

Latio

**Commercial Real
Estate Market**

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F O R E W O R D

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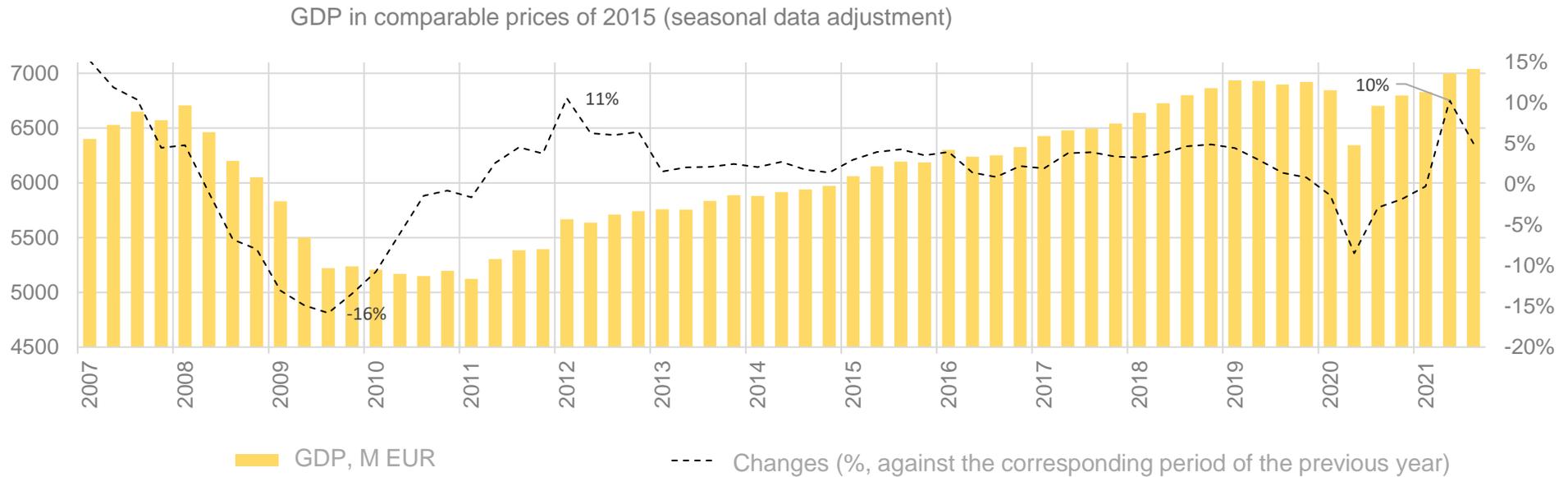
The year 2021 will be recorded in history thanks to the fact that investors in Latvia finally adopted a yield rate that starts with the figure 5. What will the year 2022 look like, what will there dominate – fear of war or inflation, how much will it cost to build a square metre? There are no answers to these questions. Nevertheless, there's one thing we know for sure – the life will go on.

EDGARS ŠĪNS

Latio Chairman of the Board



Rapid recovery of economy was observed in H1 2021 following the crisis triggered by Covid-19

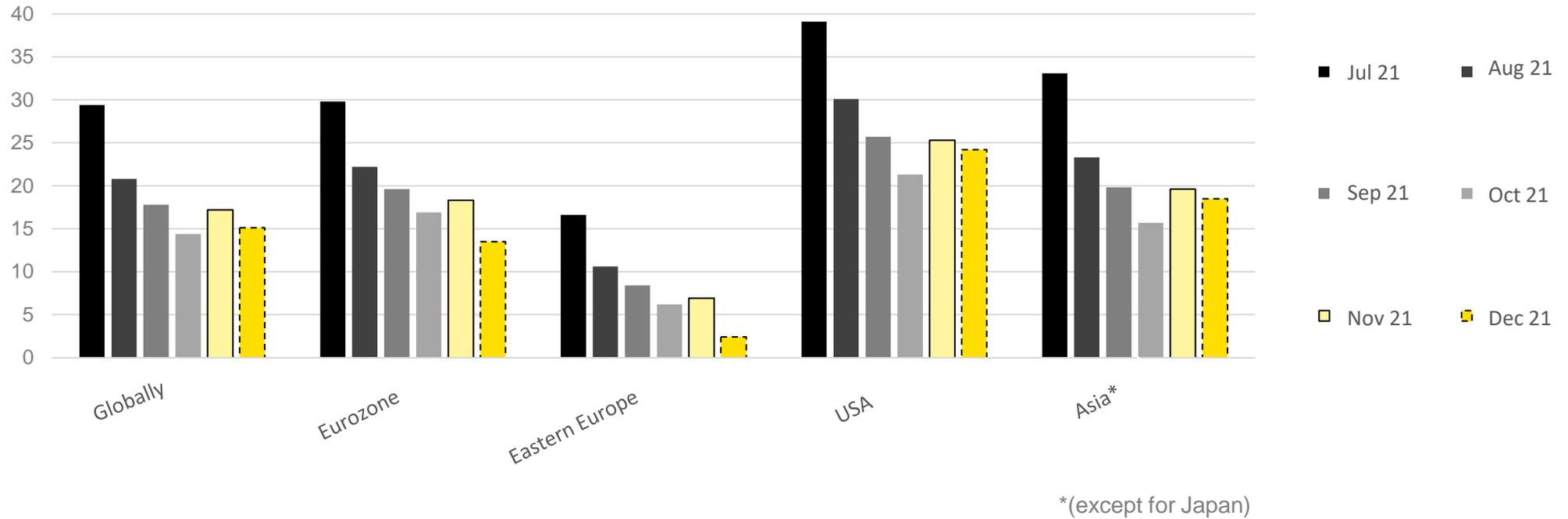


Outbreaks of new virus stems following the first half-year have hampered **economic** growth. *The Minister of Economy* forecast a GDP growth of close to 5% in 2022.

Taxpayers affected by the crisis had the opportunity to apply for support grants from the State Revenue Service (SRS).

SRS considered the possibilities of extension of tax payment deadlines that partially accounted for decline in insolvency cases of legal entities. In 2021, there were 37% less of such procedures than in 2020.

Sentix Investor Confidence Index

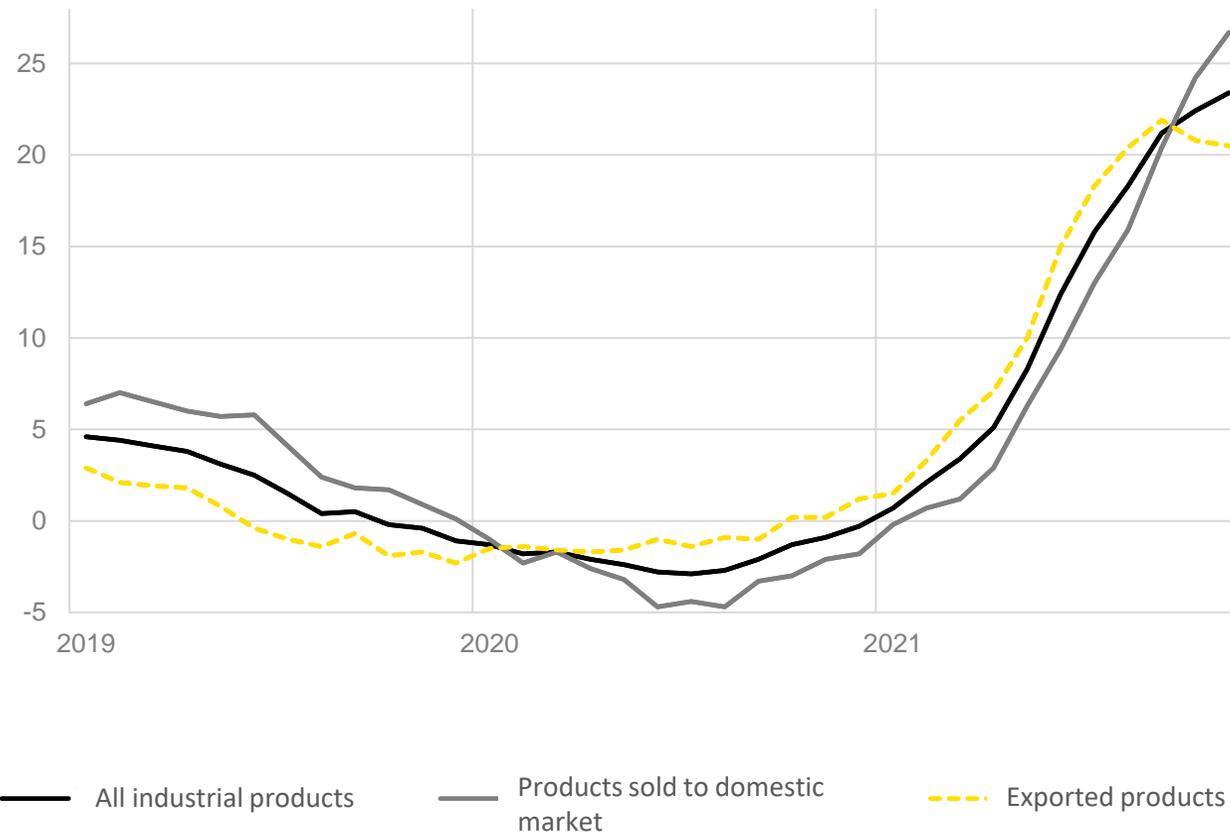


With outbreak of new Covid-19 variations, stricter restrictions and increased requirements for vaccination have been re-introduced in many countries, and delays in deliveries and rising prices have affected business and consumer confidence.

This is reflected in the shrinking fluctuations of the Sentix Investor Confidence Index. There is a sharp decline around the world. In July, the global index was 29.4, whereas in December - 15.1.

