

Strategic Transformations Underway



Note: Arrows indicate change from corresponding period of the previous year

Supply. In Q4 2022, the retail market was supplemented by the multifunctional centre Tabasalu Keskus (GLA:8,000 sqm) in Tallinn. Meanwhile, in Riga, a new marketplace Augusts (GLA:11,000 sqm) opened in the reconstructed premises of the previously vacated Prisma Hypermarket. Many pipeline developments are moving from sketches to construction sites. Yet, due to macroeconomic challenges, some timelines remain uncertain. In Lithuania, Vilnius Retail Park Una (GLA:15,100 sqm) remains under construction with plans for opening in 2023. In Latvia, SC Spice&Spice HOME is continuing its refurbishment and reconstruction of SC and the surrounding area. The VPH multifunctional development of Fabrika Retail Park in Riga has already pre-leased half of the retail premises whilst construction is only planned to start in 2023. Overall, 120,000 sqm of modern retail in multifunctional, retail park, market and traditional SC schemes are under construction in the Baltics and are expected to be delivered in the next 1-2 years.

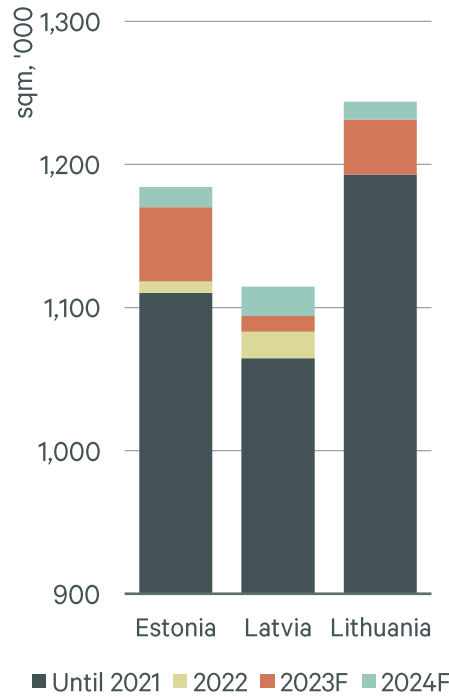
Lease Terms. During Q4 2022, prime rents in high-street and shopping centres in the Baltics maintained stability with an average range of 45-55 EUR/sqm/month. However, the high street and shopping centre vacancy rate was elevated at the year-end. Despite the market's uncertainty, growing maintenance costs pose new obstacles that may impact rental rates, lease revenues, and terms in the future. The lease terms, concerning rent indexation without a cap rate, may disappear. Some tenants with indexation due in Q4 agreed to postpone rents until the following year, while others had different indexation rates applied, e.g., the average inflation in the Eurozone. On the other hand, tenants with net leases faced a significant rise in service charges during Q4 2022, but this trend is already becoming more stable in early 2023. The leasing terms are taking a new shift to become relatively customized to accommodate the specific needs of tenant-landlord agreement.

Trends. In the Baltics, the leading online retailers (Pigu HobbyHall Group, Weekend) have already established outlets for vending physical goods. Juggling between two worlds matters: while bricks-and-mortar retailers' expansion to physical sales points will continue, some major online platforms will be reverting to bricks-and-mortar operations.

In the Baltics, retail continues to strengthen its presence in secondary cities, with food retailers such as Spar and Lidl, as well as fashion retailers like Sinsay and Decathlon, expanding outside the capital cities (e.g., Daugavpils, Klaipeda, Kaunas). This trend is expected to continue as Weekend is also planning to open a store in Liepaja, with other retailers likely following suit.

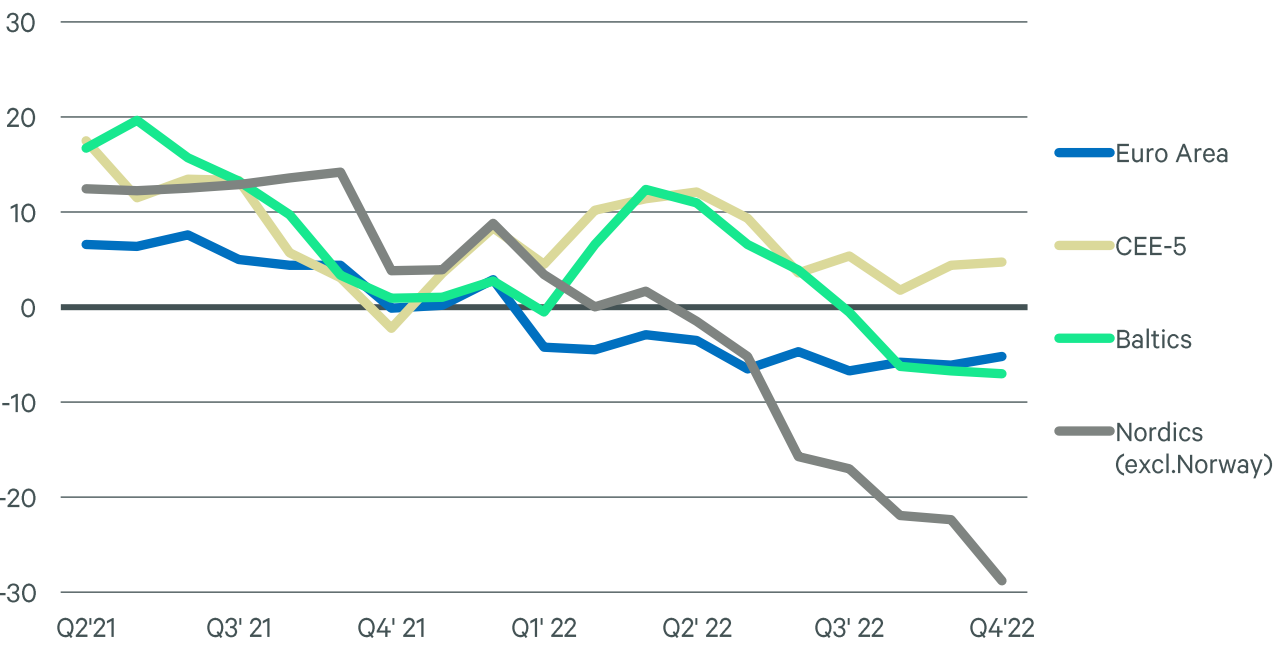
In order to increase customer engagement, social media is playing an increasingly important role. According to Eurostat's DESI, approximately 55% of enterprises in the Baltics already utilize social media. The total value of digital payments in the region has been growing at an annual rate of approximately 20%, reported by Statista. Cards, bank transfers, mobile payments, and digital wallets are the most widely used payment methods, following increased engagement from younger generations, who are increasingly involved in e-commerce and have a growing purchasing power.

FIGURE 1: Existing Modern Retail Stock and Forecast for 2023 & 2024, Baltics



Source: CBRE Baltics Research

Market Area Overview Retail Confidence in the Baltics, Euro Area, CEE-5 and Nordics, Q2 2021 – Q4 2022



Definitions

CA - Calendar adjustment refers to the correction for calendar variations.

CEE-5 Core Countries - Czechia, Hungary, Poland, Romania, Slovakia.

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 sqm 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 sqm, excluding hypermarkets, DIY stores, retail parks and other specialised stores. Included are shopping centres with an anchor tenant, for which the 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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