

Latio

Commercial Real
Estate Market

REP

2022

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F O R E W O R D



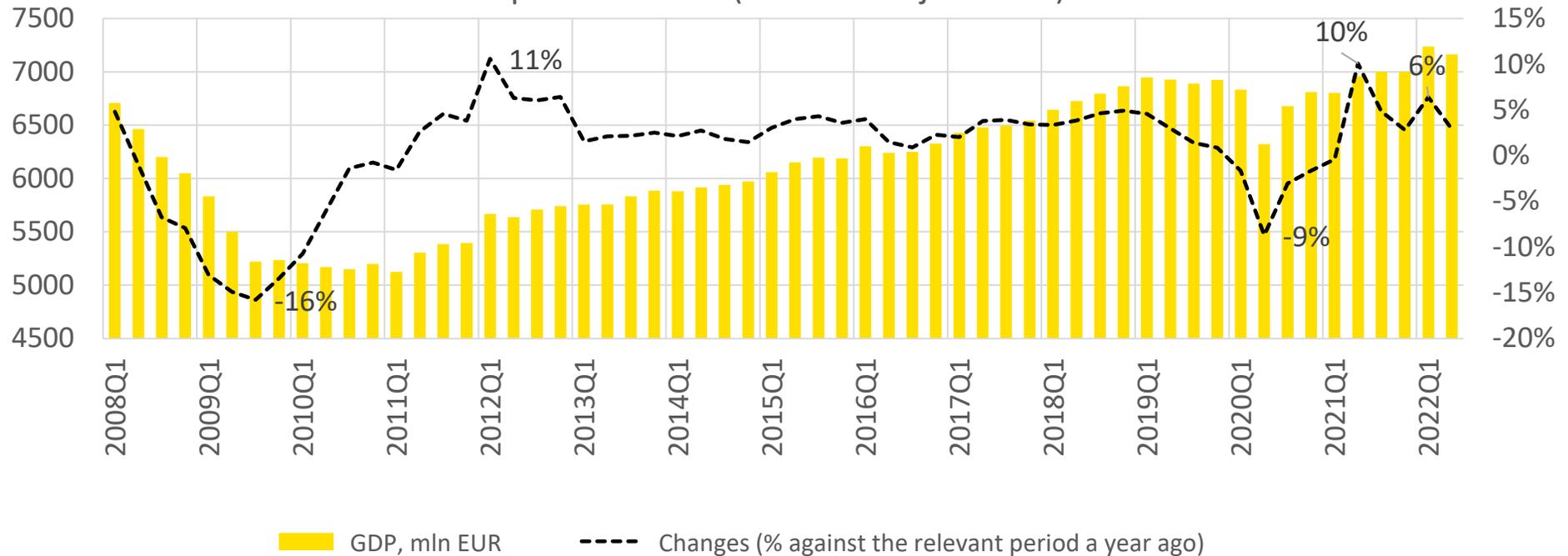
“

The market demonstrates amazing resilience. The first half of 2022 has disappointed crisis apologists. The global experiment of putting the economy in the care of central banks continues. I wish our optimism still persists in six months.

EDGARS ŠĪNS
Chairman of Latio Board

Will GDP growth be sustained or will rising prices and costs force austerity?

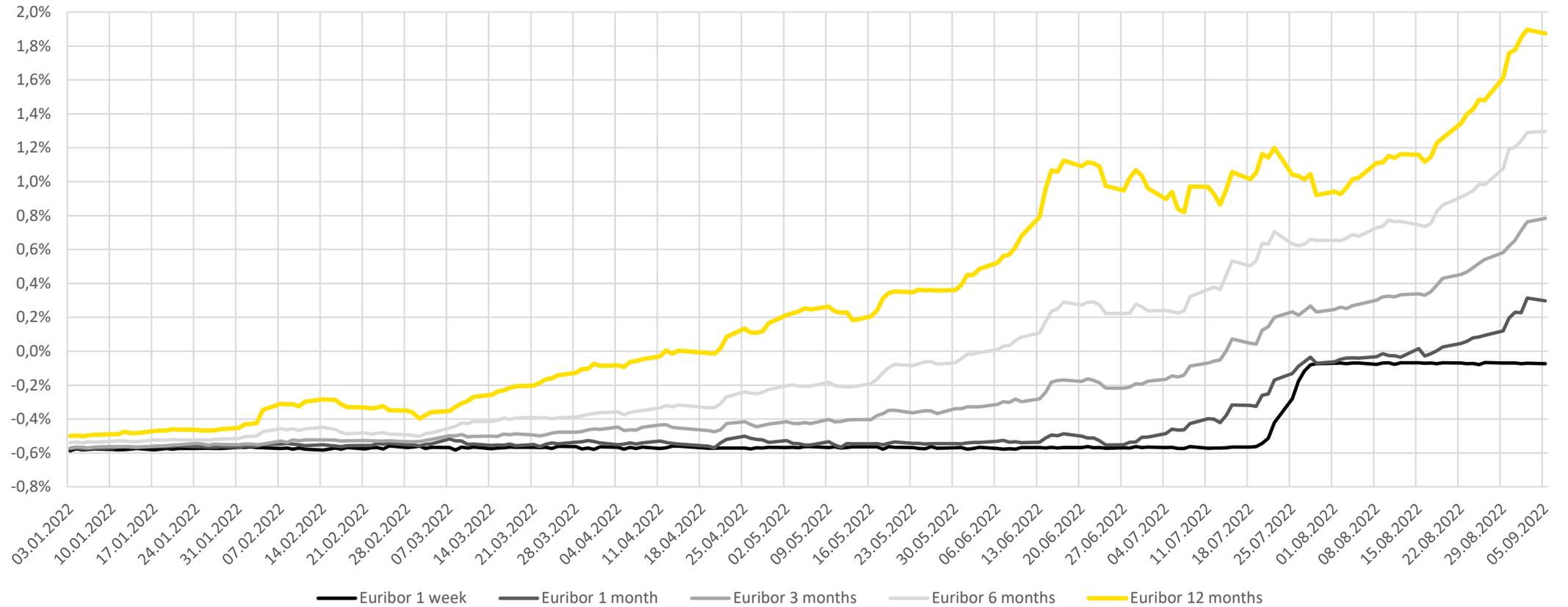
Gross Domestic Product from production perspective (thous.euro) in comparable prices of 2015 (seasonal adjustment)



While there has been some growth in GDP figures, the approaching cold season could prompt people to spend less and less of their savings and spare cash, as rising prices for energy raw materials and uncertainty about future supplies may raise concerns about supply of heating and **what % of monthly income will have to be**

spent on it. At the same time, there is a plan to boost economic growth and create jobs thanks to implementation of the reforms of the Recovery and Resilience Mechanism Programme. The Bank of Latvia forecasts overall GDP growth of **2.9%** in 2022.

Euribor rates, 01.2022-08.2022

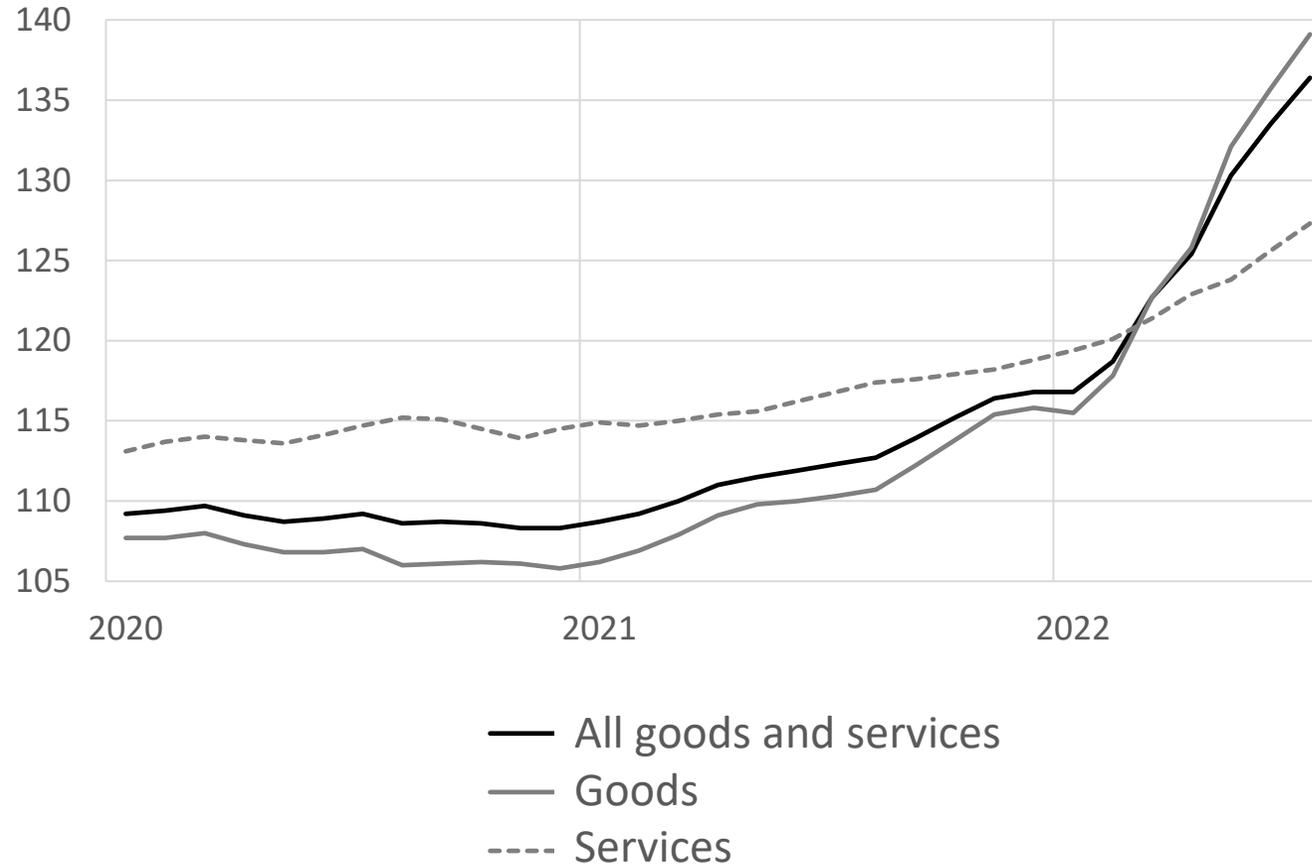


- As a result of changes in EURIBOR interest rates, the level of interest rates on various banking products, such as savings accounts, mortgage loans and loans, is changing. If interest rates continue to rise, **repayable amounts may also increase**.
- ECB Council expects key ECB interest rates **to be raised again** in September.

	Euribor %				
	30.08.2022	29.08.2022	26.08.2022	25.08.2022	24.08.2022
1 week	-0,069%	-0,070%	-0,067%	-0,079%	-0,072%
1 month	0,196%	0,120%	0,094%	0,085%	0,079%
3 months	0,620%	0,582%	0,542%	0,518%	0,493%
6 months	1,193%	1,077%	0,983%	0,984%	0,947%
12 months	1,758%	1,612%	1,482%	1,483%	1,427%

Data source:
Euribor
rates, ECB

Consumer Price Indices (2015=100)



The average level of consumer prices added **19.3% during** the year, but in July 2022, compared to this period a year ago, it increased by **21.5%**.

Average price level of goods and services related to housing increased by **50.7%**.

