

Commercial Real Estate Market

REP

2023

ORT

H1



F O R E W O R D



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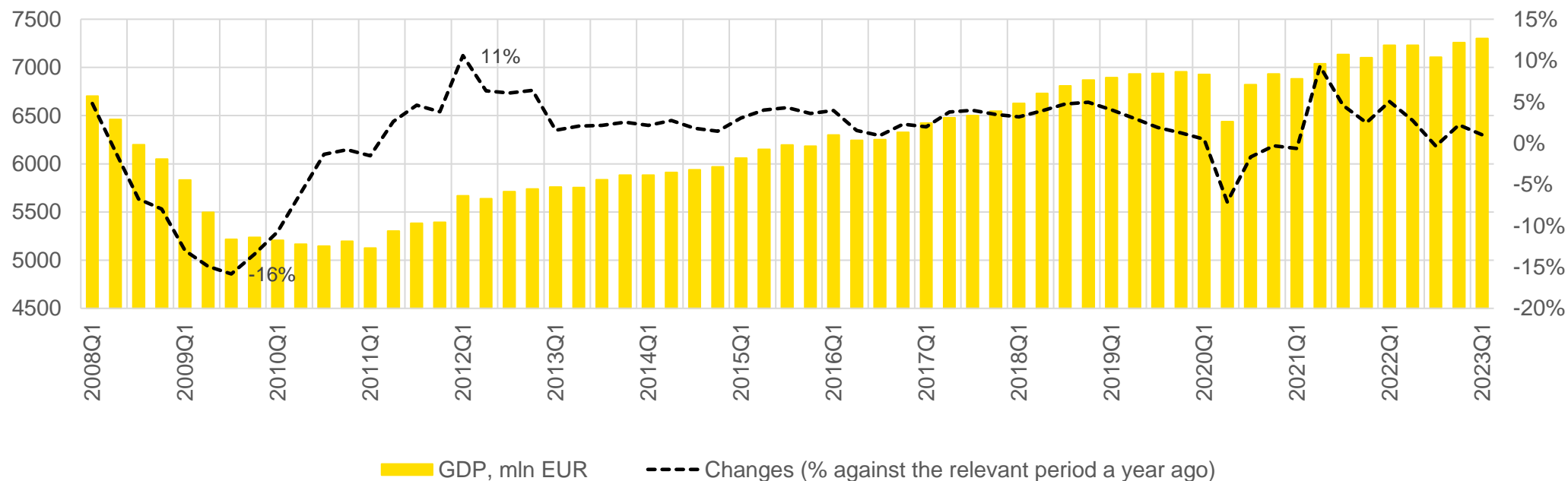
In 2023, we are seeing the effects of inflation decrease in the commercial real estate market, in other words a slowdown in economic growth. The fight against black money has already made the commercial real estate market much slower, but transactions are taking place in all segments. The availability of finance, the sharp rise in costs and geopolitical uncertainty will keep market participants cautious for the foreseeable future.

EDGARS ŠĪNS

Latio Chairman of the Board

Construction is expected to increase, while sales are expected to decline.

Gross Domestic Product from production perspective (thous. euro) in comparable prices of 2015
(seasonal adjustment)

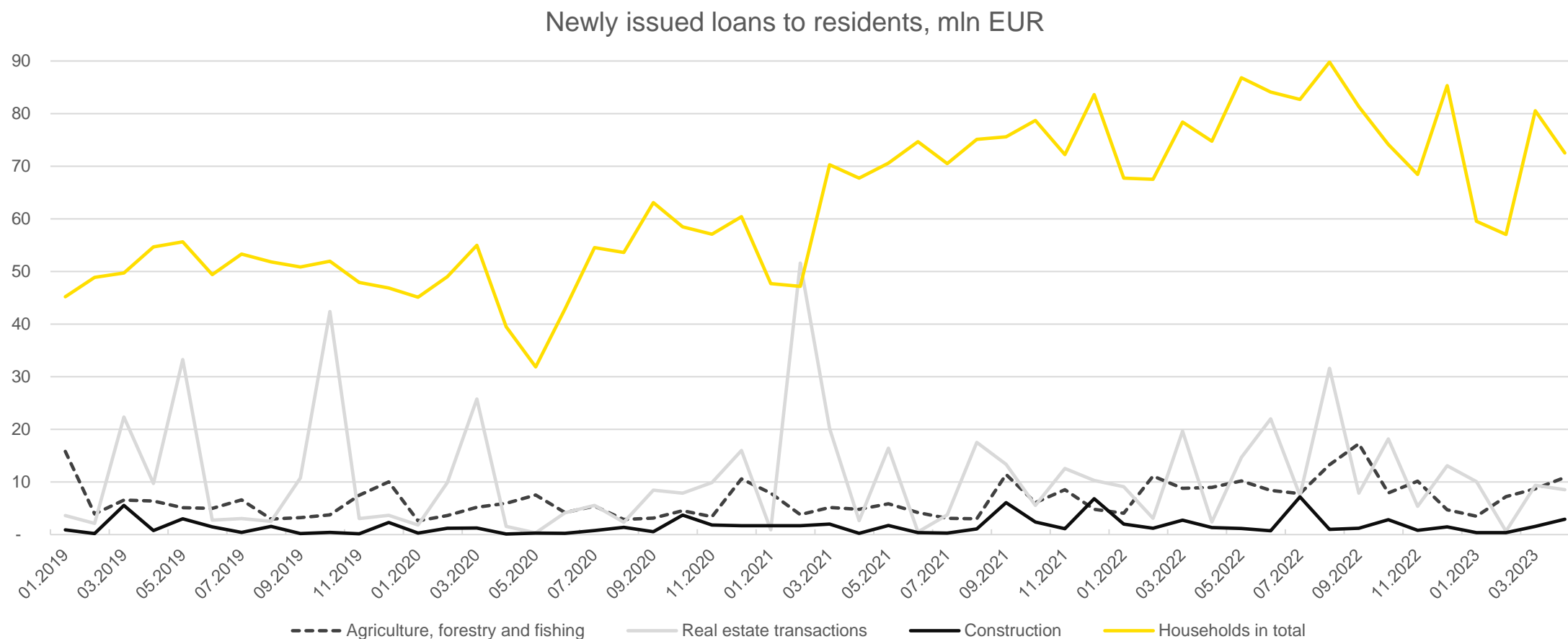


Total value added in Q1 2023 **increased by 0.7%** compared to Q1 2022. This increase is mainly driven by a 1.2% growth in the services sector. On the other hand, manufacturing saw a slight decrease of 0.1%.

After a prolonged downturn, the **construction sector achieved**

a strong growth of 17.0%. Growth was recorded in all three sub-sectors of the construction industry. These positive developments are indicative of a significant recovery of the construction sector after a prolonged downturn.

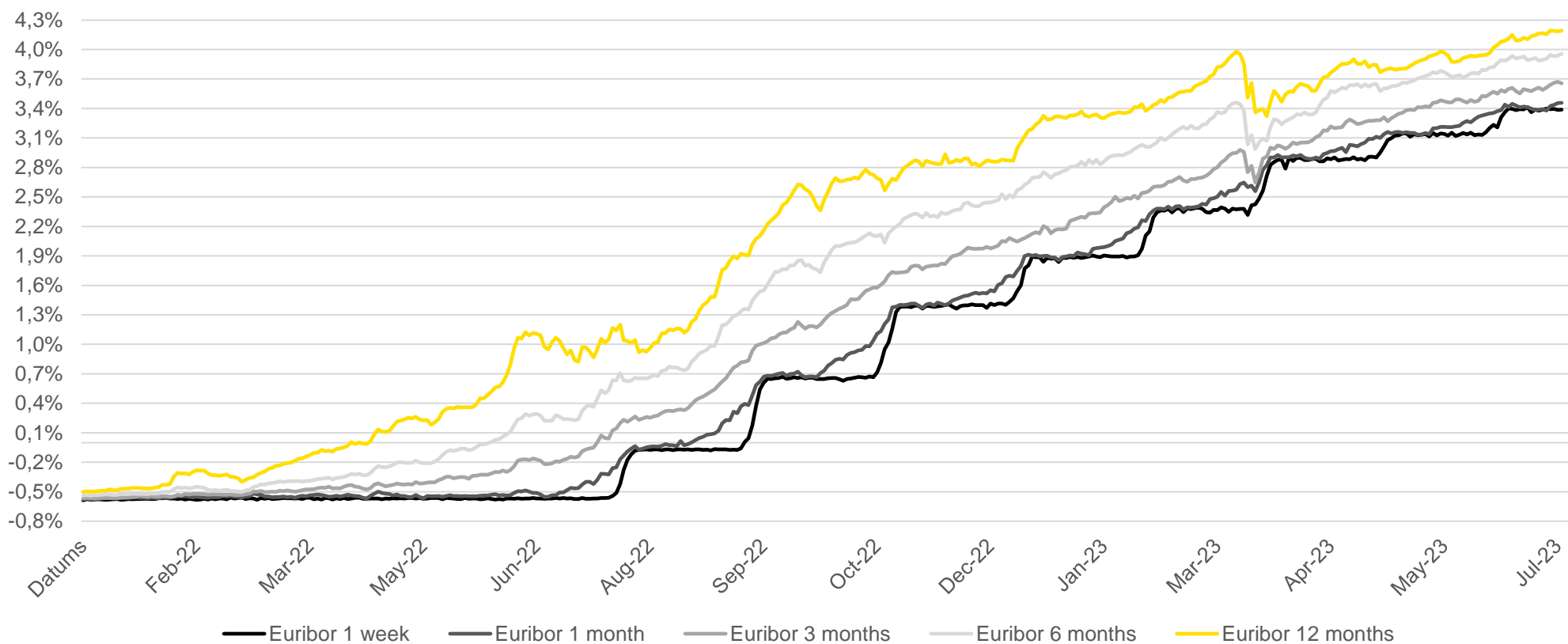
At actual prices in Q1 2023, **GDP stood at EUR 9 148.7 million EUR.**



- In April 2023, there were **1.14 million outstanding liabilities**.
- Household credit records include: loans for house purchase, reconstruction, repair, current card and current account loans, loans for the purchase of consumer goods, other loans.
- Despite recent positive trends in lending, the **credit interest** of businesses and households **continues to decline**.

- According to the ECB SDW Financial markets and interest rates, the **average euro interest rates on corporate loans** for new transactions from March 2022 to March 2023 **are set to rise**:
 - In Latvia 2x;
 - In Estonia 2,2x;
 - In Lithuania 1,7x.

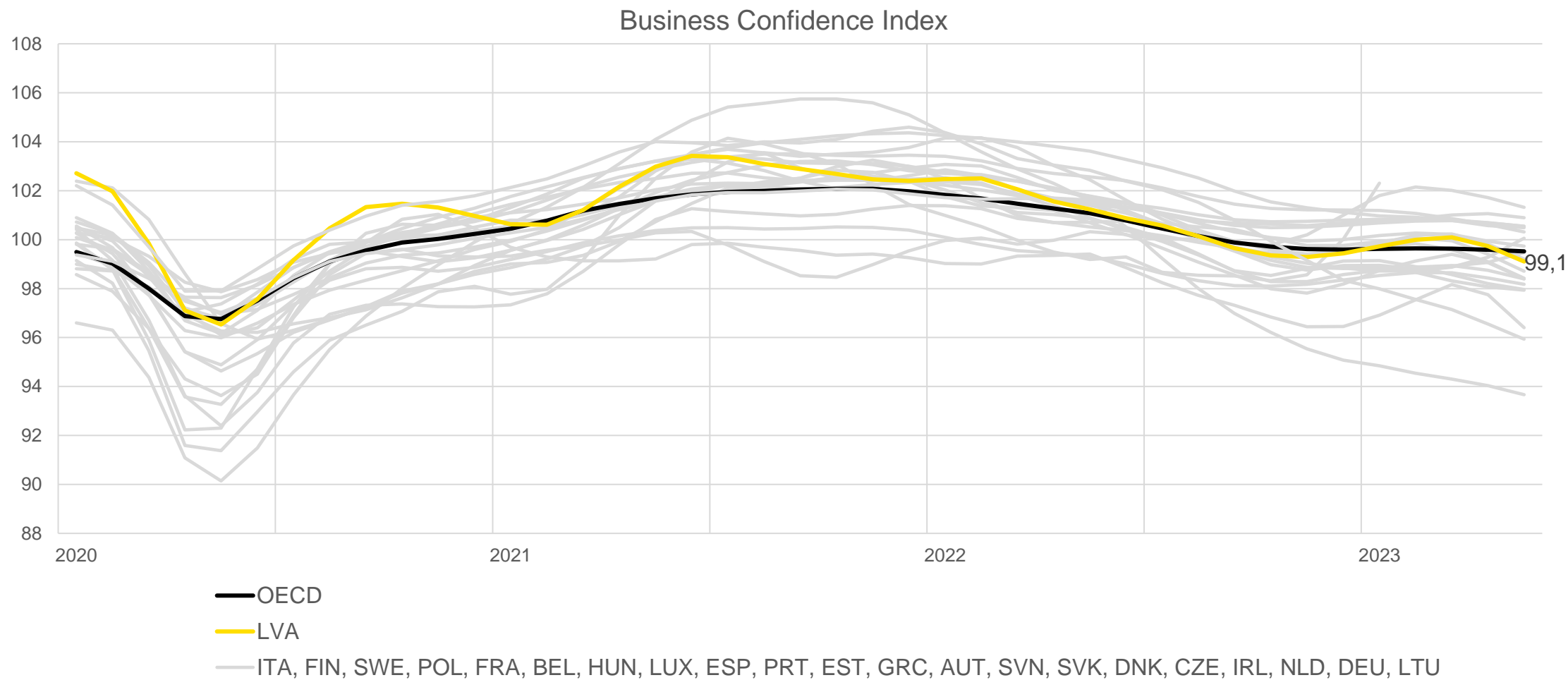
Euribor rates, 01.2022-07.2023



- In early March, the 12-month Euribor rate **quickly approached 4%**, but before reaching it, it started to fall, but only temporarily - **the 4% threshold was breached in mid-June**.
- The 3% threshold was breached by 6-month Euribor in February.

