

Latio

**Commercial
Real Estate Market**

REPORT

2021 H1



The report contains information about:

- Office property
- Industrial property
- Retail property
- Forest property



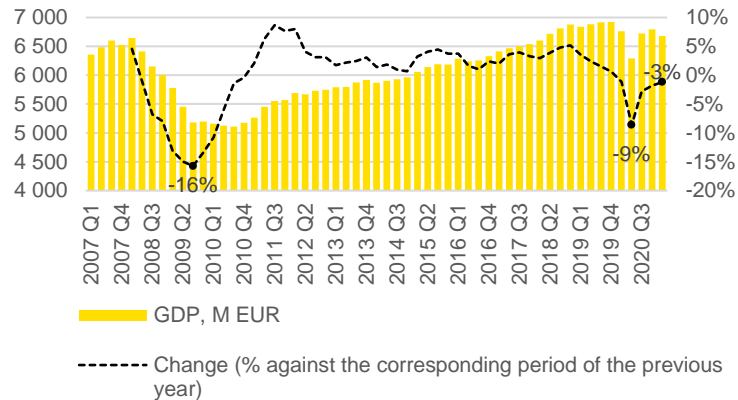


MACROECONOMICS

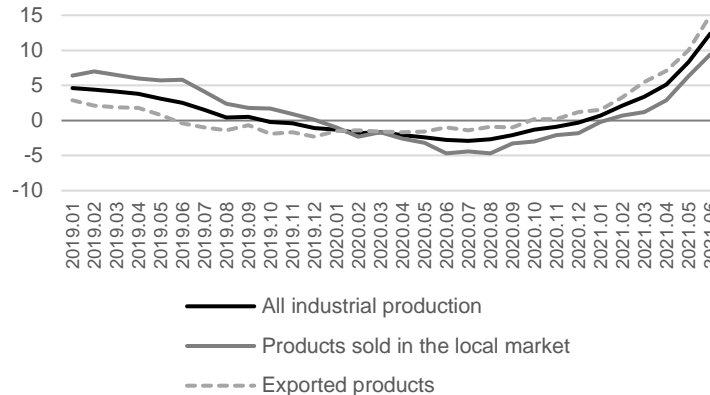


General Economic Profile

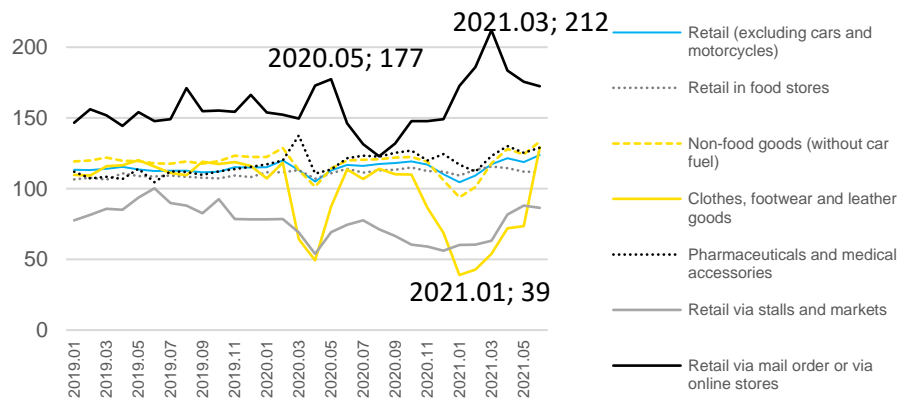
Latvia's Gross Domestic Product at Constant 2015 Prices



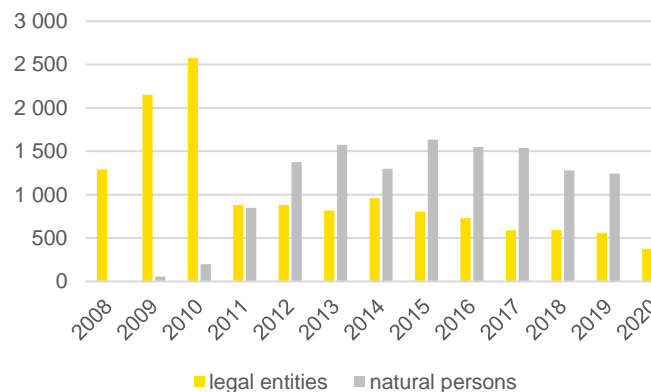
Producer Price Indices (% change compared to the corresponding period of the previous year)



