

Latio

Commercial Property Market

REPORT

2019 Q3





There is still uncertainty in the global market, which has also affected the market of commercial real estate. Everyone is waiting - what's next? How will the UK's withdrawal from the EU be resolved? How will the trade conflict between China and the U.S. develop? And how will this affect the global economy? The figures are not encouraging at the moment. In Germany, the manufacturing recession is deepening and is already beginning to affect the service industry, with various countries and organizations downgrading their GDP forecasts for this year. Although indicators of the Latvian economy do not yet give evidence of the inevitable - recession or crisis - no changes have been observed in the commercial real estate market since the beginning of the year.



IGORS TEREHOVS

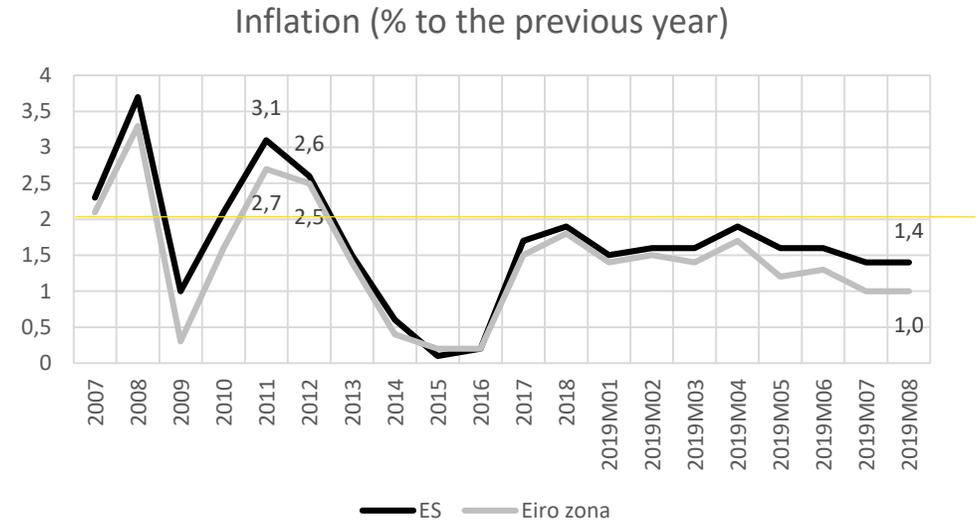
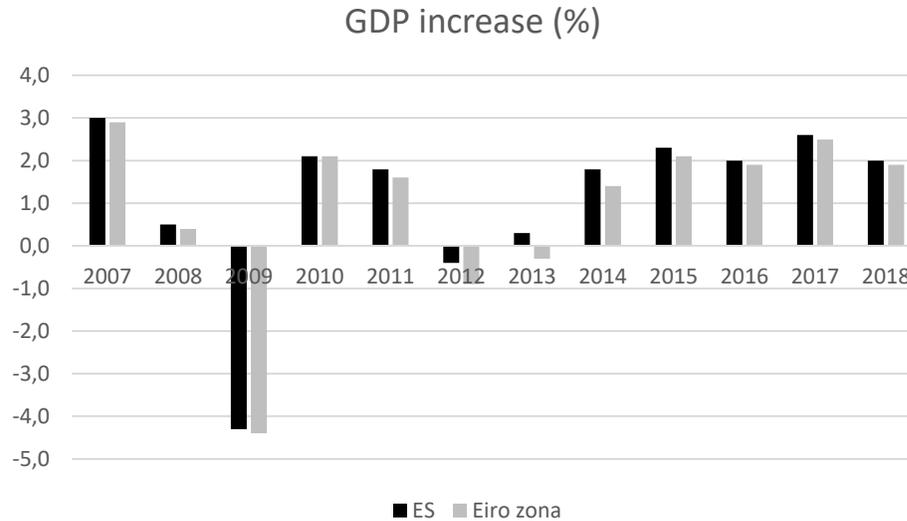
**Latio Commercial
Property Market Expert**



