

Latio

Commercial Property Market

REPORT

2019



The report contains information about:

- **Forests**
- **Office property**
- **Industrial property**
- **Retail property**



Forest is a unique ecosystem and its natural growth is not affected by fluctuations in the global economy and policy. It is influenced by photosynthesis and operator behavior, so the capital value of the forest is determined by a smart and sustainable long-lasting management strategy and is not affected by various short-term factors.

In Latvia, revenues from the forest sector represent a significant share of gross domestic product, and the amount of foreign investment in forest properties has increased significantly in recent years. In 2019 there was a decrease in the number of transactions with forest properties, but forest the prices have remained at constant high levels. Its value is influenced by such factors as the type of forest growth conditions, the quality of the forest stand, the location of the property, etc.

At present, the demand for forest lands on the market is repeatedly above supply. It is based on the large representation of foreign companies that invest in forest properties throughout the Baltics. For example, Scandinavian companies that want to invest their capital in safe and long-term yield-bearing assets and compete with the low expected yield rates.

The “Scandinavian investment funds”, which have been on this market for several years, have been actively investing in their areas and preserve at relatively conservative valuations and assumptions. Meanwhile, “new funds”, which are currently seeking to purchase as much as possible to ensure the creation of more economically viable management units, are prepared to pay a premium for the purchase of forest property, especially for the portfolios. This has allowed the development of a business for a large number of local forest buyers that purchase individual forest properties, build them up by creating larger areas and sell them to the foreign investors mentioned above.

There is also an increasing tendency to buy shares of other companies, thereby acquiring forest properties, bypassing the controversial provisions of the Law on Land Privatization in rural areas.

The drop in timber prices, which reach up to -40% for some assortments, has led forest owners to consider logging or selling. If in the past, the owner had obtained the forecast revenue, the same amount could now be obtained only by disposing of the entire property. It all depends on each particular transaction, but there are cases where the above-mentioned drop in timber prices has also affected the sale price of the property.

The damage caused by European spruce bark beetle in Europe (Germany, the Czech Republic) is also a concern for local foresters, as there has been a sharp increase in the activity of the beetle in Latvia. This could lead to a reflection on the purchase and the value of fir forests, in particular.

Despite various challenges in the forest sector, a strong interest in purchasing forest properties is likely to remain in 2020. The willingness of foreign investors to support the assets that carry small but stable capital gains is the catalyst for this stable interest.

SANDIJS LUKINS

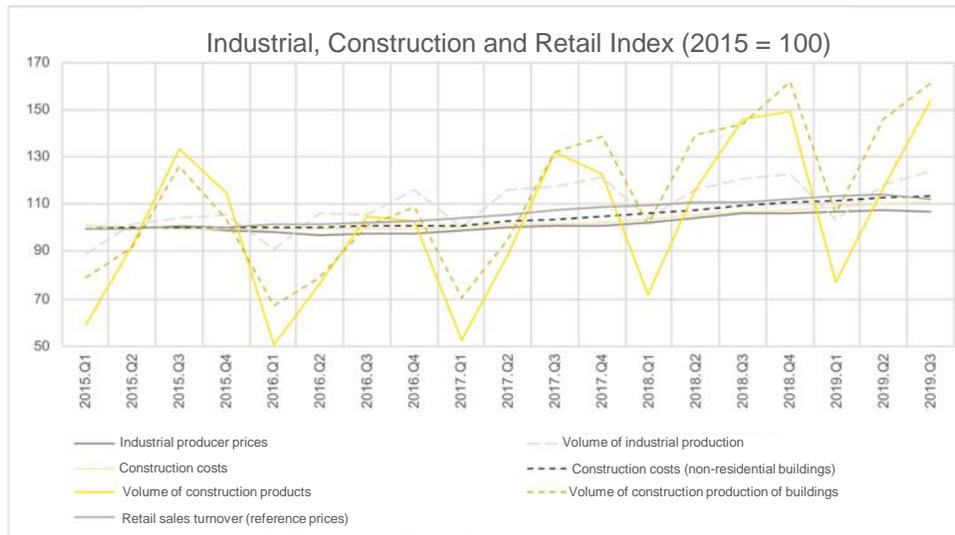
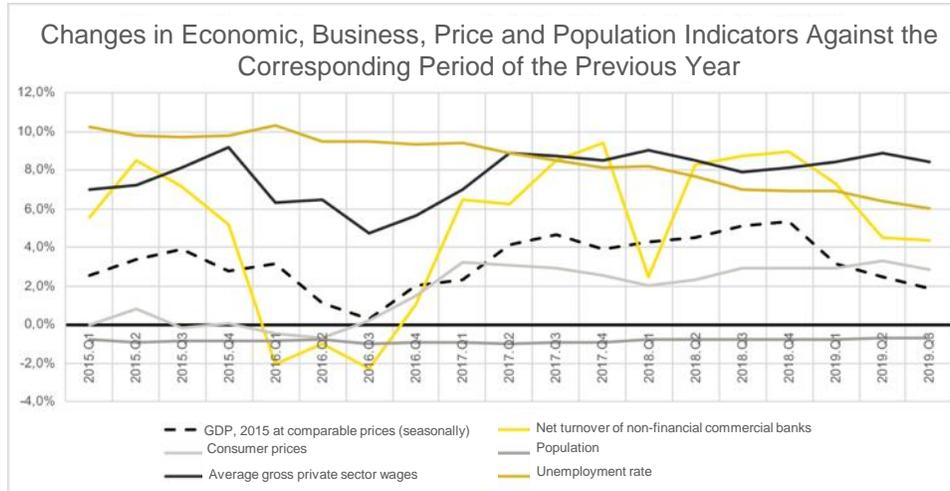
Head of Forest Trading Department