Retail Sales Indices (2015=100, seasonal adjustm., constant prices)



Number of Insolvency Cases



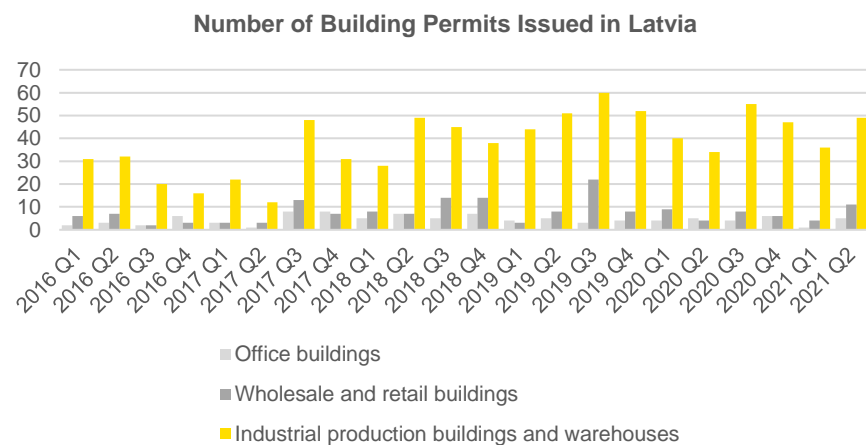
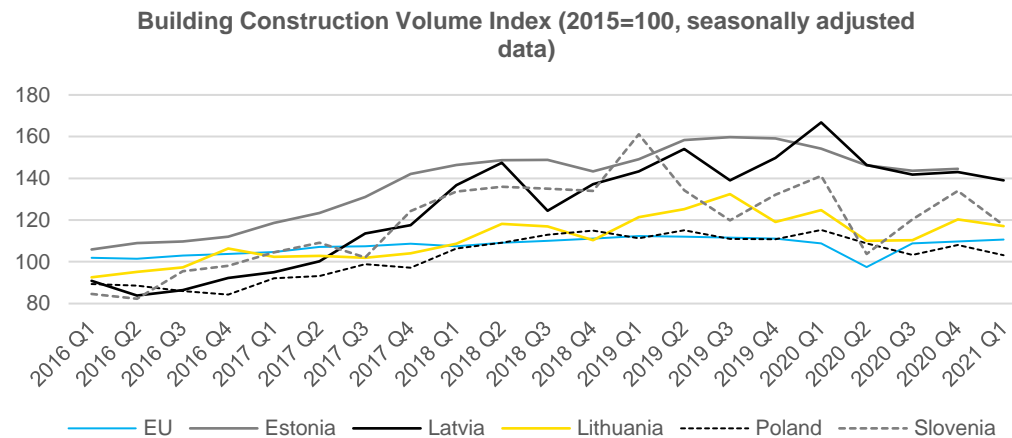
The first half of 2021 was seriously affected by the pandemic and the related restrictions, and later their reduction. The start of the year was marked by the highest morbidity rates and the strictest restrictions. Vaccination began at the same time, which gathered momentum in the last month of spring. In Q1 2021, the gross domestic product at constant 2015 prices was 1% lower than last year and 2% lower than in 2019. The economy is beginning to recover, but slowly.

Thanks to the governments and central banks of the world, the extensive restrictions during the pandemic did not lead to a wave of bankruptcies and a rapid economic downturn. The European Central Bank notes that this could cause "zombification" of the region's economy, as it will consist of a number of companies that exist thanks only to state assistance and that would normally have been loss-making or bankrupt. In Germany, for example, the number of insolvencies among companies fell by 15% last year. A similar situation has been observed in the US and the UK. According to Lursoft data, the number of insolvency cases among legal entities in Latvia in 2020 was 374, whereas from 2017 to 2019 it ranged from 560 to 590 cases per year.

Household savings have increased during the pandemic, yet the spending is bound to grow as uncertainty diminishes. The demand for retail space will rise accordingly. The largest retail index, 212 points, via mail order or via online stores was in March, and then it began to decline. Last May was also the highest point, after which, with the lifting of restrictions, this type of trade turnover began to decline. The retail index increased from 105 points in January to 124 points in June.

The pandemic has prompted companies to look for new, innovative solutions. For this reason, some jobs will no longer be restored. At the same time, the producer price index demonstrates a sharp increase compared to the previous year (exported products have seen the largest increase since the start of the pandemic).