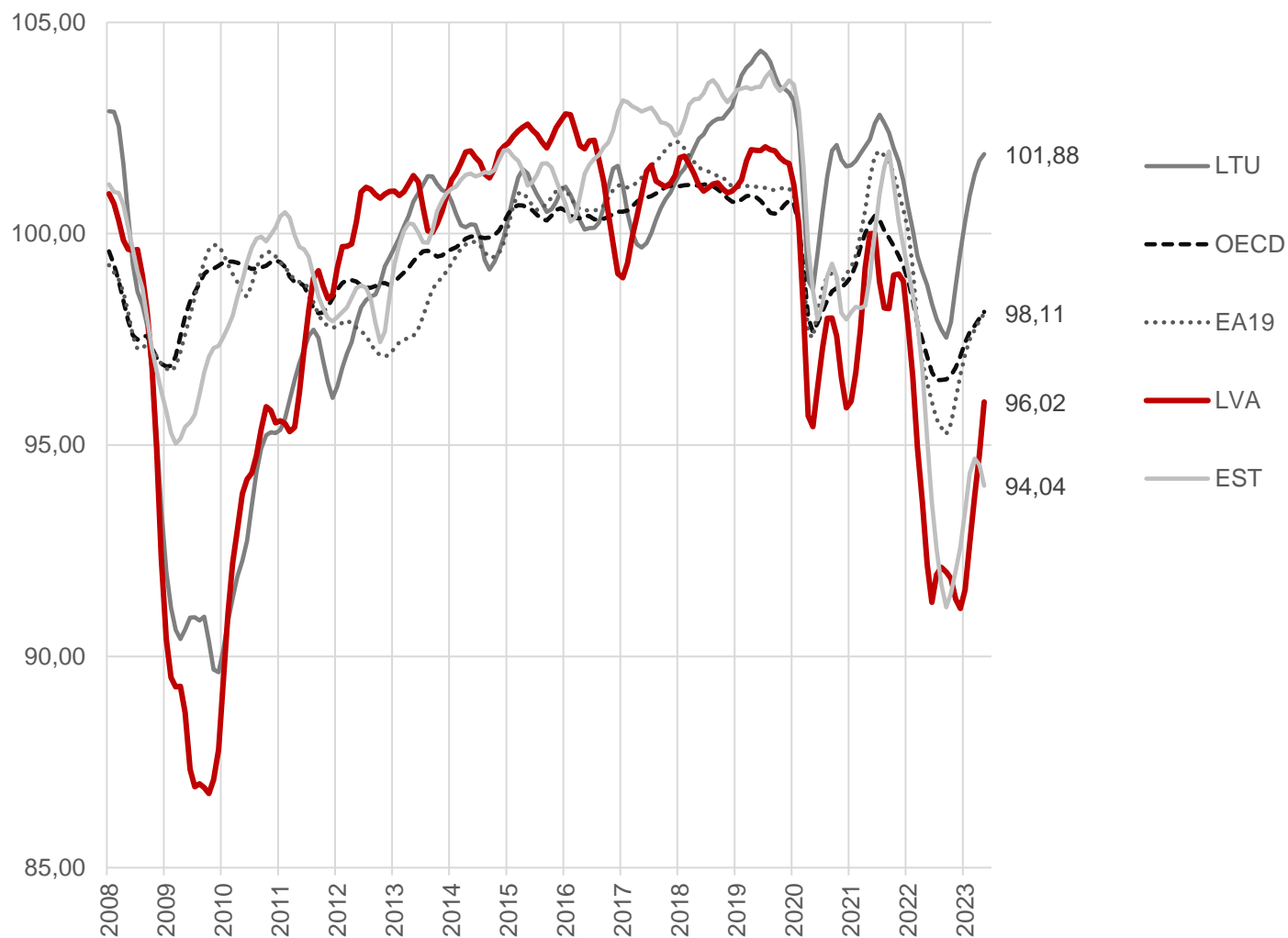
| | Euribor % | | | | |
|-----------|------------|------------|------------|------------|------------|
| | 06.07.2023 | 07.07.2023 | 10.07.2023 | 11.07.2023 | 12.07.2023 |
| 1 Week | 3,398% | 3,393% | 3,395% | 3,386% | 3,387% |
| 1 Month | 3,377% | 3,425% | 3,438% | 3,456% | 3,457% |
| 3 Months | 3,612% | 3,640% | 3,661% | 3,672% | 3,657% |
| 6 Months | 3,905% | 3,945% | 3,931% | 3,940% | 3,955% |
| 12 Months | 4,155% | 4,193% | 4,190% | 4,184% | 4,191% |

Data source:
Euribor rates,
ECB



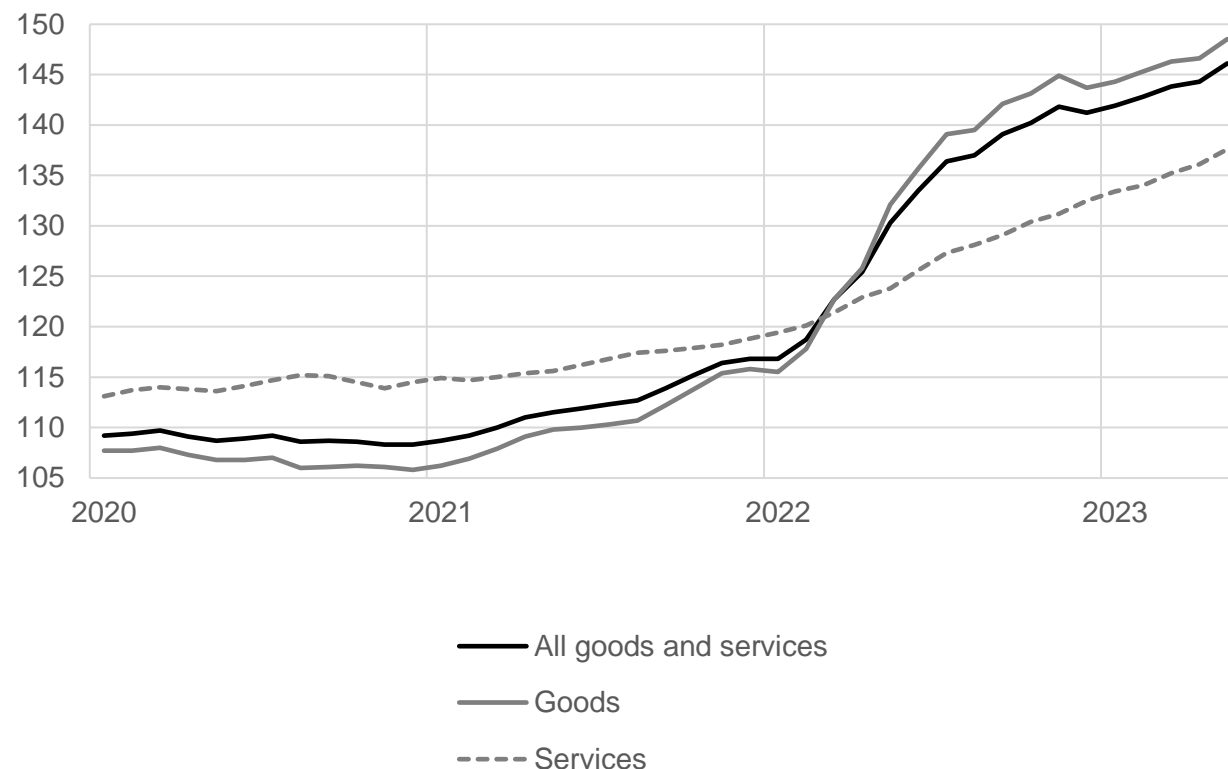
- Although the business confidence index in Latvia temporarily increased in late 2022 and early 2023, it was unable to maintain its upward trajectory. In March, it briefly surpassed the 100 mark, followed by a drop in April, which indicated a deterioration in overall business sentiment.
- The sharpest decline from the previous month was experienced in **April** 2023. On the other hand, the sharpest change year-on-year (YOY) was in **January** 2023.
- 2023 started the year around 0.1 above the OECD average, but by the end of the year **Latvia was already 0.416 below the average**.

Consumer Confidence Index (OECD)



- Between January 2022 and January 2023, the Consumer Confidence Index in Latvia followed a general downward trend. The index started relatively positive at 97.83 in January 2022, but experienced **a sustained lack of consumer confidence** and gradually declined in the following months.
- An upward trend emerged in early 2023 with a slight increase, which was sustained and continued until May 2023 **with the index rising to 96.02**. This marked a significant recovery compared to previous periods.
- Between January 2022 and May 2023, the Latvian Consumer Confidence Index experienced periods of fluctuation and recovery. Although there were moments of improvement during this period, overall **consumer confidence remained relatively low**, reflecting consumer caution and uncertainty during this period.

Consumer Price Indices (2015=100)



The average consumer price level increased by **12.1%** over the year.

In the food and non-alcoholic beverages group, prices increased by **17.9%**.

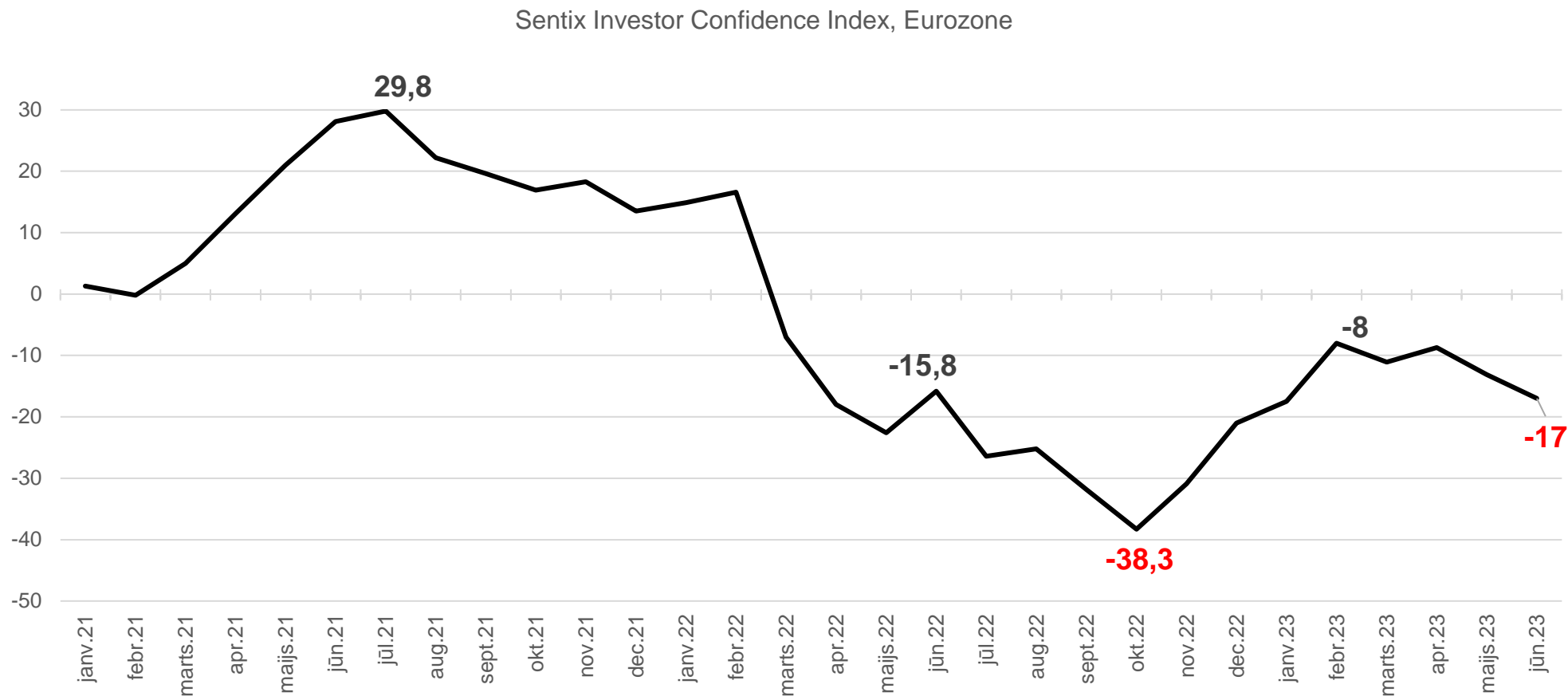
The average price level for housing-related goods and services increased by **24.8%**.

Healthcare costs rose by **10.4%**.

The average price level for restaurant and hotel services increased by **17.4%**.

Prices of transport-related goods and services fell by **7.7%**. This was largely due to a **19.3%** fall in fuel prices.