MACROECONOMICS



Changes in Economic Indicators Against the Previous Year



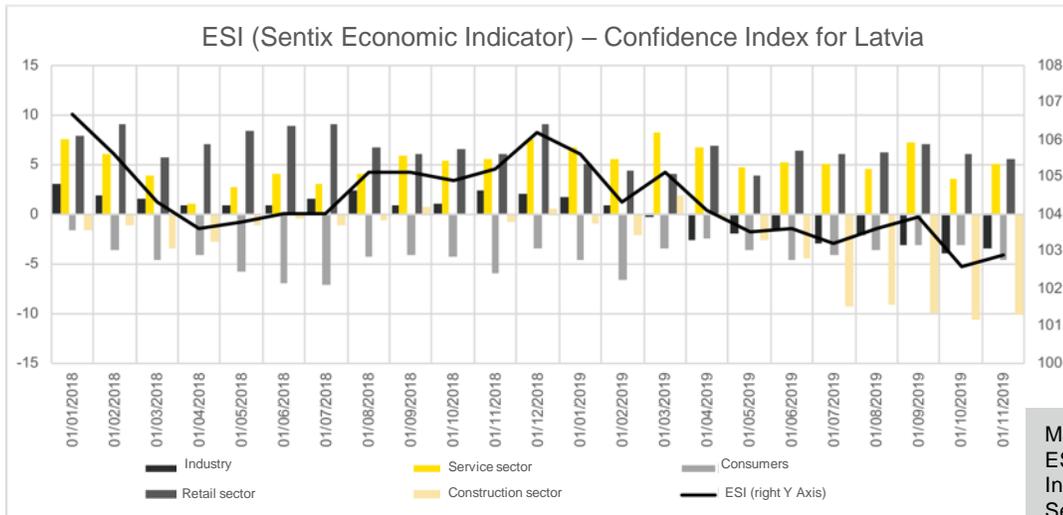
Data: Central Statistical Bureau

2019 was a period of uncertainty in the global economy:

