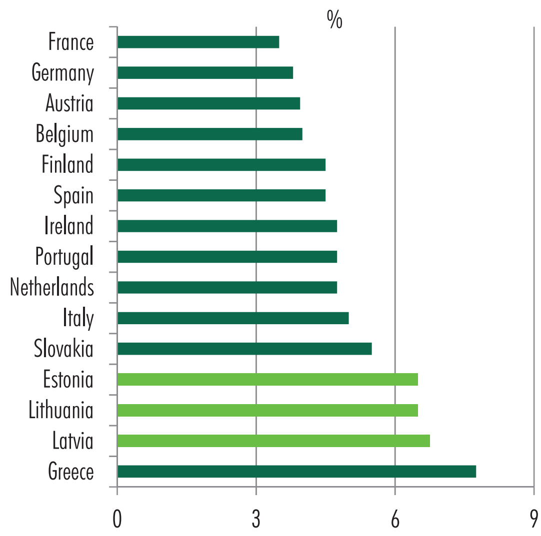
Retail remained of high interest among real estate investors. In 2018, investment volume in retail properties increased by 3% compared to a relatively active 2017. A few large transactions in Lithuania sustained the investment pace in the retail sector. The most notable and the largest real estate transaction overall last year was the purchase of Ozas shopping centre in Vilnius by NEPI Rockcastle for EUR 124.6 mln. The company manages and develops properties across Central and Eastern European countries, yet Ozas is the first asset of the company in the Baltics. Another important transaction was an acquisition of RYO shopping centre for EUR 47 mln in Panevezys, the fifth largest city of Lithuania, by Estonian based real estate fund manager Eften Capital. One more retail deal last year was executed in the third Lithuanian city Klaipeda. Westerwijk properties bought BIG shopping centre for EUR 24.9 mln. Both, Eften Capital and Westerwijk are experienced investors in the region and already manage multiple retail properties. Another sizeable retail asset was purchased in Riga, where East Capital has acquired the Galleria Riga shopping centre for an undisclosed price.

Investment yields in the sector have remained relatively stable. Prime high street yields ranged between 6.0% and 6.5%, while prime shopping centre yields ranged between 6.50% and 6.75%. However, owners willing to dispose of assets are not in a rush thus limiting the number of transactions done.

RETAIL TRADE

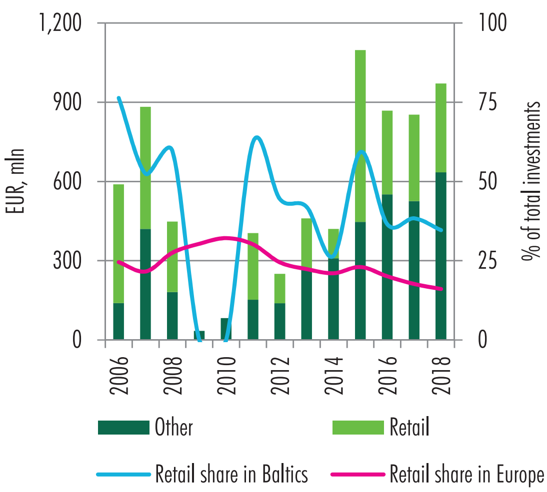
Improved wages and salaries, higher expenditure for consumption, and positive inflation have resulted in increased retail trade turnover. In 2018 retail turnover (nominal) growth, excluding motor vehicles and fuel, was most robust in Lithuania with 6.8% y/y, Latvia

Figure 4: Prime Shopping centre yields



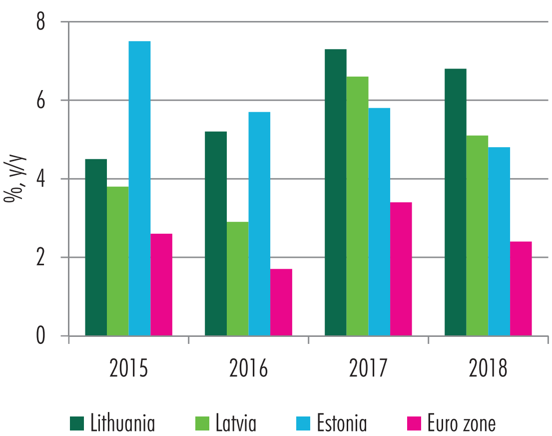
Source: CBRE Research, CBRE Baltics, Q1 2019