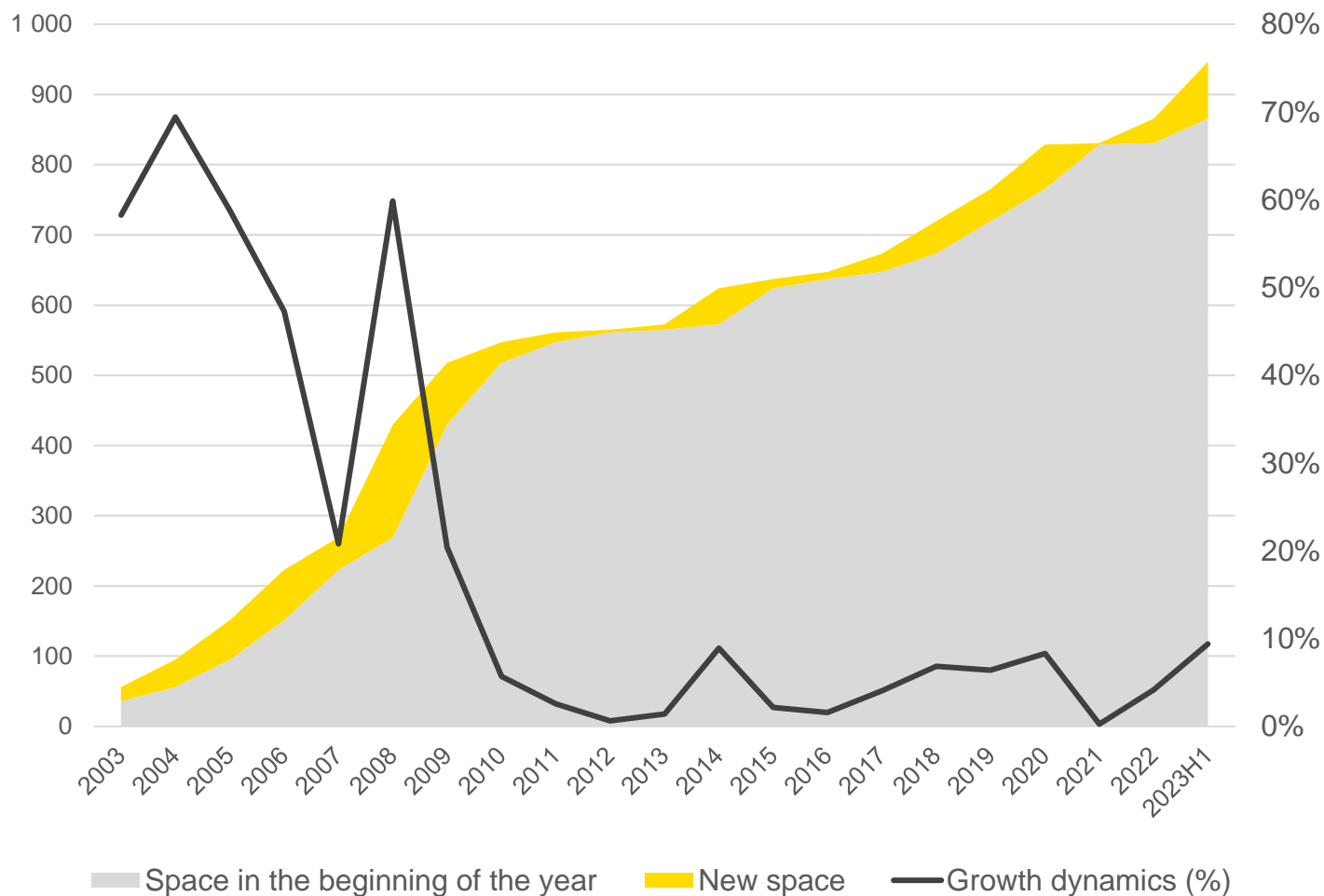
In the miscellaneous goods and services category, prices increased by **14.2%**.



Since the beginning of 2022, the Investor Confidence Index **has not recovered** from a significant drop and remains negative. There was a temporary upward trend from

October 2022 to April 2023, but then the index started to decline again, indicating that **uncertainty and pessimism** still prevail among investors.

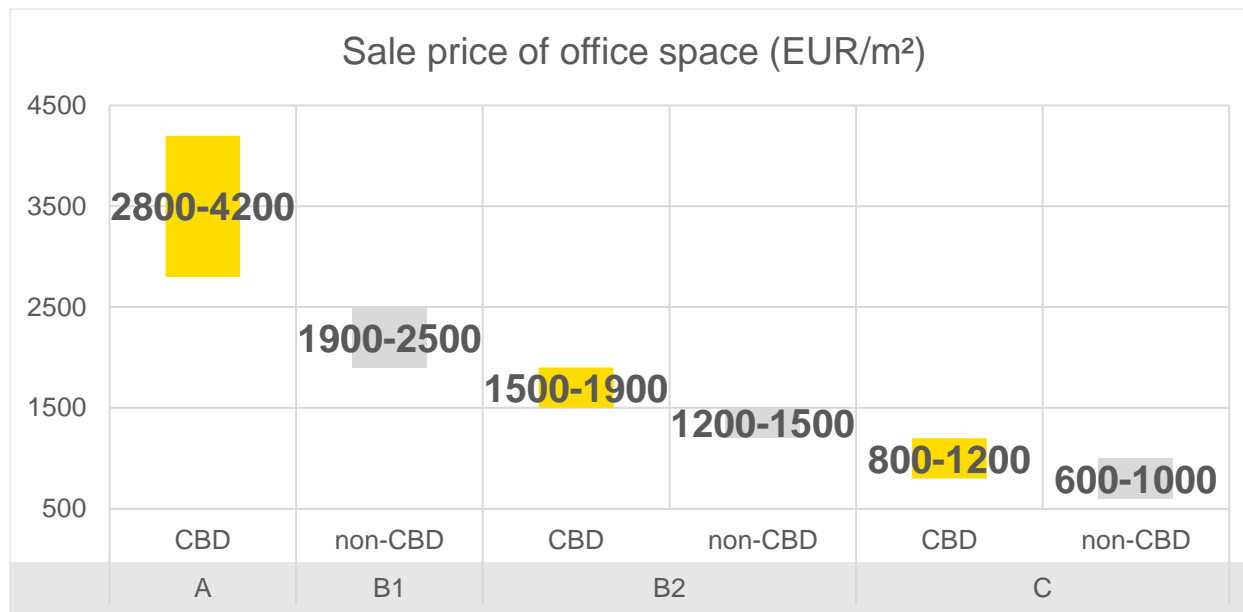
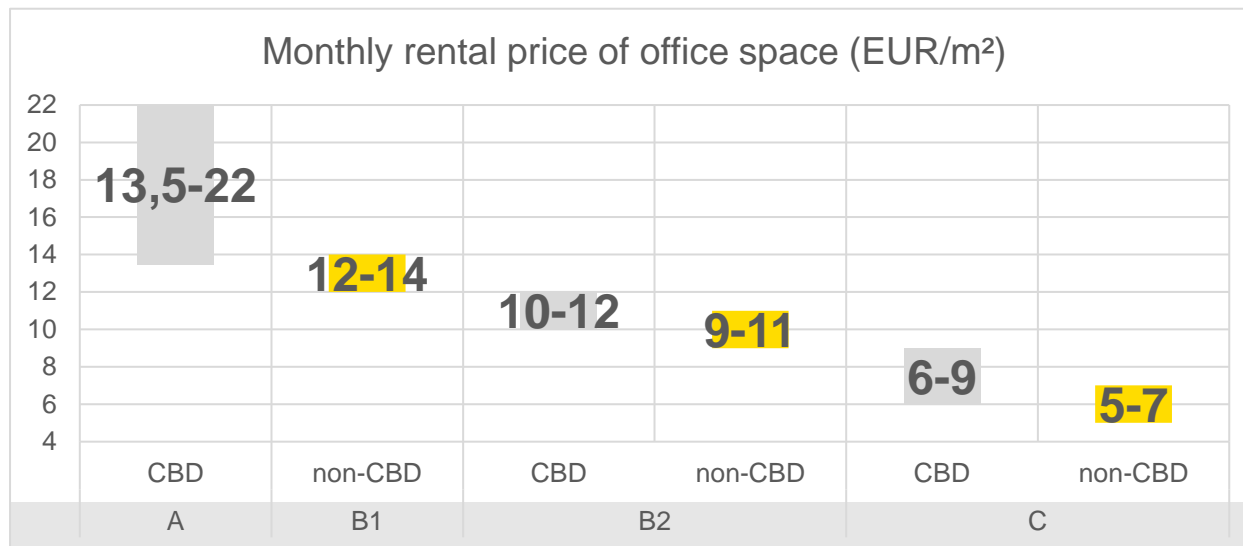
O F F I C E S P A C E

Office space (thousand m²) and growth dynamics (%) annually


- Linstow Baltic has received approval for the construction of the **Satekle Business Centre**, a visionary project consisting of five interconnected buildings, two of which will be heritage buildings and will be integrated into the overall building envelope.
- The first phase of construction (put into exploitation) has been completed in the new business centre located in Riga, **2A Pērses Street**. The building, located at **30 Krišjāņa Barona Street**, will be put into exploitation by December 2023.
- The construction of the **Novira Plaza** office and retail centre is nearing completion, with a target completion time in October. The project will offer commercial and retail space.
- **Regus Business Garden**, a new co-working office complex, has opened in Riga. Spread over five floors with a total area of 1,077 square metres, this modern business centre offers flexible workspace solutions for city businesses.
- Significant investment of almost €50 million has been allocated for the development of **76 Lāčplēša Street**. Construction is scheduled to start in 2024 and the project is expected to be completed within 7-10 years.



- The first building of the newly built business centre "**Gustavs**", located in Gustava Zemgala Avenue, has been successfully completed.
- The largest and most significant transaction in the commercial sector in the first half of 2023 was the purchase of land and buildings at **21 E.Birznieka-Upīša Street**.
- T/C **Galleria Riga** will undergo a transformation, as its fifth floor of 3200 square metres will be converted into co-working offices. This innovative workspace solution is expected to be available from 2024.
- The second phase of the "**Preses Nama kvartāls**" development is expected to start at the end of the year.
- The University of Latvia (LU) has sold a 5221 square metre building complex at **5 Baznīcas Street**, Riga, for a total of EUR 3.86 million.
- East Capital Real Estate Fund IV has successfully purchased **StokOfiss U30** mixed-use commercial building at 30 Ulbrokas Street, Riga, from its developer Hepsor Latvia.



Central Business District (CBD)

- the main business centre of the city, it is characterised by a saturation of offices, shops and financial institutions;
- selected districts : Skanste, Klusais centrs, Tuvais centrs, Ķīpsala, Āgenskalns Bay.

Class A Office Space

- prestigious and high-end office space located in the best business districts;
- modern architecture, state-of-the-art technology, top-class amenities (such as a gym and roof gardens) and outstanding interior design;
- higher rents due to their prime location and wider amenities.

Class B1 Office Space

- well-maintained and offer good quality space, but may not be as luxurious as Class A offices;
- are often in desirable locations, but not necessarily in the heart of a central business district;
- have standard amenities such as lifts, air conditioning, etc.;
- a popular choice for small and medium-sized companies looking for a professional environment but not looking at higher priced options.

Class B2 Office Space

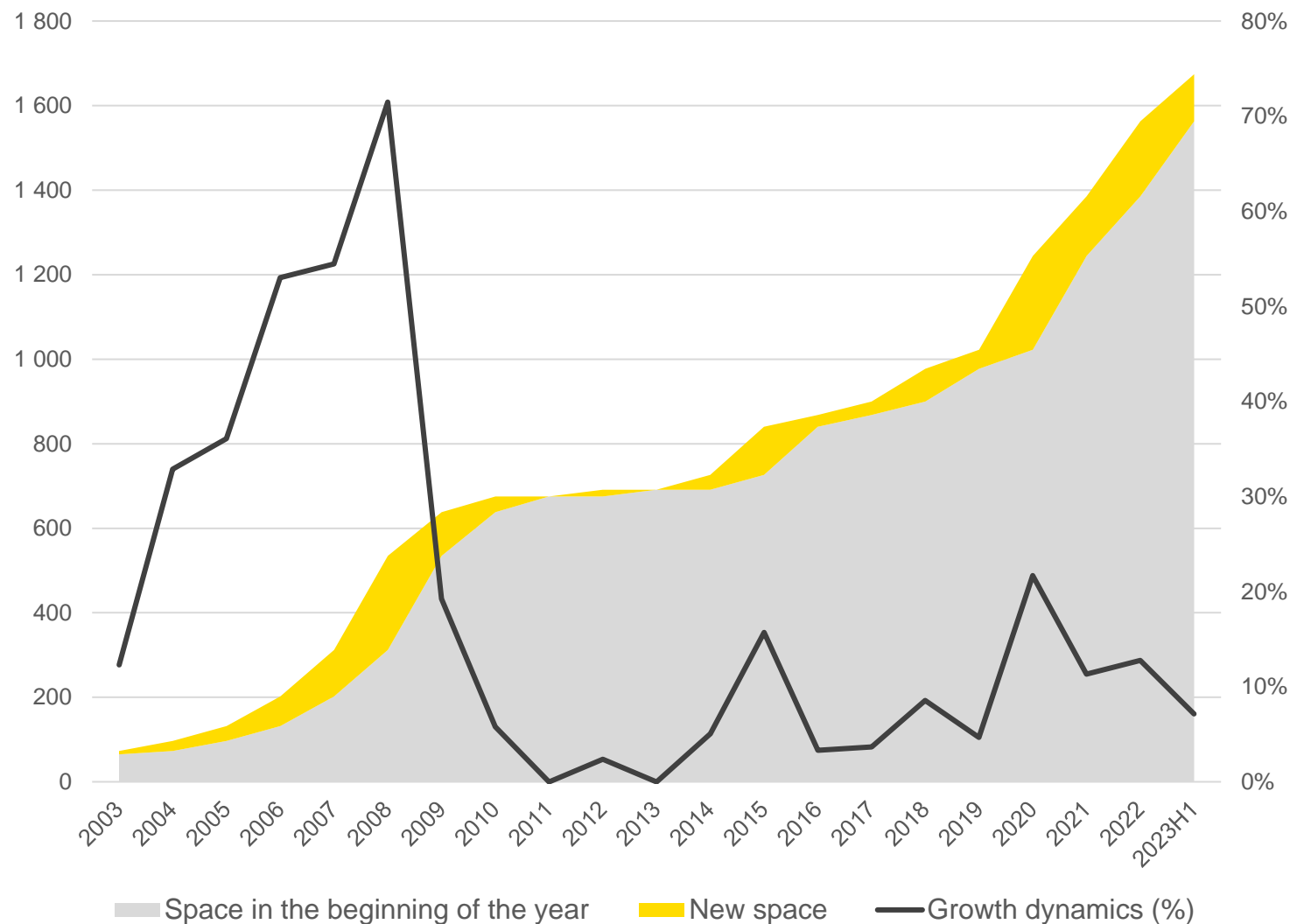
- are generally older buildings that have been renovated/refurbished to adapt to modern office needs;
- provide a satisfactory/good workplace;
- a more typical choice for companies looking for functional office space but at a lower cost.