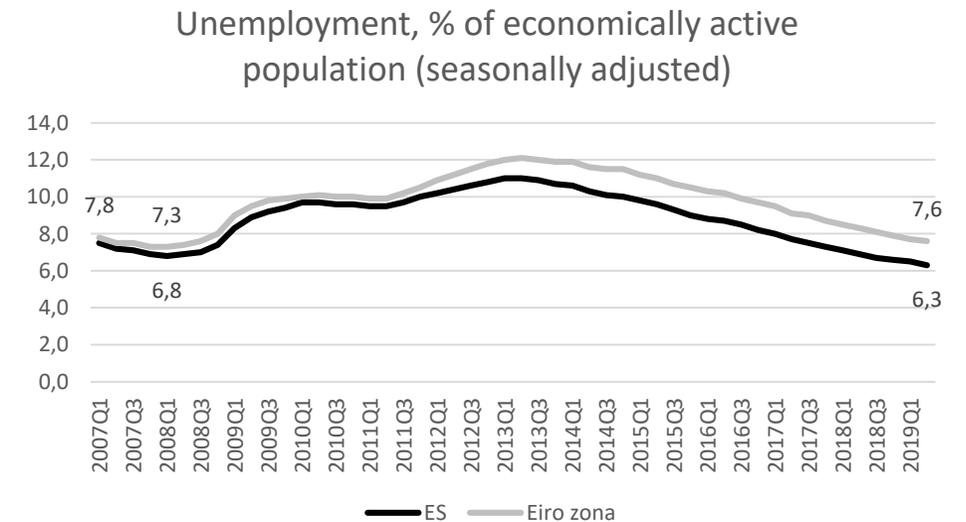
MACROECONOMICS



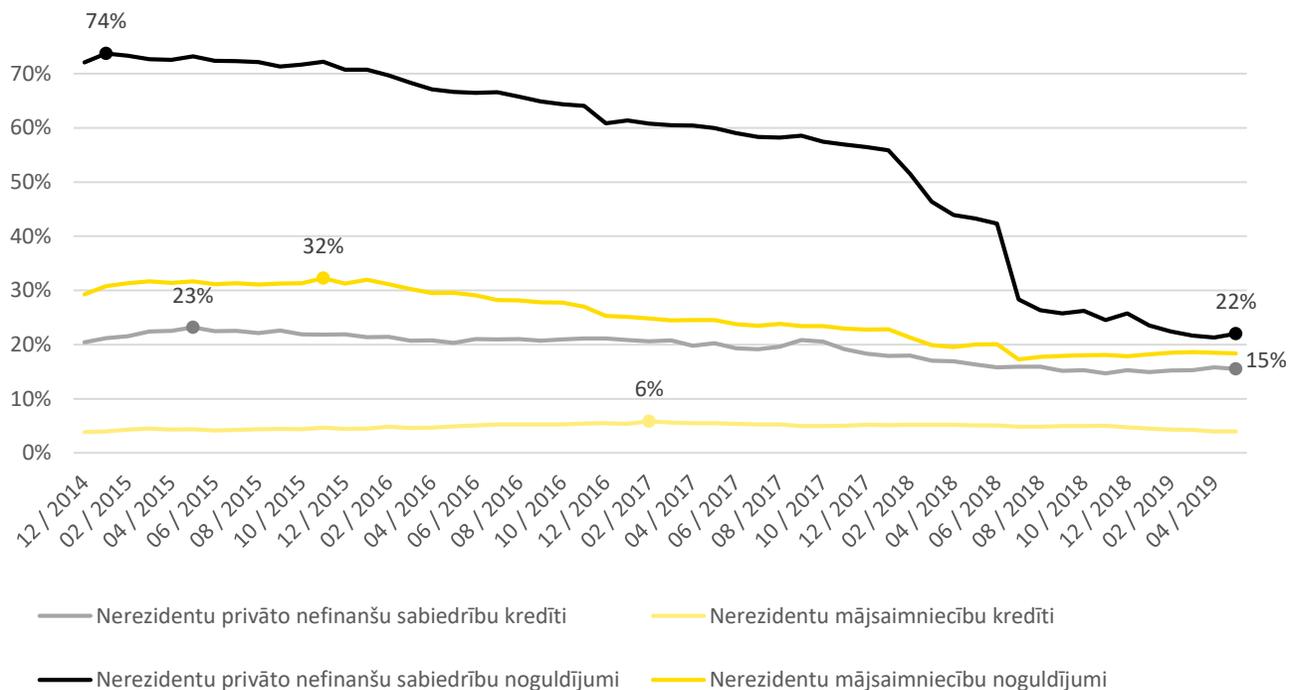
Key Indicators in EU and Euro Area



- The unemployment rate continues to drop in the European Union (6.3% in the second quarter of 2019, 6.9% a year ago), low inflation (below 2% since 2012), low growth (GDP growth has not been above 2.6% (2017) since the financial crisis).
- The unemployment rates in the Euro area are higher than the European Union average, and inflation rates have started to diverge more from the EU average since early this year.
- Latvia's GDP growth is higher than average in the EU and Euro area, reaching 4.6% in 2018, compared with 3.8% in 2017. The value added of construction increased by 17% in 2018 (2015 at constant prices) and by 14% in the year before.