Figure 5: Investment into the Retail Sector in the Baltics



Source: CBRE Research, CBRE Baltics, Q1 2019

Figure 6: Retail trade growth



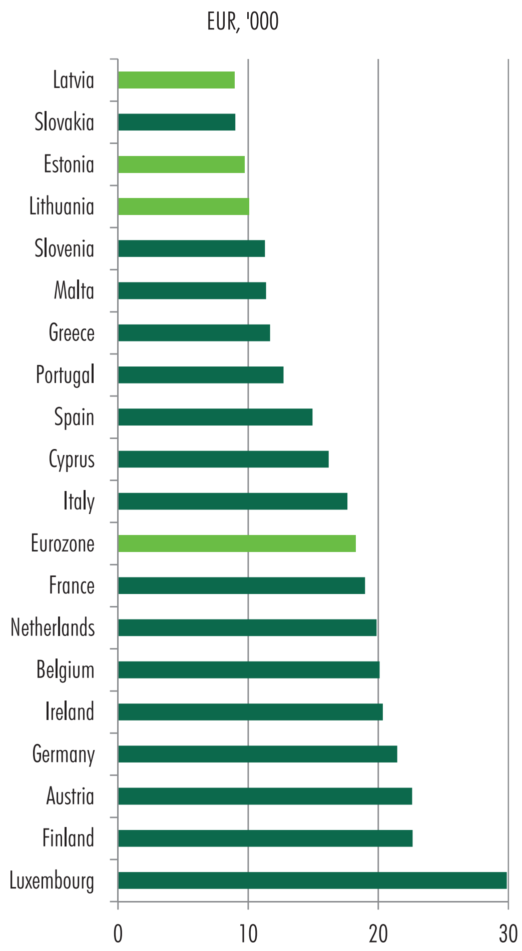
Source: Eurostat, national statistics agencies, Q1 2019 followed it with 5.1%, and Estonia with 4.8%. Sales increased across most of the sectors, yet the sales of electronic household appliances, pharmacy, communication and recreation goods had the most robust advancements.

However, despite solid results, the confidence of retailers varied across the Baltic states. At the end of 2018, the 12-month average retail trade confidence index in Lithuania was significantly higher when compared to the same period a year ago. The confidence in Lithuania was lifted by observed sales development and expectation of business activity in the near future. Latvian retail confidence was only marginally higher. The country's retailers also observed better sales development, yet stock on hold also increased and negatively affected confidence. The Estonian index decreased. Estonian retailers perceived worse business activity and did not anticipate better sales in the near future, while at the same time observing an increase in stocks.

SHOPPING CENTRES

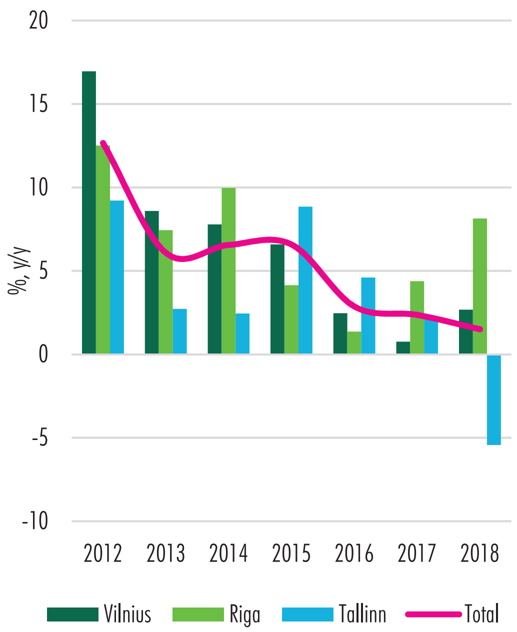
Despite strong retail growth, the results of the leading shopping centres in the Baltic region were mixed – in 2018 the combined turnover of the leading regional capital city based shopping centres increased only marginally in Vilnius by 3% y/y, decreased by more than 5% in Tallinn and increased to nearly 8% in Riga. The main reasons for a mixed picture are twofold – quite a few large centres in all three capital cities were affected by the ongoing expansion works reducing the flow of visitors, and in some shopping centres substantial part of the areas was closed due to refurbishment works or tenant mix optimization in 2017/2018. Redevelopment works slowed down turnovers in double-digit numbers for a certain period which would later be gained back with better returns. It is the case in Riga where two shopping centres – Domina and Riga Plaza finalised reconfiguration of the former hypermarket areas in 2017 and 2018. Also, Ozas in Vilnius completed a similar process in late 2017. Akropolis Vilnius carried out tenant mix strengthening involving some released spaces, and the process is set to continue in 2019, including a refurbishing of the hypermarket space. Ulemiste and Kristiine in Tallinn were affected by the extensive reconstruction program for most of 2018, which is also continuing into the first half of 2019. Among others, the first O'Learys entertainment venue exceeding 3000 sqm involving sports bar, bowling and cinema opened in Kristiine in 2018.