Class C Office Space

- the simplest and most budget-friendly option;
- often located in less sought-after areas;
- may lack some essential amenities;
- suitable for companies looking for a cost-effective and affordable solution;
- can serve as an initial office location for new businesses with limited resources.



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

Industrial space areas (thousand m²) and growth dynamics (%) by year

- Fish processing company SIA Syfud, operating under the Port Lite trademark, has announced a significant investment of EUR 6 million to build a modern fish processing plant in **Liepāja**. The new plant is expected to be completed and operational by summer 2023, increasing the company's production capacity.
- Baltic Electro Company has ambitious plans to invest EUR 8 million in a wholesale and logistics centre in the **Dreiliņi district**.
- The developer "Piche" is planning to start construction of two industrial park buildings in the vicinity of the airport in the near future, with a planned investment of around EUR 25 million, the **second building of "Green Park III"** and the **second building of the "Lidostas Parks III"** industrial park.
- Schneider Electric is undertaking a major expansion initiative by building an extension to its **factory in Riga**. This ambitious project will double the size of the factory. The new extension will cover an area of 20,000 sqm and is expected to be completed by the end of this year.
- Metalworking company ICS Steel plans to set up a new production facility in **Liepāja, Meldru Street**, by the end of the year.



- Eco Baltia is making a significant investment of more than €10 million to build a modern **PET recycling plant** in Olaine. This advanced plant will not only be one of the largest and most modern PET recycling plants in Europe, but also one of the largest industrial buildings in Latvia.
- Capital Mill recently completed a €4.3 million expansion of its industrial park on **Granīta Street**. The warehouse area increased by around 30%.
- The fourth phase of the warehouse, retail and office complex "**Dienvidu vārti**" on Rēzeknes Street, Riga, has been successfully completed and put into exploitation.
- "Northside Business Park" has acquired three interconnected functioning commercial properties located on the site of the **former Liepāja Machine-Building Plant**. The acquisition is part of an ambitious plan to develop a dynamic business district in the area.
- Capitalica Green Logistics Fund has bought a logistics centre in **Ulbrokas Street, Dreiliņi**. With a total leasable area of 5647 sqm, this purchase further expands the company's portfolio.

Rental price of industrial premises per month (EUR/m²)



Sale price of industrial premises (EUR/m²)

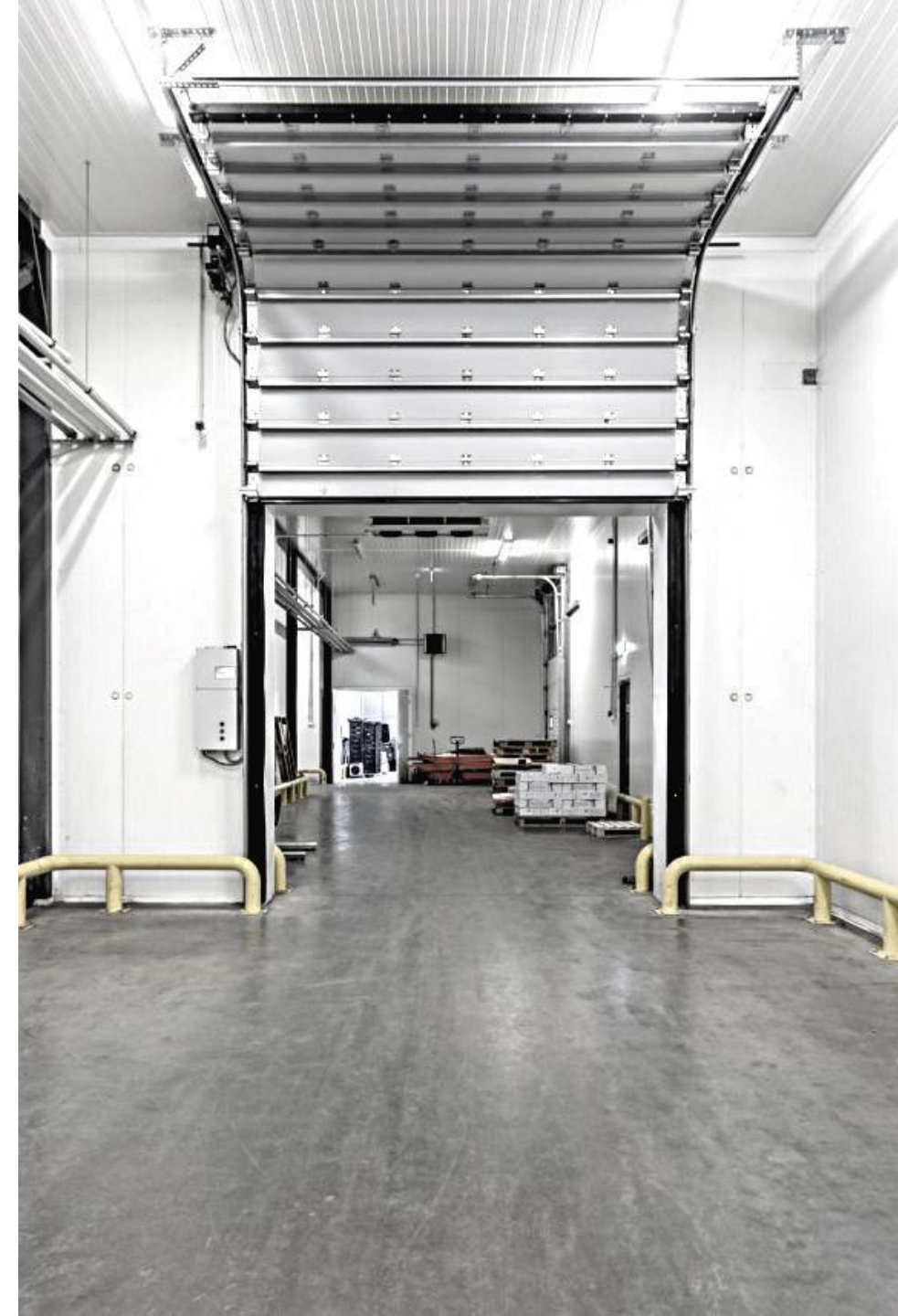


Class A Warehouses

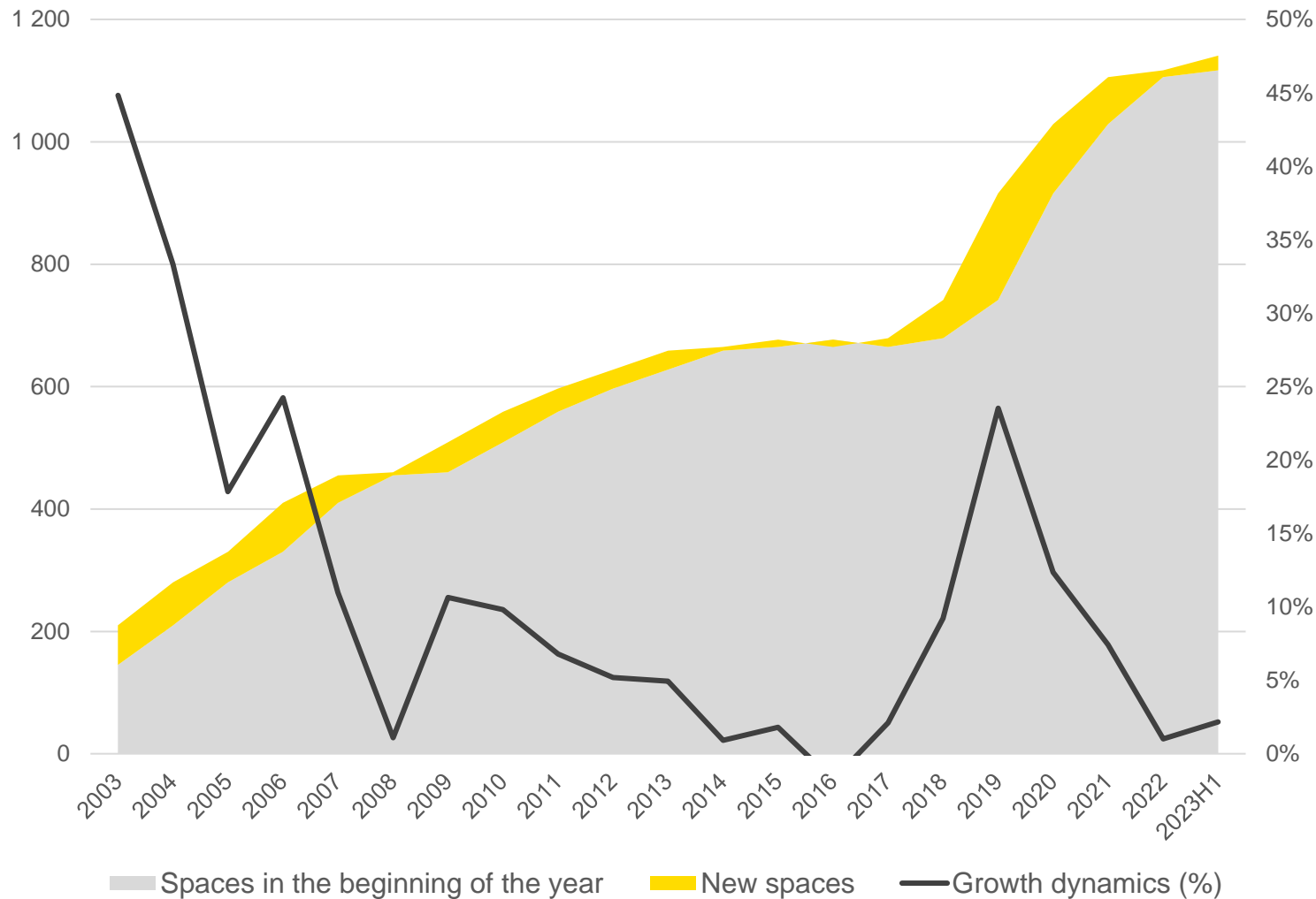
- top-level spaces designed for efficiency and functionality;
- modern design, spacious storage areas, advanced logistics management technologies, high ceilings, etc.
- usually located in strategic locations with excellent transport connections.

Class B Warehouses

- practical and functional, but may lack some of the more modern features of Class A warehouses;
- provides for simpler storage needs;
- located in strategically less favourable locations.



R E T A I L S P A C E

Retail areas (thousand m²) and growth dynamics (%) by year

- Depo DIY has raised a EUR 21.8 million loan for the construction of a new **Depo** store on **Kārļa Ulmaņa gatve**, Riga. The store is expected to open within a year.
- **Lidl**, the popular supermarket chain, has expanded by opening several new stores. One of them is the much-anticipated **Kalnciema Street** store in Pārdaugava, Riga, located on the site of the former Omega bicycle factory. The design of the building has been carefully planned to harmonise with the surrounding environment. The other is on **Prūšu Street**, where more than EUR 9.1 million has been invested. And the Lidl metropolitan concept store on **Sporta Street**, with its adjacent fast food restaurant complex, where extensive infrastructure improvements, modernisation and landscaping have been carried out, represents a total investment of just over €14 million.
- A new Lidl store is being built on **Krasta Street**, with a layout that successfully integrates with the traffic flow of Krasta Street and Salu Bridge, while providing easy access for cyclists and pedestrians. Lidl stores will also be opened in Ķengarags, **Maskavas Street**, and **Dobeles highway**, Jelgava.