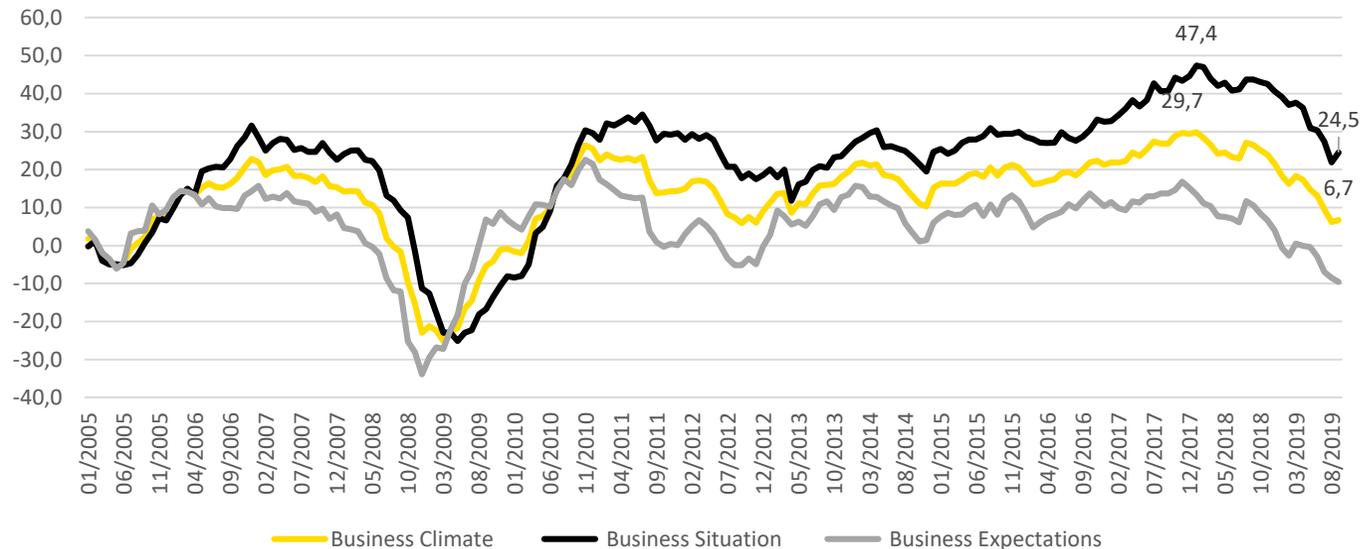
Share of loans and deposits to non-residents (%)