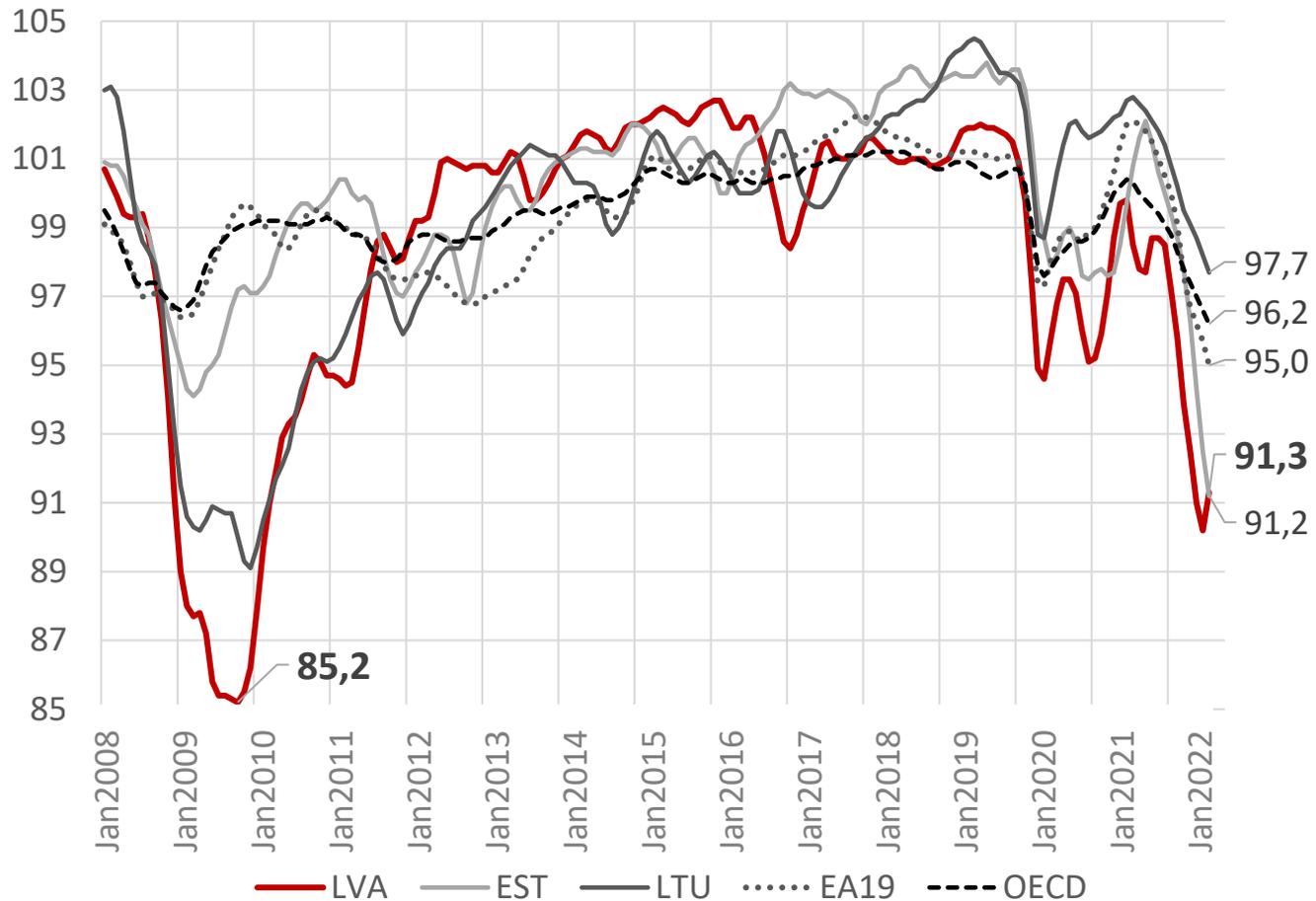
The most moderate increase remains in the services sectors, for example, the average price level for hotel services increased by **15%**.

With raw materials becoming more expensive the cost of production increases, and these increases are reflected in commodity prices, respectively. The sharp rise in prices reduces people's purchasing power, makes them cautious, and forces **to rethink** their spending habits.

Hostilities in Ukraine have made **access to resources** difficult, which also does not provide a favourable environment for price levels to fall.

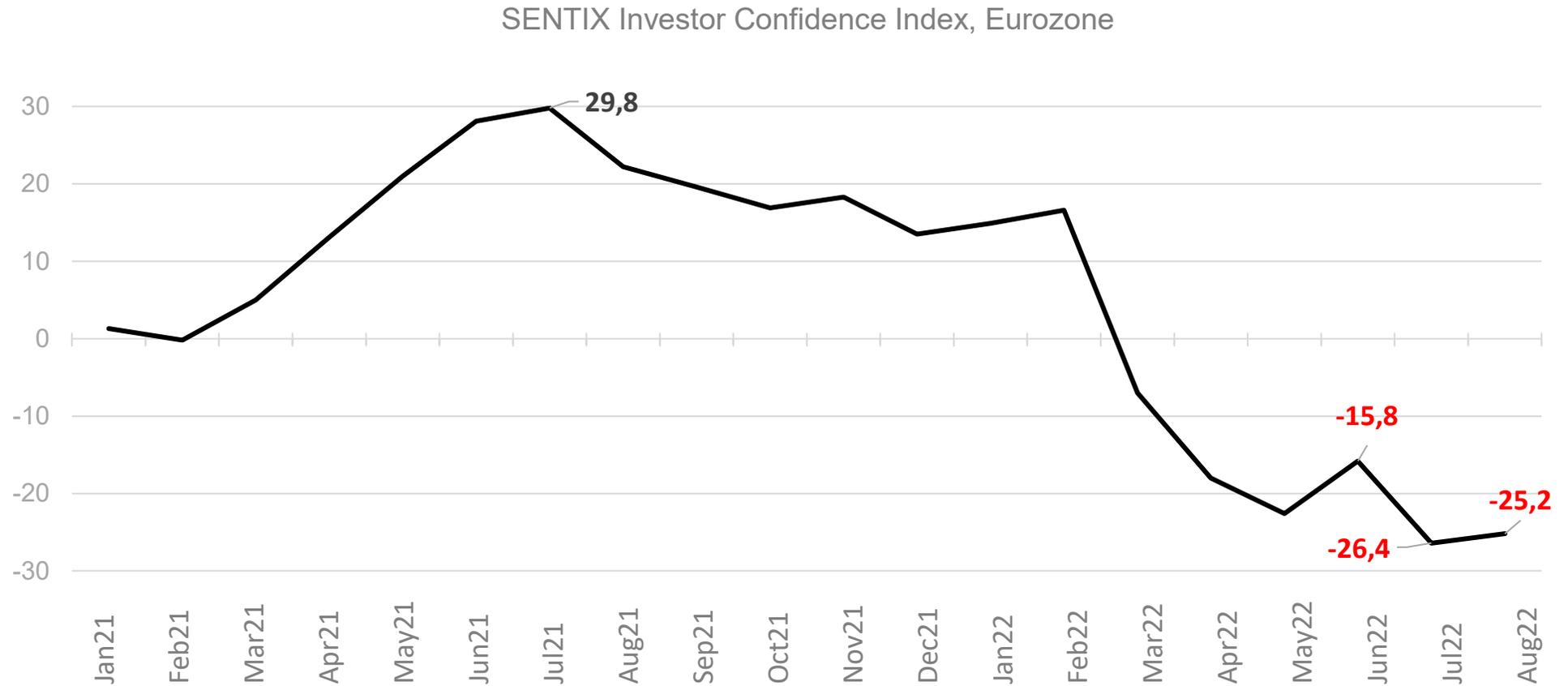
Is recession expected in Latvia?

Consumer Confidence Index (OECD)



Over the last half-year, the consumer confidence index indicator has dropped almost to the 2008-2010 indicators, when Latvia was hit by the **economic downturn** and the financial crisis.

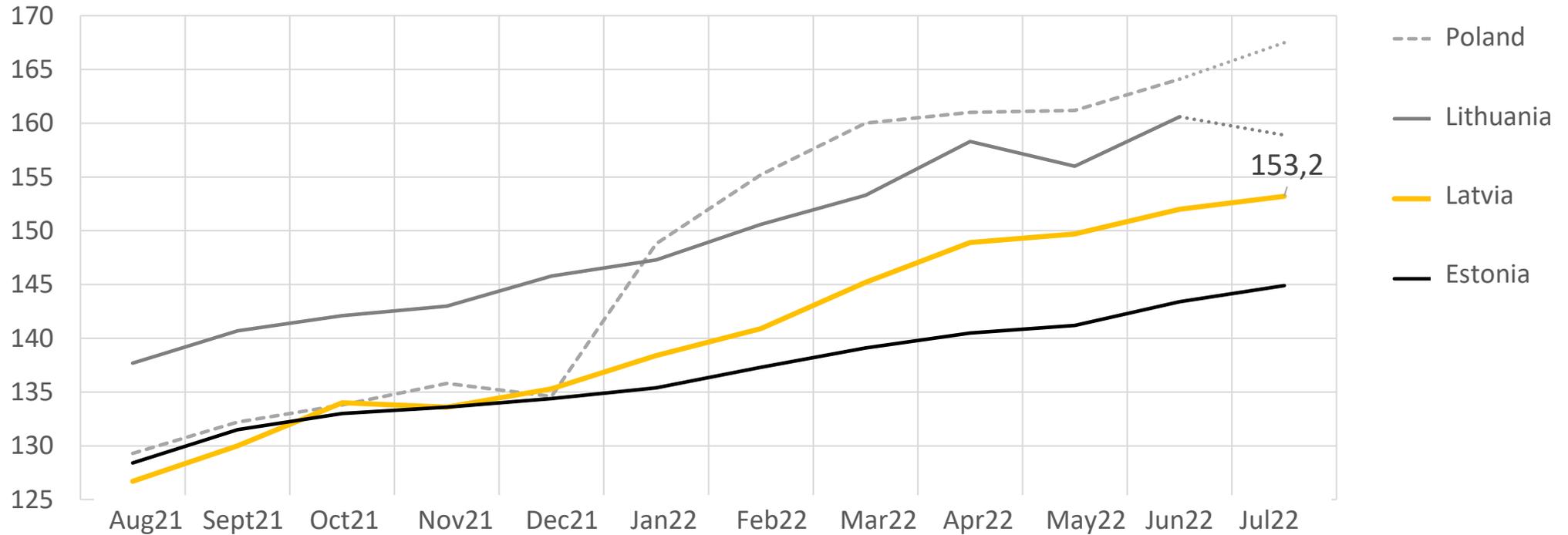
The decline in this indicator is **bad news for the economy** as consumers provide much of the country's economic activity, or gross domestic product. Given the low rate, there is a worry that Latvia's economy as a whole or certain areas could be hit by the recession, but for now residents continue to maintain the economy despite high inflation.



The confidence index of euro zone investors and entrepreneurs continues to decline. It saw a sudden drop when Russia invaded Ukraine in February 2022. More and more investors and entrepreneurs choose to engage in lower-

risk transactions. Forecasts for the coming half-year are **pessimistic among investors, and caution is expected.**

Food, beverage and tobacco retail index (2015=100), seasonal and calendar adjustment

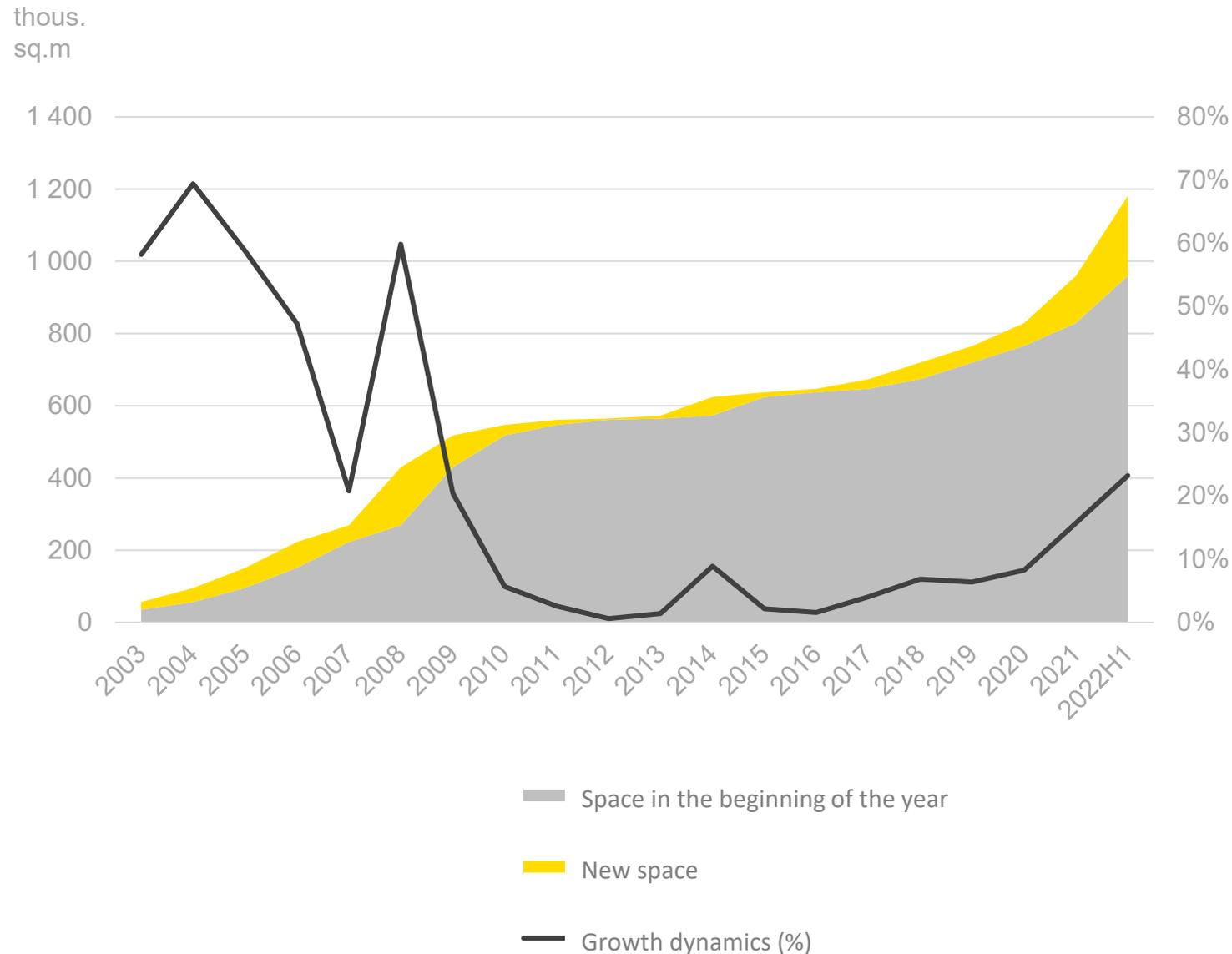


In May 2022, compared to May 2021, the retail index (calendar adjusted) added 0.2% in the euro area and 0.8% in the EU. The index has **risen 14.8 points** in Latvia between January and July 2022. Among EU Member States that provided such data, the largest annual

increase in the total volume was recorded **in Slovenia** (+25.0%), Poland (+11.2%) and Hungary (+11.1%). The largest decrease was observed in **Austria** (-6.4%), Denmark (-5.6%), as well as Luxembourg and Finland (-5.2% in both countries).