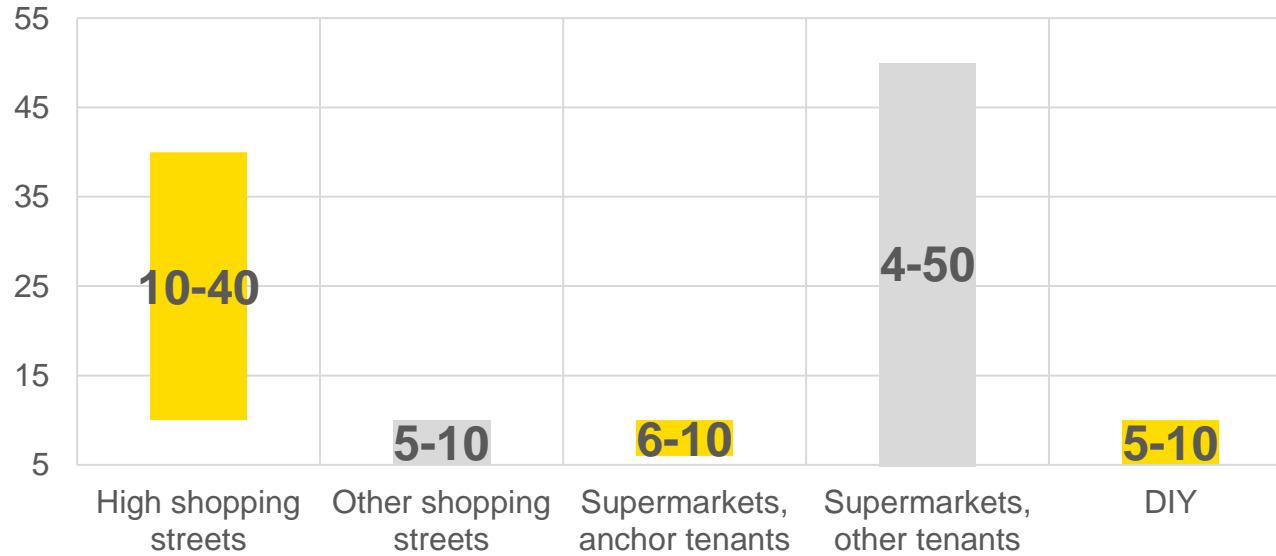


- A redevelopment project will be implemented in Jelgava's shopping centre "**Pilsētas pasāža**". The aim of the project is to improve energy efficiency by around 30%. Construction work has already started and the project is expected to be completed by the end of this year.
- The largest Banknote XL store with an area of 300 m² has opened at **30 Jūrmalas gatve** in Imanta.
- On 9 June, the largest **SPORTSDIRECT** store in the Latgale region was opened. The new store is designed to serve both sports enthusiasts and beginners, offering a wide range of sports products and equipment.
- The first multi-brand concept store **Springfield** and **Women's secret store** in the Baltics opened in Origo shopping centre.



- The largest **Tradehouse** beauty shop in the Baltics has opened on the first floor of Shopping Centre Olimpia.
- Alfor Ltd has purchased a property at **40 Ilūkstes Street** (EUR 950 000) with a total building area of 1535 m2.
- Dammes Muiža LLC bought part of the properties at **19, 21, 21A Dižozolu Street** (EUR 950 000). The property comprises three land units and 2 buildings with a total area of 2238 m2, of which Dammes Muiža acquired 1387.5 m2.
- JD Properties LLC purchased a shopping centre with land in Jelgava, **57A (57b) Rīgas Street**, for EUR 4'250'000 (total area of the building 2916,1 m2).

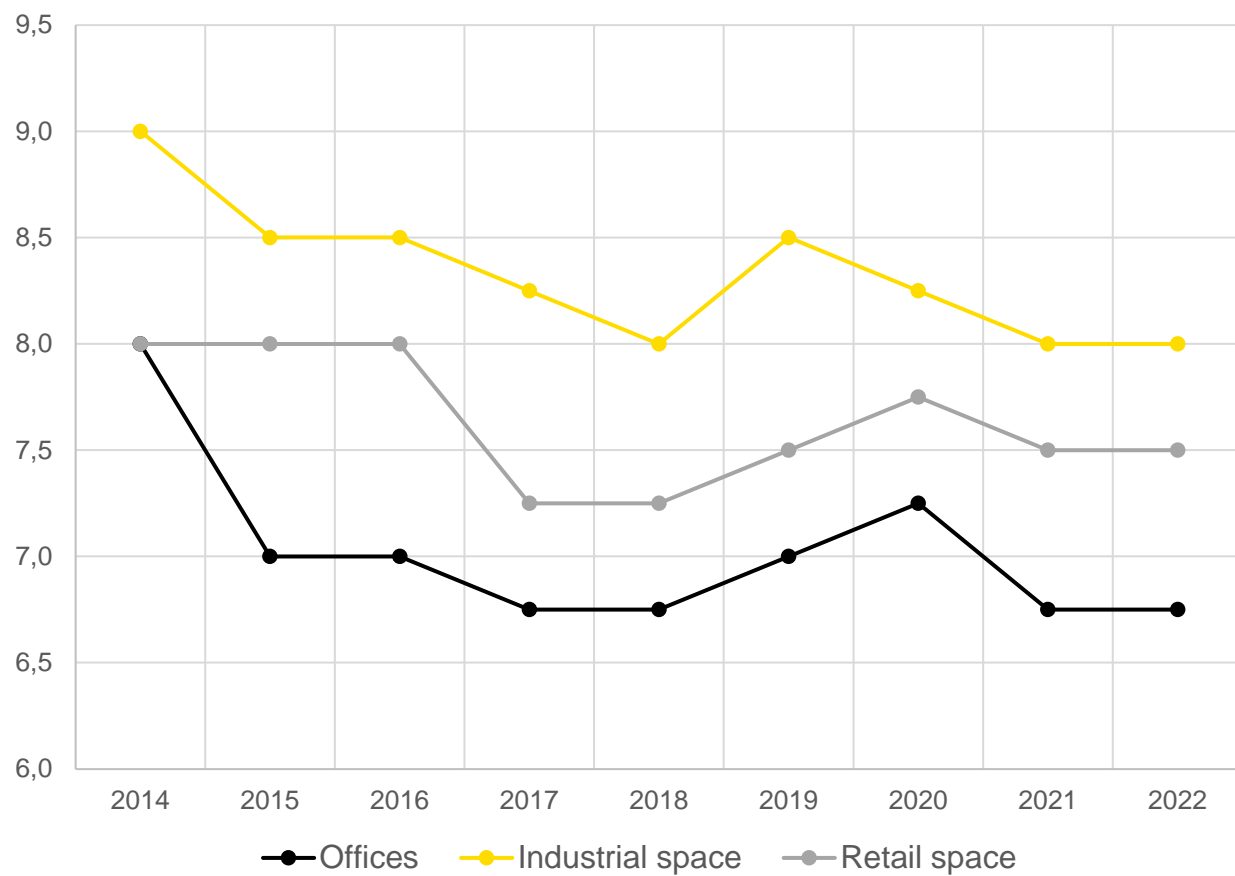
Rental price of retail space area per month (EUR/m²)



Retail space sales prices (EUR/m²)



Y I E L D R A T E S



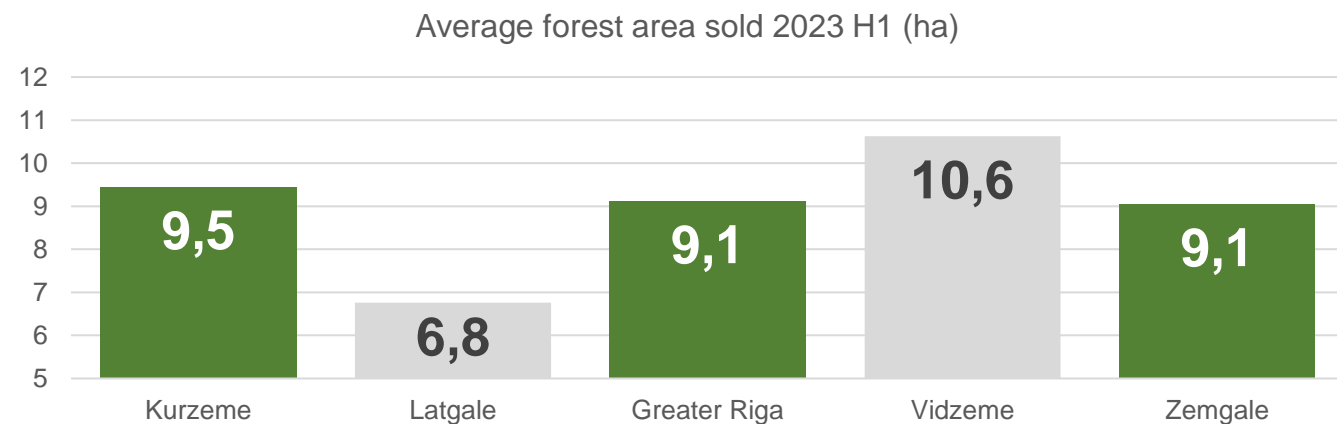
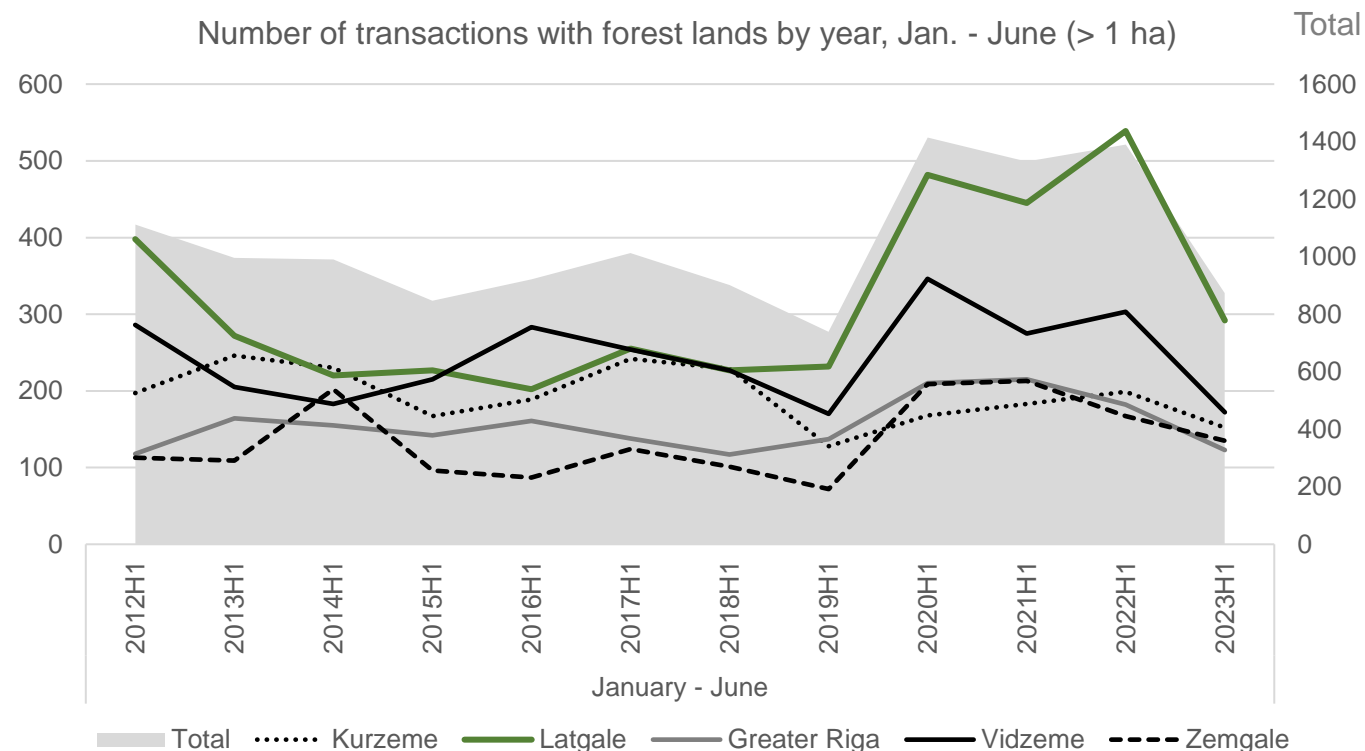
The rates have been estimated according to market research data gathered by *Latvia* as to investor-demanded yields in transactions for income generating property in the real estate segments reflected in the chart.