Construction



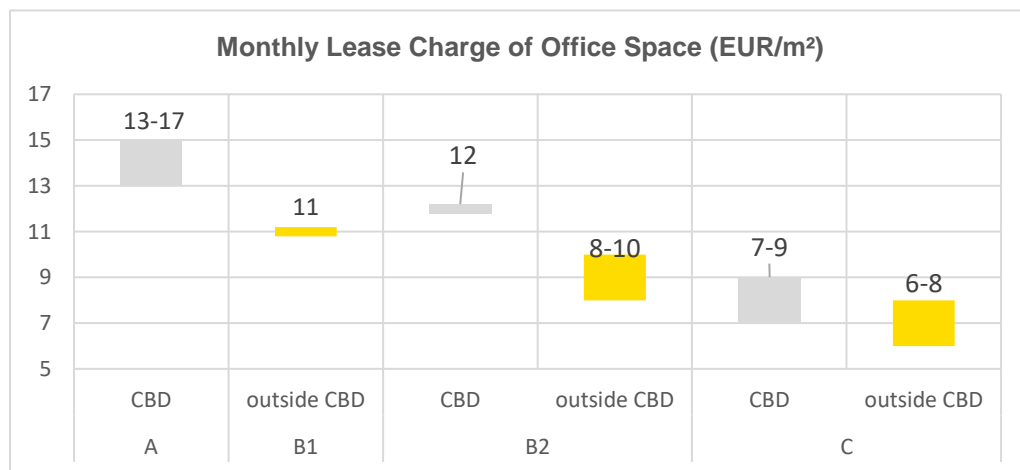
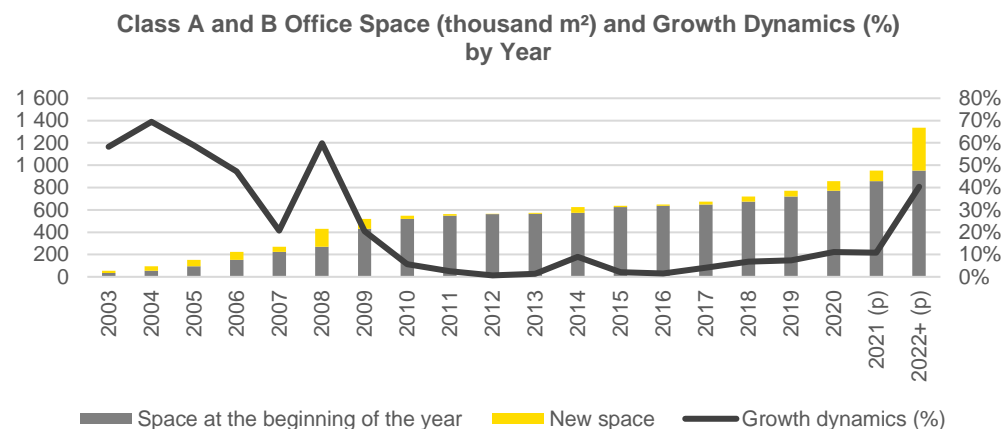
The number of building permits issued in Latvia this year is smaller. In 2021 H1, 6 building permits were issued for the construction of new office buildings, 15 building permits – for the construction of commercial buildings and 85 building permits – for the construction of industrial buildings. In 2019 H1, 9, 11 and 95 building permits were issued, respectively.

According to seasonally adjusted data, the building construction volume index in the European Union has increased slightly in Q1 of this year. Among the countries for which data on this index were available at the time of the report, Ireland (-19%), Slovenia (-12%) and Greece (-6%) show the largest declines compared to the last quarter of 2020, whereas an increase of 6% is observed for Austria and an increase of 5% is demonstrated for France and Croatia.