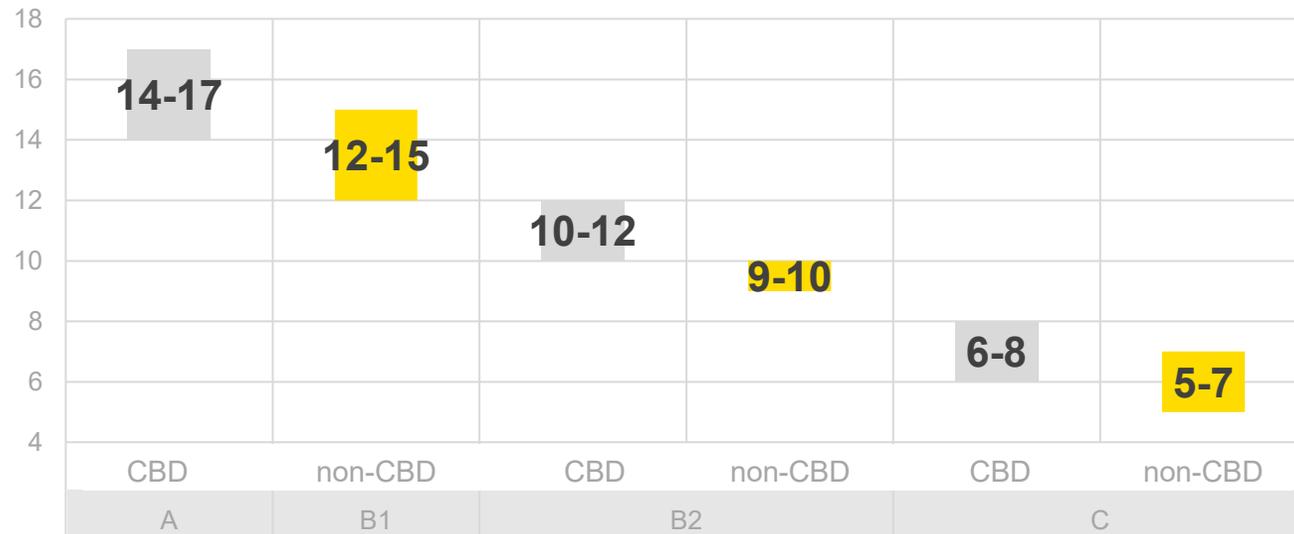
O F F I C E S P A C E

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

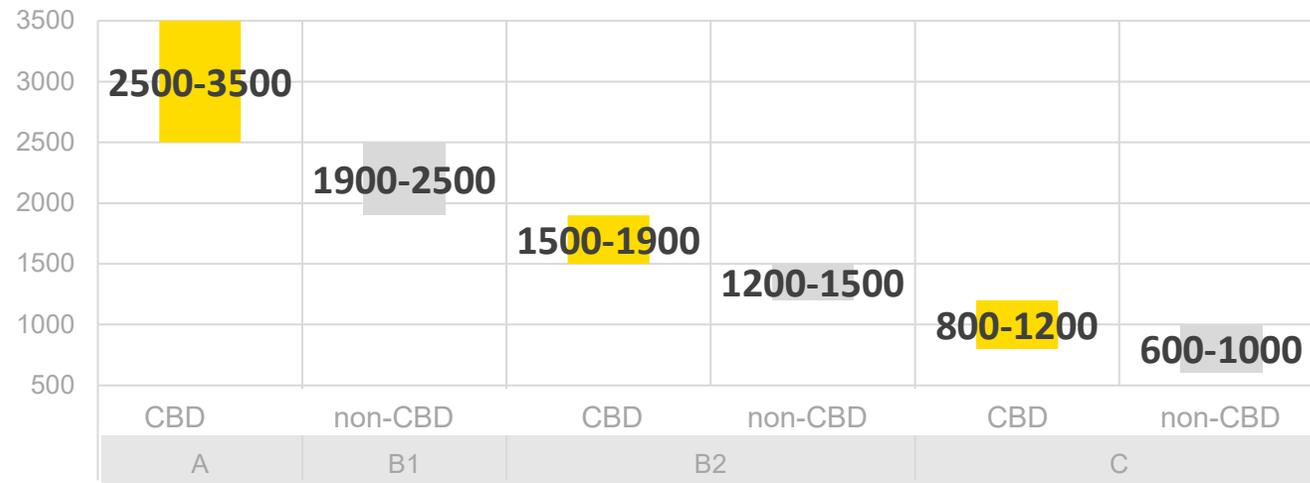


- The first-round implementation of the **Press House Quarter** is scheduled to wrap up in 2023, ca. 25,000 sq.m for Class A offices.
- Construction of a Class A **Zeiss office** building at Delu Street 2 has started, with nine million euro planned to be invested in construction and construction work to be completed by the end of 2022, an area of 5700 sq.m.
- The most extensive construction works have been completed in the first round construction of the new business complex **StockOfiss U30**, where the total space of the premises will be 3650 sq.m. The first round of construction work is scheduled to be completed in summer 2022.
- A 9.3-hectare plot on Andrejsala, **Andrejostas Street 17**, sold at 5.8 million euros, a memorandum of intent has been concluded to create a new passenger and cruise ship and ro-ro cargo service terminal, and it is planned to build hotels and a new office building as well.

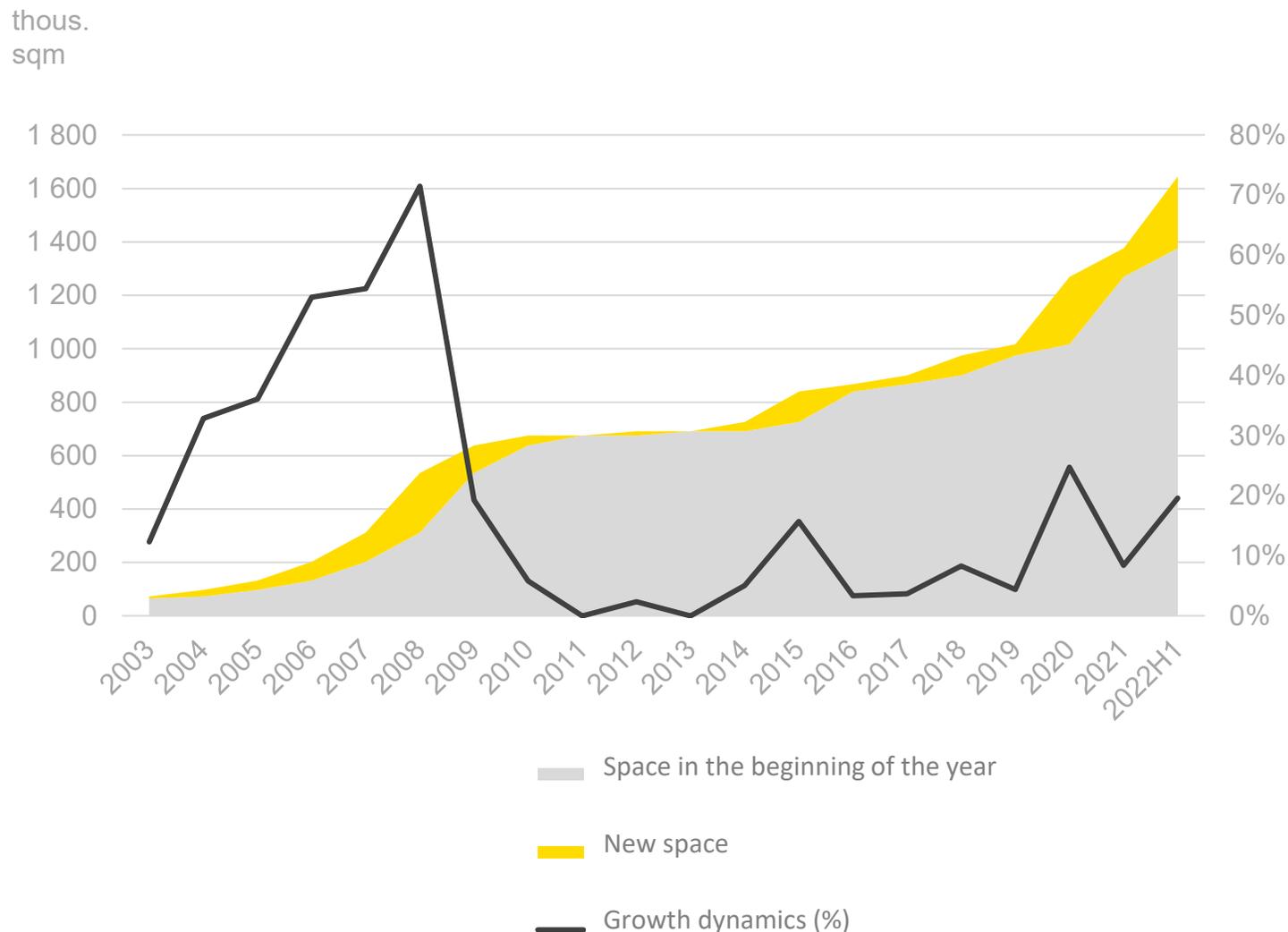
Monthly rental of office space (EUR/m²)



Sale price of office space (EUR/m²)



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

- In late 2022, the **JYSK** logistics centre is planned to be put into service. It will have a total area of 42,000 sq.m.
- A logistics centre **Nordo** offering a total lettable area of 90,000 sq.m. has been set up. In late 2021, the Nordo Logistics Park acquired a 9 ha large adjacent plot of land where it is still planned to develop more than 40,000 sq.m of additional warehouse space. Construction is scheduled to be launched in late 2022.
- Funding of EUR 3.million has been allocated for the development of a new logistics centre in **Kengarags**. It will be located on the bank of Daugava River at Dienvidu Bridge transport hub. Total area of the logistics centre ~ 10,000 sq.m.
- **Amber Beverage Group** considers the possibility of building a new beverage production facility in the Baltics by investing EUR 40 million in this project.
- **Latvijas Finieris JSC** established the first production facility in the Baltics, where birch bark is processed into betulin.



- Plans to build a **prototyping workshop** “Riga Makerspace” at Aristida Briana Street, Riga. Construction is scheduled to be launched in August 2022 and to be completed by the end of 2023.
- Baltic RE Group JSC has purchased **Riga Black Balsam** factory and **Riga Yeast** factory at Pulkveza Brieza Street 27. The area over 1.5 ha is occupied by buildings totalling around 17,000 sq.m.
- A building complex at **Ganibu Dambis 26** has been sold (by auction at a price of EUR 909 000). The property includes two engineering buildings with a total area of 1683 sq.m and 5132.5 sq.m, as well as a pumping station of 38.3 sqm.
- It is planned to build 180,000 sq.m logistical warehouses in several rounds on 22 parcels of a total area of 389,394 sq.m sold in April, near Riga International Airport. Works in the area are expected to be launched in 2023.
- **Pumac Liepaja** plans to build two new production facilities measuring 4,100 sq.m each, over the next two years.