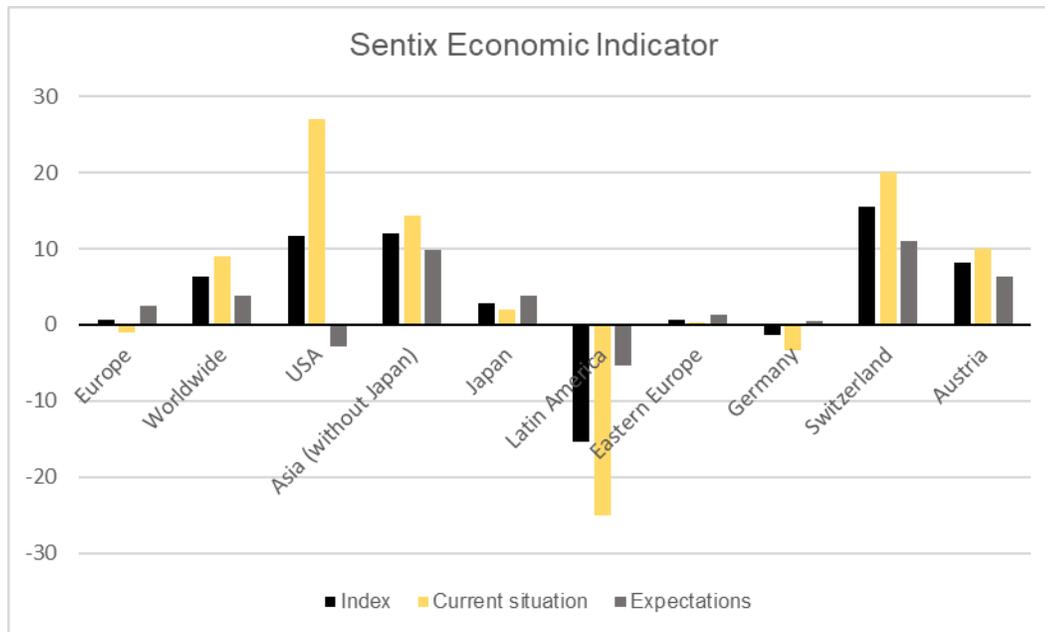
- The possibility of the crisis,
- The possibility of the recession,
- Brexit,
- What will be the development of trade conflicts,
- What will be the development of geopolitical issues,
- And many other concerns.

The world's processes have also affected the situation in Latvia - analytical reviews of leading economists were positive and sometimes concerned. However, as predicted at the end of 2018 - the crisis did not occur in 2019, although, there were the first signs of recession in specific countries and regions. It's been 11 years since the last global economic downturn and every next year is perceived with increasing prudence. Economic indicators are vital for all: from international organizations, national governments to small businesses. Overall, Latvia's economy expanded at a slower pace in 2019 than a year ago - GDP continued to grow (by 2.5% in the first 3 quarters), consumer prices were up 3%, and the trend in the labor market unchanged. The working-age population at the beginning of 2019 represented 61% of the total population (62% a year ago). The labor market lacked different employment types, so unemployment continued to fall (September 3, 2019: 6% of the total population), while wages increased (in September 2019 reaching gross wages of EUR 1062/month in the private sector and EUR 1077/month in the public sector). The increase in wages contributed both to stockpile formation due to global uncertainty and increased household consumption, which in turn was an important driver for the economy. At the beginning of 2020, uncertainty continues, major geopolitical and trade issues remain unresolved, there are no signals of recovery. Leading economists in Latvia predict that the decline in unemployment and wage rises in 2020. Production growth weakened, and global processes in the transport sector were also negatively affected. Construction costs continued to increase (mainly due to workers' wages). Changes in the financial sector (shifting from east to west markets, bank windings, etc.) affected the size of loans and transactions. The overall situation in the country was also negatively affected by the assessment of the Financial Action Task Force (FATF) and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The final FATF report is expected in February, which will reduce uncertainty and affect future economic development.

6 MACROECONOMICS



March 2019:
 ESI: 69,1
 Industrial sector: -35,6
 Service sector: -43,9
 Retail sector: -32,9
 Construction sector: -75,4
 Consumer sentiment: -36,8



Data: Eurostat, Sentix

The uncertainty is also reflected in surveys conducted by different organizations and businesses aimed at clarifying the views of entrepreneurs and consumers on the current and upcoming economic situation. In September, October reports showed a grim picture, but as the end of the year approaches, the negative predictions may not have come true and the condition elevates.

For example, ESI reveals that the consumer sentiment level in 2019 has declined since the beginning of the year (excluding the slight recovery in March following a sharp fall at the beginning of the year and the end of 2018).