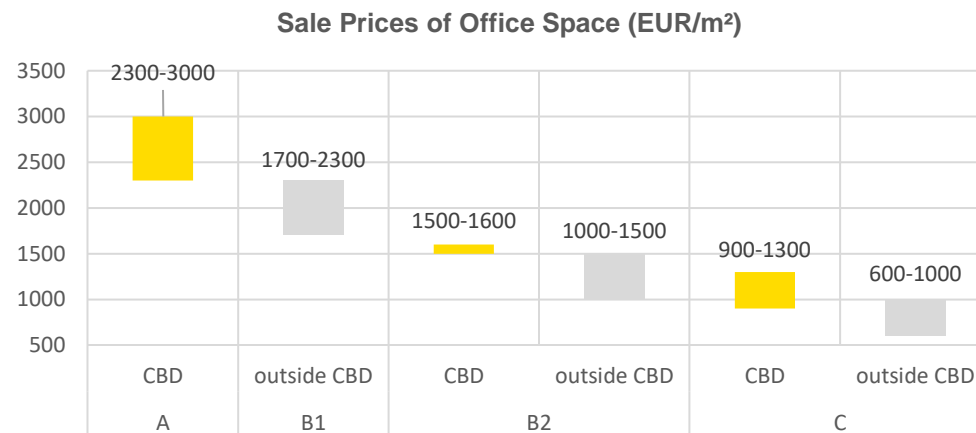
CURRENT SITUATION



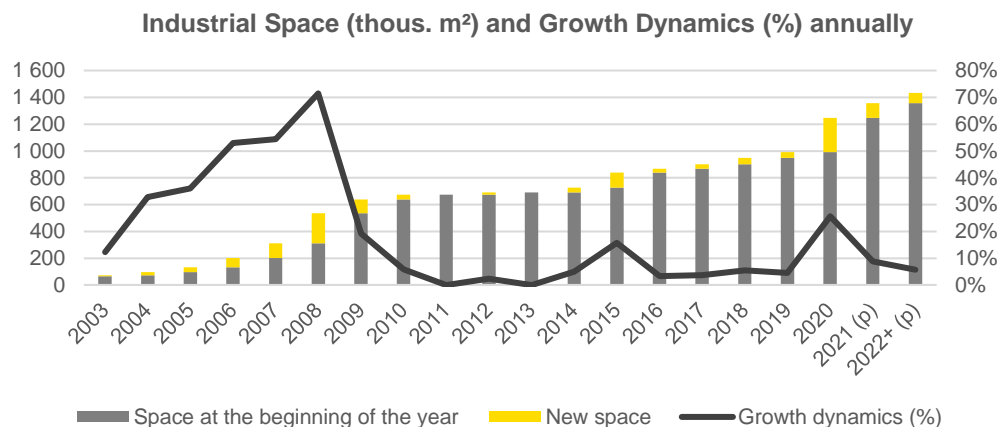
Office Space



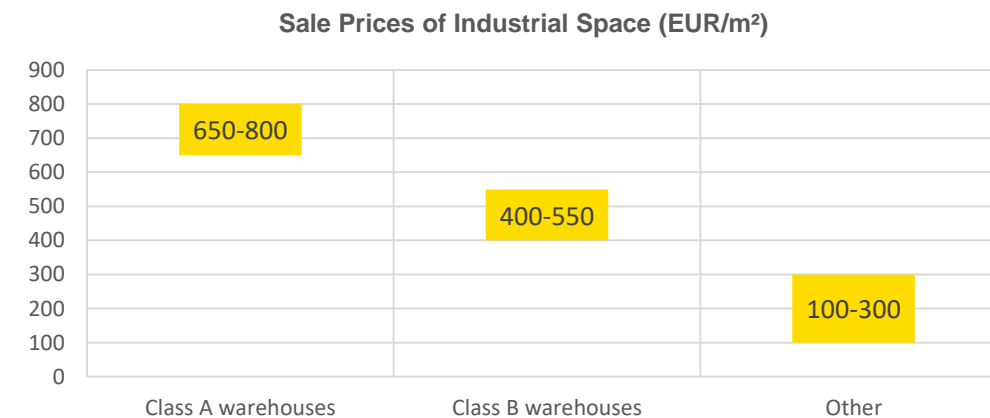
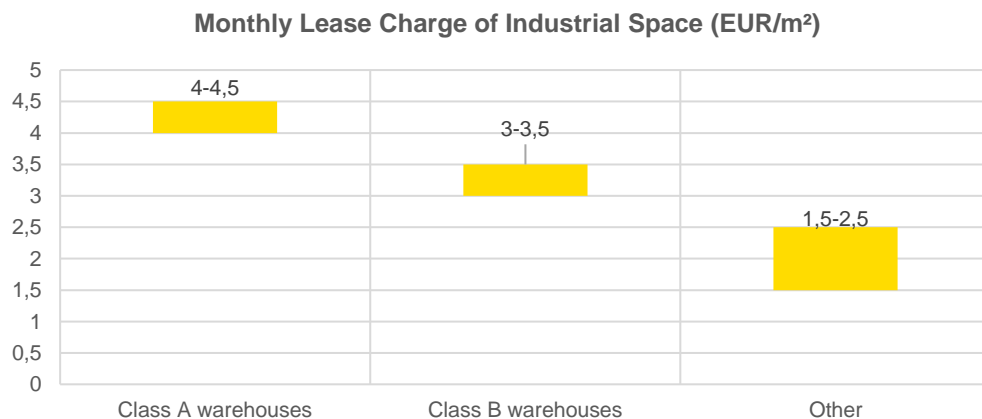
- At the start of the year, partial dismantling of the building complex of the historic brewery **Kimmel** began, where *Eastnine* plans to develop a multifunctional quarter with offices, restaurants and venues for cultural events. The design competition has recently ended. The first phase is planned to be completed in 2024, and the whole project is set for completion in 2026. The floor space of the planned project is about 38 thousand m².
- Urban Investors* has purchased 7.3 ha of land on Lielirbes Street, where it plans to develop a multifunctional project (office, residential, retail, recreation, science and education areas measuring up to 120 thousand m²).
- This year, *Vastint Latvia* plans to develop the construction of the 2nd phase of the **Business Garden** office complex and the construction of 2 office buildings in **Magdelēna Quarter**.
- Mūkusala Business Centre* is developing the **Zeiss office building**. The area for rent measures 4.3 thousand m², and the project is set for completion in 2023.
- Pillar Capital* has started the construction of an office building at 1 Mihaila Tāla Street (the first of the office buildings in the **New Hanza** area). The area for rent is planned to be 12 thousand m² (total floor space 17 thousand m²). It is set for completion in 2022.
- The construction of **Gustava Business Park** has started at 73 Gustava Zemgala gatve. *Galio Group* plans to complete the construction of the first building in 2022, and its total floor space will be 23.5 thousand m² (11 thousand m² will be rented by *SEB Group*).