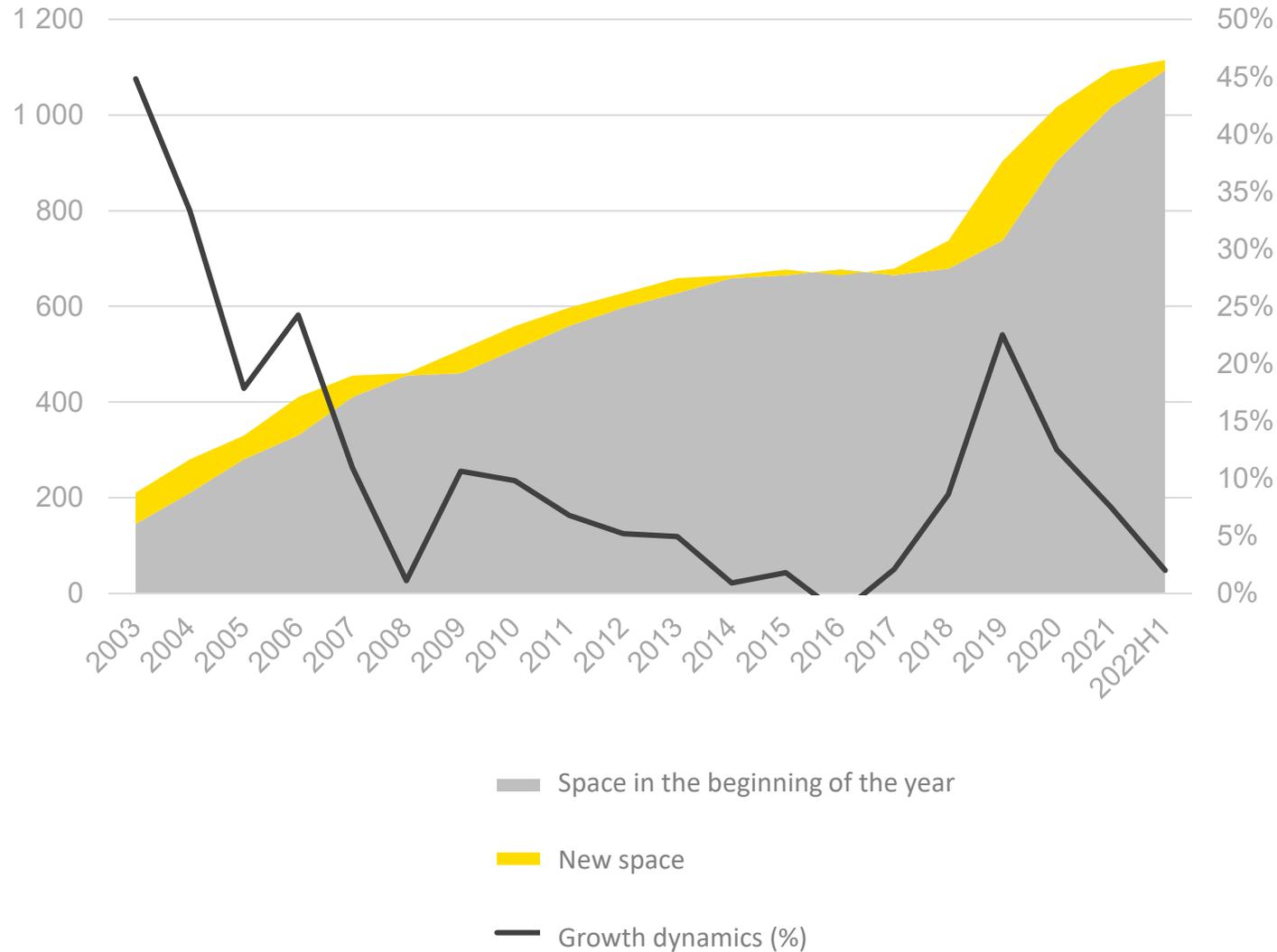


- In Tinuzi Parish, it is planned to build a new factory to ensure production of the brand **SierStelle** cheeses.
- Rezekne City Council has signed a contract for construction of a warehouse complex at **Vilakas Street 5C**.
- A chipboard manufacturing company will build a new plant in Jaunlaicenes Parish of Aluksne District.
- Building works have been launched for the project "Biodegradable waste recycling plant **Daibe**".
- In the industrial zone of Ventspils Freeport at **Ganibu Street**, a new construction project of a production building will be implemented.
- On January 4, 2022, **Jensen metal** stainless steel plant in Liepaja, Karosta Industrial Park, was put into service.
- Label manufacturers **Olderi LLC** were granted a loan of EUR 800 000 to purchase new production premises in **Maskavas Forstate**.

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

R E T A I L S P A C E

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



- In February 2022, **Lidl Latvia** started work on the construction of a store at Kalnciema Street, Riga. The building will have an area of ca. 4,600 sq.m., including the shopping area of ca.1,500 sq.m.
- **Spice** Shoppig Mall plans to invest a total of EUR 7 million in interior renovation works. The project is scheduled to be completed by the end of 2022.
- Riga City Council supported local planning for **Kisezera Street 6**, where the manager of Rimi store buildings is going to build a shopping centre.
- Riga City Council approved a local plan for the plot at **Remtes Street 21** near Spice Shopping Mall - SIA Rezeknes galas kombinats LLC intend to build a shopping facility at this site.
- Prosperus real estate Fund III has been granted a EUR 7 million loan to purchase a shopping centre at **Valdeku Street, Riga** (5 000 sq.m.).



- Riga City Council approved local planning for the area of 1.7 ha at **Juglas Street 95**. It is planned to construct a commercial and service facility. The initiators of the spatial development planning document are VPH Latvia LLC.
- The developer VPH Latvia has started developing a new shopping park at **Valmieras Street**, Riga. In addition to commercial areas, also offices, catering sector, kindergarten, sports and health care centre and other services will be developed over the area of around 20,000 sq.m. Developers plan to complete the design in mid-2023, launch construction and open the new complex in the second half of 2024.
- The buildings hosting the **Kesko Senukai stores** in Daugavpils and Vilnius were sold at about EUR 20 million by KS Holding to the Finnish investment fund Titanium Baltic Real Estate. The **Daugavpils building** occupies 12 000 sq.m.



- Elvi Latvia will invest EUR 2.6 million in the development of the shopping and leisure quarter in **Marupe**.
- Premier estates Ltd. has purchased a shopping centre of 7863 sq.m in Purvciems, at **Stirnu Street 26**.
- **Summus Capital** has purchased the shopping centre **Damme** in Imanta, at Kurzemes prospekts 1A, Imanta. Gross area of the shopping mall is 16,000 sq.m.
- Regional Investment Bank JSC and RSkorpion Ltd have signed a loan agreement of EUR 4.7 million for the purchase of **the Orange Cash & Carry** store, warehouse and office building, as well as for the financing of the company's current assets.
- At the end of January, the company, whose investments are managed by Green Formula Capital (GFC), acquired the main building of the former Radiotehnika plant at Kurzemes prospekts 3, Riga (also **Imanta's Market**) with a total area of 100,000 sq.m.

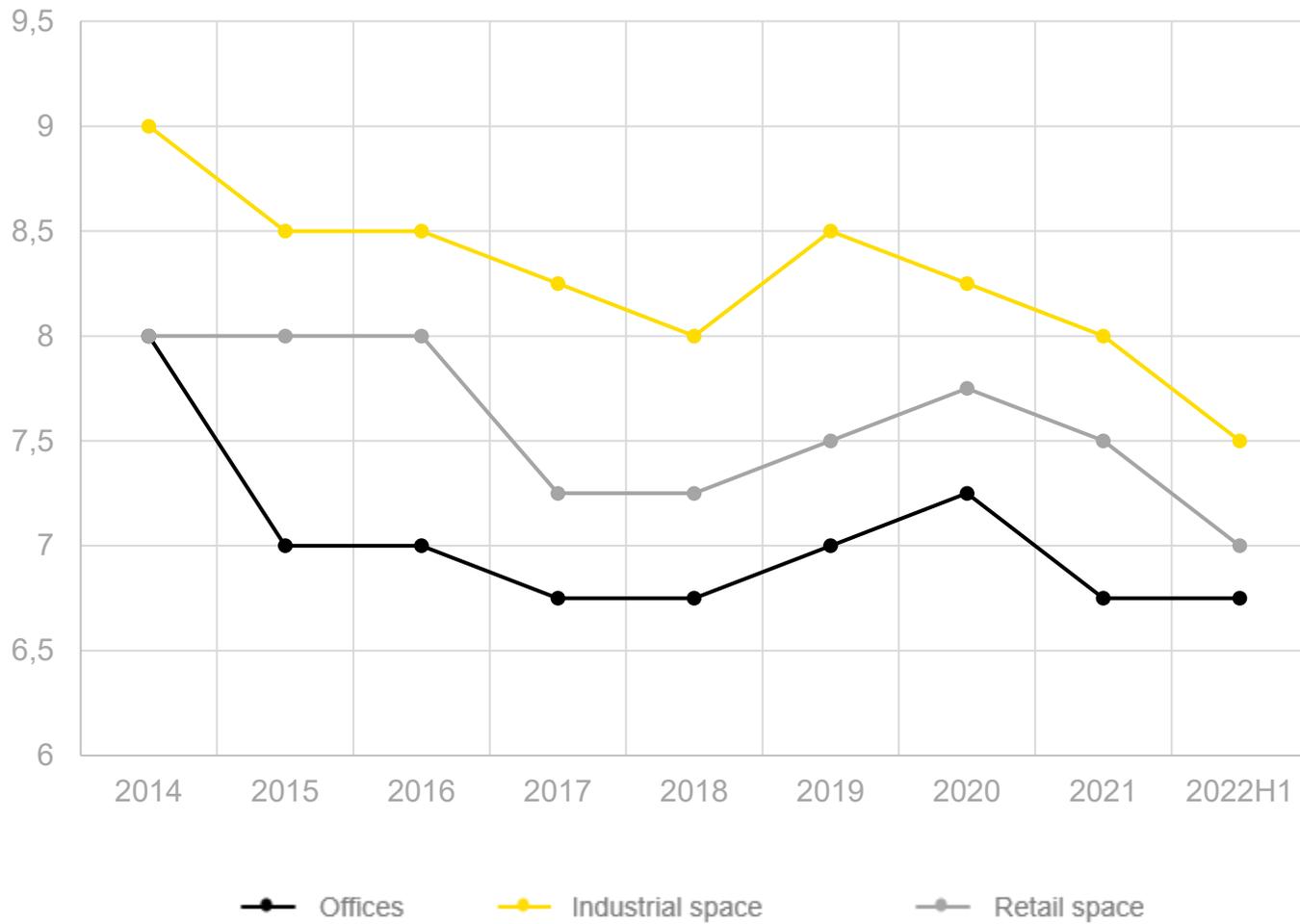
Rental of retail space area per month (EUR/m²)



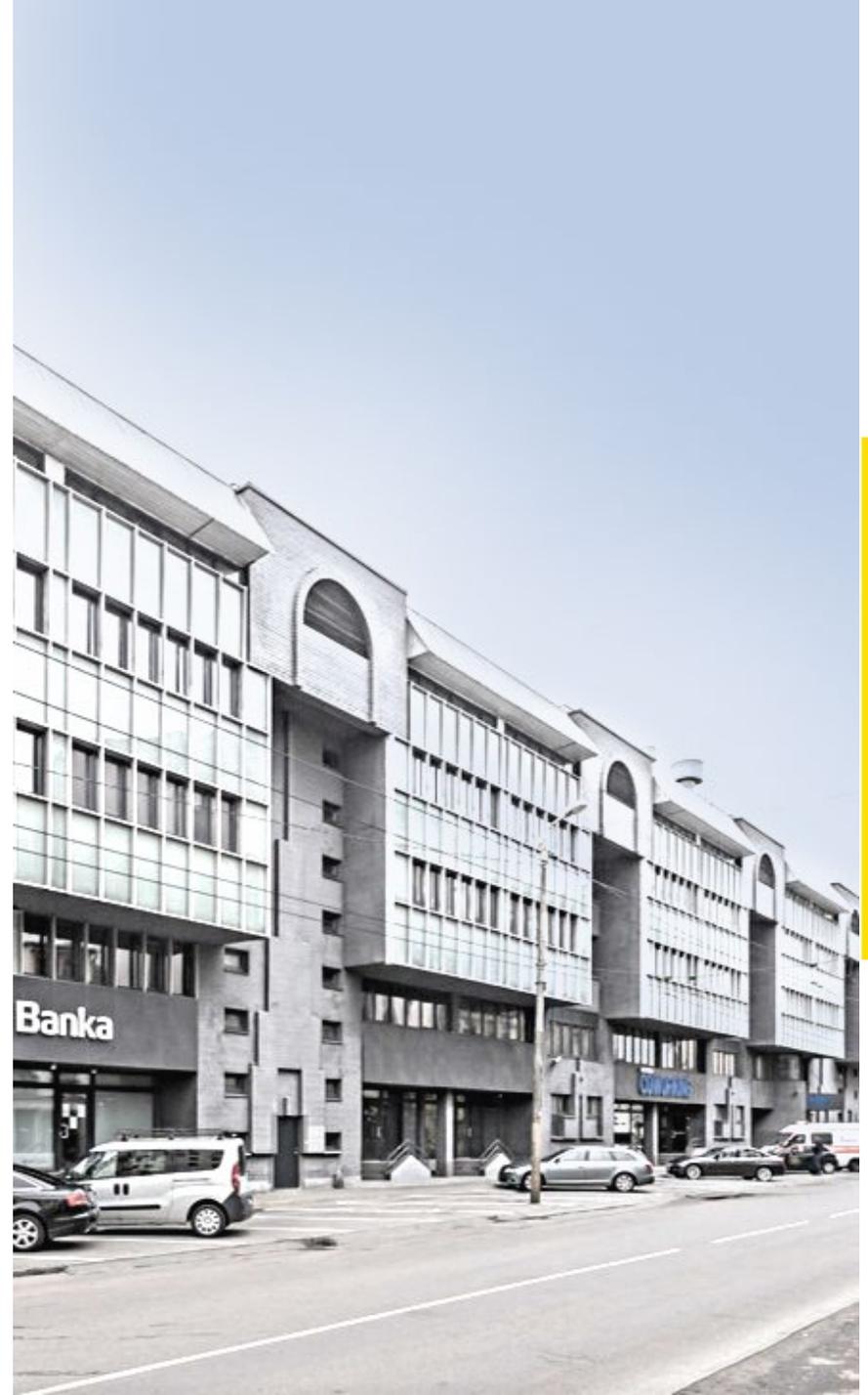
Retail space sales prices (EUR/m²)