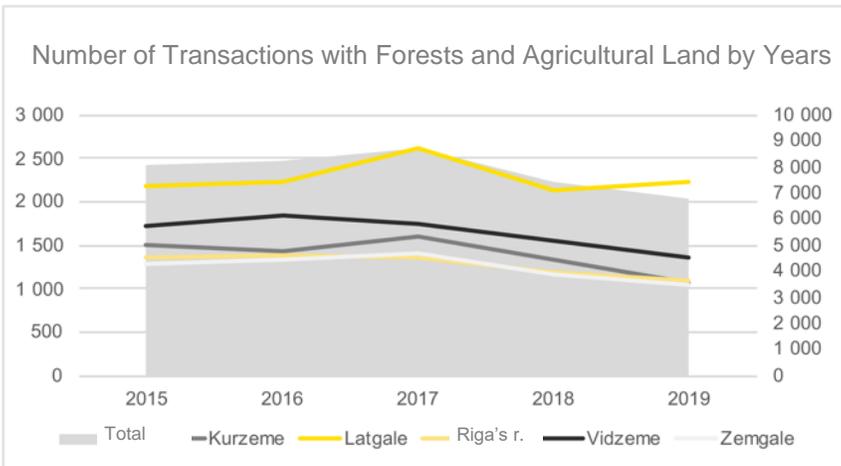
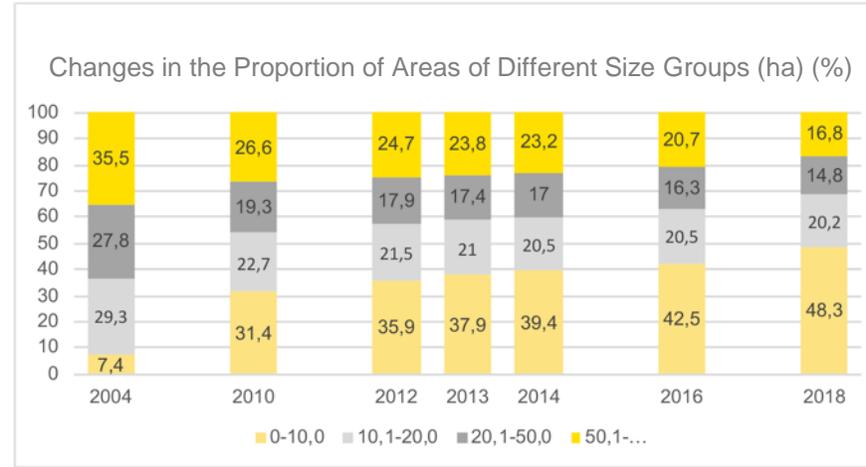
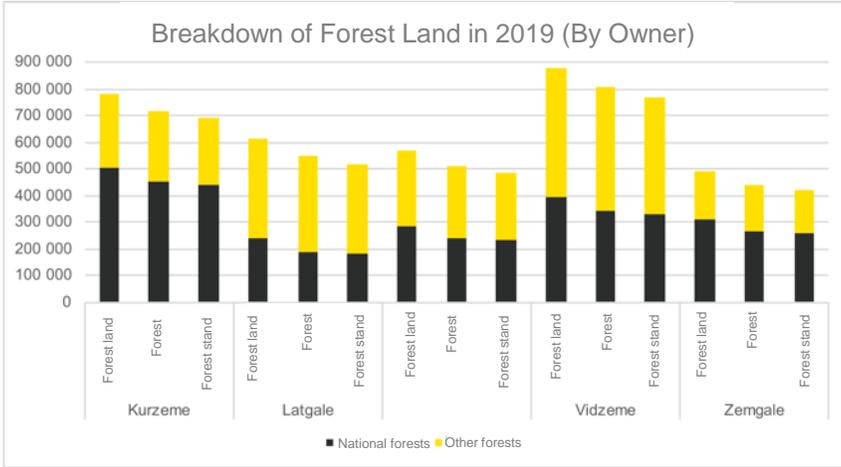
The industrial sector is the most negative in its expectations, but the service and retail sectors are more confident. Anyway, the current situation cannot be compared to March 2009, when the ESI rate was only 69.1 (33% less compared to November 2019).

There is also an increase in company sentiment around the world. The survey conducted in December by *SENTIX* shows improvement for the second consecutive month both for the current situation and the future assessment. For the eurozone, investors are looking forward to increasing government spending, which would stimulate economic growth.

German sentiment has also improved (from -19.4 points in October to -1.7 points in the December survey). If Germany's assessment of both the current and future situation deteriorated (-18 and -21 p, respectively), the assessment of the current situation in the US remained positive in October (+13 p), only the expectations decreased (to -20 p).