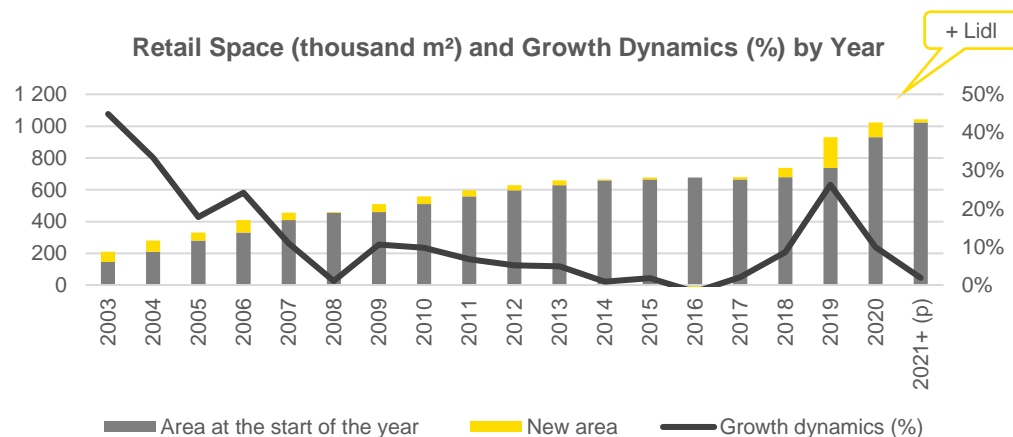
Industrial Space, Latvia



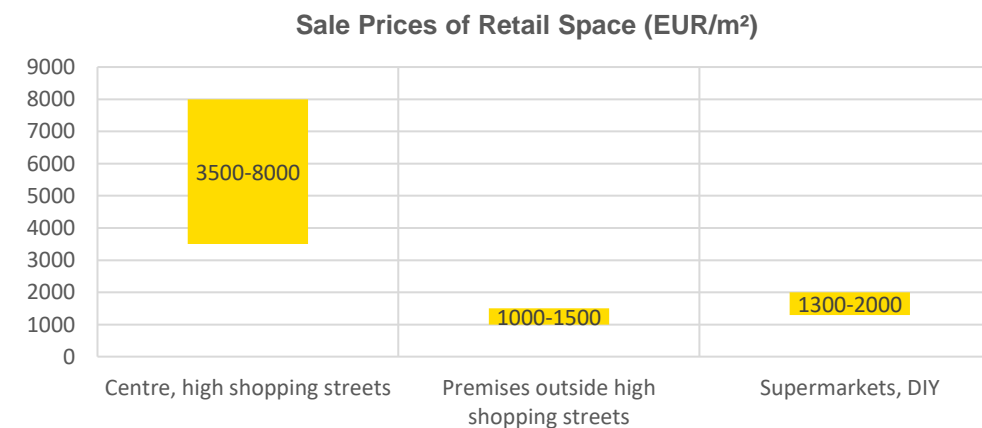
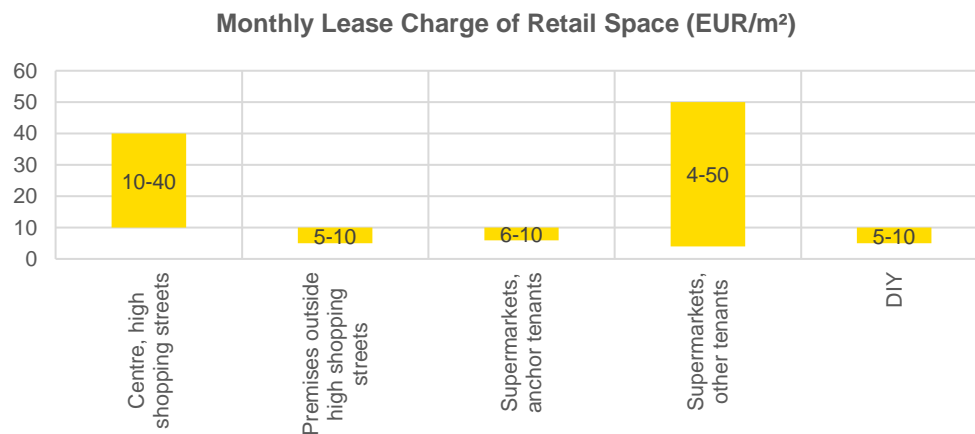
- *Grindeks* announced plans to start the construction of a new factory at 2a Asotes Street in early 2022.
- *Magnat Group* plans to build 2 warehouses in the Freeport of Riga, each measuring 4.4 thousand m², which will be intended for bulk cargo.
- *Dobeles dzirnavnieks* has opened two new production plants, in which EUR 35 M was invested.
- *SG Capital Partners Fund I* has acquired a logistics complex of 90 thousand m² in Dreiliņi, buying out shares from *Beinits* and *Balt Cargo Solutions*.