Y I E L D R A T E S



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



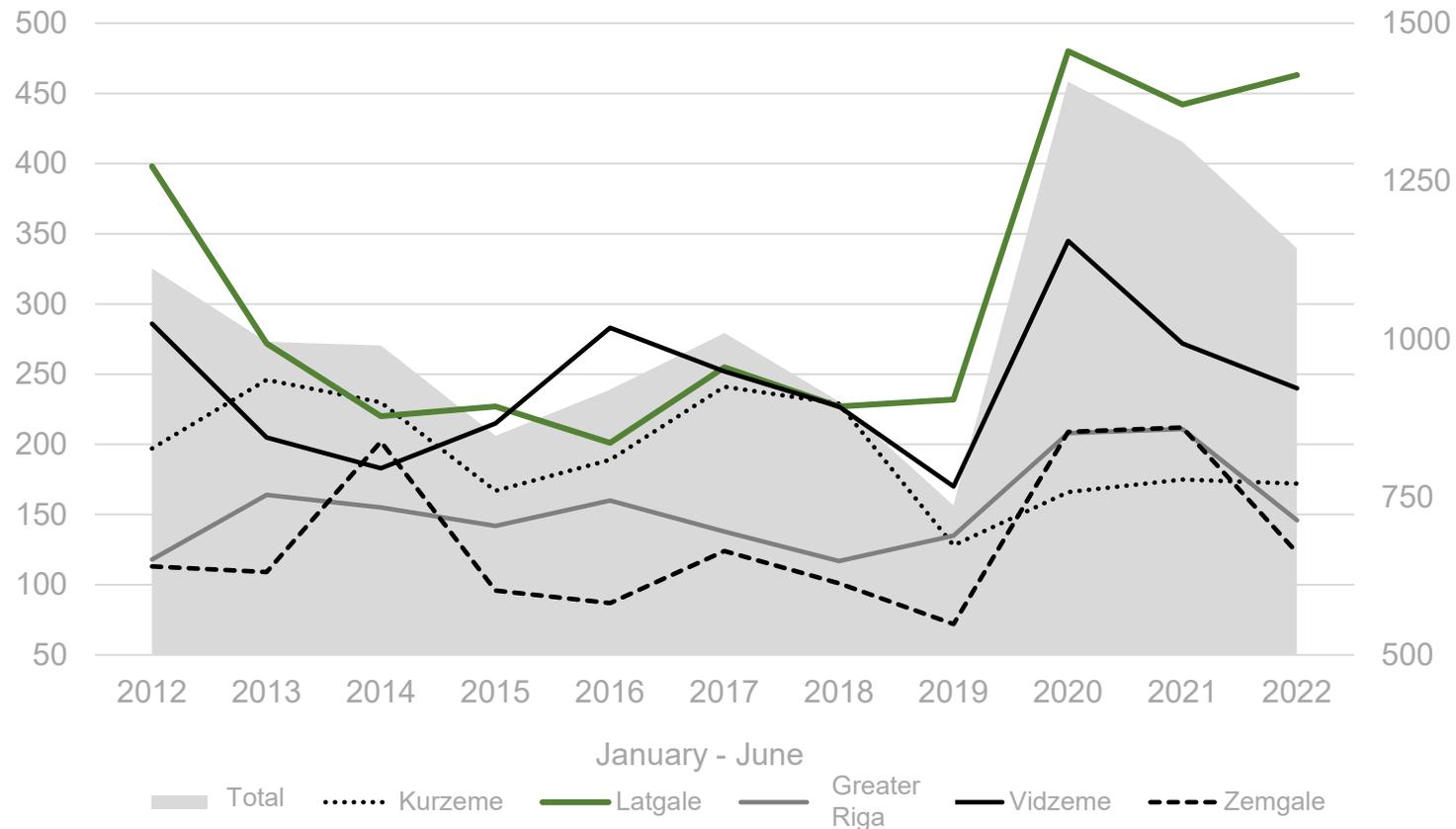
F O R E S T S



F A R M L A N D

As it was forecast – forest prices continue rising

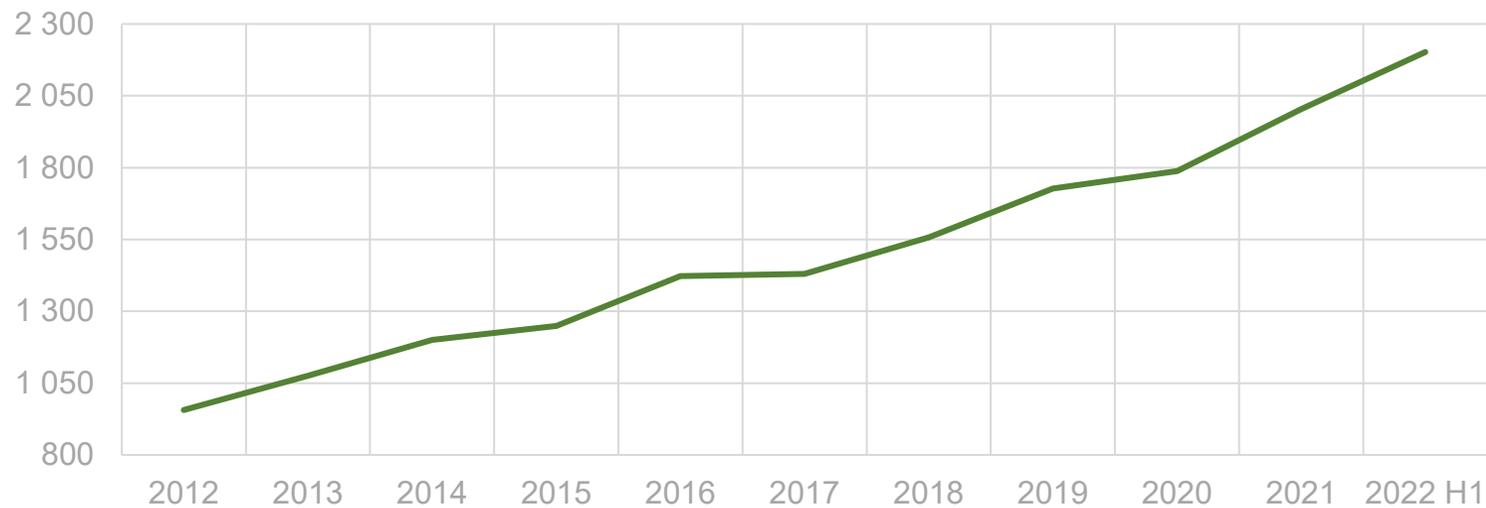
Number of transactions with forest lands by year, Jan. - June (> 1 ha)



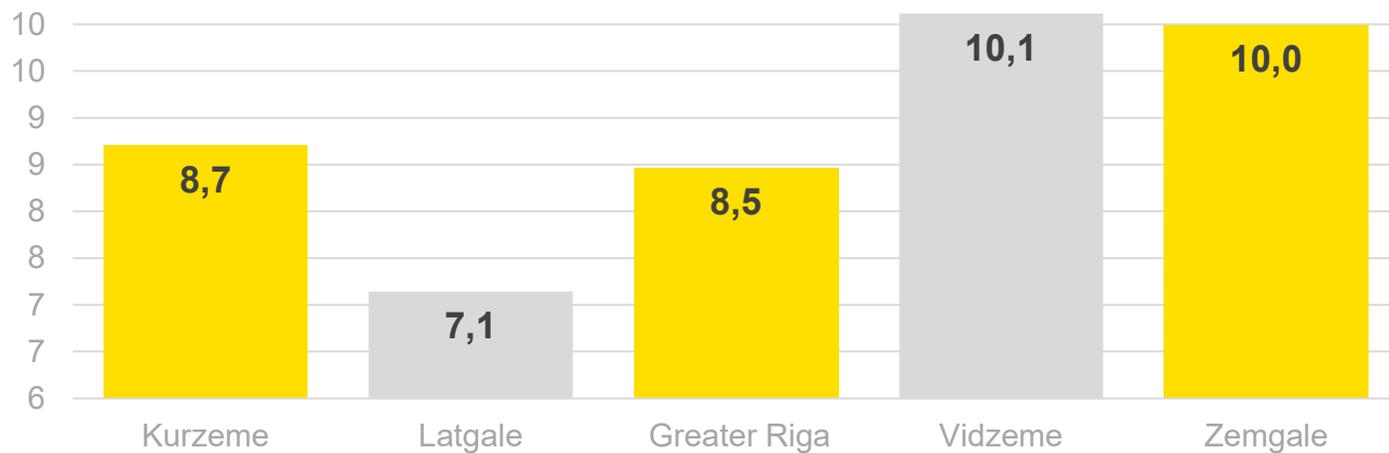
Data Source: State Land Service

- While statistically the total number of transactions for forested land fell, the overall **interest** in purchasing properties **has only increased**.
- Due to high timber prices and demand, a large proportion of forest owners chose to **sell the felling** areas for logging, keeping the property itself.
- Prices and demand for saw timber have slowed down at the moment, but the pulpwood and energy sectors are still **experiencing unprecedented heights**.
- Although statistics on average transaction prices show an increase of 10%, a price leap of **at least 30% can** be traced by studying individual and reliable transactions.
- The average yield rates were fixed at **3-3.5%** in transactions with large property portfolios studied by Latio LLC.

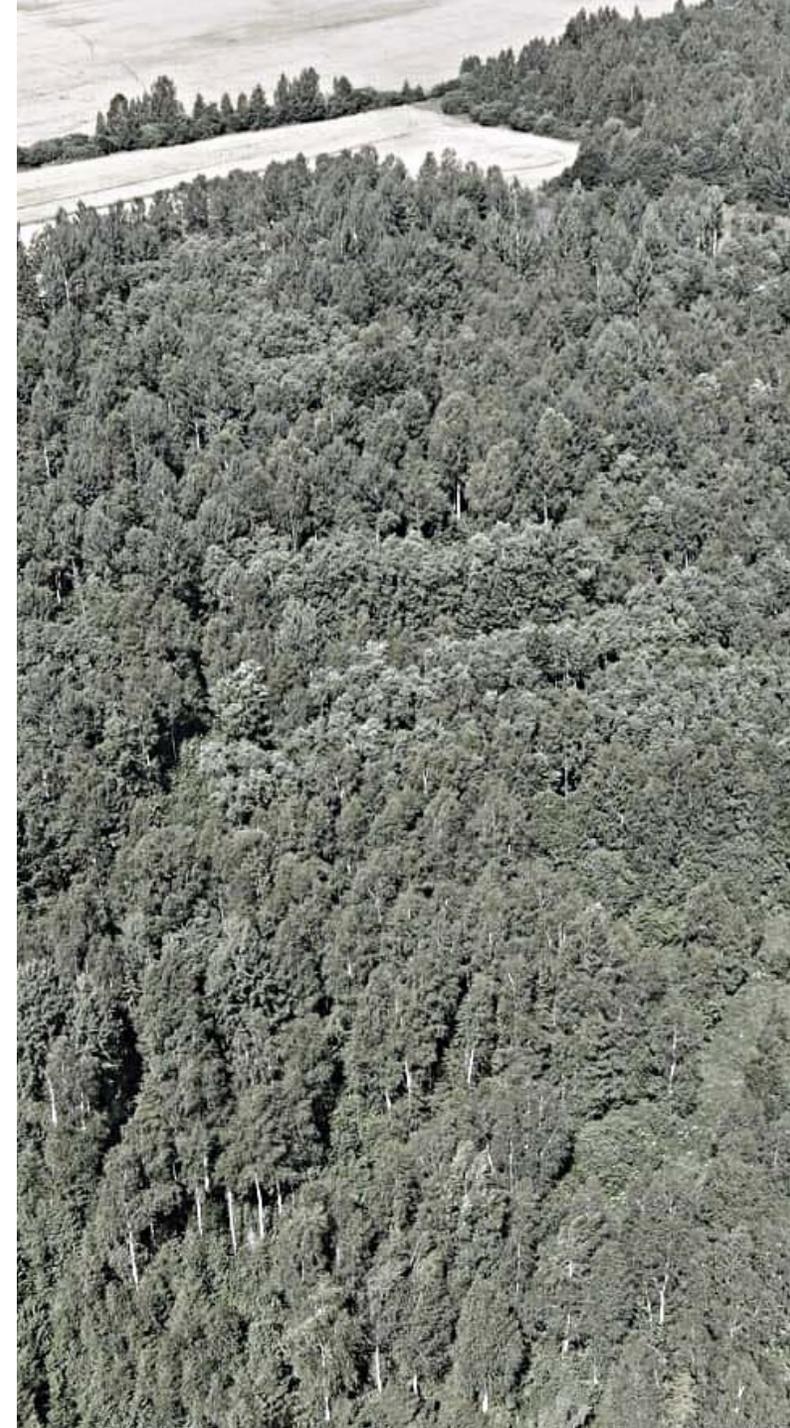
Average forested estate prices (EUR/ha)