Figure 7: Consumer spending per capita, 2018



Source: Eurostat, CBRE Baltics, Q1 2019

Figure 8: Sales of 12 leading shopping centres in capital cities



Note: combined data and estimations of 12 leading shopping centres
Source: CBRE Baltics, Q1 2019

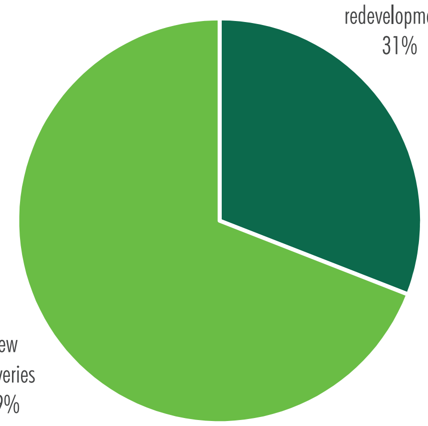
APPAREL MARKET

Sales of textiles, clothing, footwear and leather goods in specialised stores varied among the countries. In 2018 the sector's turnover increased by 7.9% y/y in Lithuania and 2.2% in Estonia, yet decreased by 2.7% in Latvia. The largest Baltic fashion retailers also observed varied turnover growth in the region which might be a result of the scale and stage of transformation inside the respective retail group. However, two trends are standing out. Firstly, e-commerce sales grew double-digit across all sectors and will continue to be a priority for the apparel retailers in the coming years to maintain the same online growth rates. Secondly, a very limited expansion in terms of the number of stores takes place, i.e. new stores are opened on account of portfolio restructuring rather than adding more square meters to the existing volume. It is a logical result of retailers trying to achieve maximum efficiency per square metre to keep the physical store profitability under control while customer behaviour is changing rapidly.

Apranga group explains its somewat subdued growth by the unfavourable weather conditions in two quarters of the year and changed business model with the largest trading partner Inditex. Negative sales efficiency in 2018 in Baltika group has led to the adoption of a new strategy and review of brand relevance when formal clothing trend is declining. LPP group, on the contrary, enjoyed the results of its business model targeted at the young casual consumer – Latvia and Lithuania were even among the largest two-digit growth markets in the group of the like-for-like store sales growth category. H&M group management has positively evaluated its global transformation achievements ranging from investments into logistics and online platforms and to the quality vs price and experience building in stores.

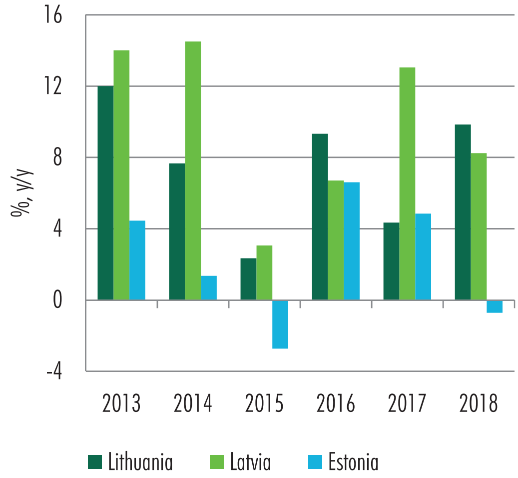
Despite the ongoing transformations, new brand representation in the existing retail groups took place as well as new market players have entered the region. Apranga group has opened the first Oysho stores in Vilnius and Riga. In H1 2019, Sportland group is to open a new sports store which brand is owned by Sports Direct group – USC. Among the new market entrants, it is worth mentioning Van Graaf fashion department store originating from Germany which opened its first store in Akropole Riga and Decathlon mega sports store from France which opened its stand alone-unit near Ikea Vilnius.