Prices have grown significantly in the industrial sector over the last 12 months

Manufacturer price indices
(%, changes against the corresponding period of the previous year)

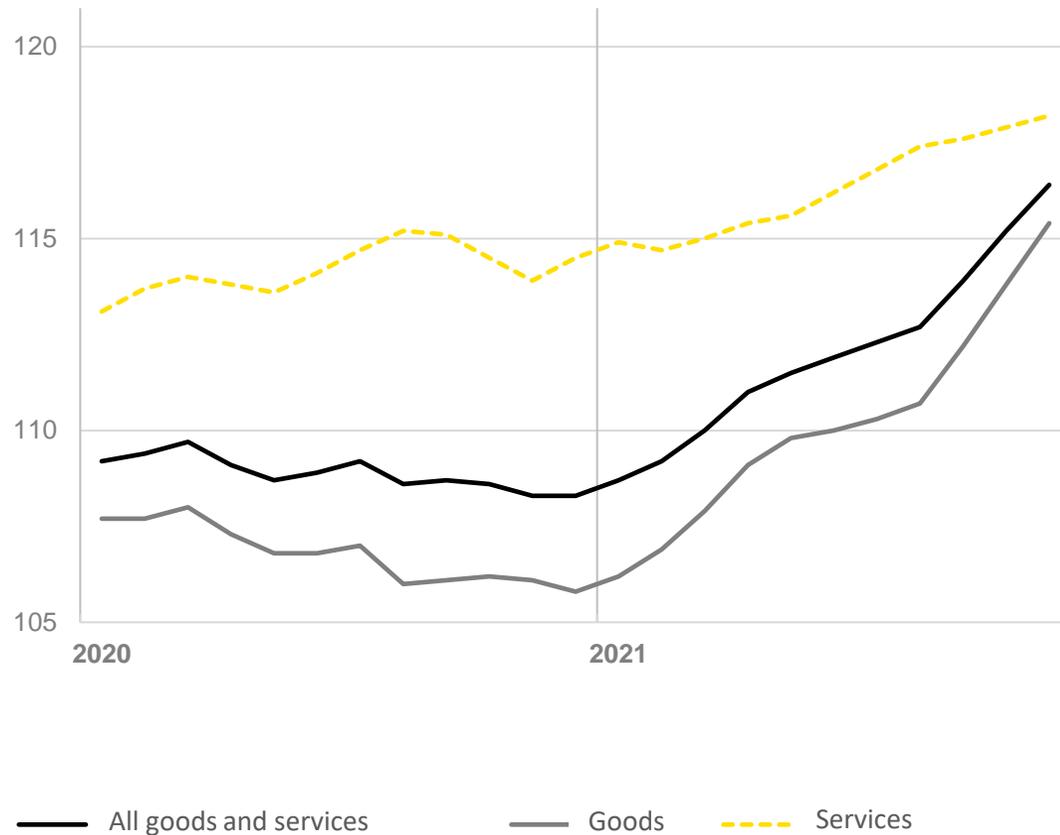


The rise in the prices of exported products is partly explained by the rapid increase in exports.

According to the data of *the Ministry of Finance*, in November 2021, exported goods reached the highest one-month value recorded since gathering of foreign trade data (30.7% increase compared to the corresponding period of 2020).

The industrial sector is also affected by the rising energy costs, which may create favourable conditions for further increases in price indices.

Customer Price Index (2015 = 100)



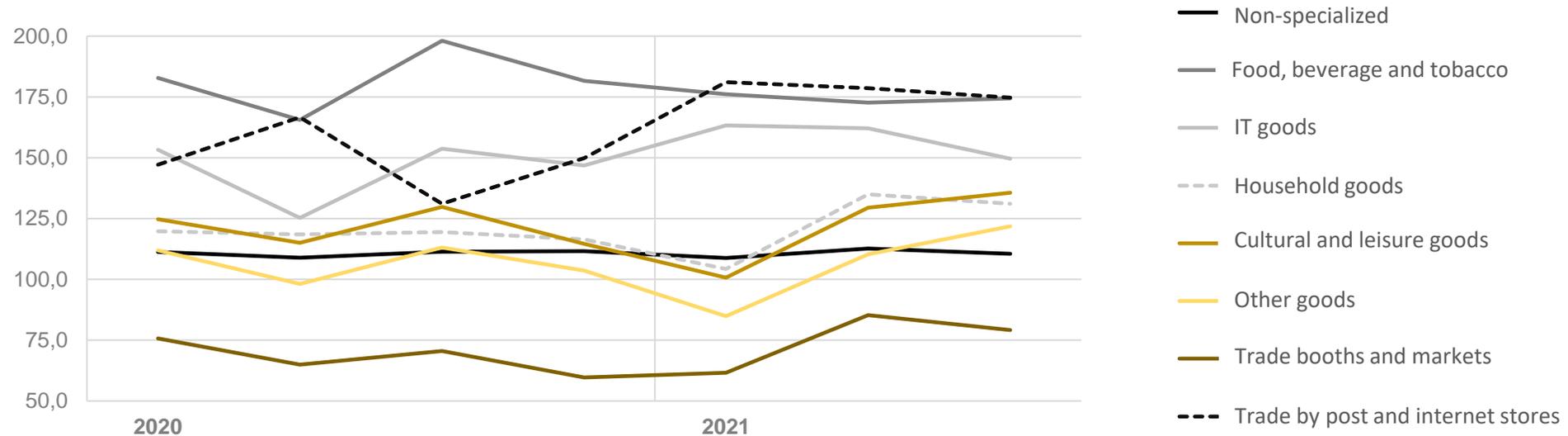
As of early 2021, the prices kept soaring constantly and rapidly.

The changes in daily spending are increasingly more noticed due to the price increase.

The most modest growth has been in services that have been affected significantly by Covid-related restrictions.

Although there was a slight slowdown in the growth rate of the consumer price index at the beginning of the year, it was temporary.

Total turnover index of retail companies, indicators of stores
((2015=100) comparable prices, seasonal data adjustment)

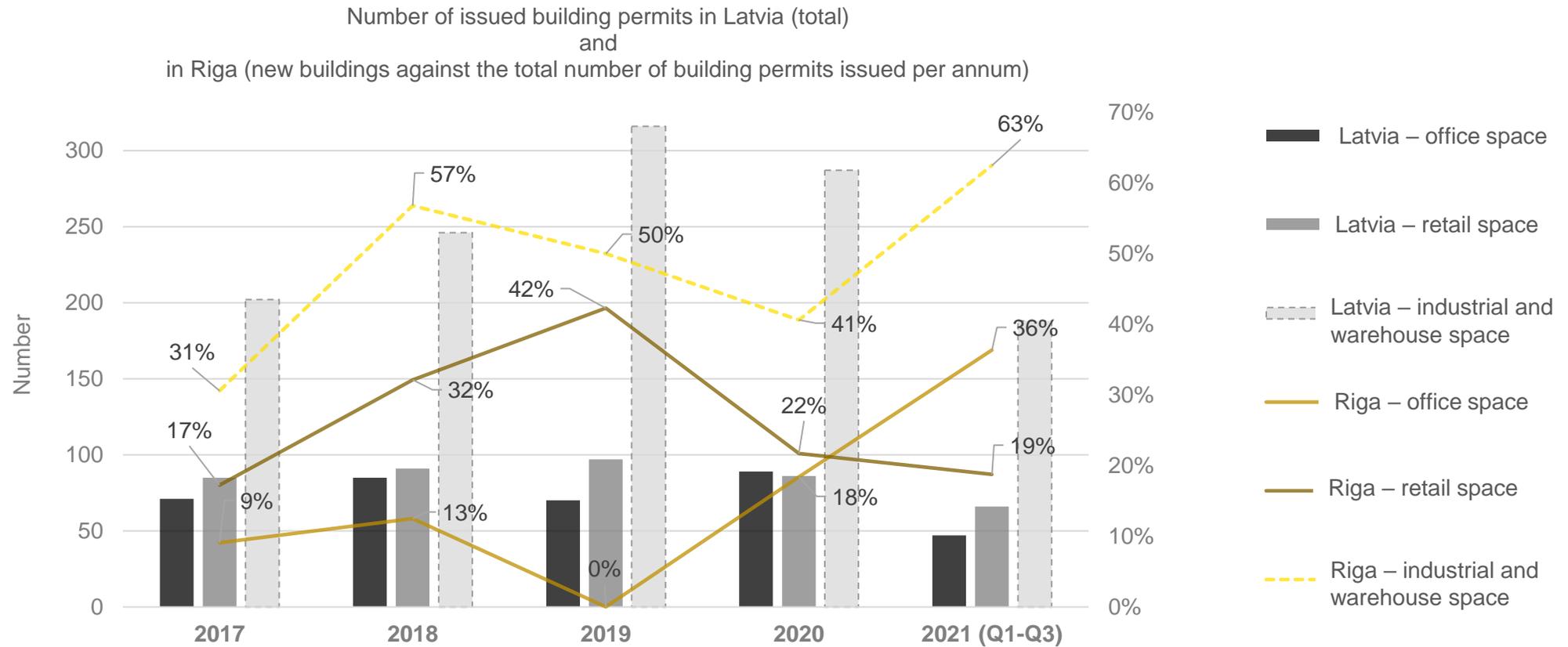


In 2021, one of the most rapid turnover growth was recorded for **retail sale** by post and internet stores.

It is explained by the strict restrictions introduced in retail sale places during the emergency situation. Entrepreneurs adjusted to the new order and took a chance to develop distance sales more widely.

Also the Ministry of Economy recommended retailers to encourage their customers to shop through internet stores as much as possible and to collect goods outside the shopping places.

In the late quarter of the year, with the inflation growing, the daily spendings of customers increased and purchasing power weakened. This was reflected also in retail turnover decrease in shops of various industries such as shops of information and communication technology devices. Considering that the leisure service industry was also hit by the strict restrictions, a part of the customers equipped their households with stocks of different leisure goods by purchasing them in the stores of such goods.