As a result of an improvement in these and other indexes, economists are also starting to change their forecasts for next year.

Situation in the Forest Sector



In 2019, the number of forest areas belonging to natural and legal persons continued to decline. Within two years, ~ 6000 units of land have been transferred from the natural person possession. There is also a consolidation of forest properties: forest properties are growing larger (> 50 ha) and 66% are belonging to legal entities. In 2019, the number of transactions remained higher in Latgale, although overall it is gradually falling. For this reason, on the one hand, there is a lack of supply of quality forests. On the other hand, some transactions are made by purchasing companies owning forest properties, and such transactions are not reflected in the statistics.

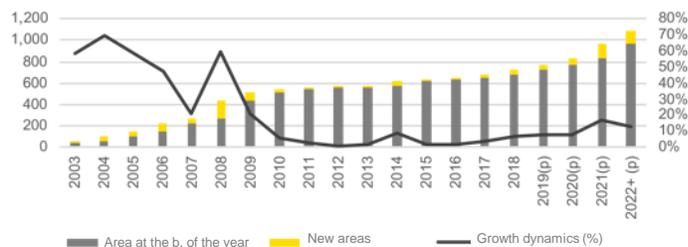
The price buyers are willing to pay for forest property varies and depends not only on the quality of the location, forest land, and forest stand but also on the size of the area. For example, investment funds are often willing to premium for buying a larger portfolio by paying relatively higher amounts per hectare than for smaller but more high-quality property. Despite falling timber prices and falling demand, a strong interest in buying forest properties will remain in 2020. This is due to the willingness of foreign investors to invest in assets that carry, possibly, smaller but stable long-term capital gains, and to focus less on making immediate profits by developing and realizing timber in the forest.

CURRENT SITUATION

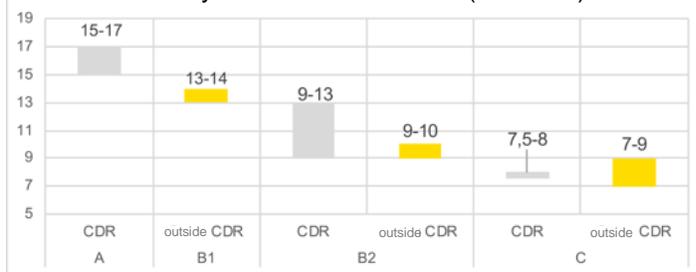


Office Areas

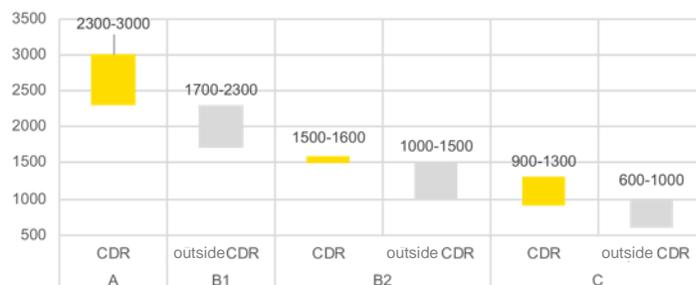
Areas of A and B-Class Offices (Th. m²) and Growth Dynamics (%) by Year



Monthly Rent of Office Areas (EUR/m²)



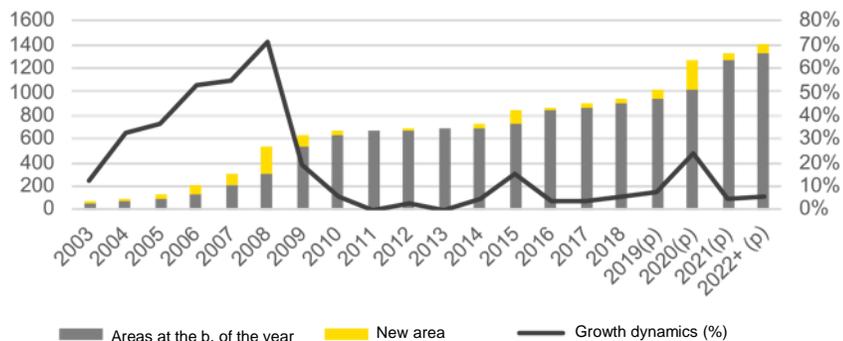
Sales Price of Office Areas (EUR/m²)