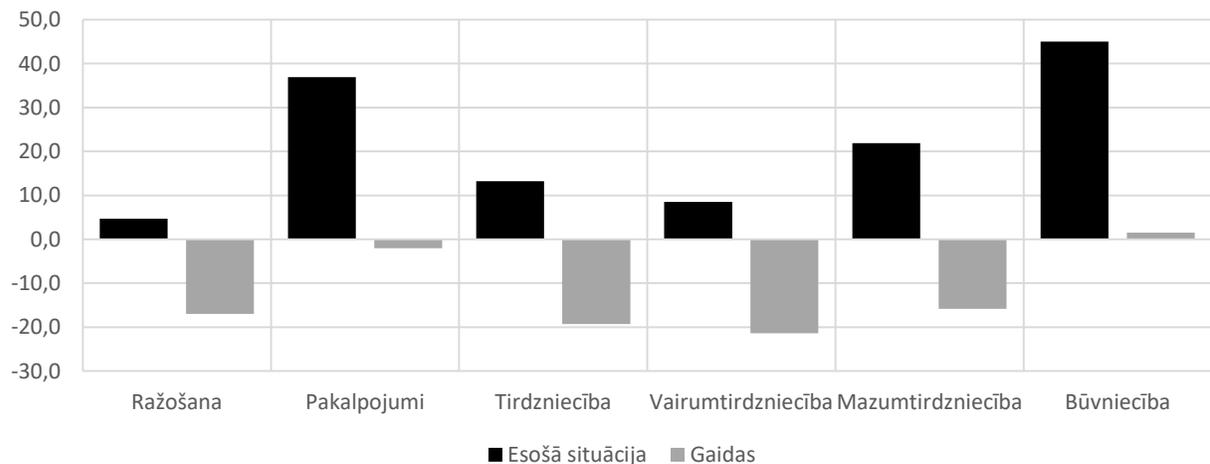
Data: Bank of Latvia

- With the increasing political risks associated with Russia and other CIS countries, there is a shift from the eastern market to the western market at national level.
- Due to suspected irregularities, the liquidation proceedings of ABLV Bank were opened in 2018 and the Corruption Prevention and Combating Bureau of Latvia (KNAB) detained the Governor of the Bank of Latvia. The Committee of Experts of the Council of Europe on Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("Moneyval") developed recommendations to be implemented by Latvia in order to organise the financial system and improve the image of the country, eliminating risks related to money laundering, financing of terrorism and weapons of mass destruction. As a result of these events, the bank financing arrangements and funding requirements changed.
- According to the data of the Bank of Latvia, the amount of bank loans granted to resident and non-resident non-financial corporations and households has decreased between 2015 and April 2019.
- Between April and September 2015, banks had provided 23% of total loans to non-resident private non-financial corporations, compared to 15% since September 2018. In May 2015, a total of EUR 1.7 billion was issued to non-residents, while the residents received 5.7 billion euro, whereas in May 2019, the numbers were, respectively, EUR 0.9 billion and EUR 5.0 billion.
- The proportion of loans to non-resident households in total loans to households also decreased.
- More pronounced changes can be observed in the structure of deposits. In January 2015, the non-resident non-financial corporations amounted to 74% or EUR 9.4 billion while resident finance companies - 26% or EUR 3.3 billion. Whereas in May 2019, deposits of non-resident finance companies accounted for 22% or EUR 1.2 billion, while the deposits of residents made up 78% or EUR 4.2 billion.

Business confidence index for Germany



September 2019

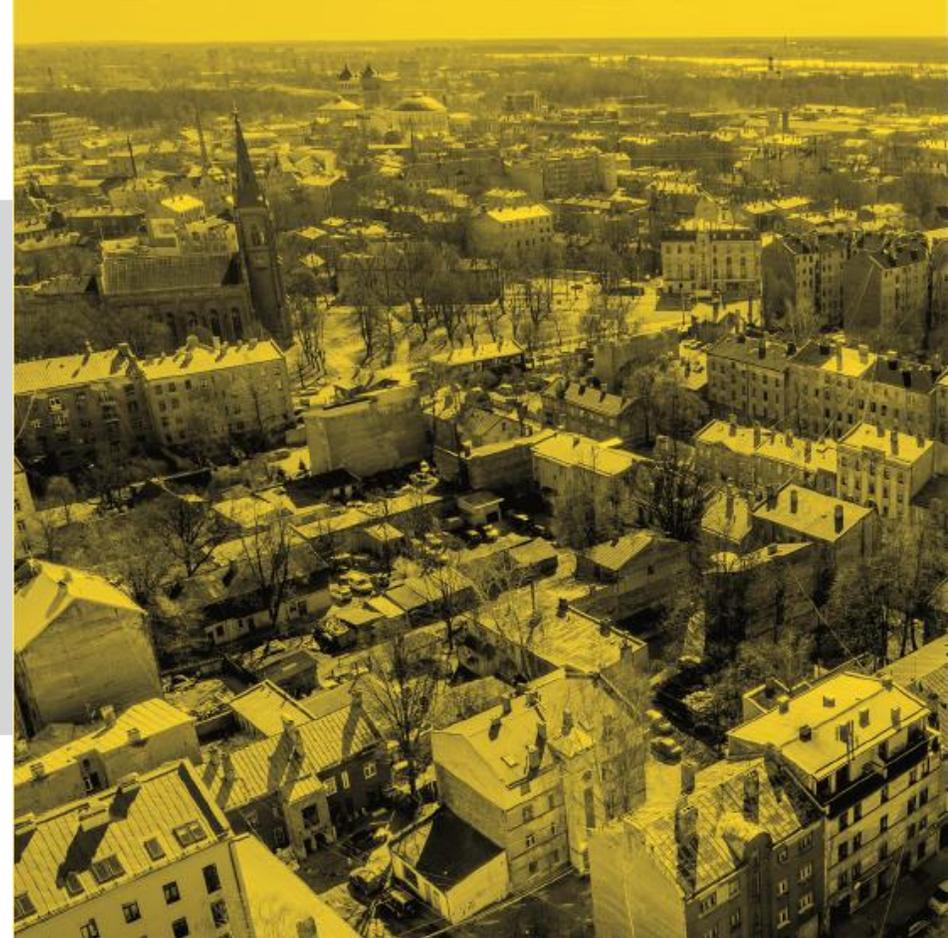


Data: ifo Institute

- The Business Climate Index of the German Ifo Institute measures the current and future business situation assessment of directors in Germany.
- The assessment of the current situation has been falling since January 2018, when it reached 47.4 points, whereas now it is almost twice lower - 24.5 points.
- The outlook for the future has been negative since January this year. In September it was -9.6 points, though in January 2018 it had been at 13.4 points and in November 2017 - as much as 16.8 points.
- Manufacturing and trading companies are feeling the most negative. At the same time, servicing companies and the construction industry representatives are more satisfied with the current business situation and their forecasts are more optimistic.