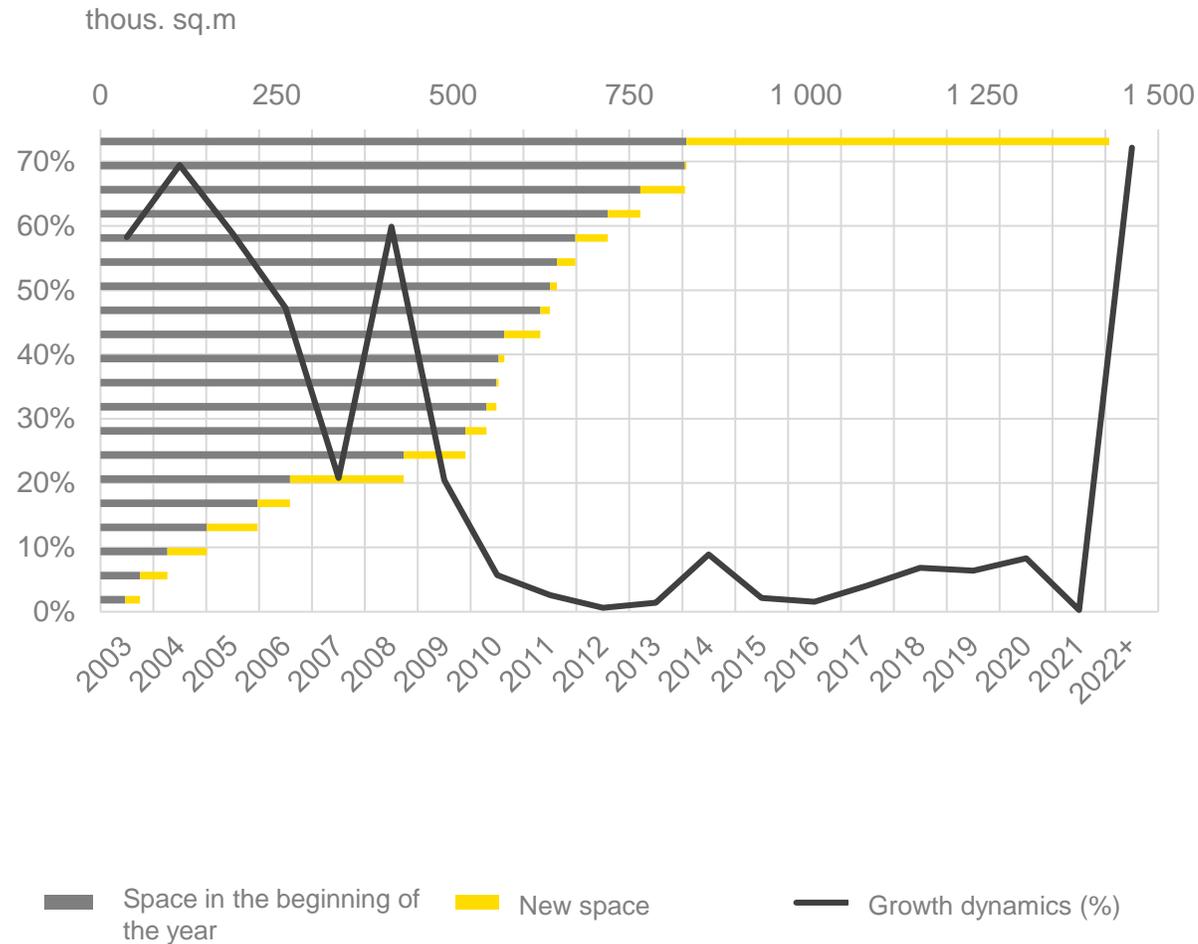
Building volume index (as per non-adjusted data) reached 8.5 points in EU, 6 points in Latvia. The highest index was fixed in Spain where it reached 15.4 points, while the lowest one was fixed in Germany (4.6).

Due to **energy resources** getting more expensive and the negative aspects of availability of raw materials, there is a rapid increase in costs of building materials while the available data indicate that

the building industry will still be active in 2022. For new buildings at the scale of Latvia, the breakdown of the subject types of buildings (out of the total number of **the building permits** issued in 2021) was as follows: office buildings - 23%, retail space - 39%, industrial buildings and warehouses - 67%.

O F F I C E S P A C E

Class A and B office space (thous. sq.m.) and year-on-year growth dynamics (%)

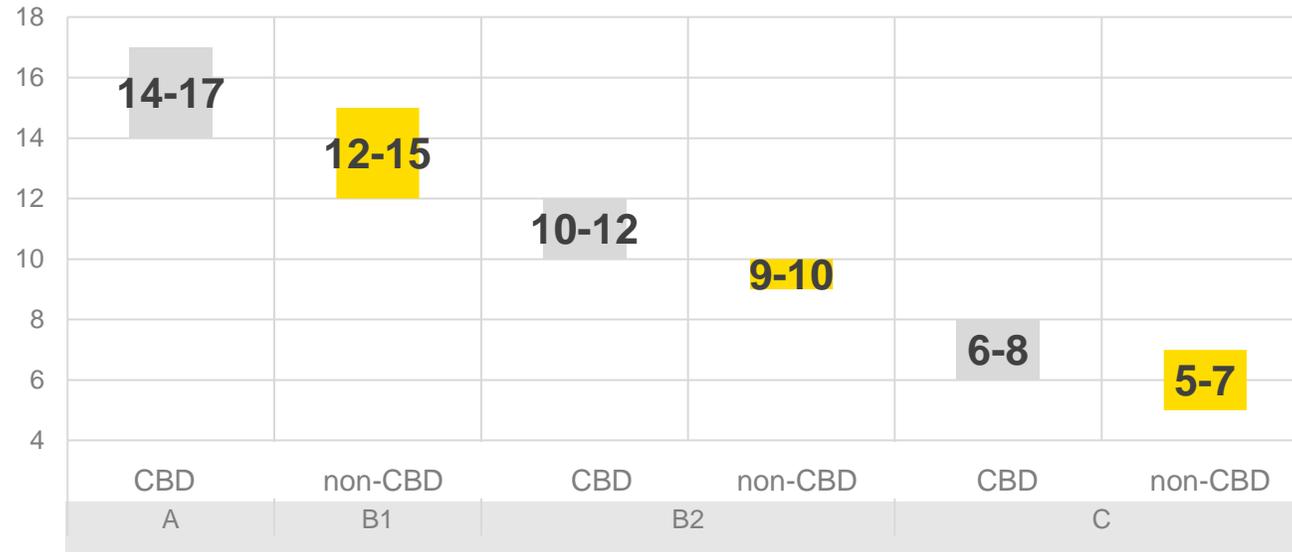


- There has been signed a contract for building of a new Class A business centre – **Novira Plaza**. The works are scheduled to be completed by June 2023, and more than 55 mln EUR are to be invested.
- At Skanstes Street, construction of Class A business complex **Verde** was launched. The first building is planned to be finished in first half-year of 2022. The lettable area of both the buildings will total to 30,000 m², and the project costs are estimated at more than 65 mln EUR.
- In March 2021, a contract for construction of the 1st round of **Preses Nama Kwartāls** was signed. The goal is to complete the first round by early 2023. The first round of the project will offer 25,000 m² for Class A offices.

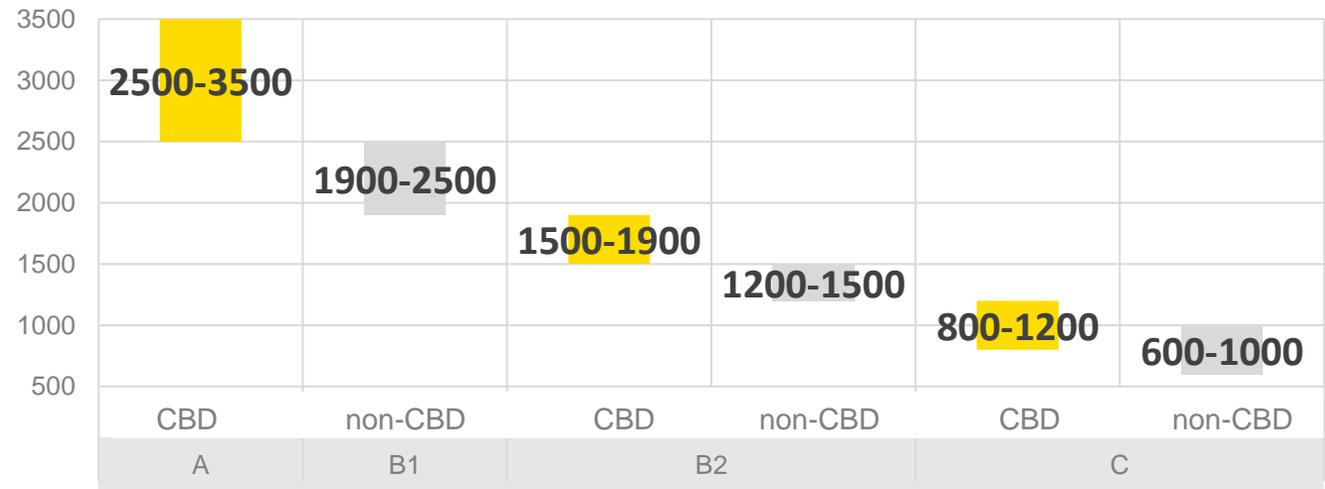


- In July, construction of first office building of the complex **New Hanza** was launched in Riga, at, Mihaila Tāla Street 1. The lettable area of Class A offices will total to 12,000 m². The construction works are planned to be completed by late 2022.
- In the beginning of September, a contract valued at ca.49 mln EUR was signed for construction of **Elemental Skanste**, the first round (the lettable area of 21,000 m²) is to be completed by spring 2023.
- In December, a symbolic time capsule has been embedded at **Gustavs Business Centre** construction site. This marked the launch of construction of the first building. It is envisaged that about 11,000 m² out of the total area of the building (23,500 m²) will be taken by **SEB** group business service centre. SEB bank are going to relocate their head office to the office building replacing the former Milda's Market at Railway Terminal Square. The opening ceremony of the new complex is scheduled for 2025.

Office space lease charge per month (EUR/m²)