- The **Acropolis offices** on Maskavas Street 257 (9 thousand m²) have been commissioned.
- Completion of the the **SWH office centre** (12 thousand m²) reconstruction.
- *Vastint Latvia* has completed the first stage (14 thousand m²) of the new office building complex in **Business Garden** (70 thousand m²) on Maldugunu Street.
- A B + class office building **Red Line** (6 thousand m²) has been commissioned.
- The developer's *Linstow Center Management* project **Origo One** (10.9 thousand m²), which will be located in the station area adjacent to TC Origo is on the construction phase.
- The developer plans to finish the **Elemental Skanste** project, planned as two A-class office buildings (41.4 thousand m²) in the neighborhood of *Kapitel Skanstes*.
- In the area of *Capitalica Asses Management* in Skanstes, two A-class office buildings (45 thousand m²) are planned to be finished by 2021 under the **Verde** project.
- Project **Z-Towers** has also been commissioned in early 2020.
- *M.M.M Projektai* informed about the plans to build offices and apartments in the area of *VEF* (50 thousand m²).
- The detailed plan on the office building construction at the *Skonto Stadium* (18 thousand m²) made by *AI Studio* was approved.
- The investment company *Eastnine* announced plans to build a wooden construction office building **The Pine** (15.8 thousand m²), on Krisjana Valdemara Street.
- The owner of the local Latvian company *Limeni* also announced plans to build a tree A-class office building on Malienes Street.
- The largest office building deal was the sale of the *Luminor Bank* central building.
- The largest published price sale – **Valdemara Centre**. The Swedish investment company *Eastnine* acquired **Valdemara Centre** from the Estonian real estate investment company *Capital Mill* (24.4 M EUR).

Industrial Areas in Latvia

Areas of Industrial spaces (th. m²) and Growth Dynamics (%) by Year



Monthly Rent for Industrial Spaces (EUR/m²)

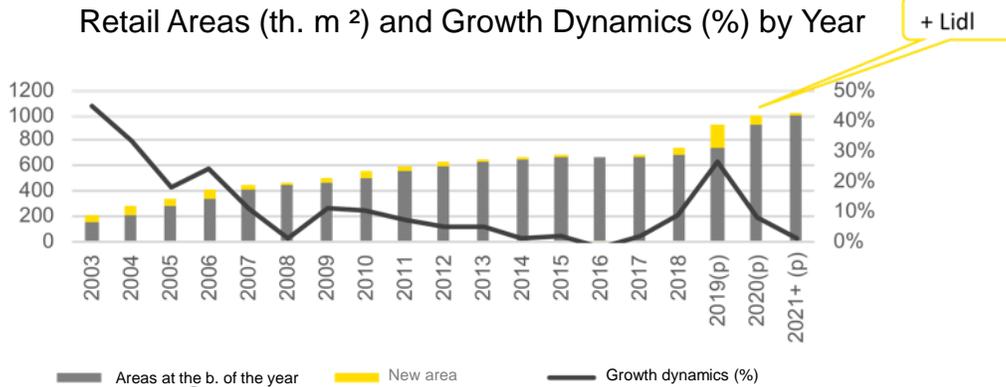


Sales Price of Industrial Premises (EUR/m²)



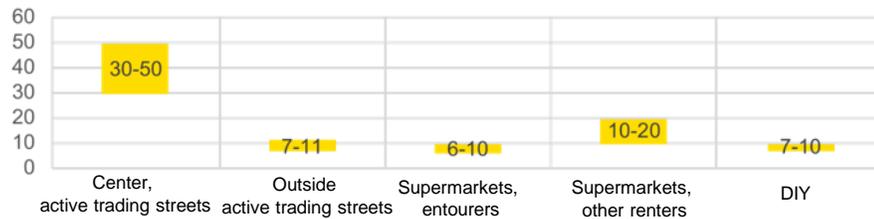
- *LNK Properties* plans to build a logistics park in the Stopini municipality: **the Baltic Logistics Park** (35 thousand m²) and the **South Gate of Industrial Parks** (10.5 thousand m²) in Riga, Rezekne Street.
- *Sirin Development* plans to build three logistical buildings (75 thousand m²) in Stopini municipality.
- Various Latvian cities continue to develop – **Ventspils Free Port Industrial Territory** and **Liepājas Karosta Industrial Territory**.
- The total industrial area will be complemented by the **Rimi Logistics Centre** (A. Deglava Street), **Lidl Logistics Centre** (Ulbrokas Street) and **Laimas industrial zone** (Adazi), which will add more than 100 thousand m² of the qualitative industrial area to the market.
- The largest deal in the logistics was the sale of **Elipse BLC** to industrial-segment investors and developers *Mariner Capital Limited*. The price hasn't been disclosed publicly.
- *Piche* is developing an industrial park (100 thousand m²) – **Airport Park**, its first stage (23 thousand m²) has already been commissioned and sold to *East Capital Group*.