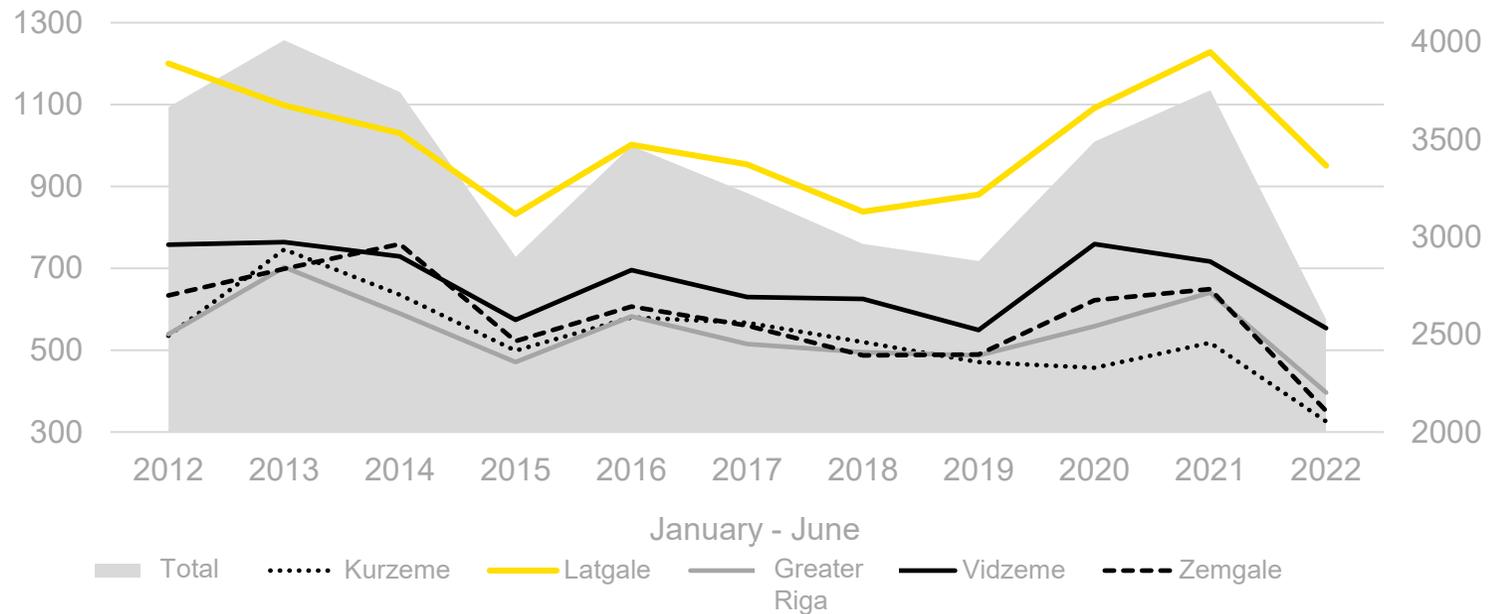
Average forest area sold 2022 H1 (ha)



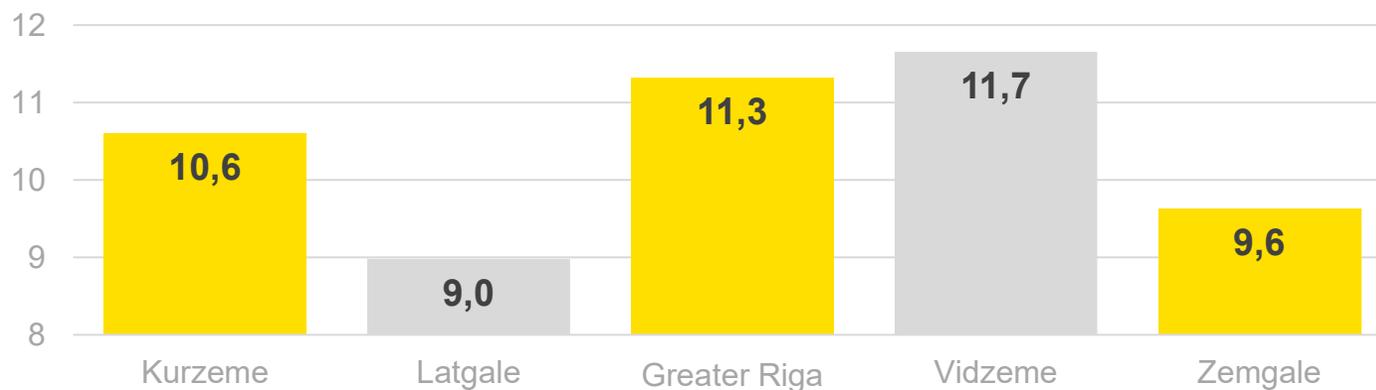
FORESTS



Number of transactions for farmland by year,
Jan. - June (> 1 ha)



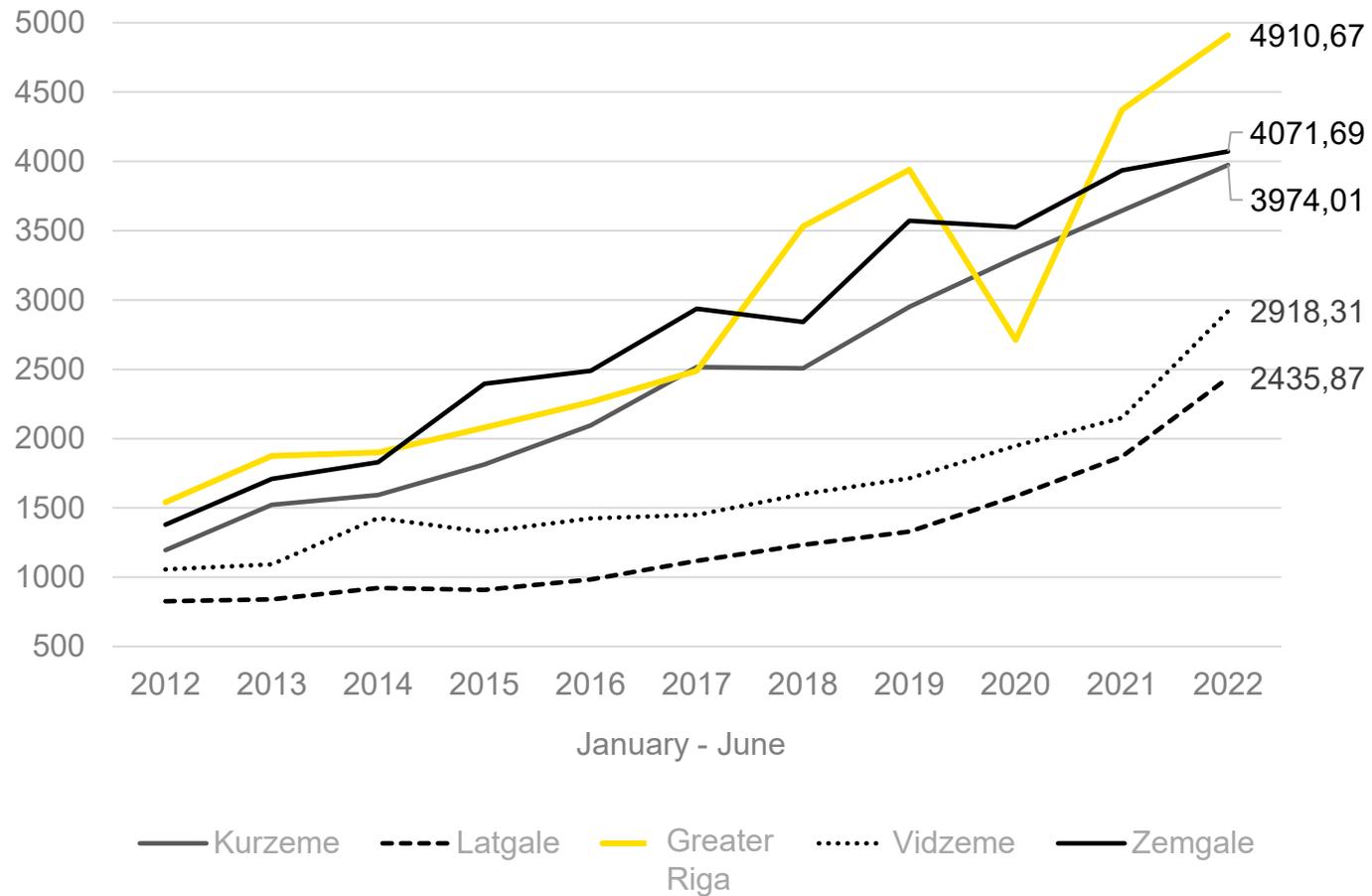
Average farmland area sold 2022 H1 (ha)