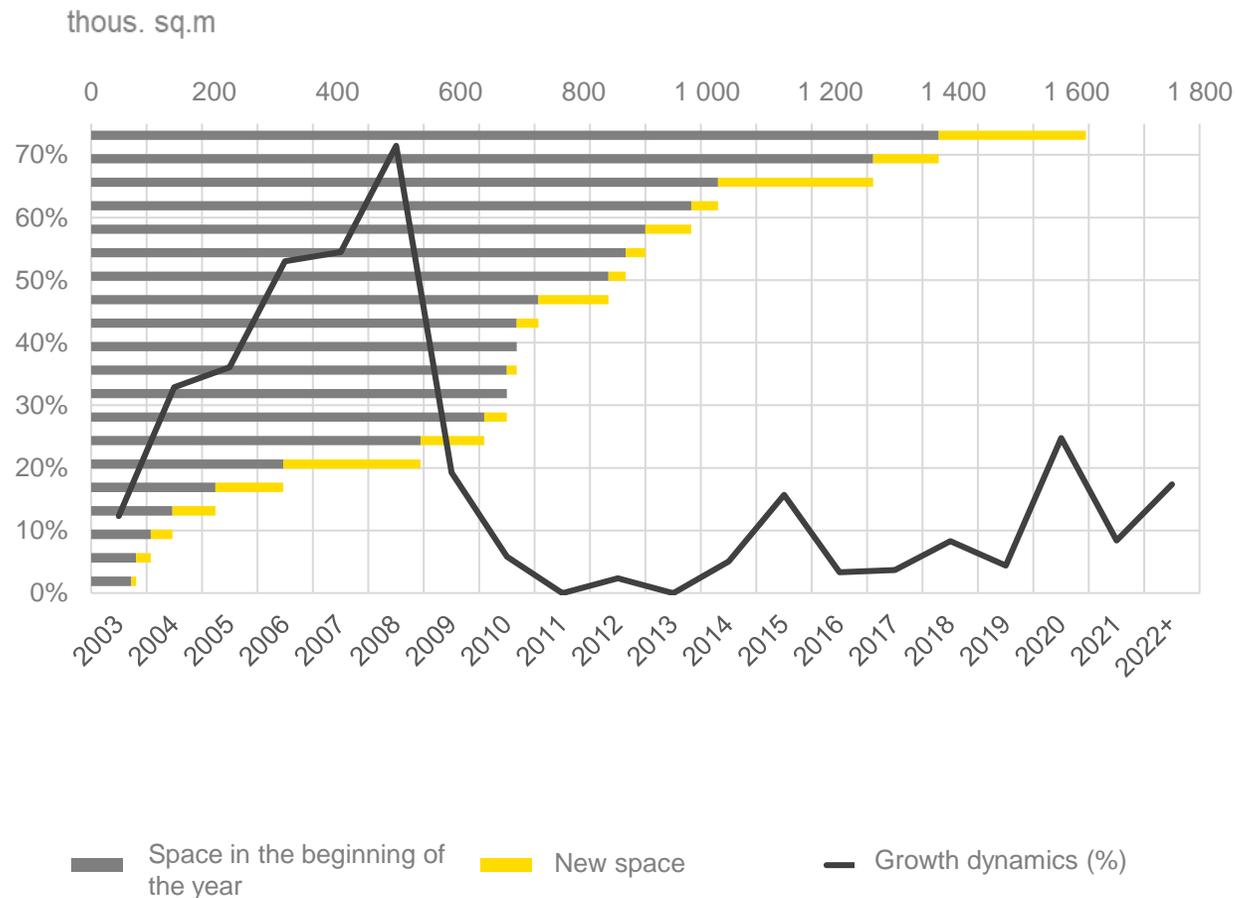


Office space selling price (EUR/m²)



I N D U S T R I A L S P A C E

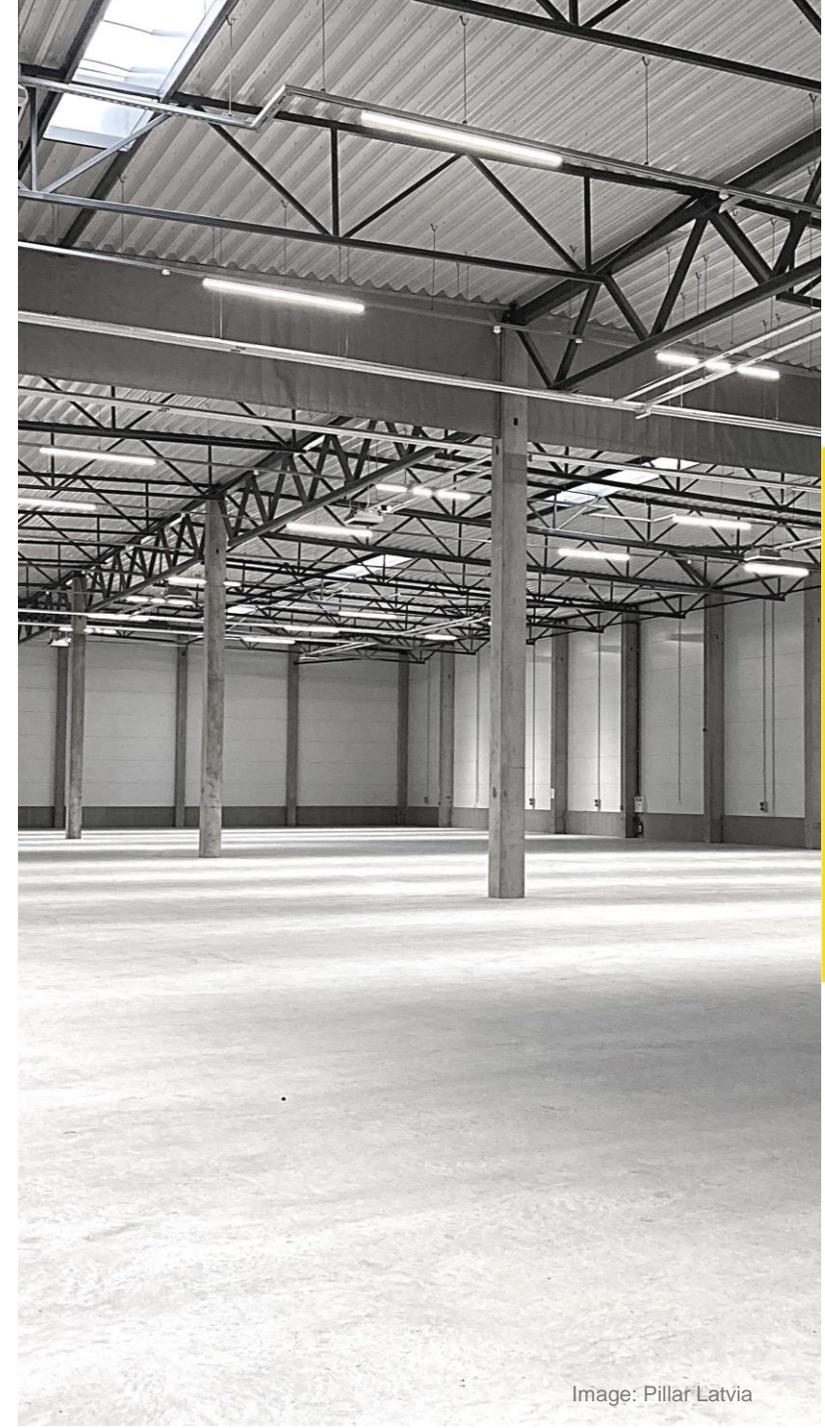
Industrial space (thous. sq.m) and year-on-year growth dynamics (%)



- Early in the year, the retail company **Lidl Latvija** opened their logistics centre to ensure supply of goods and products to shops both in Latvia and Estonia. Construction of the 51,000 m² large logistics and office complex was launched in 2018, and over 55 mln EUR were invested. The warehouse provides six temperature zones, one of them making the largest refrigerator in the Baltics.
- There was completed the 2nd round of Class A warehouse/industrial complex **Green Park** offering ultra-energy-efficient space.
- The final construction rounds of **Orkla Biscuit Production** factory were launched. This is the major investment project of the business group over the recent years. The construction is forecast to be finished in 2022. The total area is 31,000 m². This factory specializing in production of biscuits and wafers will be the largest one in the Baltics and Scandinavia.

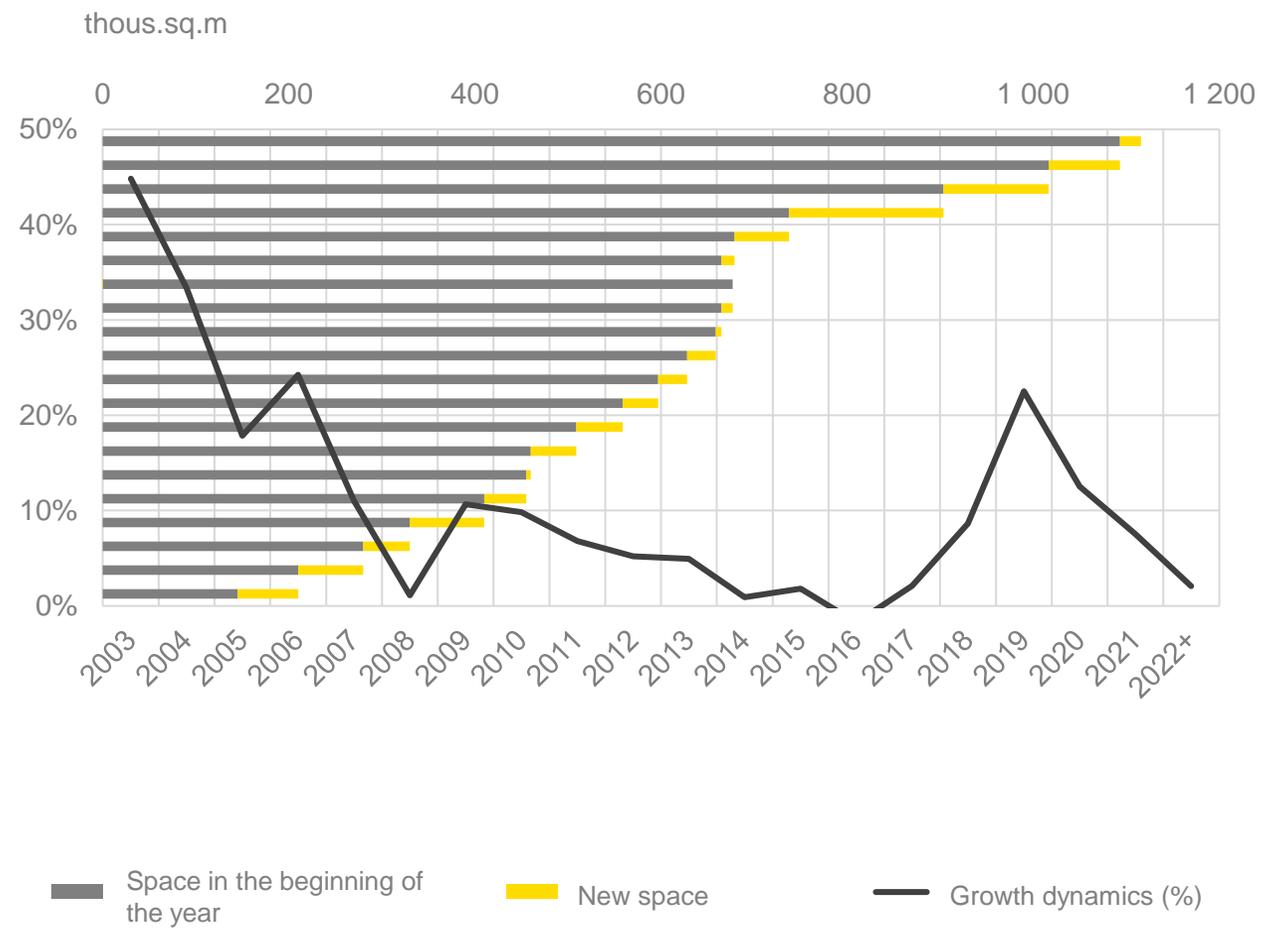


- In December, the logistics pars A6 was put into service. In addition to the existing buildings on the territory, three new Class A warehouse buildings of 30,500 m² were constructed.
- A capsule was embedded at the logistics and warehouse centre in Dreilini that will provide deliveries to the shops of the retail company **JYSK** in the Baltics and Belarus. The total area will be 42,000 m².
- There was launched construction of warehouse centre **VGP Park Tiraine**.
- In early 2021, the largest transaction for warehouse complex purchase in Latvia ever registered over the recent years was closed with brokerage of **Latio LLC**.