Retail Areas in Latvia

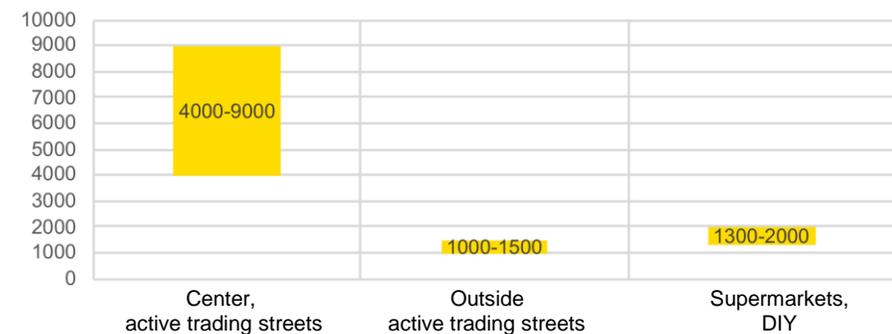


- The **Acropolis shopping center** on Maskavas Street 257 (9 thousand m²) has been commissioned.
- **Linstow Center Management** completed the extension of **Alfa** (+30 thousand m²), making it the largest Latvian shopping center (93 thousand m²), the extension of **Origo** shopping center (+16 thousand m²) still continues.
- **Ozols** shopping center (30 thousand m²) was opened on Maza Rancenu Street.
- The first stage of **Via Jurmala Outlet Village** (21 thousand m²) construction was finished. The unveiling is scheduled for 2020.
- **Riga Retail Park** plans to open **Saga** shopping center (57 thousand m²) near IKEA in Stopinu municipality.
- **Maxima** and **Rimi**, **K Senukai**, **Depo** shopping centres were rebuilt. The first **Lidl** shopping center was constructed. During 2020, **Lidl** plans to open several more stores.
- Investment fund **Baltic Horizen Fund** purchased **Galerija shopping center** (20 thousand m²) from **Linstow** for 75 million EUR.

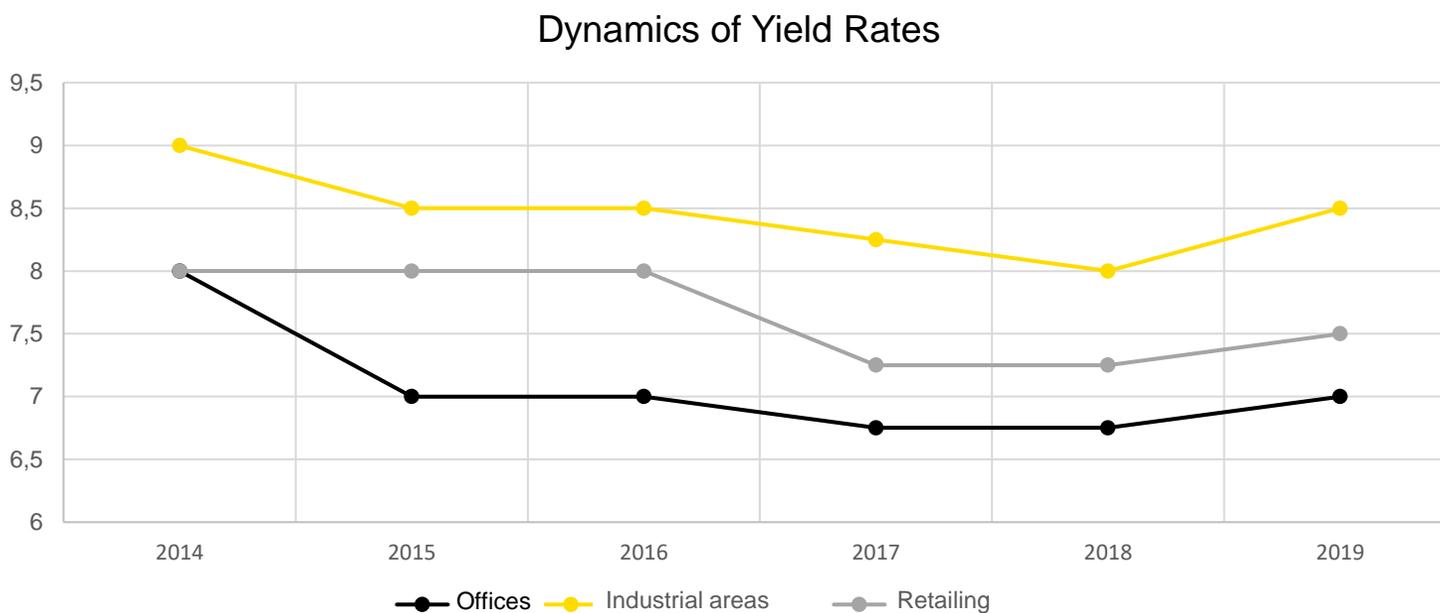
Monthly Rental Fee for Retail Areas (EUR/m²)