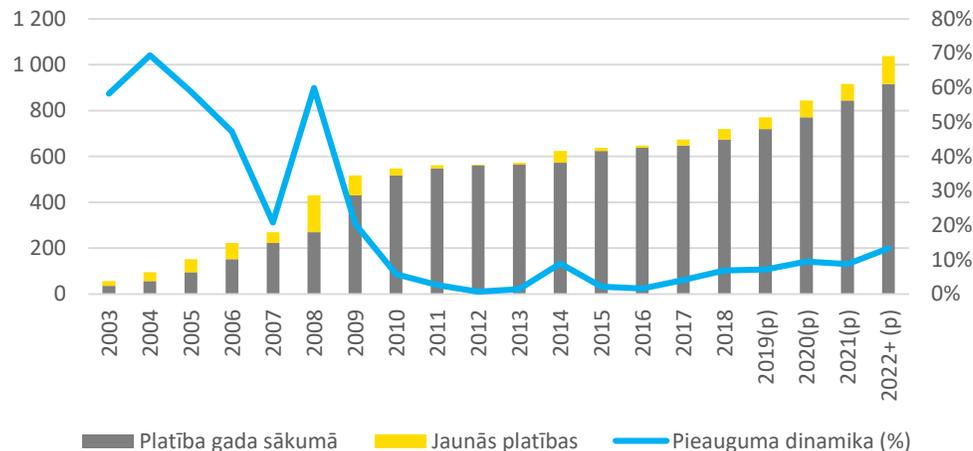


CURRENT SITUATION

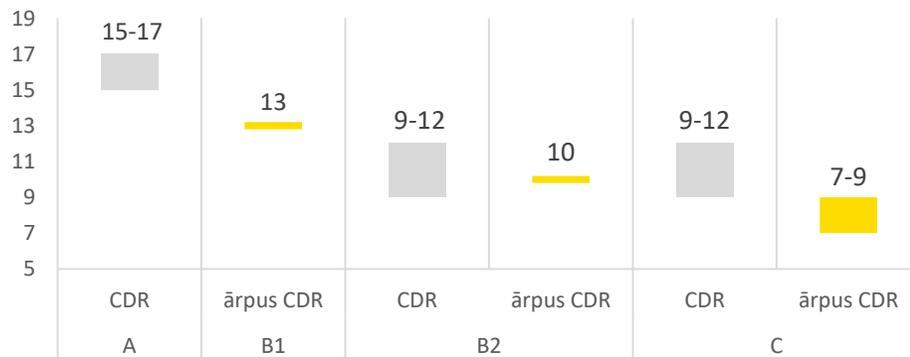


Office Space, Latvia

Class A and B office space (thsd m²) and growth dynamics (%)

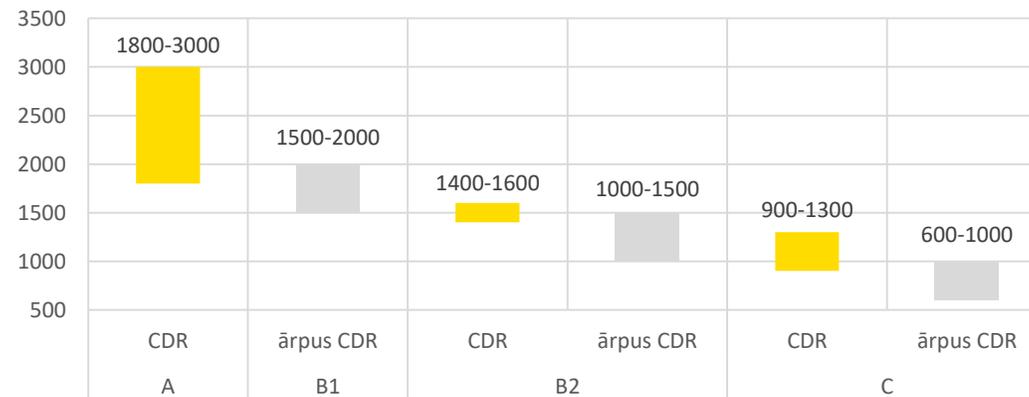


Monthly Rental Rate (EUR/m²)