Figure 9: Shopping centre space supply distribution in 2018-2020



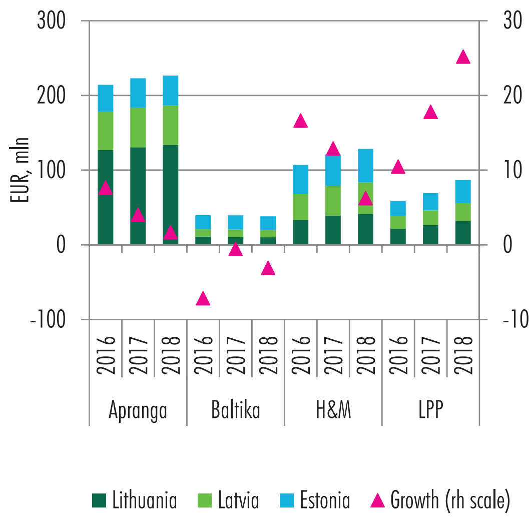
Source: CBRE Baltics, Q1 2019

Figure 10: Arrivals of foreign tourist



Source: Eurostat, Q1 2019

Figure 11: Revenues of the largest apparel retailers



Source: the companies, CBRE Baltics, Q1 2019

GROCERY MARKET

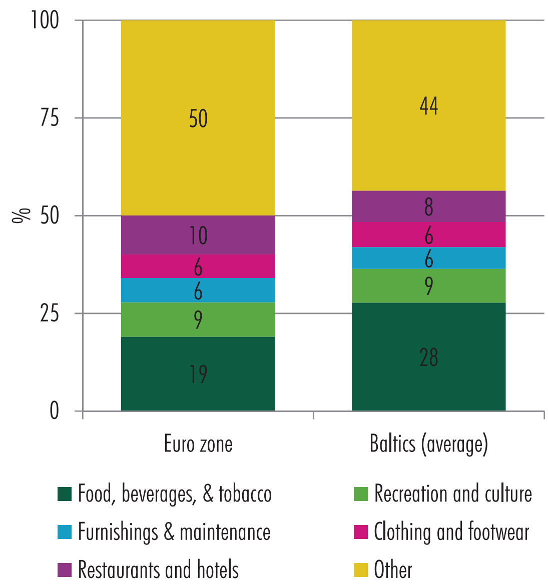
Competition among grocery retailers is intensifying. German supermarket chain Lidl, which already has 43 stores in Lithuania, has made its first steps of entering Latvia by signing construction contracts for a logistics centre and several stores. Lidl also plans to enter the Estonian market in 2020.

Rimi and Iki, the fourth and the second largest grocery chains in Lithuania, are back on the expansion track and are actively looking for new development opportunities after the Competition Council of Lithuania stopped a merger between the two companies. Rimi has announced that in Lithuania it plans to open 50 mostly express type stores by the end of 2023. It currently has 57 stores in the country. Iki plans to open a further 20 stores by the end of 2020. The chain already has 233 stores in Lithuania. The chain is managed by the German retail group Rewe, which increased its share to 93.75% in 2018. Other market players are always looking for expansion possibilities and also are trying to stay competitive, for example experimenting with new concepts, such as express stores and new supermarket formats.