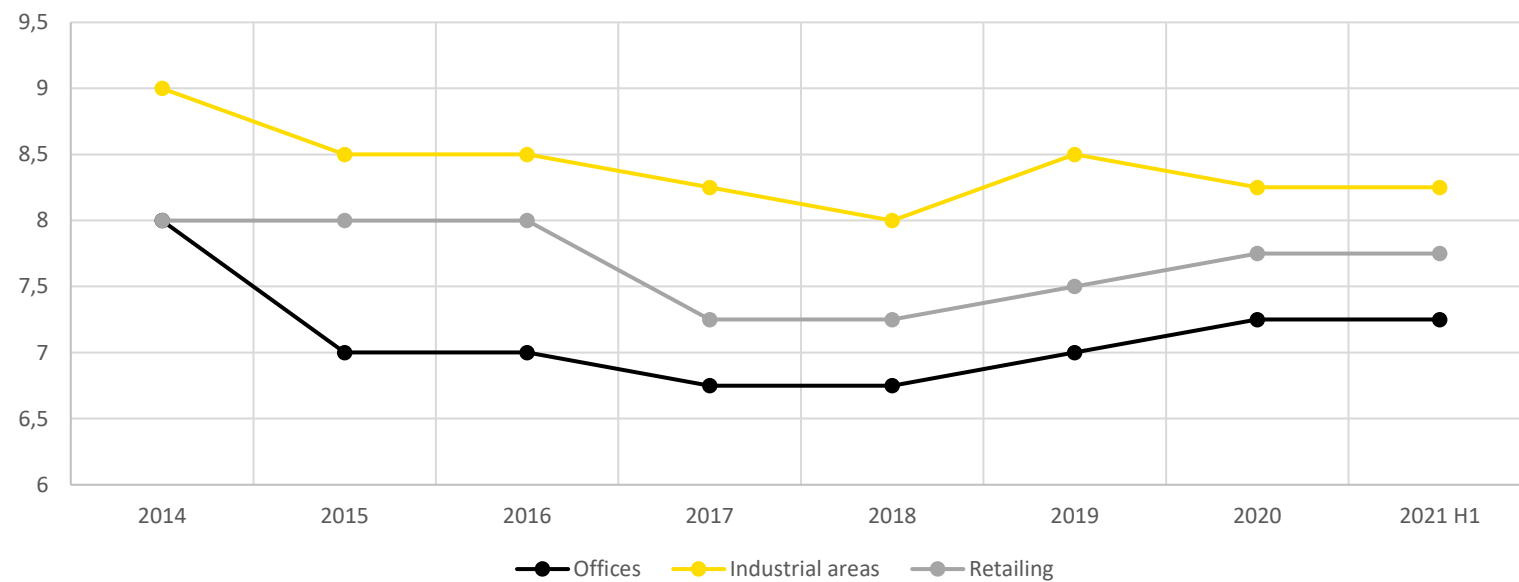
Retail Space, Latvia



- *Lords LB Baltic Fund III* has sold the shopping centre **Valdeka** in Jelgava. The total floor space is 14 thousand m².
- At the end of the year, *VPH Latvia* plans to open a new shopping centre in the Ziepniekkalns neighbourhood (on Valdeķu Street), where the *Lidl* chain store will be located. The total floor space will be 5 thousand m².
- *Lumi Capital* has acquired the shopping centre **Juglas Centrs** (2 Juglas krastmala, Riga, built in 2002, floor space 4.4 thousand m²) from *JCH Management*.



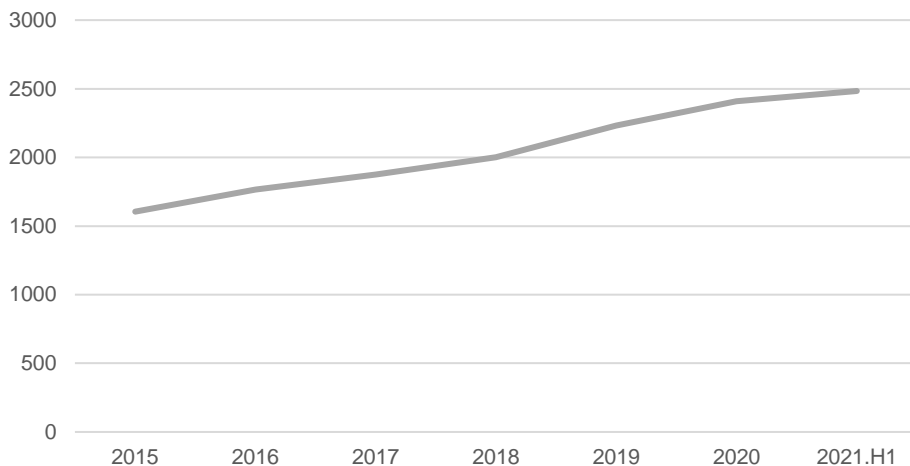
Dynamics of Yield Rates



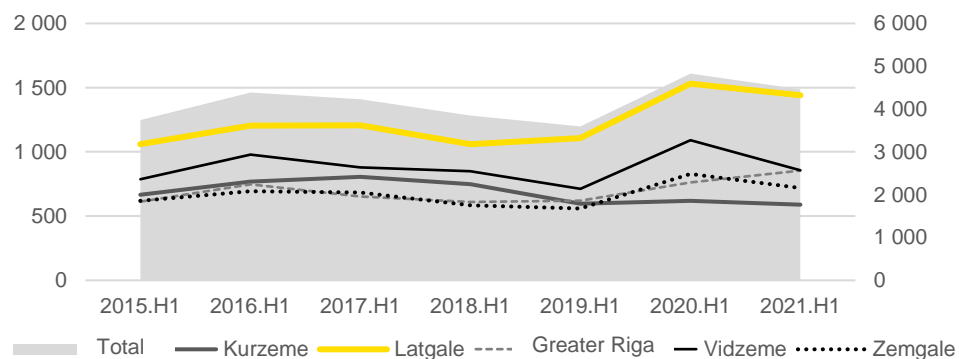
The rates are determined according to the *Latio* market survey information on the investors' required transaction return with cash generating facilities of the real estate segments listed in the graph.