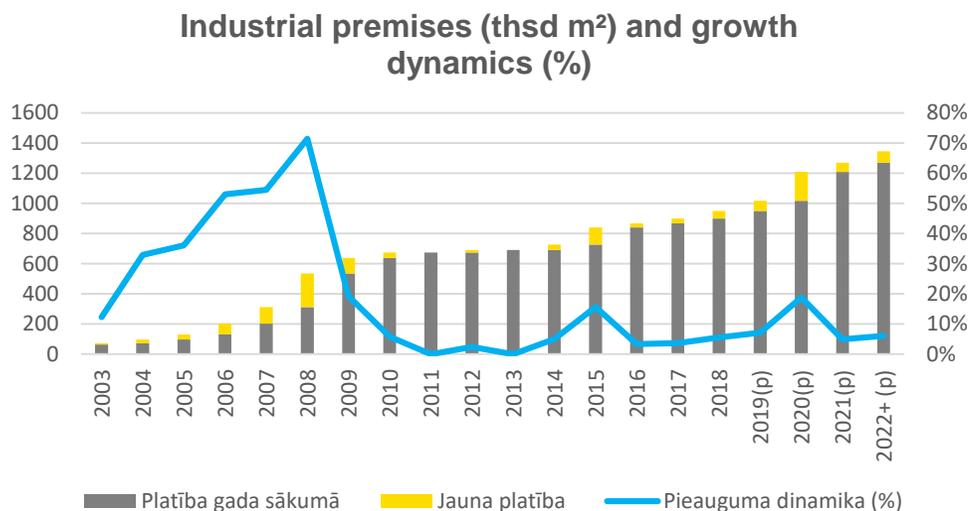
Data: Latio

Office Space Sales Price (EUR/m²)

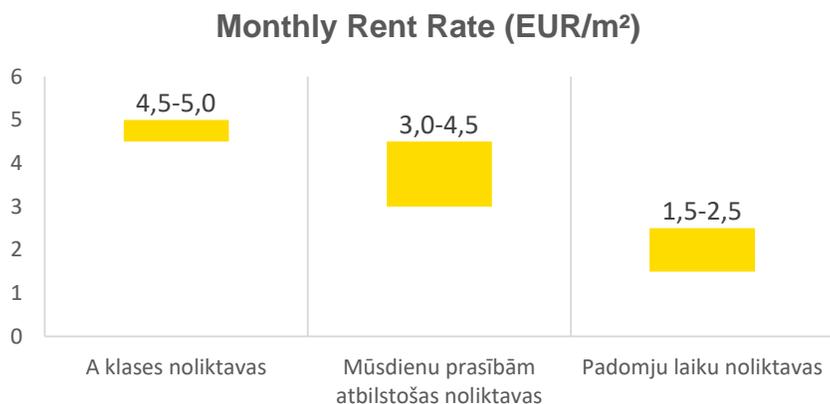


- *Printful Latvia* reported that it has purchased land in Pardaugava for 530 thousand euro, where it plans to build larger premises for the central office in Riga. The purchased area of 6.8 thousand square meters is located next to the *Printful* office at 6b Ojara Vācieša Street.
- Lithuanian company *M.M.M. Projektai* informed that it has purchased land (2.3 and 5.6 ha) in the VEF district (73 Gustava Zemgala gatve and 201 Brīvības gatve), where it plans to build offices and apartments of the total area of 50,000 square meters. This neighborhood is planned to be developed by 2026. The total planned investment is more than EUR 200 million.
- The *Riverside Office* representatives reported that the renovated B+ class office complex will be commissioned in autumn. The total area of the complex is 9 thousand square meters and it is based on the building of the institute "Agroprojekts" built in 1970.
- The construction of *Z Towers* – two 30-story buildings – was completed in July. One of the buildings houses apartments, the other - office spaces.
- The *Red Line*, a Class B+ office building, has also been commissioned. The total area of the six-storey building is 6 thousand square meters, of which 2.8 thousand square meters are available for rent.
- *Vastint Latvia* commissioned two office buildings of the first phase of the project *Business Garden Riga*. The total leasable area available is 14 thousand square meters.
- *SWH biroju centrs* (office centre) has been commissioned, which has obtained the A1 energy efficiency certificate.
- Real estate fund *Capitalica* issued bonds to raise funds to be invested in the complex *Verde* of two class A business centers with a total area of 45 thousand square meters. It is planned to be opened in 2021.
- *AI Studio's* detailed plan for the construction of an office building of 18,000 square meters near the *Skonto Stadium* was approved.