Industrial space lease charge per month (EUR/m²)Industrial space selling price (EUR/m²)

R E T A I L S P A C E

Retail space (thous.sg.m) and year-on-year growth dynamics (%)



- **LIDL** opened 17 stores in Latvia with 2,600 m² space per shop on average. In 2022, ever new LIDL stores are expected in Riga and other Latvian cities.
- Early in the year, gardening and household goods centre **Hortes** was opened. The total area - ca. 6,000 m².
- In **Via Jurmala Outlet Village**, Gastro market occupying 400 m² was opened as well as other shops.
- **Fix Price** announced their intention to open nearly 100 franchise stores in the Baltic States in the next 5 years.
- In Riga, the retail chain shops **Mere** and **Citro** were opened.
- **Akropolis Group** finalized the purchase of **Alfa** shopping park. The gross area totals to 154,000 m², gross lettable area is about 71,000 m².
- In Jelgava, there was a transaction closed for **Valdeka** shopping mall occupying slightly above 14,000 m².



- **Ozols Shopping Centre** (GBA 30,000 m²) was sold by *KS Holding* to the Finnish investment fund *Special Mutual Fund Titanium Baltic Real Estate*.
- At the end of the year, the Finnish retailer **Stockmann** sold their shopping malls in Riga and Tallinn at 87 million euro to the Estonian company *Viru Keemia Grupp (VKG)*.
- A transaction was closed for **Juglas centrs** shopping mall, measuring nearly 4,400 m².
- In early 2022, beverage packaging **deposit systems** were launched at grocery stores.
- In 2021, the owner of Riga Plaza Shopping Mall purchased a company in Riga thus becoming the landlord of a commercial building with one of DEPO DIY stores as a long - term tenant in **Imanta Neighbourhood**. The gross building area is 19,000 m².

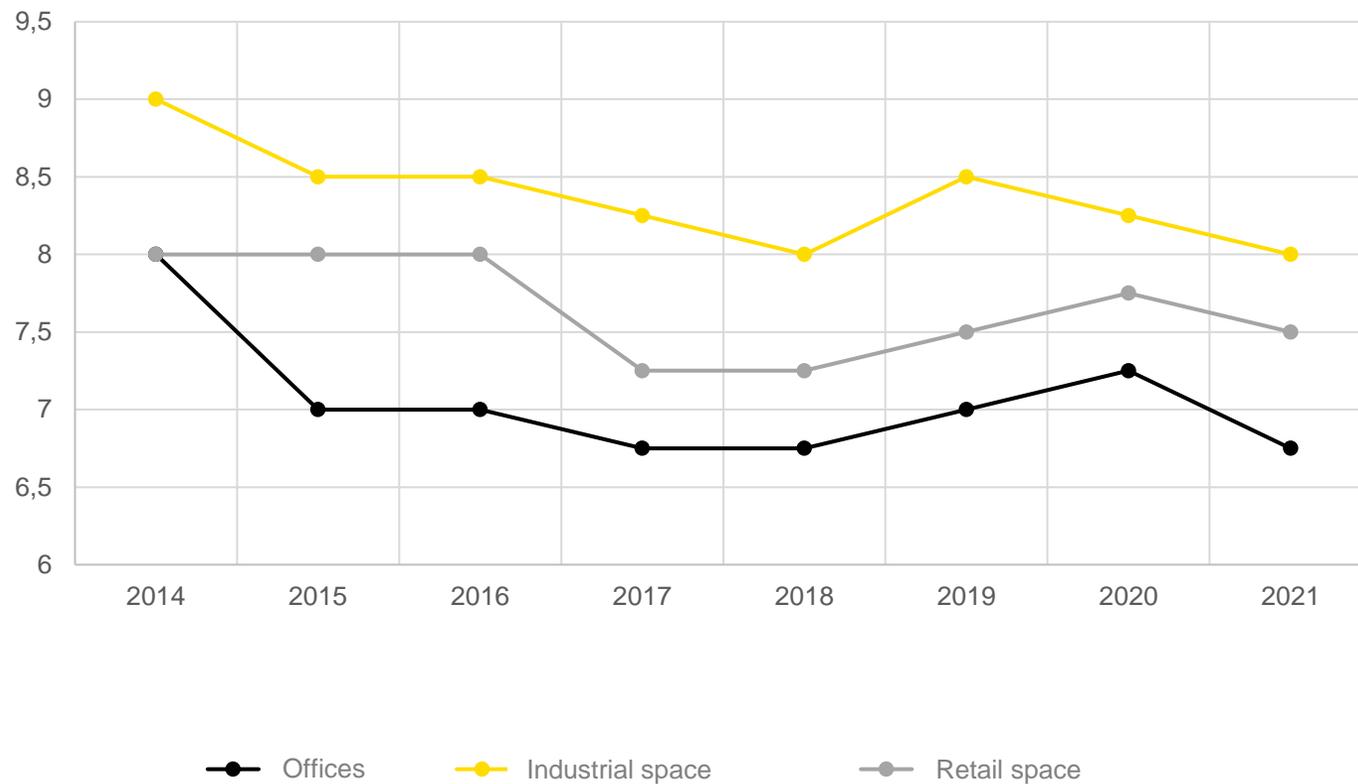
Retail space lease charge per month (EUR/m²)



Retail space selling price (EUR/m²)



Y I E L D R A T E S



The rates have been estimated according to market research data gathered by *Latio* as to investor-demanded yields in transactions for income generating property in the real estate segments reflected in the chart.



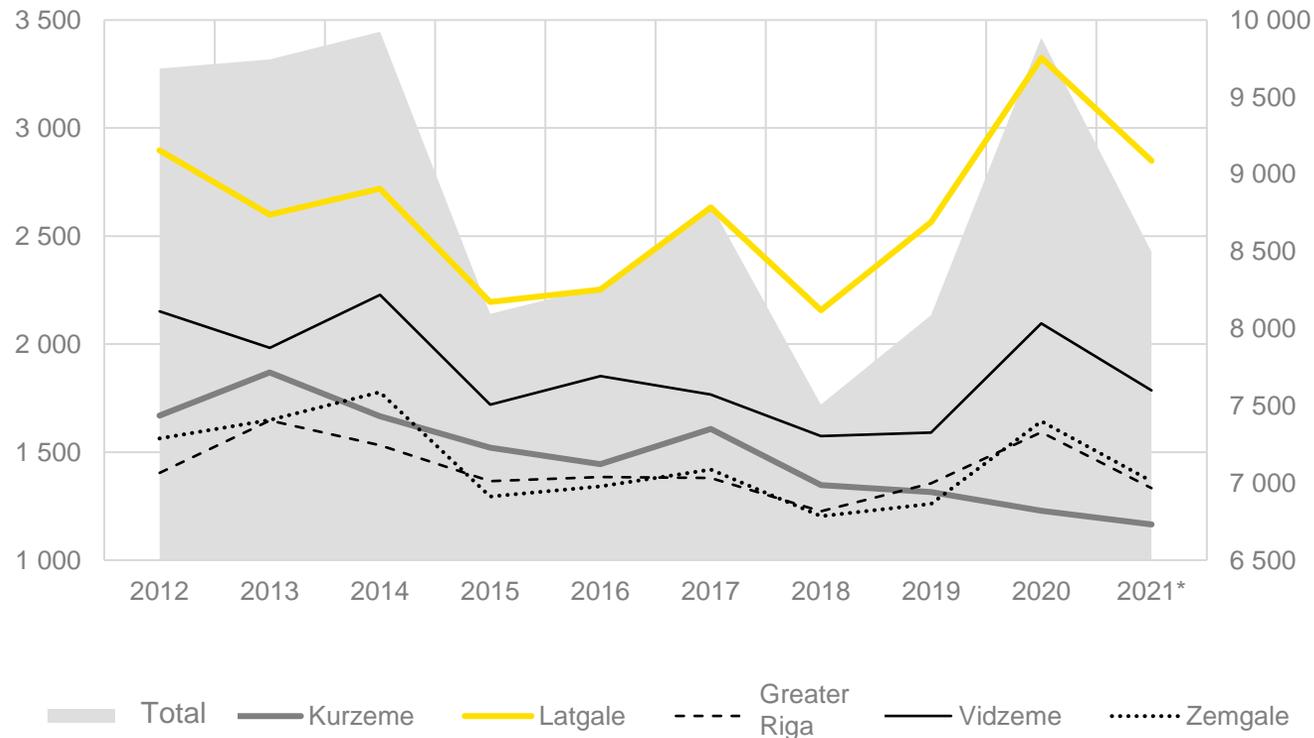
F O R E S T S



F A R M L A N D

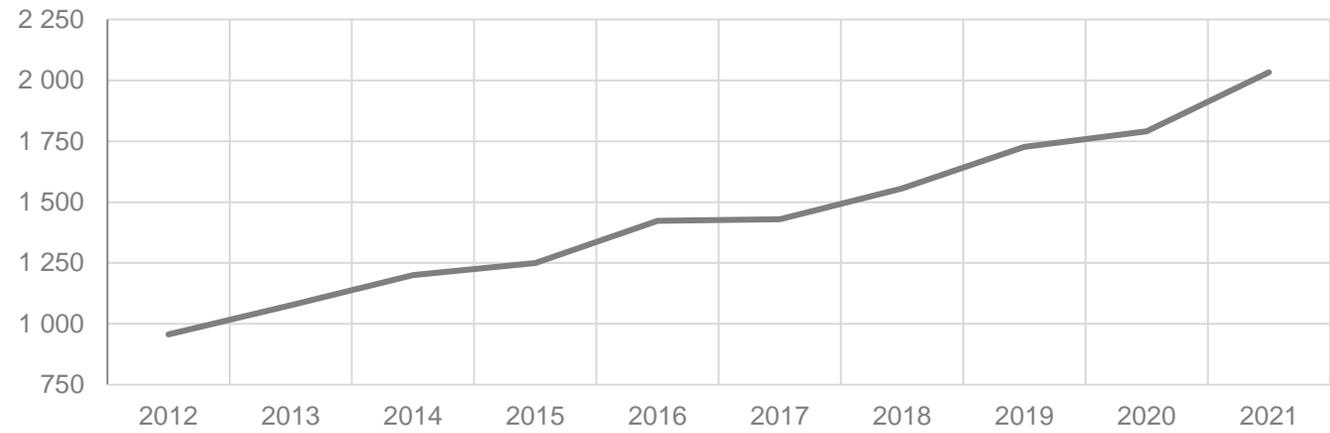
Forest prices keep their upward trend

Annual number of transactions for farmland and forested land (>1 ha)