F O R E S T S



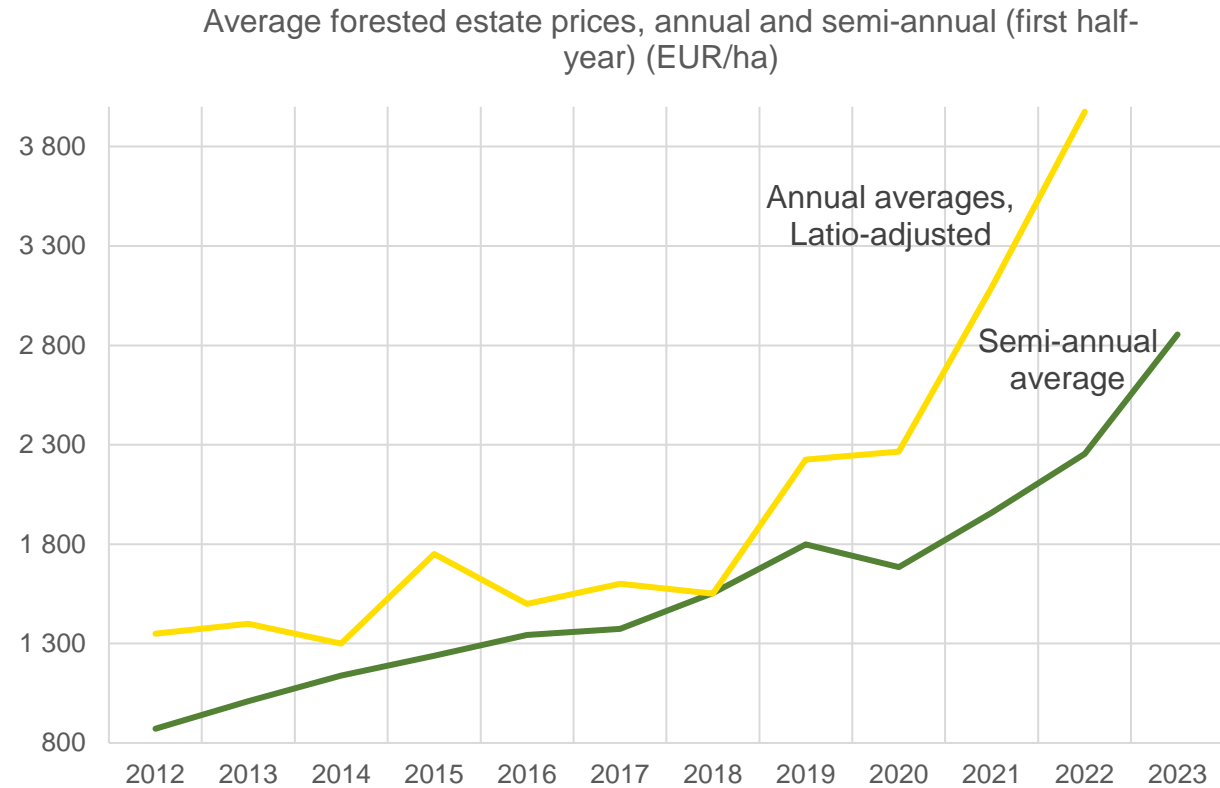
F A R M L A N D



Data source: State Land Service

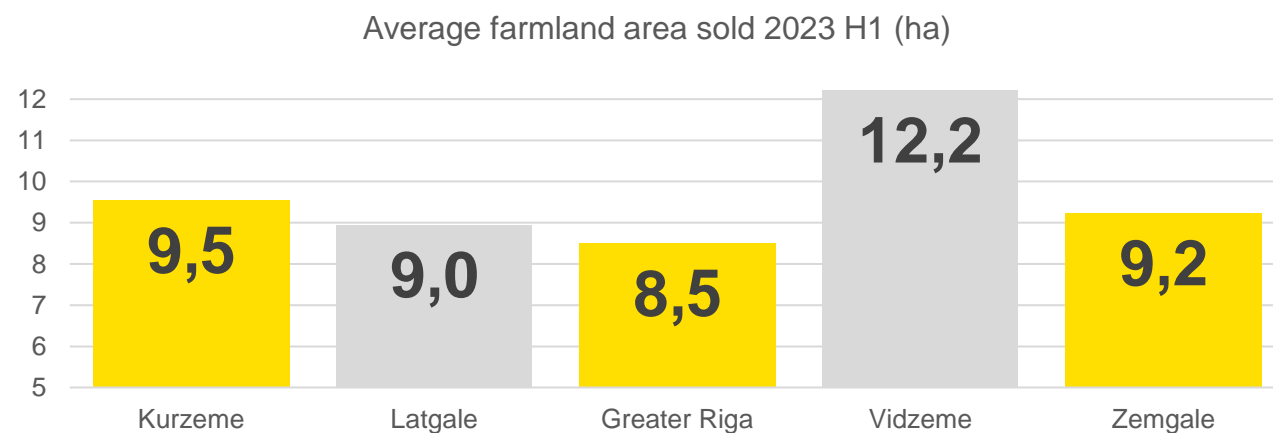
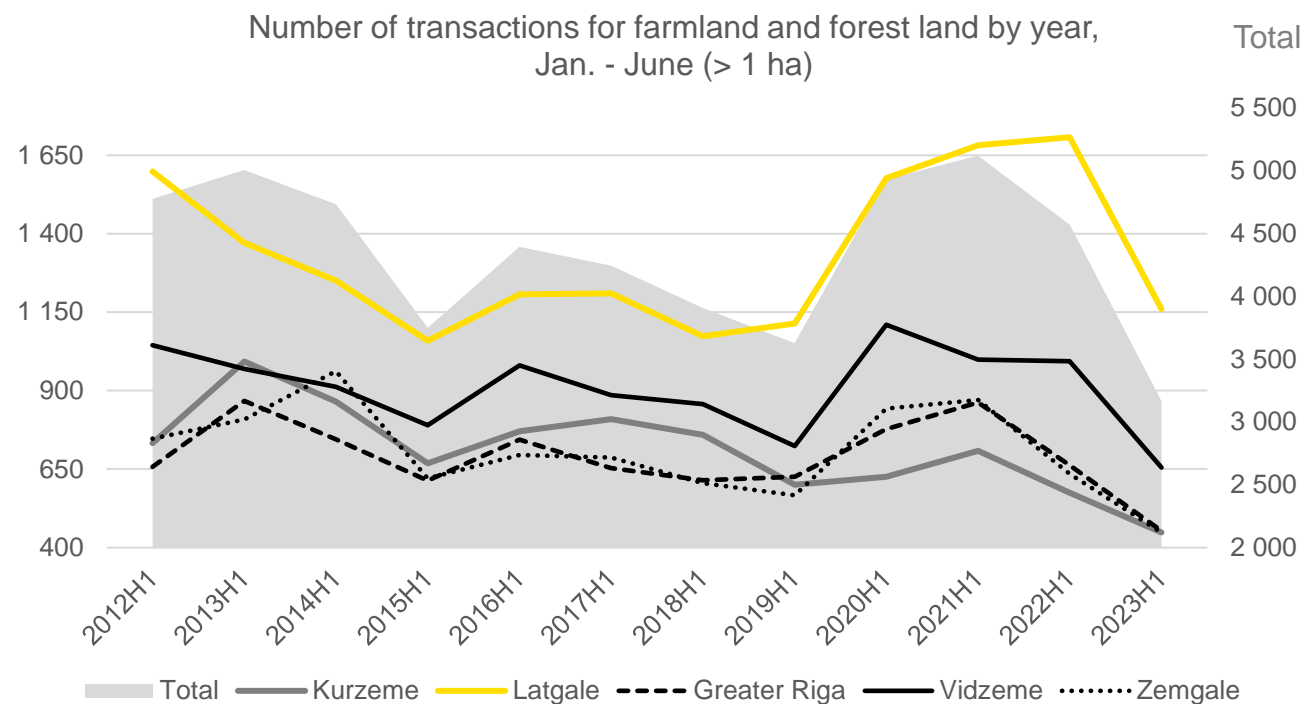
- The **number** of transactions (statistically) with forest lands **continues to decrease**. The average **area purchased in some regions has increased** since 2022. In Zemgale and Latgale a decrease in average areas can be observed, while the largest increase is in the Greater Riga and Kurzeme regions for medium-sized forest land plots sold.
- According to the Central Statistical Bureau, the average cost of reforestation in 2022 was **between €792 and €931 per hectare**. This represents an increase of 2.5-12.4% compared to 2021 (the highest reforestation costs were €930.90/ha in forests of the fourth quality group and the lowest €791.59/ha in forests of the second quality group).
- The agricultural sector's GDP growth rate for the first quarter of 2023 compared to the same period in 2022 is **1.8%**. This increase is due to a 3.8% increase in crop production and a 0.6% increase in livestock production, with a 9.4% increase in fisheries. However, the forestry and logging sector recorded a decrease of 6.9% (CSP).
- The rates of return on large property portfolios have averaged **3.75-5%** in Latio's researched transactions.

Forest sector is booming, property prices are soaring



Data source: State Land Service and Latio

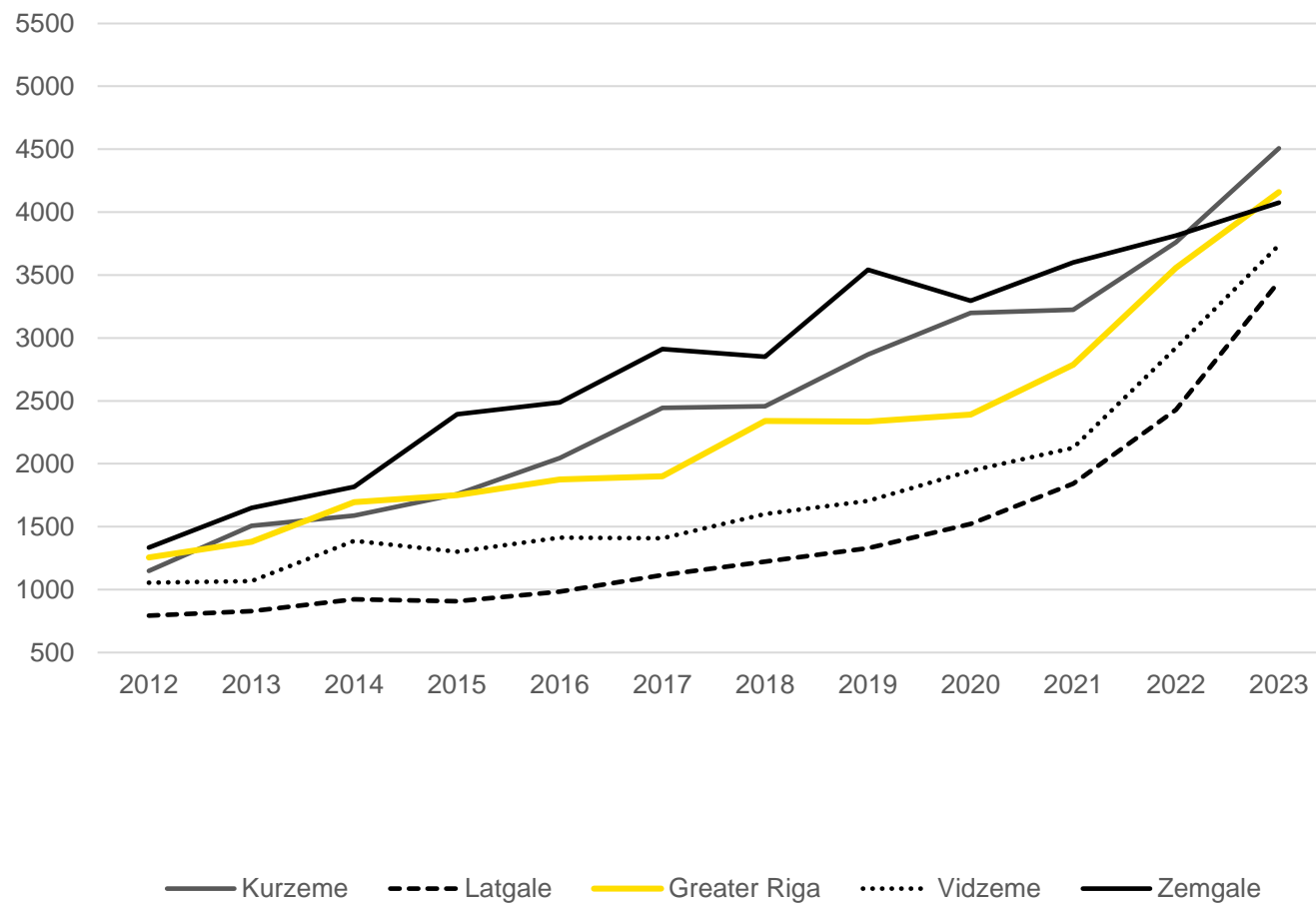




Data source: State Land Service



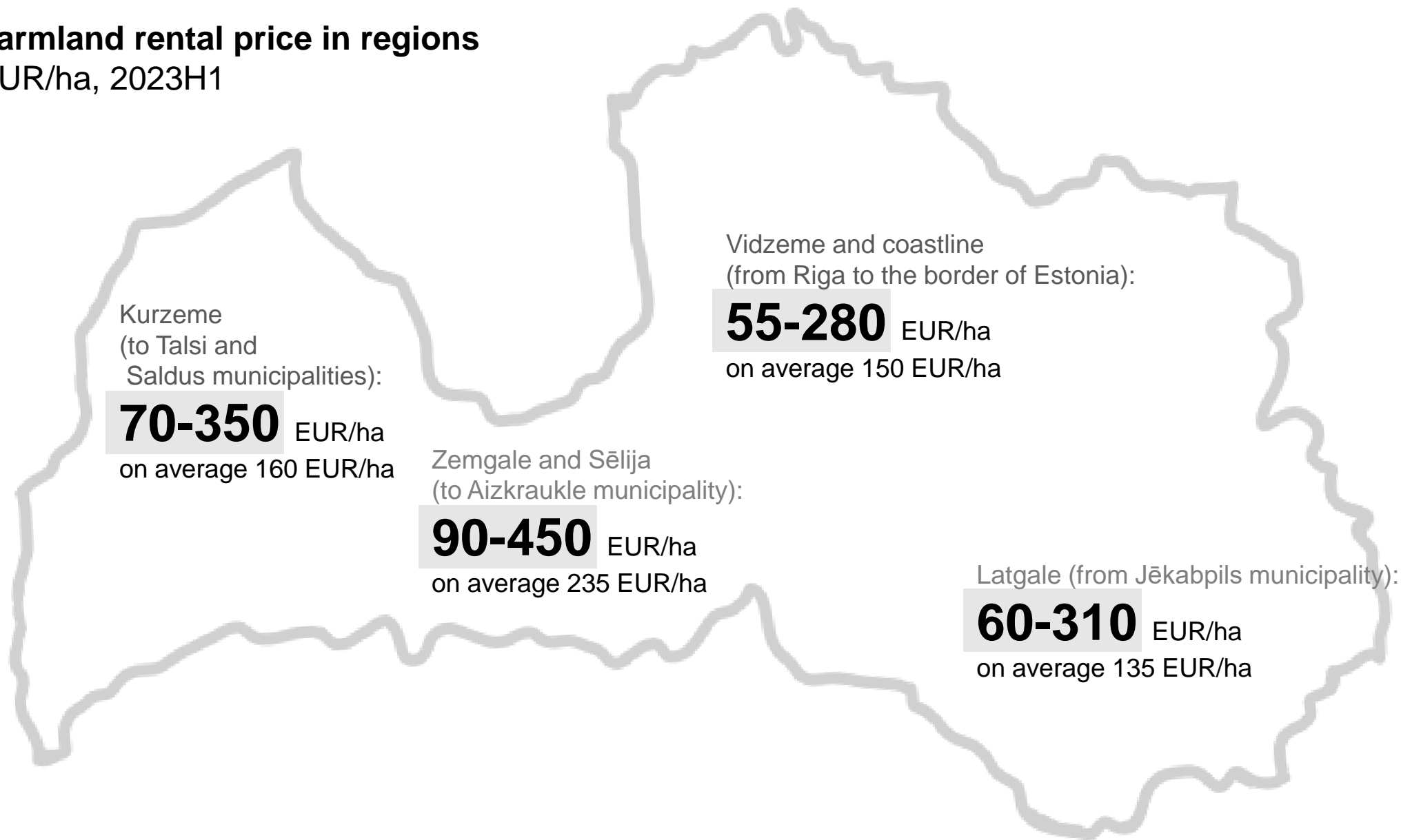
Average farmland price in the first six months, EUR/ha