Retail Area Selling Prices (EUR/m²)



Dynamics of Yield Rates



The rates are determined according to the *Latio* market survey information on the investors' required transaction return with cash-generating facilities of the real estate segments listed in the timetable.

GLOBAL REAL ESTATE TRENDS



Global Real Estate Trends



Retailing

- Growth in online sales harms traditional retail sales. At the same time, with online selling, the options are often too limited.
- Investors are avoiding buying a traditional retail form.
- The number of unoccupied areas in shopping centers is increasing, rental contracts will become shorter.
- Higher profitability for food marketing and supermarkets because they satisfy basic human needs.
- Shopping time is declining.
- Consumers increasingly rely on artificial intelligence (AI) to compare products and recommendations.
- For customers, the shopping experience is primary, the goods perform a secondary role. Examples of a unique experience: fitness medicine, dietologist counseling, opportunities to try new technologies (virtual reality, digital shelves, self-service cash), collaboration with large internetworks, an extension of supply, food hall.
- The popularity of presentation rooms (showrooms) is increasing.
- Stores invest in start-ups to look more modern and attract new customers.
- Malls offer new services: shopper data analysis, design, logistics (last-mile logistics) and marketing services, etc.

Frequently, several types of real estate are combined (houses, offices, *co-working*, *urban-logistics*, hotels). Not only *live-work* but also *live-work-play* properties are available on the market. The borders between retail and logistics are disappearing. The hotel's uncongested spaces are transformed into co-branded spaces, thereby attracting new customers, promoting brand awareness and generating additional profits. The ability to evolve with new renters and their demands is progressing.

Industrial Sector

- Despite the construction of new industrial areas, the amount of spare areas continues to decline, making them profitable for long-term investment.
- Technological developments (automatization, warehouses that perform data analytics, blockchain technologies, 3-D printers and robots).
- Demand for highly skilled labor.
- E-commerce development.
- The speed of supply is becoming an increasingly important factor.
- One of the potential solutions – underground warehouses in the city center.
- A tendency to build higher warehouses, giving the possibilities for automatization in the future.

Offices

- Whilst, the demand, and rental costs continue to rise, the number of spare areas continues to decline.
- The popularity of common spaces is increasing (is not dependent on long-term leases, lower risk of long-term vacant areas). *Shared-economy logic*.
- The popularity of flexible office space is increasing.
- Cognitive or interactive buildings – buildings that collect data, analyze it, improving usability, comfort for customers and employees, and the use of resources.
- Technological development (sustainable materials, renewable energy, electric cars, emission reduction).
- The wellbeing of employees (clean, convenient, secure working environments with easy and quick access) is increasingly important.



Leader of the real estate market since 1991

- Transaction management
- Business, property, forest valuation
- Legal advice
- Investor attracting and consulting
- Market survey
- Land measurements



Integrity | Responsibility | Cooperation | Knowledge | Excellence