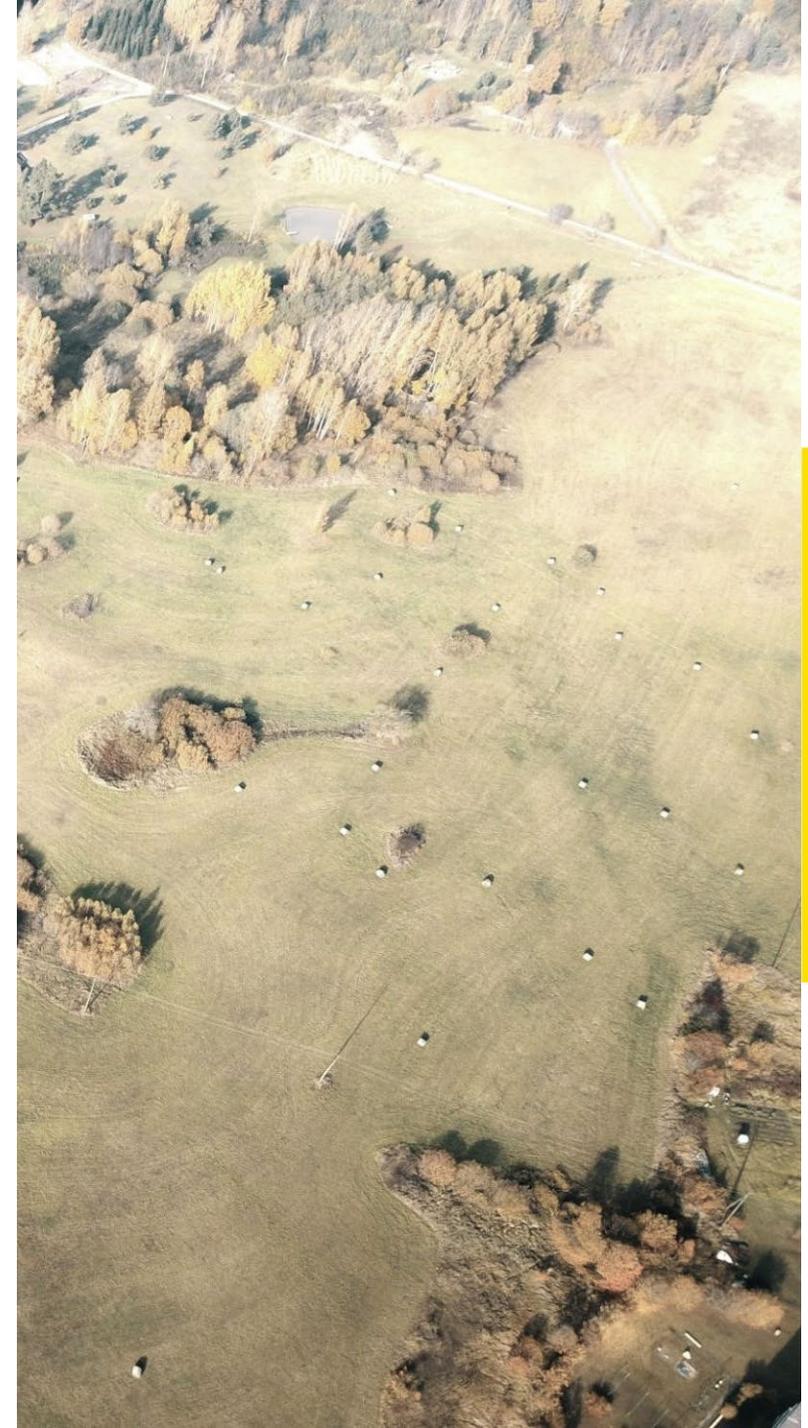
Data Source: State Land Service



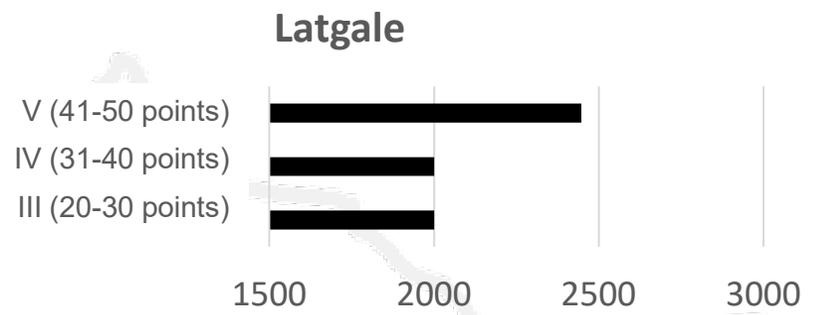
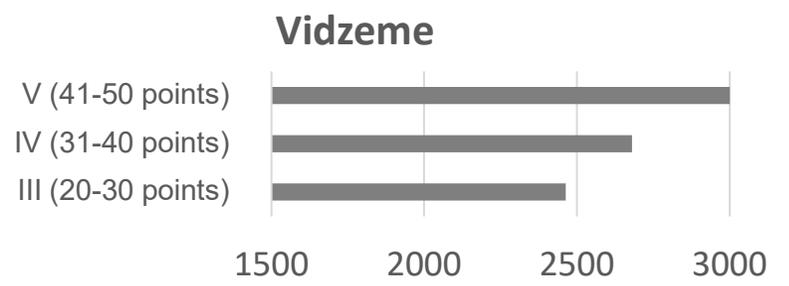
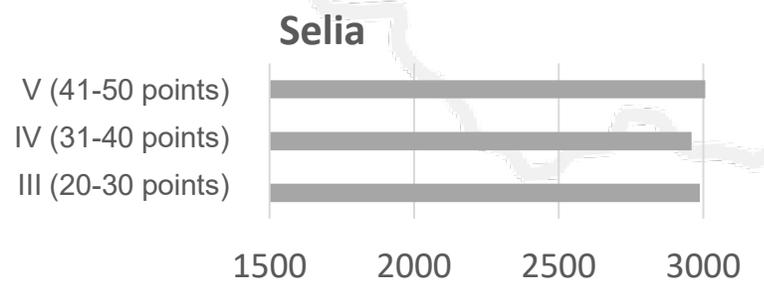
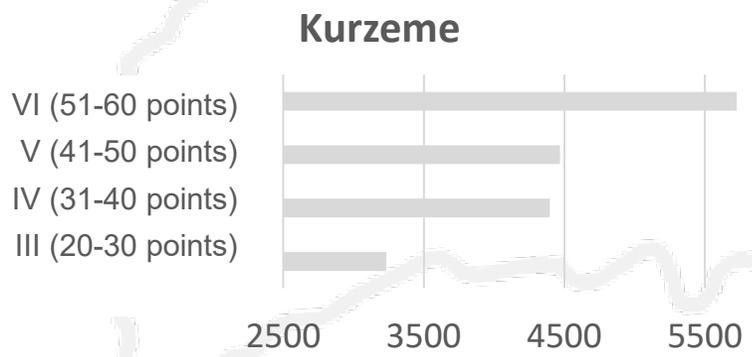
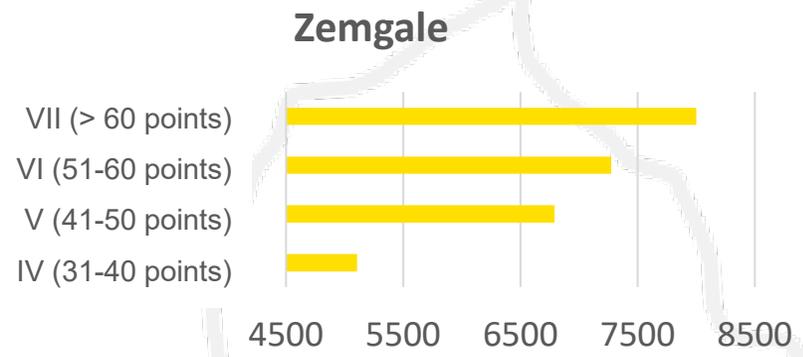
Average farmland price, EUR/ha



Data Source: State Land Service



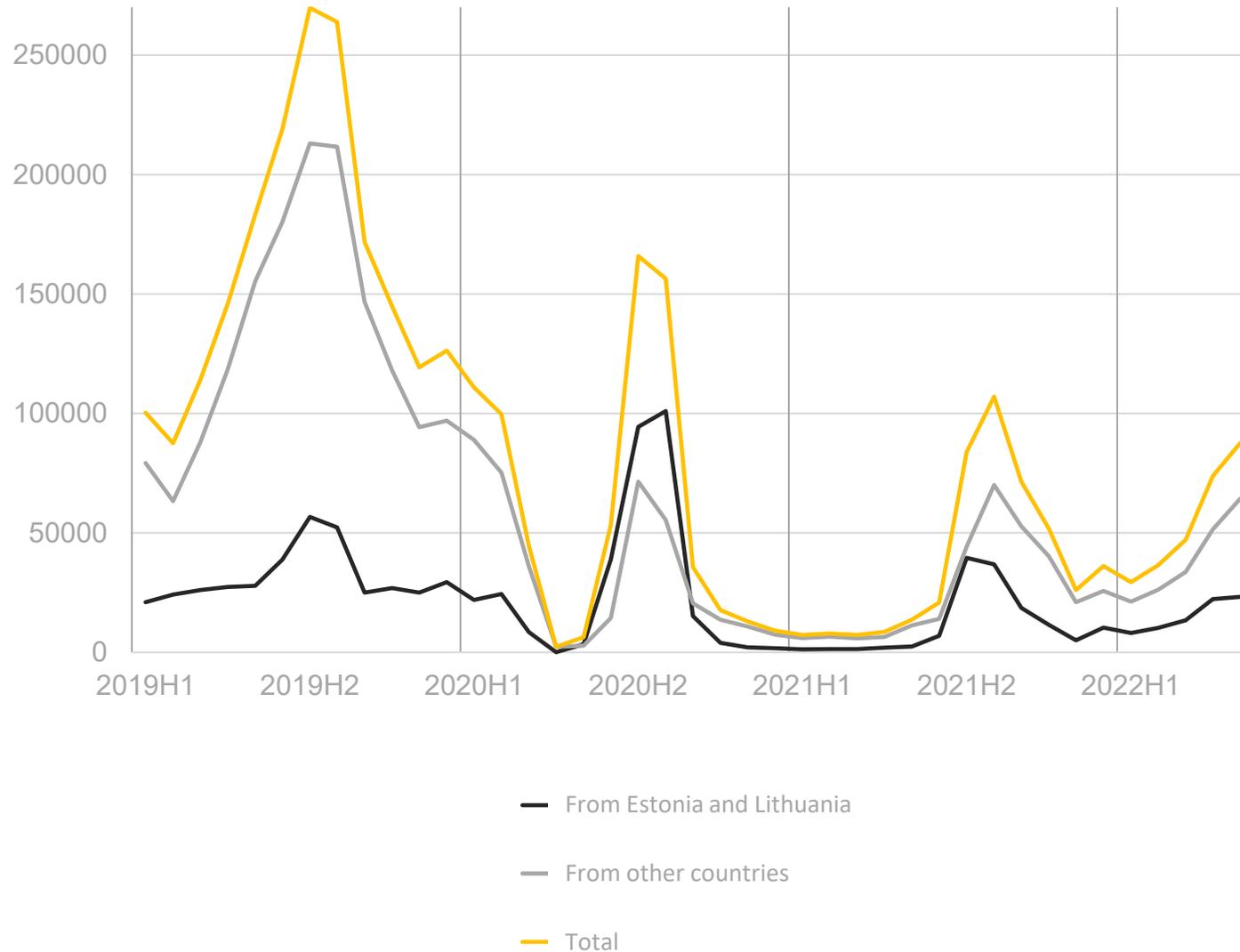
Average farmland price (EUR/ha) 2021H2



Data Source: State Land Service

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

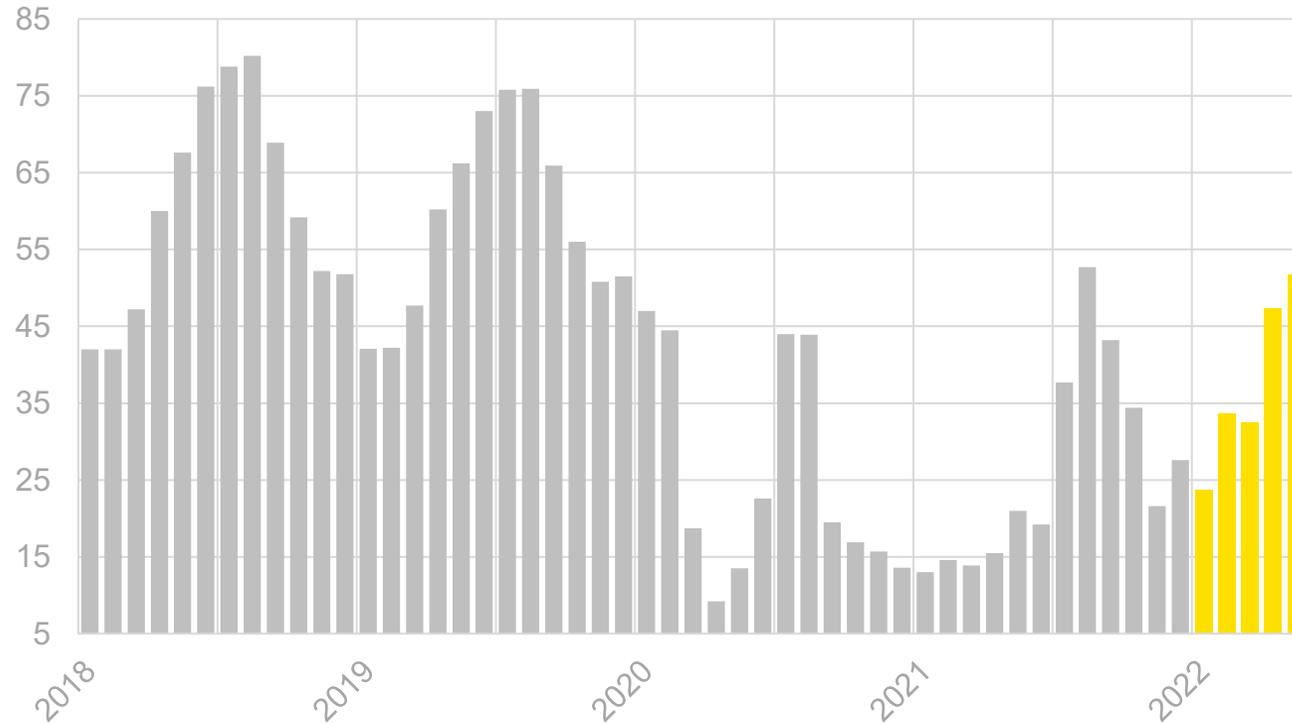
Number of foreign visitors served in Latvia



As part of 2019, on average, **15% of the total number of tourists came from Russia**, currently due to the current political situation and the volume of bans, the total number of tourists from Russia has **decreased by 96%** out of the total number of foreign visitors over 2019.

In 2022, the largest tourist traffic was from Lithuania and Estonia, accounting for **28%** of the total number, while from Germany, the United Kingdom, Poland and Finland – 27% out of the total number of tourists.