Forest Areas

Average Forest Property Prices, EUR / ha



Number of Transactions with Agricultural and Forest Land by Year (> 1 ha), January to June

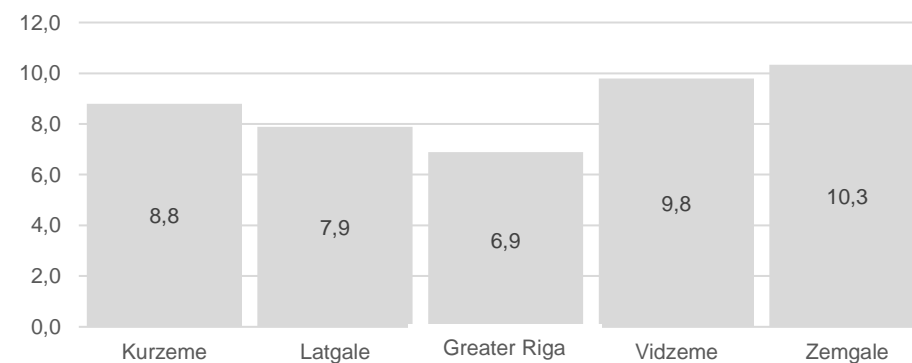


- Despite the shortcomings of statistical records, the already existing data on forest property prices demonstrate a relatively rapid upward trend.
- This can be explained both by the high timber prices in the market, creating optimism among both buyers and sellers, as well as by the high demand for quality properties. The quality of the records, which has significantly improved in terms of the totality of buyers and sellers, is also important.
- There is no change in the structure of the transactions: in general, the “final” buyer is someone from foreign investment funds who acquires the property through a local company or an individual. Namely, the latter buys the property and then resells it to foreign investors, adding their interest on top. Often the initial transaction takes place using tax optimisation options, which in turn are not offered to forest owners by the final buyer. Also, in most cases, logging is carried out in the property after the initial purchase, and then the property is sold to a long-term investor.

Future Forecasts

- The initial forecast that the rise in timber prices will stop in the second half of the year and prices will fall has not materialised. Given the current epidemiological, economic and political situation and the impact of these factors, it will be relatively difficult to make accurate predictions in the near future. However, as regards the demand for quality agricultural and forestry property, it is clear that it will remain high, so property prices will not drop.

Average Forest Areas Sold (ha)



REAL ESTATE TRENDS



Global Real Estate Trends

Offices

The increase in the number of vaccinated individuals leads to reduction of restrictions, as a result of which people are increasingly returning to work in the offices. In accordance with a study by *Cushman&Wakefield*, 2/3 of the US companies plan to resume office work (either in full or in part). The lowest point of office load was reached in February (15%), but the figure was already 32% at the end of June. The return of office staff will improve the situation of retailers and caterers in the vicinity of offices.

Business executives are currently trying to figure out which work model is better. Various studies show that some employees demonstrate increased productivity when working from home. At the same time, it is mentioned that employees need socialisation in offices, as it creates a stronger company culture and team. As a result, the term *hybrid work model*, which includes both office and home work, is becoming increasingly popular.

Retail Space

The COVID-19 pandemic disrupted the retail sector. Stores were closed or their operations were restricted. According to *Cushman&Wakefield*, last year the amount of unoccupied retail areas in the US reached its highest point over the past 7 years. At the same time, it promoted the development of e-commerce (according to *MasterCard*, the number of online purchases increased by 9% in Germany, + 22% in the United Kingdom, + 18% in France, + 30% in Italy and + 13% in the US). Today, with restrictions easing, people are returning to retail stores and are more likely to opt to eat outside their home (a study by *Savilles* found that online shopping in the UK fell from 36.3% in January to 26.1% in June). A study by *MasterCard* shows that global spending is growing in various stores, such as + 62% in bicycle shops; fuel increased by 13% compared to the previous peak in 2019, and the aviation industry is also recovering.

In a number of countries, including Latvia, the “buy local” campaigns were implemented, as a result of which those who benefited were small, independent brands, which are most often based outside shopping centres. The pop-up format (implemented by several world-famous clothing brands) gained popularity because it is the fastest way to adapt to new conditions and expand the range of customers. The pre-pandemic trend of improving the shopping experience continues to develop.

Industrial Space

As e-commerce is expanding, there is increasingly growing demand in warehouses.

The Commercial Real Estate Market Report created by:

Head of Commercial Real Estate Brokerage Department

Jānis Šīns

Head of Forest Brokerage Department

Sandijs Lūkins

Real Estate Agents

Ivanda Bukava

Artis Ramutis

Ruslans Vengers

Investment Expert

Igors Terehovs

Forest Appraiser

Dāvis Bērzkalns



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