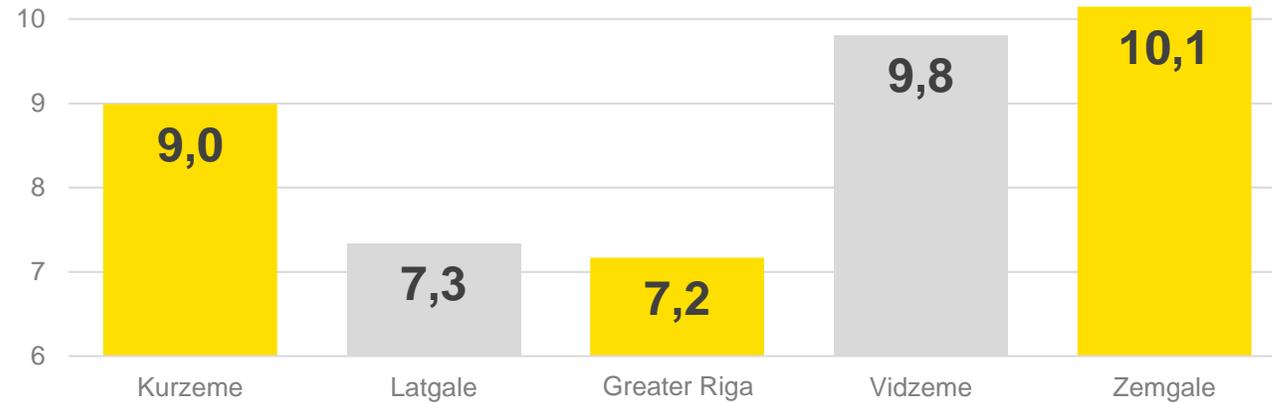


- Prices of both forested land and forest stand have jumped by 10-15% during the year as influenced by the increase in timber prices and optimism about market development.
- The number of investors seeking to invest in forested land has enlarged. Given the high demand among developers, the prices might continue climbing up.
- The yield rates have been fixed at 3-4% on average as the deals studied by Latio LLC indicated.

Average forested land prices (EUR/ha)



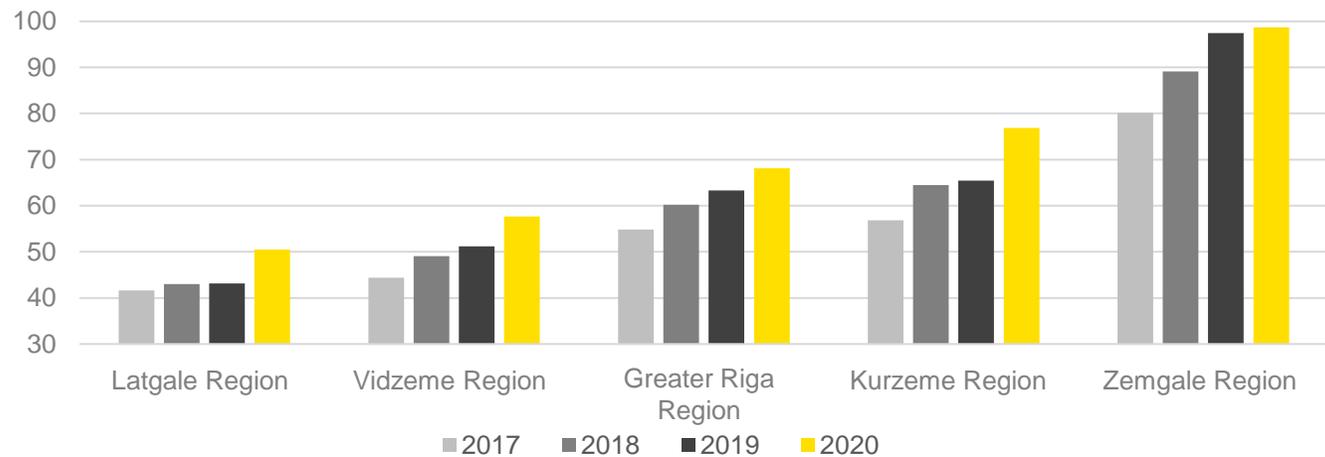
Average forest areas sold in 2021 (ha)



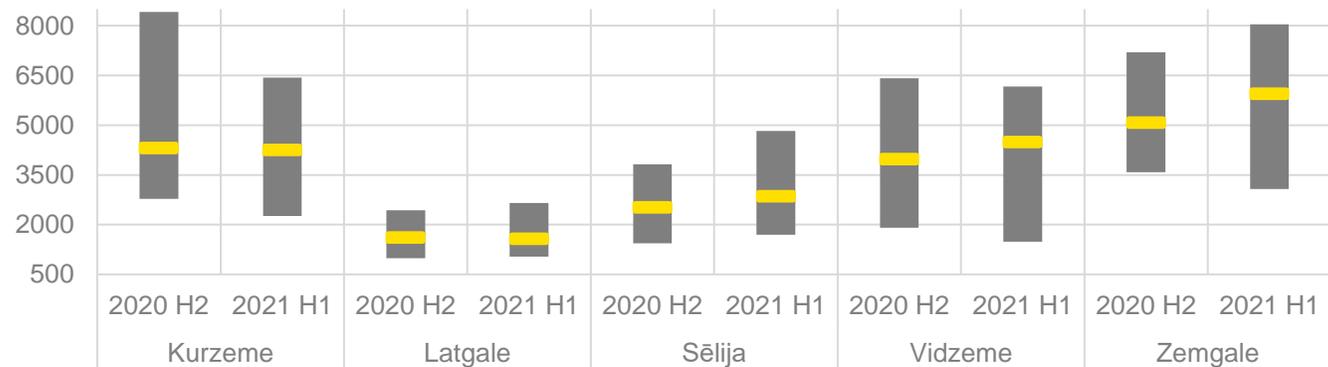
Data source: State Land Service



Farmland lease prices regionally (EUR / ha)



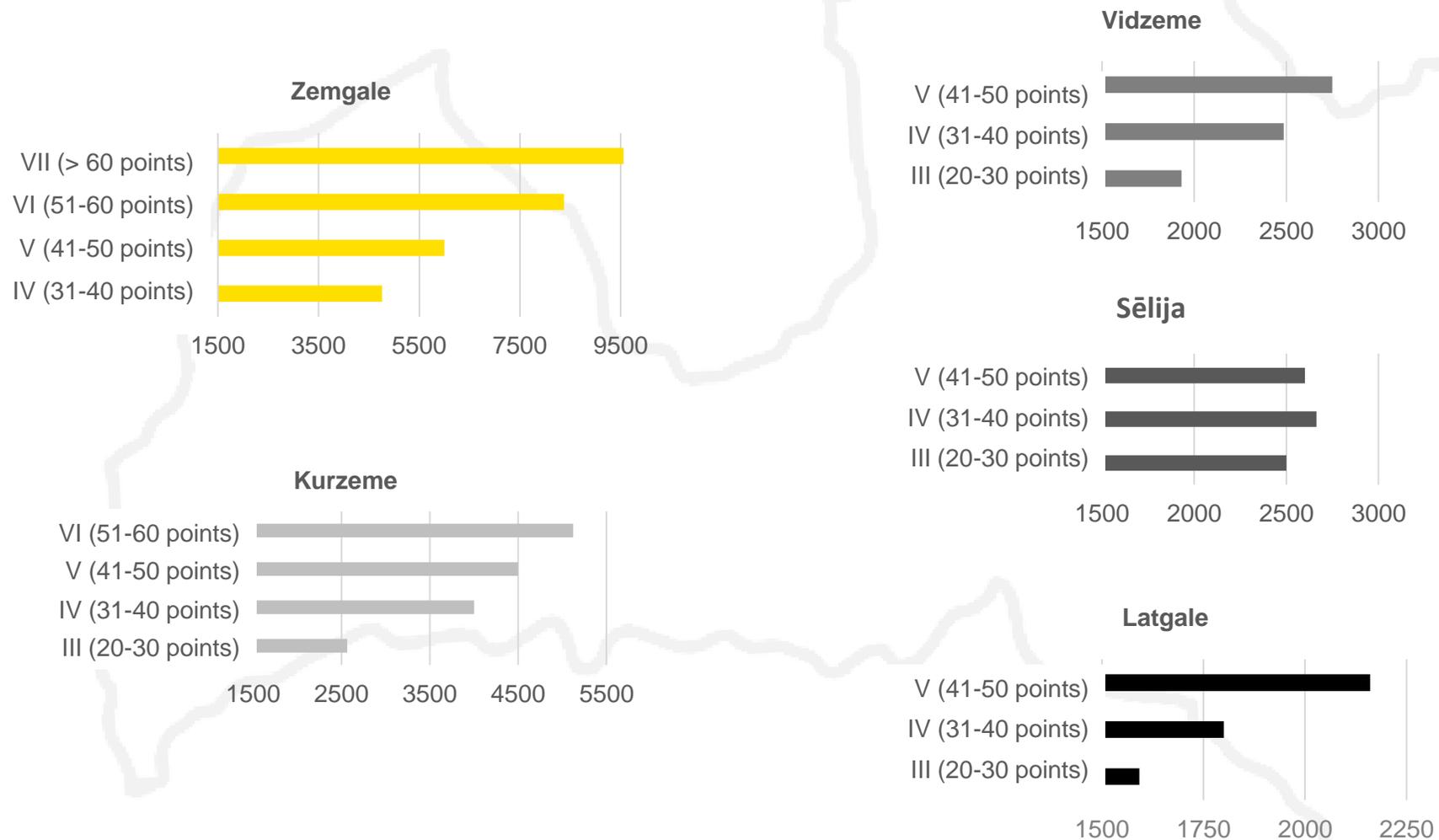
Average farmland (> 3 ha) values and modus (excludes data for Marupe Municipality)