Room occupancy, Riga (%)

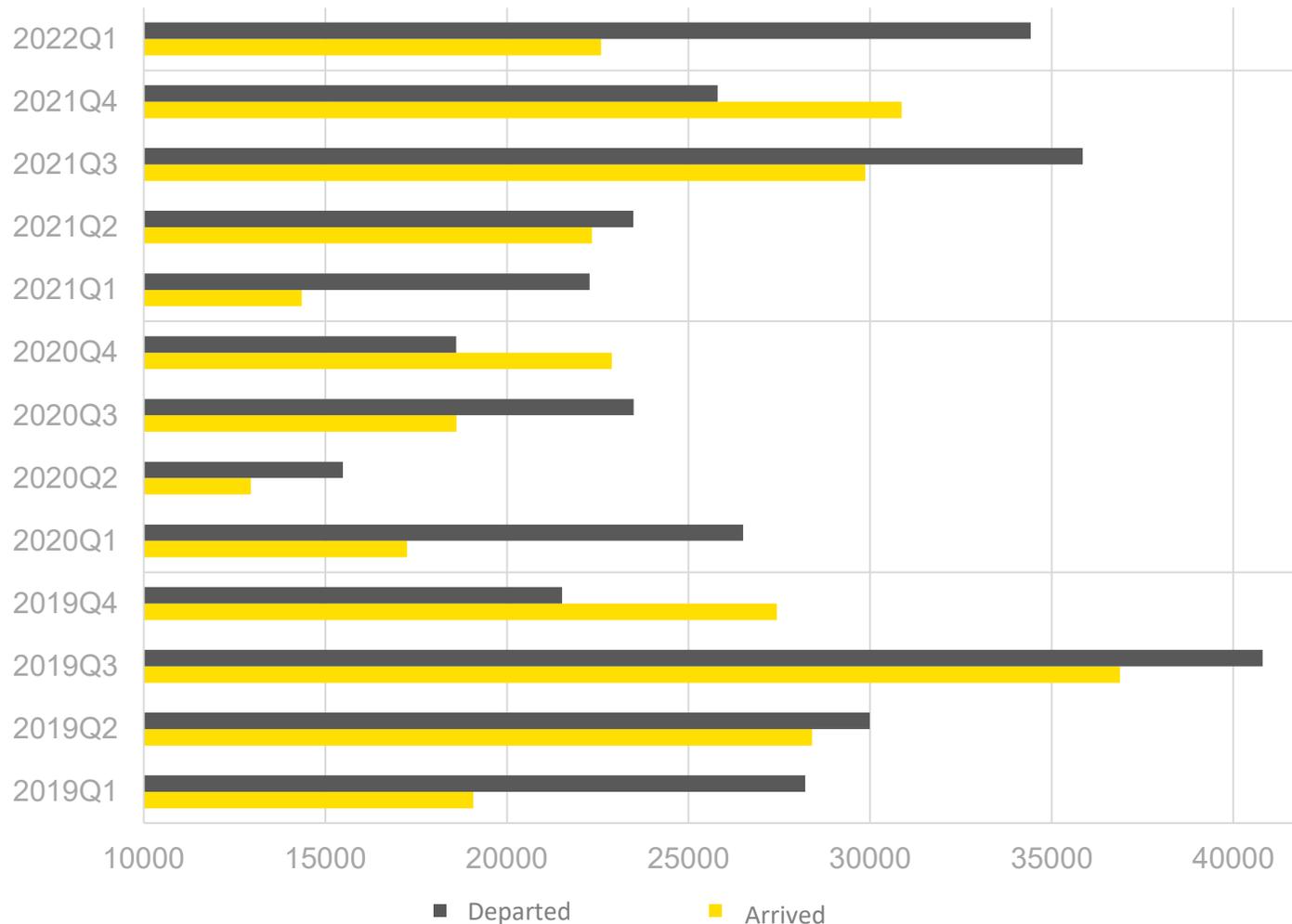


The tourism and hospitality industry has faced falling **occupancy rates** in recent years. It was influenced initially by the spread of the COVID virus, but currently - by geopolitical events and uncertainty.

In January-June 2022, the room occupancy against the corresponding period of last year had increased on average **2.4 times** against the corresponding figure for each month a year earlier.

Compared to pre-pandemic period or early 2019 – rooms were **20% to 44% busier on average** at that time.

Passengers arriving and departing at Ventspils Port by ferries



The number of passengers having arrived by ferry at Ventspils Port in 2022 Q1 was **126% higher** than the average number during the same quarter in 2020. As compared to the periods when passenger movements were more active, the data of 2022 Q1 show to have reached just **81%** of the average 2019 quarterly passenger numbers.

When comparing the number of departures, 2022 Q1 is **the highest number of departures** against annual averages. 2019 Q3 and 2021 Q3 are the only periods where there has been more departures, while the annual average has been lower. Given that the second half-year has been with the highest passenger traffic in the last 3 years, first quarter data may indicate a big change expected as part of 2022.

In 2022 Q1, it was **the largest recorded difference in** the ratio of incoming and departing passengers over the last 3 years.

Transactions for hotels as a whole property in Riga in 2022 H1

Address	Total area of the structure, sq.m
Skarnu Street 22, Riga	414
Mukusalas Street 56, Riga	904
Katrinās Dambis 27, Riga	4720
Ezermalas Street 30, Riga	5625

Data Source: data available from State Land Service and Latio

O P I N I O N S



Office segment

The office segment is currently experiencing unprecedented times of change, working remotely and in hybrid mode remains topical and, given rising inflation and uncertainty about the future costs, tenants are increasingly looking for office space that would be easy to adjust to different purposes in order to provide possibility for both holding larger meetings and negotiating with customers behind a closed door. As the work of such a regime reduces the number of people in the office, the number of requests seeking for small –space offices has enlarged. Being present in the office can foster collaboration and is necessary for many professions, so one has to adapt to the current trends and choose the option that meets their needs.

Iveta Talapova
real estate agent





Industrial facilities

There are very few affordable and contemporary industrial facilities on the market. In Riga, Greater Riga Area, such properties received a sustained demand for both purposes – to buy and to lease. We've been observing this for at least the last 12 months. Let us not mention how the current challenges, such as high inflation, energy prices, rising interest rates and slowdown in economic growth, will affect the demand of industrial premises in the long term, yet the demand should still be sustained for 1 to 2 quarters. As I said, it is just because there is very limited supply on the market.

Artis Ramutis
real estate agent



Retail services

Given that tenants are responsible for controlling their energy consumption and utility charges, there will be an increasing demand for premises where lease terms provide the lowest cost or the energy supplier and the prices it charges are clearly known. As the pandemic forced people to alter their habits and in-store shopping decreased, it is now essential to understand what would «lure» people to physical stores – faster "sale" finding, spending less time – no, it is the benefits of e-commerce. Aesthetic interior, modern furnishings, excellent service and polite staff able to both advise and provide a genuine and heartfelt communication experience - yes!

Ruslans Vengers
real estate agent





Forests

While the beginning of the year promised aligning of demand, supply and timber prices, the events in February have introduced changes to all forecast charts.

The industry has not yet witnessed the prices of individual timber assortments as they currently exist. The new Cabinet regulations, which provide for access to more timber in the main felling area, are unlikely to compensate for the demand for energy wood in the required amount this winter.

As a renewable energy source asset, forest is another additional reason for investors to buy properties in the Baltic states. Let's see how the markets responds to this, but for now this is indicative of a rise in demand and prices, at least in the short term.

Sandijs Lūkins

Head of Forest and
Farmland Brokerage
Department

Farmland

The number of transactions for quality farmland has dropped, although some farmland transactions are hidden in share deals. This is justified by the desire of current owners to continue cultivating the land themselves or sell it when the price hits its highs.

Demand for food suggests the management of land and properties that were previously not rational, so a rapid stabilization of land price rises cannot be predicted. This is also illustrated by Latvia's "rank" among the average land prices of other European countries, and there is a single conclusion – we still have room to grow.

The rise in Kurzeme and Zemgale farmland prices is "compensated" by strong demand as well as the prices in Vidzeme and Latgale regions, which is a good alternative for the landowners eager to manage the land themselves.

An increase in food prices in supermarkets can be applied as an alternative to a near future forecast...

T R E N D S

Economy

In early 2022, the global economy gradually began to recover from the effects of COVID-19, but the world was shocked by another crisis - the ongoing conflict between the Russian government and Ukraine since February, which has sparked a humanitarian crisis. Even in the event that the conflict does not spread beyond the limits of these countries, it has a broad impact on the global economy. These countries account for a large proportion of global energy exports, as well as many metals, foodstuffs, agricultural raw materials and other commodities. Before this crisis, prices for many of those resources had already risen and stocks were small as production had slowed during the COVID-19 pandemic, but demand continued getting stronger. The escalation of the conflict led to further price rises and complicated deliveries across sectors.

In the euro area, the sharply rising inflation is driven by an increase in the cost of energy, food, alcohol, tobacco, services and non-energy industrial goods. *Forbes* reports that 28 major oil and gas companies made a staggering \$100 billion profit in the first quarter of 2022, fueled by the war in Ukraine.

The U.S. position in the labor market remains tight, and despite that, as well as heightened inflation, consumers continue to show a willingness to spend. At the end of last year, the 12-month overall consumer price index inflation rate peaked at 39 years and has only been increasing since then.

Construction costs

One of the most pressing areas of real estate improvement is energy efficiency. Installing renewable energy systems, such as solar panels on or near a property, is in the interest of many different owners, albeit it is a long-term and large investment.

Retail space

A report by *the MasterCard Economics Institute* says that in 2021, many consumers around the world have started to rediscover in-store shopping. But shoppers also continued to rely on digital channels to meet a large part of their shopping needs. This means retailers have the opportunity to take digital innovations caused by the pandemic to a new level in 2022.

Forbes reports that 87% of buyers in the United States still make impulsive purchases, yet the composition of these purchases has changed since the pandemic – whereas groceries were purchased predominantly, now cleaning products is the majority of purchases.

According to a report published by the *Capgemini Institute*, which surveyed more than 10,000 consumers in ten countries, 45 per cent of shoppers are willing to share data on how they consume or use products. Moreover, younger generations, including 68 percent of generation Z representatives and 58 percent of millennials, prefer to buy products directly from brands because of a better shopping experience. So a big part of direct sales to consumers is the ability of brands to use their data to improve the shopping experience.

Offices

As reported by *JLL*, demand in the global office market remained stable in Q1 2022, with quarterly rental volumes up 36% compared to Q1 2021. There was a significant recovery in demand in all regions; compared to Q1 2021, lease volumes increased by 44% in America, by 31% in Europe, the Middle East and Africa, and by 26% in Asia-Pacific regions. However, global leases remain below pre-pandemic rates. The market still faces a record-high vacant space ratio. The long-term future of the sector is also uncertain as hybrid and homework models continue to strengthen, with rising inflation further discouraging employees from returning to offices.

Office sales totaled 8.4 billion U.S. dollars in June 2022, according to data compiled by CommercialEdge, bringing the total national sales of this sector to 43.7 billion U.S. dollars in H1 2022. Out of those, just about one third - 32%, to be exact - were registered in major metropolises and markets such as New York, Los Angeles (42.01 USD/sq.m) and Chicago (27.30 USD/sq.m). For comparison sake, five years ago, these locations and the markets they offer accounted for 41.5% of the total sales of public offices.

Industrial space

Digitisation, demography and deglobalisation will contribute to the growth of the industrial market. More industrial real estate will be needed to ensure annual growth in e-commerce sales.

Metropolises, which have seen the highest growth in the adult population over the past five years, have experienced a corresponding boom in the development of industrial sites. Concerns about geopolitical security and persistent instability in the global supply chain contribute to greater expansion of domestic production.

More than 70% of U.S. industrial facilities were built before the 21st century, and a third of them are 50 years now. Since 2020, 10 of the US's largest national retailers have bought more industrial space than in the eight previous years combined, according to *Newmark Group, Inc.*

Hotels

Leisure travel demand has recovered after 20 months of turmoil in the US hotel industry. This was enhanced by an increase in COVID-19 vaccination rates and a fall in unemployment rates. A webinar organized by *the Center for Real Estate and Finance* called "The View for 2022: Insights and Expectations for the U.S. Hotel Industry," informed that corporate and group travel is still well below 2019 levels.

S U M M A R Y

OFFICES

(lease and sale, EUR/sq.m)

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/sq.m)

A	5-6	850-1000
B	3.5-4.5	500-800
OTHER	1.5-3.3	150-400

RETAIL PREMISES

(lease and sale, EUR/sq.m)

High shopping streets	10-40	3500-7000
Other streets	5-10	1000-1500
Supermarkets	4-50	1500-3000
DIY	5-10	1500-3000

YIELD RATES (%)

Offices	6.75
Industrial space	7.5
Retail space	7

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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The leader in real estate industry

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