HOME IMPROVEMENT RETAIL MARKET

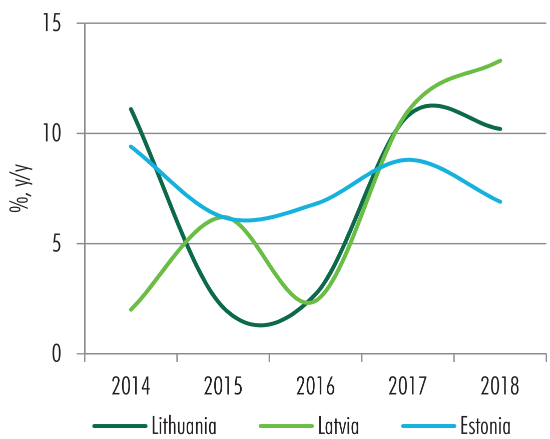
In 2018, the furnishings, home equipment and maintenance sectors observed high activity in the region. Retail sales in these sectors were at the 6-14% range. At the same time, the market players were actively expanding. For example, the first IKEA store in Latvia was opened just outside of Riga. The 34,500 sq m store cost ca. EUR 60 mln to develop. Latvian home improvement retail chain Depo DIY opened two stores in Vilnius of 54,800 sq m combined retail space. The chain is planning to open two stores in Kaunas in 2019 and 2020. Its main competitor Senukai, as a response, has renovated one of the stores in Vilnius and increased its shopping area to 17,000 sq m. Additionally, Senukai opened a new concept store Proficentras1000, which has 900 sq m of shopping space and a 10,000 sq m warehouse for goods. Ermitazas, the Maxima and Akropolis linked DIY operator, is also expanding. It acquired Estonian DIY chain Bauhof, which owns 13 stores. Additionally, Ermitazas is actively opening stores across secondary Lithuanian cities. Another DIY operator in Lithuania is planning to double the existing store number in two years from the currently owned 25.

Figure 12: Consumer basket in Eurozone and Baltics



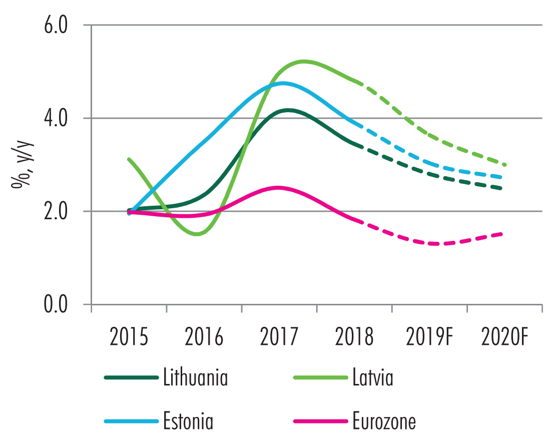
Source: Eurostat, CBRE Baltics, Q1 2019

Figure 13: Retail sales of home improvement goods



Note: retail sales in audio and video equipment; hardware, paints and glass; electrical household appliances.
Source: Eurostat, CSB Latvia, Q1 2019

Figure 14: GDP growth



Source: Eurostat, Oxford Economics, Q1 2019

ECONOMY

In 2018 GDP increased more than 3.0% y/y for the second year in a row in the Baltic states. The Latvian GDP growth was most impressive with a 4.8% rate. Estonia followed it with 3.9% and Lithuania with 3.5%. In 2019 the economies are forecasted to grow marginally slower, yet maintain above the 3.0% level, more than twice as fast when compared to the Eurozone. A slowdown reflects worsening economic performance in Europe and increasing global risks.

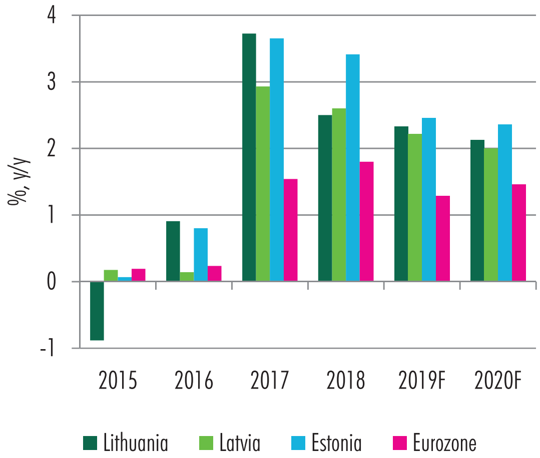
Uncertainty regarding protectionism driven tariffs, Brexit, and more rapid monetary policy tightening have put a burden on the forecasted economic growth in Europe and the Baltics. During 2018 the main catalysts in the region were construction, manufacturing and services driven by strong exports and private consumption. However, relative to past performance, the growth levels of these indicators should moderate.