Data source: State Land Service



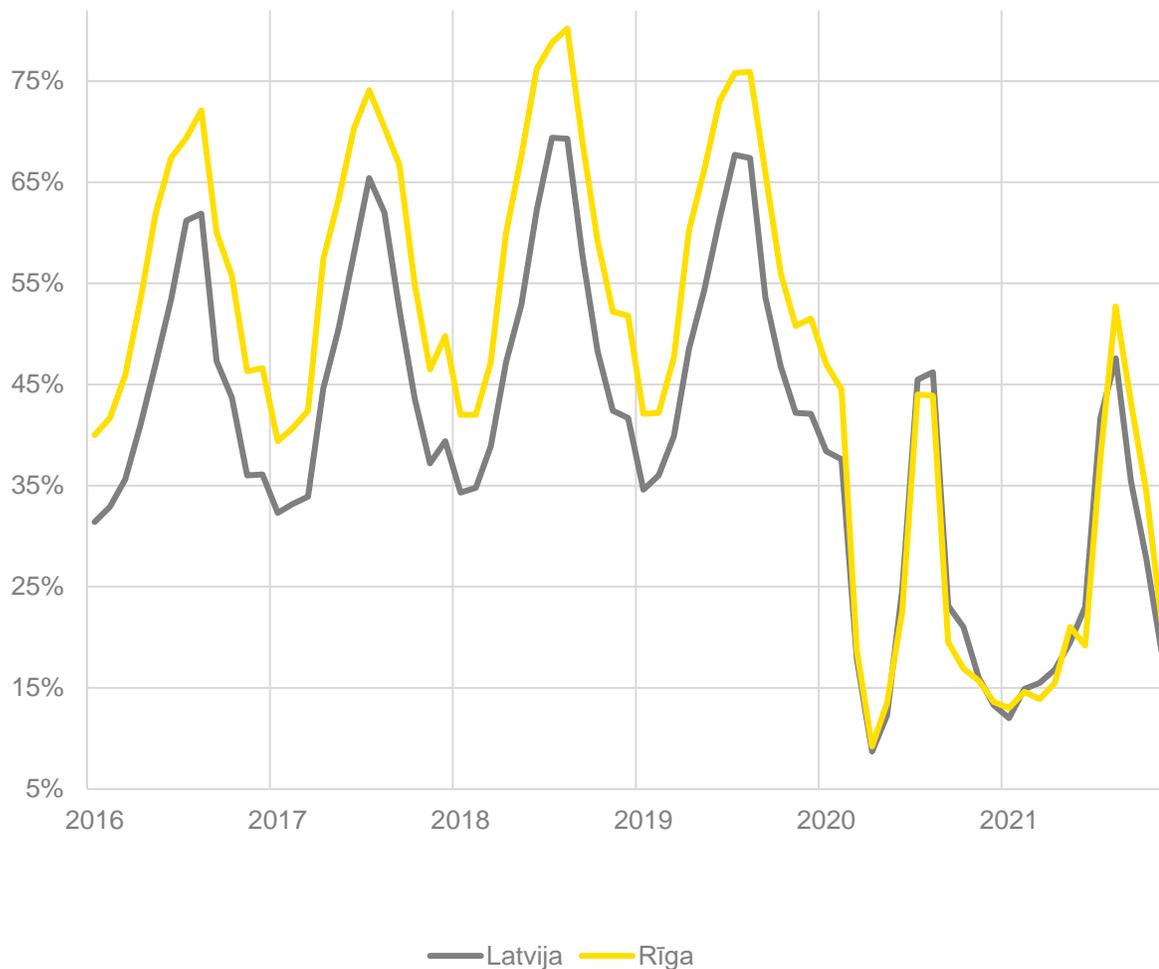
Average prices of farmland (EUR/ha) H1 2021



Data source: State Land Service

H O S P I T A L I T Y I N D U S T R Y

Room occupancy rate in hotels and similar accommodation establishments



33% out of the total number of hotels and other tourist lodging establishments in Latvia were located in Riga and Greater Riga Area and 9% thereof in Riga alone, in Q3 2021.

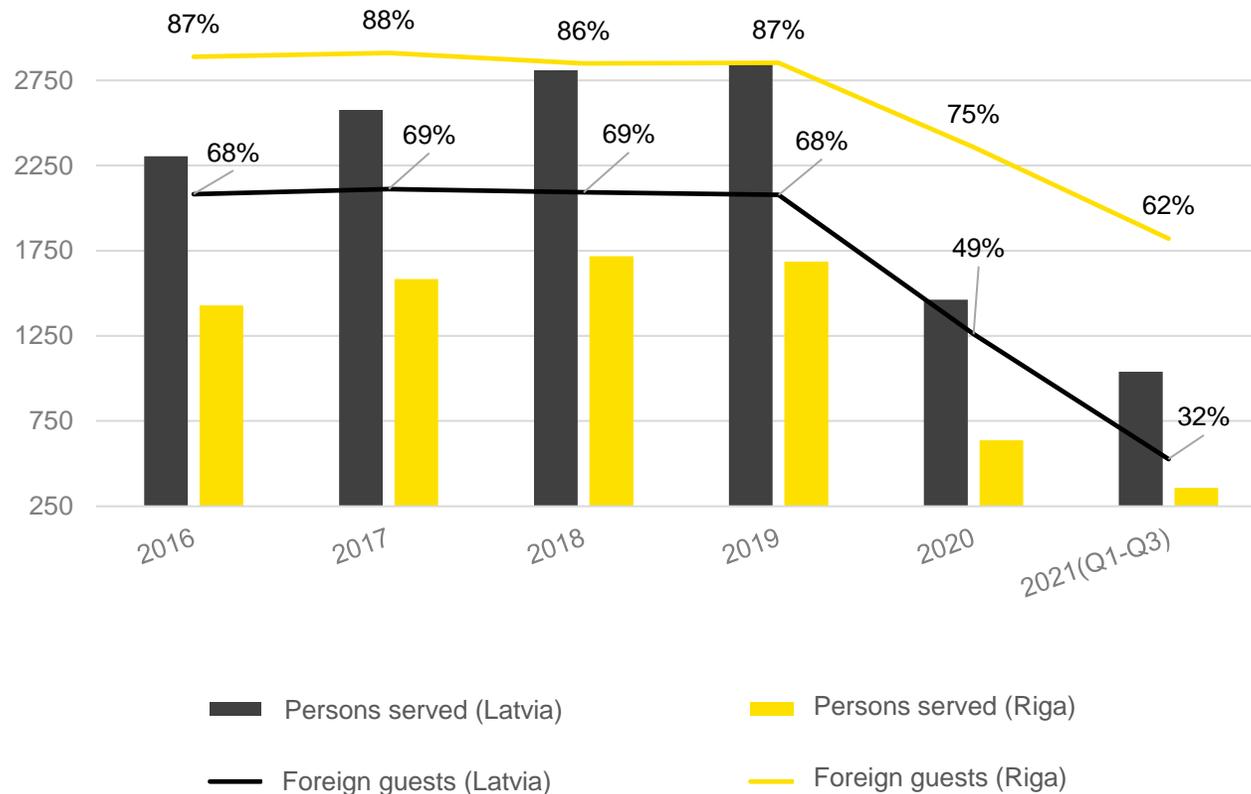
The largest number of accommodation establishments are registered in Kurzeme Region - 27%.

Given that Covid has hit tourism sector, it is noticed that **tourism** has become much more active in regions, while tourism has shrank remarkably in the city despite the fact that the daily rotation of people is higher there .



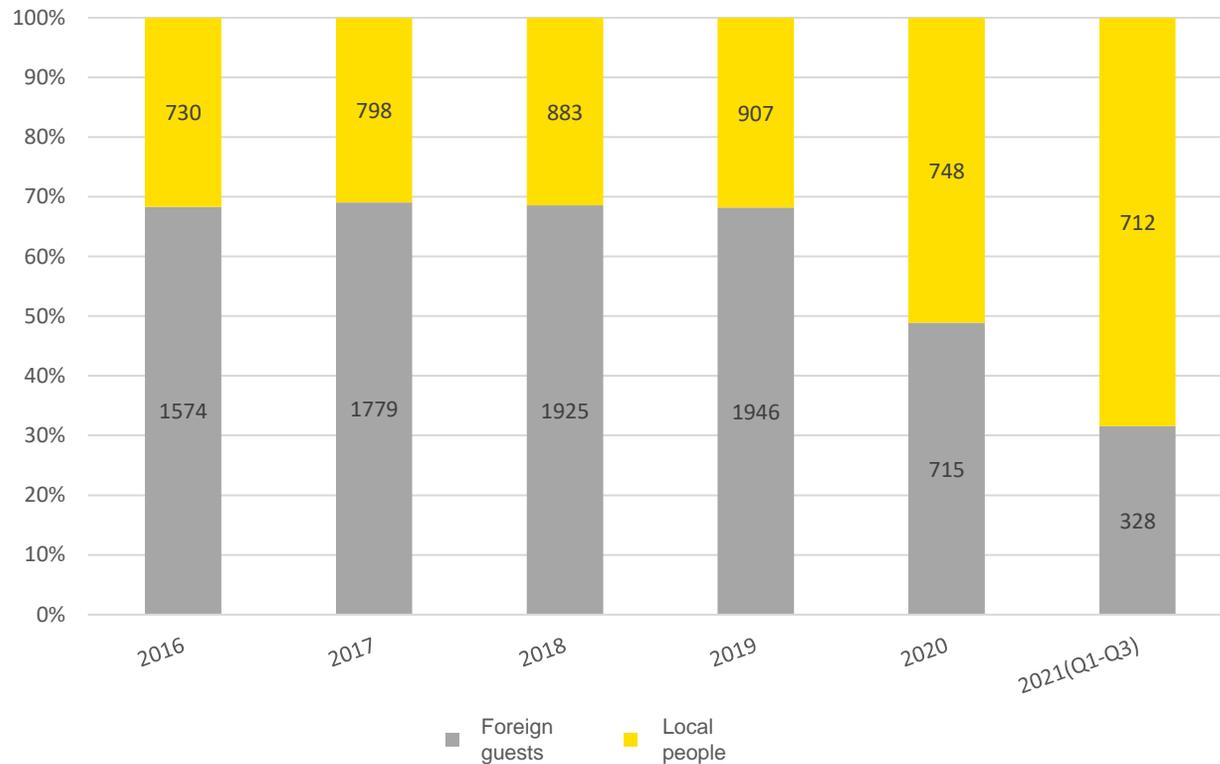
- During the period between early 2015 and the 3rd quarter of 2021, **Kurzeme** region has demonstrated the highest growth in the total number of accommodation establishments, which is almost threefold increase, while it has just doubled in **Latgale**.
- During the same period in **Zemgale** region, there has been a slight increase yet it is still at a very low level of 9-10% against the total number of Latvian accommodation establishments.
- **Riga** is the only territory to have experienced shrinking numbers of accommodation establishments both against the data of early 2015, and against pre-pandemic period in late 2019.
- **Vidzeme** region has shown one of the most steady rise in numbers of accommodation establishments.

Persons served (thous.) and percentage of foreign guests in the total number



The number of both domestic and foreign tourists has fallen sharply in recent years, but the total number of persons served in 2021 against 2020 has not experienced a drop as sharp as 2020 against 2019 figures, when the total number of persons served fell by more than 50%.

Foreign guests and local people served in Latvia (thous.)



In Europe, the tourism industry underwent major changes as the presence of international tourists had declined due to the many travel restrictions and border closures. As the situation in the country changed, many hospitality industry specialists switched to offers tailored to local residents' demands to be able to keep the company running, or came up with other innovative ideas.