Data source: State Land Service



Farmland rental price in regions EUR/ha, 2023H1



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

Transactions for hotels as a whole property in 2023 H1

| Address | Total area of the structure, sq.m |
|---|-----------------------------------|
| Krišjāņa Valdemāra Street 127, Riga | 1594 |
| Brūža Street 2, Smiltene, Smiltene mun. | 1208 |
| Vasarnīcu Street 34, Ventspils | 545 |
| Pils Street 7, Kandava, Tukums mun. | 508 |
| Puškina Street 117A, Daugavpils | 344 |
| Lejaskilmiņi, Melnsils, Roja parish | 225 |

Data source: State Land Service and Latio available data

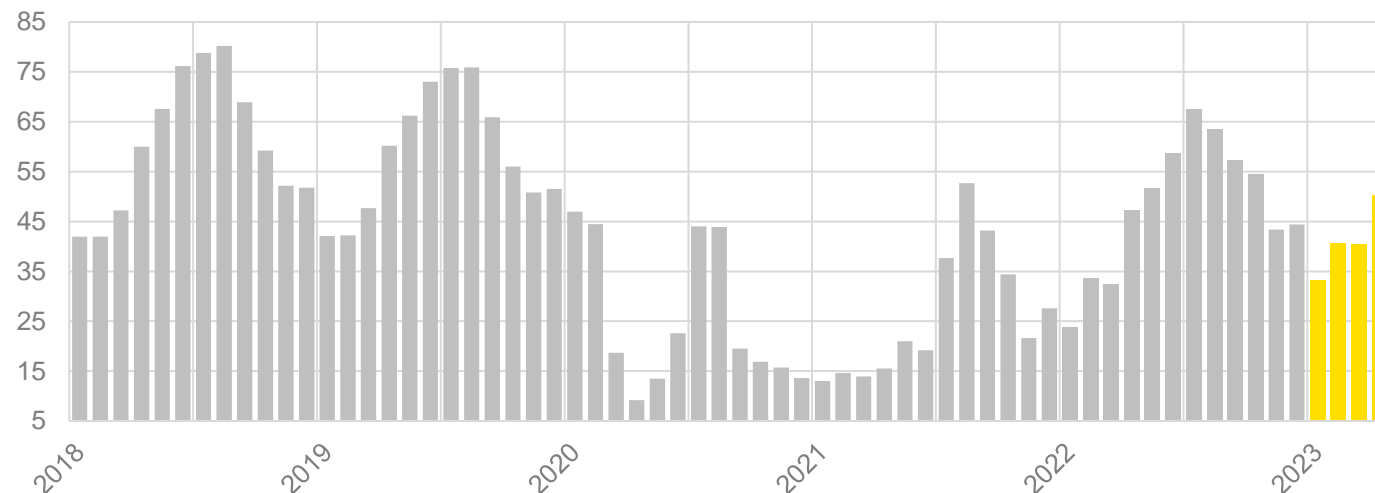
- "Citra Development", a subsidiary of "Signet Bank", plans to **build a hotel complex in Old Town Riga** by 2026. The complex is planned on the undeveloped area between Tirgoņu, Kalķu and Mazo Monētu streets.
- Keystone Hotel, LLC has proposed the construction of a residential building to be converted into a hotel at 5/7 **Tirgoņu Street** and a new hotel building at 1/3 Tirgoņu Street.
- A building application is registered for a hotel building in **Vecāķi**.
- JurSoft LLC purchased a building at **127 Krišjāņa Valdemāra Street**, Riga (EUR 1 245 000), where a 3-star hotel "Avitar" (1593,5 m2) operates, the property was exploited as a long-term and short-term hotel.

Data source: CSB

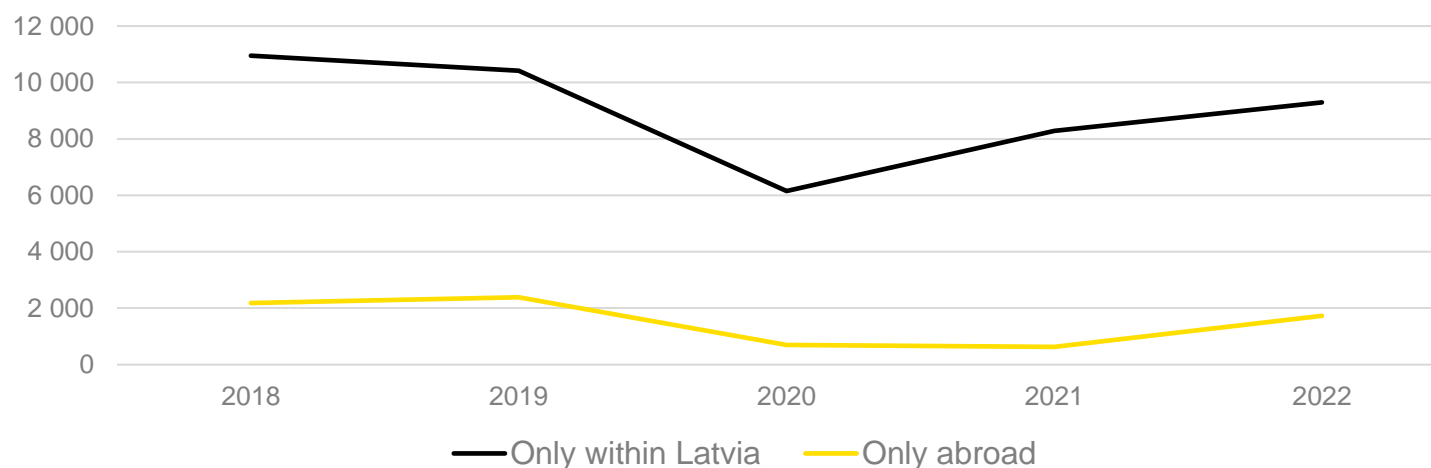


- The first floor of the Preiļi Park Palace is being renovated by the municipality. The purpose of the renovation is to provide **restaurant and gastronomic tourism services**, and the auction offered a 30-year lease.
- A construction plan was submitted (at the end of 2022) for the development of **a new apartment hotel at 72 Jaunā iela, Jūrmala**. The plan was approved in February and a building permit is currently in effect. The transaction was closed in summer 2022 (EUR 250 000, 0.1893 ha).

Room occupancy, Riga (%)

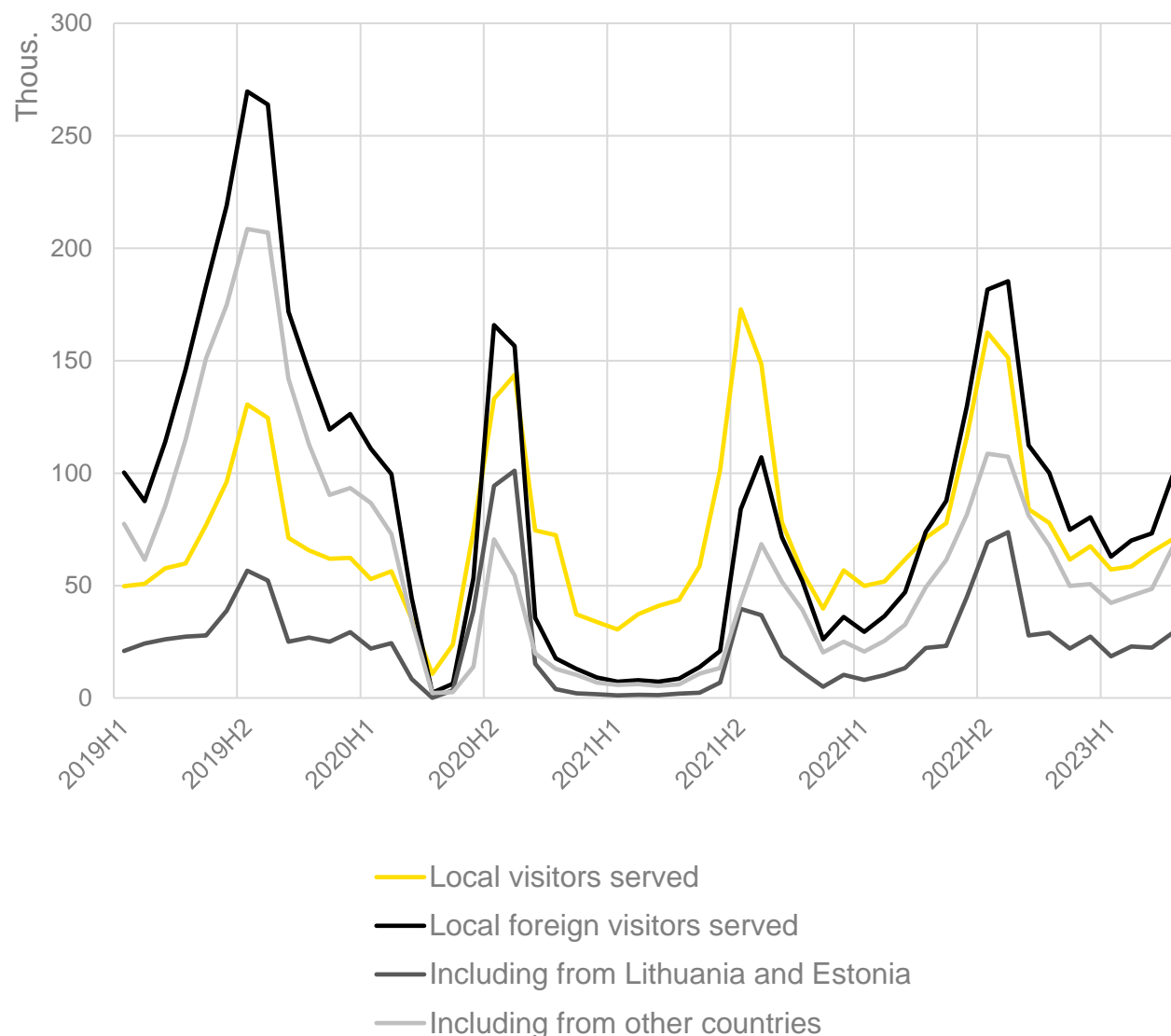


Travels of Latvian residents within Latvia and abroad, in thousands



- In the first four months of this year, Latvian tourist accommodations welcomed 556.1 thousand foreign and domestic guests, which is **32% more** than in the same period of 2022.
- **Riga became the most popular domestic tourism destination** among the Latvian population. In April, 31.5% of visitors stayed in the capital. Jurmala attracted 13.3%, followed by Liepaja with 7.4% and Sigulda region with 4.3%.
- In 2022, the number of **travels abroad** by Latvians has almost **tripled** compared to a year earlier, although it is still lower than before the pandemic (-27.5% compared to 2019).
- About 58% of Latvian travellers went to Lithuania for a **day trip** and 34% to Estonia, while the most popular destinations for **multi-day trips** were Estonia (18.1%), Lithuania (11.8%), Italy (7.4%), Spain (6.2%), UK (4.4%), Poland (4.3%), Belarus (3.7%) and Turkey (3.3%).

Number of foreign and local visitors served in Latvia



- In accommodation and food services, GDP growth was **27.3%** in the first quarter of 2023 compared to the same period in 2022.
- The most frequent visitors to hotels and other tourist accommodations in April were from **Lithuania, Estonia, Finland**, Germany, the United Kingdom and Poland.
- In April, **the number of nights spent** by foreign guests **increased** by 29.4% compared to a year earlier (1.9 nights on average). Most foreign guests stayed in **Riga**, **80.1%** of the total. Jūrmala hosted 5.6% of foreign guests, while Marupe municipality - 3.4%.
- Although the overall travel activity in Latvia has not yet reached the pre-pandemic level, the trend in 2022 is that **the willingness of the population to take local multi-day trips has strengthened** and even exceeds the number of trips registered in 2019 by 13.1%. There is a growing interest and willingness of the population to engage in domestic tourism.

O P I N I O N S



Investment objects

As the real estate market reacts sensitively to global developments, in particular rising interest rates and geopolitical uncertainty, the share of large transactions is declining. These factors have led to a decline in both the number of transactions and the overall confidence and interest of investors, especially international investors. Estonian investors, previously active in Latvia, have also partly shifted their focus away from the Baltic States and are now considering investing in markets such as Germany, Poland and Sweden. Those who still want to invest in Latvia prefer infrastructure and "green projects" such as transmission infrastructure modernisation, wind farms, etc.

Both public and private investment funds have started to sell their assets, including offices, leisure complexes and other facilities, reflecting uncertainty and doubts about the market's recovery to pre-crisis levels. A notable trend in the office market that investors have started to come to terms with is the ongoing restructuring. Large companies are opting for smaller, representative office space in high quality Class A office centres and providing Class C office space for other employees. Remote working and hybrid models are the new normal for most employees, meeting employee expectations and offering cost-effective solutions for companies with smaller office spaces.