The positive economic environment improved conditions for employees. In 2018, the unemployment rates in the region decreased on average 0.8 p.p. y/y. The Estonian labour market was the tightest with the unemployment rate averaging 5.4%. Lithuania followed it with 6.3%, and Latvia with 7.4%. Correspondingly significant improvements were observed in employee remuneration. Average gross monthly salaries in Lithuania increased by 9.6%, in Latvia 8.4%, and in Estonia 7.3% y/y during 2018.

Favourable labour market conditions and higher wages fueled strong private consumption. In 2018, Estonia led the region into another year of impressive private consumption growth with 4.7% higher household consumption expenditure, Latvia followed with 4.5%, and Lithuania with 3.9%. Comparatively, the growth rate of private consumption in the Eurozone was 1.3% or 3 times lower.

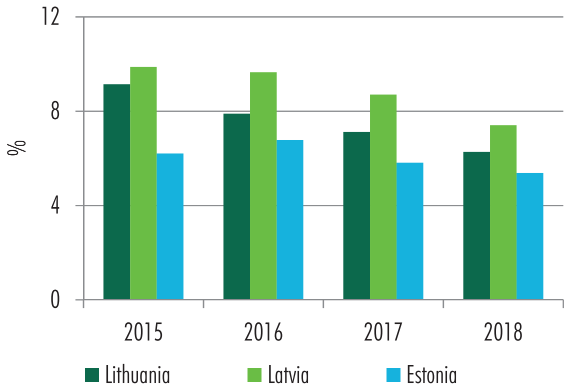
Fast growing wages and increasing consumption expenditure pushed prices upwards. Consequently, inflation remains above the Eurozone level. However, prices are expected to moderate to a healthy and desirable level of ca. 2% in 2019 and 2020. Prices were pushed up due to commodity price volatility, such as oil, increased duty taxes, and rising costs, especially for local labour-intensive goods and services. Significant price increases were observed for fuel, alcoholic beverages and tobacco, recreation and culture, restaurants and hotels.

Figure 15: Inflation rates and forecasts



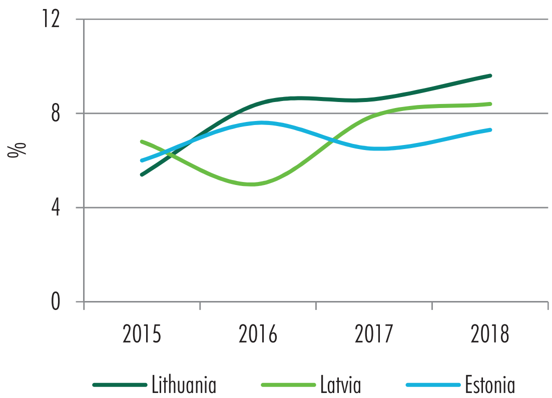
Source: Eurostat, Oxford Economics, Q1 2019

Figure 16: Unemployment rate



Source: Eurostat, Q1 2019

Figure 17: Salaries and wages



Source: national statistics agencies, Q1 2019

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.

Average Prime Rent – represents the Average Prime Rent for all prime units that were taken-up during the survey period as specified in the definition for the Prime Rent variable. This rate indicates an average of what it would have cost to lease space in the market.

Average Rent – represents the Average Rent for all units that were taken-up during the survey period. This rate indicates an average of what it would have cost to lease space in that market.

Shopping Centre (SC) Stock – represents the total completed retail space (occupied and vacant) in the traditional shopping centres at the survey date, recorded as net rentable retail area. Included are traditional shopping centres with a gross lettable area above 10,000 sq m, excluding hypermarkets, DIY stores, retail parks and other specialised stores.

ABOUT CBRE BALTICS:

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  - Valuation,
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  - Property & Asset Management,
  - Tenant Representation,
  - Agency Services – Retail, Offices, Industrial & Logistics,
  - Financial Services, Accountancy
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  - Transaction Management

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