For different **types of hotels**, it is expected that large investment opportunities will arise in the full-service hotel sector. Economic class hotels were less affected in 2020 as these hotels were able to fill rooms efficiently and apply simpler work and staff models.

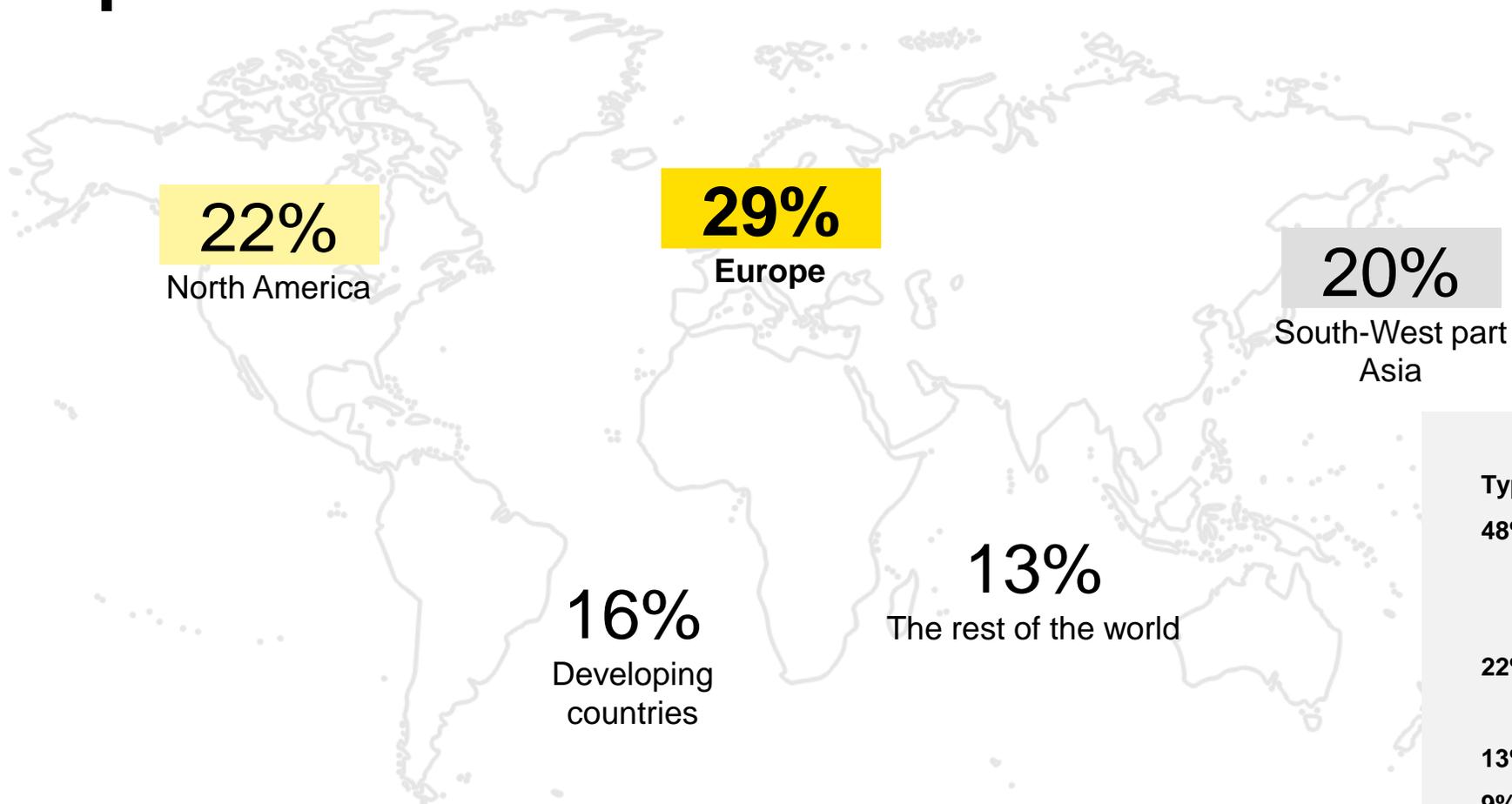
Transactions for hotels as a whole property in Riga in 2021

Address	GBA, m ²
Mālpils iela 7	1397
Bruņinieku iela 6	3647
Miesnieku iela 4	1042
Elizabetes iela 101	8357
Merķeļa iela 12	2562

Data source: State Land Service and Latio data



Investment sources according to USA survey



Typical investors (globally):
48% private capital, institutional investor, investment funds organizations;
22% hotel management companies or existing hotel owners;
13% other developers;
9% individuals with high net value or family businesses;
4% asset management;
4% other

O P I N I O N S



Office segment

Recently, demand for office space has decreased, but among those clients that have remained, the trend is to look for a small office (up to 100 sq.m) of high quality, falling under Class A or B, offering parking lots, in the centre of Riga. Such a supply is very scarce. Large offices measuring at least 200-300 sq.m. are available in office buildings of this class, predominantly. As soon as the emergency situation is over, people will start returning to offices, and demand in larger space will become urgent again. There is a strong demand in facilities that would fit health care centres and provide disabled access, as well as facilities that would meet requirements for beauty services.



Iveta Talapova
real estate agent



Industrial facilities

There is currently a shortage of supply (both rent and purchase) of up-to-date industrial buildings. Even more, given the dynamics of construction costs, Soviet-era production buildings that hadn't been in demand for a long time have also disappeared from the market in the past 12-24 months. In other words, there has been an increase in liquidity and thus in the price per square metre for production facilities. When I see incoming demand and interest in the remaining industrial properties on the market, I anticipate sustained demand for this segment also in the medium term.

Artis Ramutis
real estate agent



Retail trade

Entrepreneurs in the trading industry are increasingly worried about future opportunities, there are still very many restrictions due to COVID-19 affecting traders. As many retail premises are not currently in use, this space could eventually be converted for other uses unless there is a change to the benefit of the trade sector. Many consumers still prefer to shop face-to-face, but, due to social distancing requirements maintained, sales in face-to-face stores declines.

Ruslans Vengers
real estate agent





Forested land

At present, it is quite certain that demand in properties and logging sites will remain strong. On the one hand, it is influenced by relatively high timber prices and demand, on the other hand, the strong interest of investors in forest estates as relatively safe asset investments.

In the long run, all of this may be affected by the geopolitical situation and the direction of the Green deal. Nevertheless, 2022 promises to be as active and rich in transactions as 2021.

Sandijs Lūkins
Head of Forest and
Farmland Brokerage
Department

Farmland

Farmland is of primary interest to local farmers as a means of production, but, with the development of alternative land uses (mainly green energy projects), demand is increasing and, consequently, the price of land as well. The year 2022 promises steady price rise that will stay within 5-10% for farmland depending on the region and the land quality.

In regions where prices were previously relatively low, price increases may reach up to 50% triggered by the current strong demand, especially so in areas offering opportunities to develop energy construction projects or similar ones (alternative uses).

T R E N D S

Economy

As of early summer 2021, a range of developed countries have been facing growing inflationary pressures. Along with nearly all commodity price increases, delays in deliveries and miscellaneous commodity shortages, consumer price index figures have reached multi-decade highs. In late 2021, the major central banks said monetary stimulus would be cut from next year. However, banks still announce that inflation rises are transient and are likely to fall in the second half of 2022. The decisions of the European Central Bank will have the greatest impact on the Baltic (and other eurozone) economies. The number of companies in the commercial real estate sector in the U.S. has grown by an average of 1.7% a year.

Construction costs

Due to construction capacity, cost increase and lack of materials, the costs of the sector increased throughout the Baltics in 2021. If the growth rate continues its upward trend next year, it could have a stronger impact on the real estate market. The availability of materials and labour force will largely determine the overall increase in construction prices.

Offices

Working from home is still very common, leading to low demand for new office space. Although capital cities in the Baltics are relatively small, it is clear that city centres are less visited compared to pre-pandemic times. There are fears that as the number of office lease offers increases, industry figures will face a drop in demand for the existing buildings. In contrast to concerns and despite the economic downturn and uncertainty surrounding the future of office demand, *CommercialEdge* reports that the U.S. average sales price for office buildings rose to its all-time high in 2021, to \$3, 132.30 per square meter in November.

Industrial space

E-commerce sales have risen steadily since *The United States Census Bureau* began monitoring them in 2010. This has led to growing demand for logistics and warehouse centres. According to *CommercialEdge*, U.S. average lease rates for industrial space in November 2021 were \$68.57 per sq m (having added 3.8% over the past 12 months). Meanwhile, the average annual lease rate was \$75.56 per sq m. The average sales price of industrial buildings in the U.S. added 27.4% in 2021.

Retail space

Forbes predicts retail sales in certain areas will suffer as demand for restaurants and shops in business districts shrinks as office headcount falls. In recent years, lease rates in the commercial property sector in the Baltics have experienced large fluctuations. Even a decrease in lease prices can be observed in the historic centre of Riga in certain types of facilities, especially in street-level commercial premises. This is mainly due to the expansion of significant commercial areas in Riga shopping centres. At the same time, property prices have risen which has led to lower levels of lease yields. While the yield on premium properties in the Baltic capitals still offers a significant mark-up over major European cities, the gap is narrowing.

Retailers face critical milestones in their sector which contributed to the development of e-commerce. A report by *Mastercard Economics Institute* calculates that 20–30% of spending incurred as a result of the development of e-commerce caused by Covid is to be seen as a constant change in consumer spending habits.

S U M M A R Y

OFFICES

(lease and sale, EUR/m²)

A	14-17	2500-3500
B1	12-15	1900-2500
B2	9-12	1200-1900
C	5-8	600-1200

INDUSTRIAL SPACE

(lease and sale, EUR/m²)

A	4-5	650-850
B	3,3-4	400-600
CITS	1,5-3,3	150-350

RETAIL SPACE

(lease and sale, EUR/m²)

High shopping streets	10-40	3500-8000
Other streets	5-10	1000-1500
Supermarkets	4-50	1500-2500
DIY	5-10	1500-2000

YIELD RATE (%)

Offices	6.75
Industrial space	8.0
Retail space	7.5

T H E R E P O R T C R E A T E D B Y

Head of Commercial Real Estate Brokerage Department

Jānis Šīns

Head of Forest and Farmland Brokerage Department

Sandijs Lūkins

Investment Property Specialist

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Rūta Roze

Real Estate Agents:

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The leader in real estate industry

- Real estate transactions
- Business and property valuation
- Legal advice
- Investor attraction and consulting
- Market research