Igors Terehovs
Investment Property
Specialist





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Investment objects

The first half of the year has been more successful for those in the hospitality sector, with leading players in the sector pleasantly surprised by the high level of occupancy and take-up. Taking into account the challenges overcome in recent years, the general anxiety among people and the reluctance to travel so actively - the current results are better than expected.

It has also been a good year for shopping centres, which took advantage of the pandemic and the restrictions to renovate and improve energy efficiency, resulting in increased occupier interest and occupancy.

The rental market segment has also adapted as EURIBOR interest rates have risen. High mortgage payments have contributed to an increase in demand for rental housing, leading many landlords to increase rents unethically high in response to high demand.

Igors Terehovs

Investment Property
Specialist

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Office segment

Employers are flexible and the hybrid working model is now fully accepted as the new normal.

There is still an interest in small offices, but there is a growing emphasis on offices not only as a place to work, but also as a socialising environment to encourage face-to-face contact when employees are in the office. The design and atmosphere of a workplace can have a significant impact on the well-being of a team and promote a sense of belonging, so when choosing new spaces, emphasis is also placed on factors that cannot be changed by renovation, such as the amount of natural light.

The layout, arrangement and optimisation of spaces are essential to boost productivity. Even small offices, where interest has remained stable for a long time, are being adapted to meet the new needs.

Iveta Talapova
Real Estate Agent





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Industrial objects

On average, the number of purchases in the industrial sector is lower and slower. Overall - the need and demand from manufacturers for adequate production and warehousing space has not disappeared. We are in a time of disproportion. "More expensive money" significantly limits the ability to buy, especially of small and medium-sized businesses. Rising construction costs and a shortage of industrial space for sale are keeping price expectations of sellers/owners in check.

Artis Ramutis
Real Estate Agent

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Retail

In the first half of 2023, the retail business environment has remained relatively calm, offering attractive opportunities both within and outside the city centre. As new residential areas continue to be developed, the range of retail space in their vicinity is increasing. However, this does not take away from the fact that the "new" times require adaptability and flexibility from both landlords and tenants. Tenants are now less inclined to invest in extensive refurbishments and prefer premises that meet their needs without major improvements. On the other hand, landlords are reluctant to reduce rents significantly in response to the general economic situation. As a result, occupancy rates are slower in some districts and rents are even rising in others. However, in the most successful cases, both sides find ways to agree on new terms of cooperation. To thrive in such a market, both occupiers and landlords need to be ready to adapt to changing requirements and conditions. Flexibility and solution-finding are the keys to success. In general, commercial space has been vacant for longer, but rental prices have also become more volatile.

Ruslans Vengers
Real Estate Agent





Forest lands

The first half of 2023 has brought significant adjustments not only in the timber market, but also in the forest property market. Although the opportunities and willingness to buy forest properties remain quite high, new interest rate surprises and a deliberate pause by some major players have led to a correction in demand. As a result, the buyers currently remaining on the market may start to dictate their own terms. It is difficult to say for how long this dominance will last, but it is fairly safe to predict that this half-year will be negative compared to last year. The autumn and the expected demand for firewood could bring positive changes in the direction of average prices for timber, if not for forest estates. This will not be a positive trend for the economy as a whole, but it could help forest owners to remain optimistic, hibernate peacefully and face the spring of 2024 in good spirits.

Sandijs Lūkins
Head of Forest and
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Farmlands

Despite adverse climatic conditions and the geopolitical situation, demand for quality agricultural land remains very high. This cannot be said for land that is not immediately suitable for agricultural production, but requires investment and time. Similarly, the potential carbon market has created a demand for areas that are both rationally and legally appropriate to afforest. The market is also interesting for Estonian entrepreneurs who have seen the large price differences in their own country early on and, without despising Latvia's more remote regions, have played an active role in raising average farmland prices. Without wishing to call it speculation, it is once again clear that our northern neighbours have easily outdone us. However, despite all the big unknowns in economics and green politics, average land prices are on an upward trend and are likely to remain so.



Summary

We are convinced that the development of e-commerce is not a substitute for the face-to-face shopping experience. In fact, more and more businesses have realised that the combination of face-to-face and online shopping creates synergies and enhances the customer shopping experience. Combining these two types of shopping allows for a more engaging, personalised and immersive experience, resulting in increased customer loyalty and satisfaction. Moreover, companies are also using this combined approach to attract new customers, as the importance of a positive shopping experience is now as important as the quality of the product itself. If a company can offer both a great product and a convenient shopping experience, it can benefit from the impact of word-of-mouth marketing, which can further expand its customer base. There is still a relatively large amount of attractive retail space on offer at good prices. Many companies are using this time to secure favourable contracts, laying the foundations for further growth and strengthening their brand presence in the market.

E-commerce is expected to continue to drive retail development, also underlining the importance of available industrial space, where the market continues to grow despite the challenges posed by rising interest rates and inflation. However, the current economic situation may also lead to a slowdown in the growth rate of industrial real estate.

Forest and farmland are increasingly recognised for their charm and ecological importance, as well as for their financial value and projected returns, and demand for these properties is growing. However, supply is still limited, so it is very important for landowners who are considering selling their properties to approach the process thoughtfully and not hesitate to seek advice from experts with in-depth knowledge of real estate transactions and property valuation.

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The development and increasing popularity of digital opportunities has transformed some of the objectives of business travel. In many companies, the introduction of hybrid remote and office working models now allows professionals to work flexibly from any location of their choice. As a result, where the nature of the work allows, there has been an increase in the number of "travelling" experts who prefer to be able to explore new destinations while combining this with their work responsibilities. As a result, there is a growing demand for hotels and other types of accommodation that are specifically tailored to the needs of such travellers, providing not only a comfortable place to sleep but also the essential amenities to meet the demands of their work. From well-equipped rooms to reliable internet access, thought and organisation has been put into ensuring that professionals can seamlessly combine work and leisure while travelling.

When it comes to offices, in today's saturated office market, tenants have plenty of choice. While higher-end office space is often preferred as it enhances a company's reputation and offers the opportunity to optimise space utilisation, smaller, lower-end office space is also still considered. It is important to create as attractive, productive and healthy working environment as possible for everyone, regardless of the class of building, as office space can influence how a company is perceived by customers, partners and employees.

In addition: we have noticed a trend that more and more occupiers, especially multinational companies, are interested in the environmental impact, emissions and BREEAM compliance of a building.

T R E N D S

Economy

The global economic situation remains fragile, with the impact of several negative shocks, including the invasion of Ukraine by the Russian Federation, and the implementation of tight monetary policy to contain high inflation. World GDP growth is projected at 2.7% in 2023, the lowest annual rate since the global financial crisis (excluding the 2020 pandemic period). A slight improvement to 2.9% is foreseen in 2024. Persistent inflationary pressures combined with tight monetary policy could be a significant drag on economic activity, according to the Worldbank. Persistent inflationary pressures combined with tight monetary policy are a major obstacle to economic growth. The outlook for growth in emerging and developing economies is expected to be hampered by difficult global financial conditions. Inflationary pressures continue, although global aggregate inflation has shown signs of slowing. Inflation remains elevated in many countries and is expected to remain above pre-recession levels even beyond 2024.

Energy prices have fallen significantly, mainly due to a weaker global growth outlook and a milder winter, resulting in lower consumption of natural gas and electricity. Lower energy prices are helping to reduce aggregate inflation and ease strains on household budgets.

Construction costs

Inflation increased costs for everyone last year, including in the construction sector. Central banks' efforts to reduce inflation around the world may mean further interest rate rises, and the high cost of capital is expected to have an impact on the construction sector. If interest rates continue to rise steadily, developers' interest in investing in real estate will decrease and demand for construction could start to decline.

North America and Europe are facing a shortage of skilled labour in the construction sector, which is leading to an upward trend in overall construction costs.

The European Union has set a target of net zero emissions by 2050 and the European Green Deal has an important role to play in this process. It includes the renovation of buildings (the aim is to decarbonise the existing building stock). Currently, only 1% of buildings undergo energy-efficient renovation each year, even though buildings account for around 40% of EU energy consumption, according to Oxford Economics. With 85% of buildings in the EU over 20 years old and most of them expected to be in use by 2050, there is a significant need for renovation to reduce their carbon footprint and improve their energy efficiency. The increase in renovation activity is expected to contribute significantly to the overall construction sector across Europe.

Retail space

During its third annual virtual conversation, the "State of Retail & the Consumer" retail trade association forecasts retail sales growth of 4 to 6% this year, reaching a range of USD 5.13 trillion to USD 5.23 trillion, *Forbes* reports. This follows a significant 7% annual growth in 2022 compared to 2021, with retail sales reaching USD 4.9 trillion. Although the projected growth for 2023 is lower than 2022, it exceeds the pre-recession average annual retail sales growth rate of 3.6%. The e-commerce sector is also expected to grow in 2023, with sales forecast to increase by 10 to 12%. These online sales are included in the overall growth mentioned above, contributing to the positive outlook for the retail sector.

As the role of traditional stores has evolved in recent years, they remain the main point of consumer purchase, accounting for around 70% of total retail sales.

Key findings from the Momentive survey show: 56% of adults prefer to shop both online and in-store; 88% say it is important for retailers to offer their customers the option to buy goods both in-store and online; 24% say they are less likely to choose to shop online from a business that does not also have an in-store outlet.

Offices

Remote and hybrid working has changed the relationship between many companies and their employees and the office forever. However, the number of remote workers varies widely from city to city, making some office markets more vulnerable than others, according to the latest *Commercialedge* US Office Market Report. Those markets with the highest share of remote working are also seeing the highest growth in the number of job vacancies.

By mid-2023, it states: The average US office auction price was USD 38.36 per square foot, up 2.1% year-on-year. The national average selling price of an office building has decreased from USD 250 per square foot in 2022 to USD 195 in 2023, a decrease of 22%. The national vacancy rate increased by 30 basis points year-on-year to 17%. The national office backlog reached 116.2 million square feet, representing 1.8% of the total stock. Office sales reached USD 11.9 billion in May, with assets priced at USD 195 per square foot. Los Angeles sales prices decreased by 43% year-on-year to USD 237 per square foot. Chicago ranked sixth in sales volume nationwide, with transactions of USD 588 million. Austin recorded the highest average sales price in the Southern region at USD 356 per square foot. New Jersey boasts the second highest sales volume in the North, at USD 827 million.

Industrial space

The UK industrial and logistics market is returning to equilibrium, reflecting an expansion in supply and a "calmer" level of demand. 2022 saw total take-up of 60.5 million sq. ft., making it the second best year on record. The fourth quarter saw the market react to the conditions of increasing economic uncertainty. The pace of rental growth is unlikely to be sustained in 2023, as the additional demand for space caused by the pandemic has diminished. In the UK, rental growth is forecast to be around 4% in 2023, a step down, says *Lambert Smith Hampton*, but nonetheless a better figure than for other property sectors in the current circumstances.

High interest rates in the US have caused developer activity to fall by 30% to 40% in the first quarter of 2023. However, industrial rents are still growing strongly at 9.9%, but this is slightly down on the Q4 2022 figure (10.7%), according to *Plante moran*.

Hotels

The demand for leisure and business travel is growing. For leisure travel, flight bookings increased by around 31% in March 2023 compared to the same month in 2019, according to the *Mastercard Economics Institute*. The strongest growth in commercial and leisure travel is in Asia Pacific and Europe (up 64% and 42% respectively between January and March 2023). Germany and Spain are becoming increasingly popular among Latin American travellers, while Saudi Arabia and Egypt have become the destinations of choice for travellers from Eastern Europe, the Middle East and Africa. The USA, which was ranked 5th on the list of top destinations for European travellers in 2022, is now ranked 4th.

There is a growing demand for more unique destinations. Potentially influenced by social media, travellers are opting for less known and less recognised destinations. The focus is on gaining new experiences.

Corporate travel is growing at a slower pace, says *Deloitte*, because decisions on these trips are made with a completely different calculus, determined by many factors: the traveller's safety and willingness to overfly, the other party's interest in a face-to-face meeting, the value of attending events and whether a virtual meeting can substitute for a trip. International travel continues to grow. A survey (07.02.-23.02.2023, 106 US respondents and 288 European respondents) concluded that the US expects the share of international travel costs to increase from 21% in 2022 to 33% in 2023. Respondents in Europe expect 32% of 2023 expenditure to be spent on international travel within the continent and 28% outside.

S U M M A R Y

OFFICES

(lease and sale, EUR/sq.m)

| | | |
|-----------|---------|-----------|
| A | 13,5-22 | 2800-4200 |
| B1 | 12-14 | 1900-2500 |
| B2 | 9-12 | 1200-1900 |
| C | 5-9 | 600-1200 |

RETAIL PREMISES

(lease and sale, EUR/sq.m)

| | | |
|-----------------------|-------|-----------|
| High shopping streets | 10-40 | 3500-7000 |
| Other streets | 5-10 | 1000-1500 |
| Supermarkets | 4-50 | 1500-2500 |
| DIY | 5-10 | 1500-2500 |

INDUSTRIAL SPACE

(lease and sale, EUR/sq.m)

| | | |
|--------------|---------|-----------|
| Stock office | | 1000-1500 |
| A | 4,3-6,5 | 850-1200 |
| B | 3,5-4 | 500-800 |
| OTHER | 1,5-3,3 | 150-400 |

YIELD RATES (%)

| | |
|------------------|------|
| Offices | 6,75 |
| Industrial space | 8 |
| Retail space | 7,5 |

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

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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