Industrial Areas, Latvia

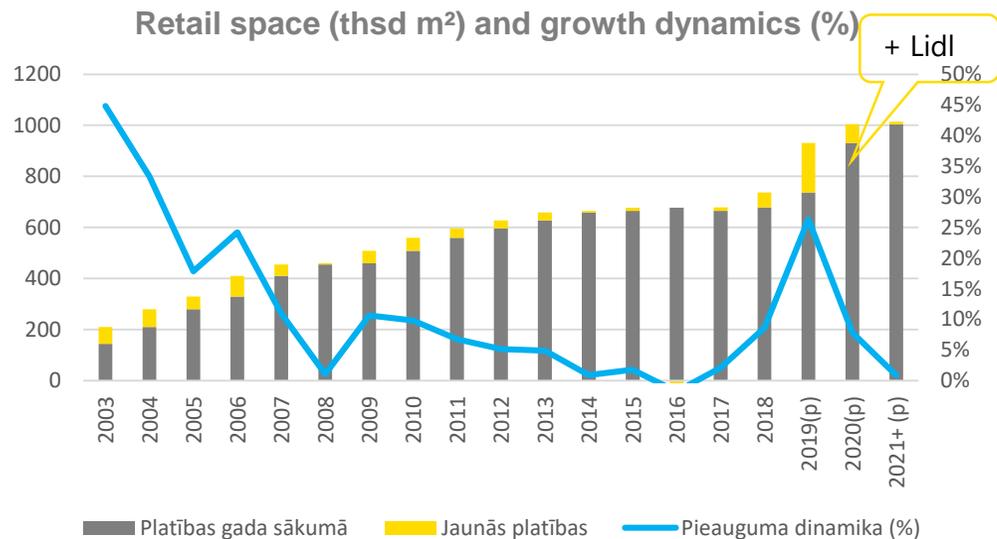


- In July, LSEZ *Jensen Metal* opened a 11.4 thousand square meter production unit in the Karaosta Industrial Park area in Liepaja and announced its plans to expand.
- The company *Catals* announced plans to build an exhausted catalyst plant in Grobina County, leading to a public consultation in July.
- *Piche* has announced the acquisition of 10 ha of land to build a new multifunctional commercial complex, *Green Park*, near Riga Airport. The complex will consist of warehouse and production spaces of 50 thousand square meters and office spaces of 7 thousand square meters.
- Jelgava city municipality tenders a 2.6 ha plot of land on 72 Garoza Street on which industrial buildings and warehouses will have to be built. The facility will have to be commissioned by the end of 2022. Building rights will be granted for a period of 30 years.



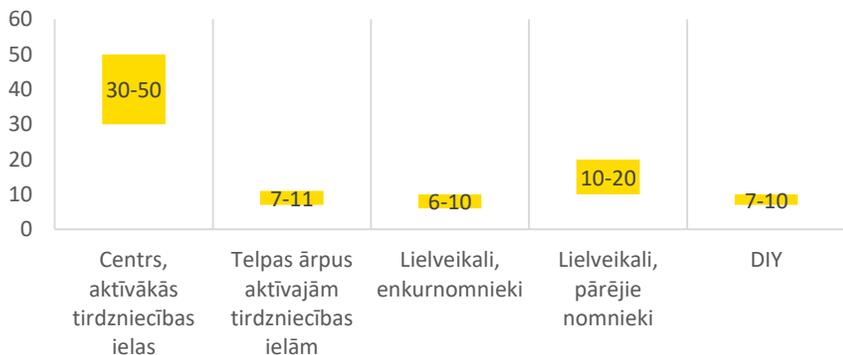
Data: Latio

Retail space, Latvia



- *Spice* plans to invest more than EUR 7 million in the health, medical and wellness complex *Spice Wellness* which will offer 5,000 square meters of leasable area and be connected to the existing building of the *Spice* shopping center.
- The former site of *TC Galerija Azur* now houses the newly-opened *TC Ozols*, where such businesses as *Rimi*, *Hesburger* and a pharmacy have begun their work already. *K-Senukai* is scheduled to open in the fall.
- The first *Lidl* store on 77 Anninmuizas bulvāris was commissioned.
- The shopping center *Alfa* completed the construction of its annex, becoming the largest shopping center in Latvia. The number of tenants increased from 170 to 210 and the leased area increased by 20 thousand square meters, reaching 71 thousand square meters.

Monthly rent rate of retail space (EUR/m²)

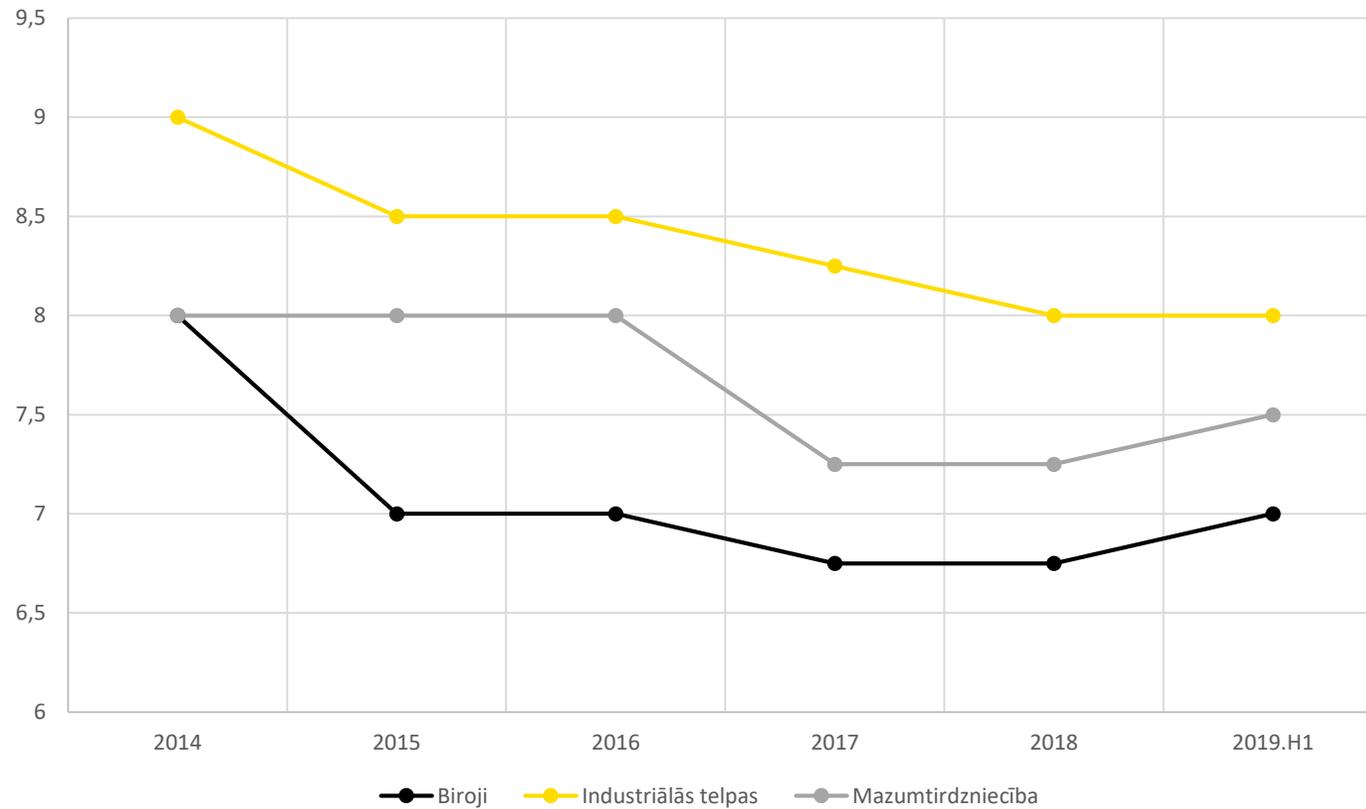


Retail space sales prices (EUR/m²)



Data: Latio

Dynamics of yield rates



Data: Latio

After several years of decline, yields in early 2019 have shown signs of moderate growth pointing to short-term financial access risks.

REAL ESTATE TRENDS IN THE WORLD



Real estate trends in the world



Retail trade

As retail loses its topicality and is no longer as appealing to investors, some are beginning to combine several types of real estate in one shopping centre, creating a whole new type of real estate. In addition to live-work homes, live-work-play properties are now available on the market.

Warehouses

Time is an increasingly important factor and e-commerce is on the rise. As a result of these factors, delivery speed is also having an increasingly bigger role. Underground warehouses are mentioned as one of the solutions for faster deliveries because it is practically impossible to build a large industrial park in the city center.

Offices

According to the *Savills* study, when potential employees are looking for a job, the most important factors for them are: a clean, comfortable, safe working environment as well as the location of the office. The time spent traveling from home to work and the convenience of getting there is increasingly important. The number of self-employed people is steadily growing in Europe while the amount of full-time employees is reducing. For these reasons, flexible office spaces are gaining popularity.

Latio

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