9 FACTS YOU SHOULD KNOW ABOUT KIVI REAL ESTATE

1. The company was founded in Riga 9 years ago – on 1 September 2009. It was set up by the real estate professionals with many years of the industry experience.

2. In 2010, KIVI Real Estate established a successful platform for providing customer service across all the Baltic countries and launched strategic cooperation with Seven Real Estate Advisors based in Estonia and CREalty advisors based in Lithuania. The companies still cooperate on joint projects.

3. The company focuses on two business directions. The commercial property team is engaged in the business of all commercial objects’ segments – retail and office spaces, industrial property, investment objects and land for commercial buildings (leasing and selling the said objects). Conversely, the residential property team is engaged in renting and selling apartments and houses, as well as selling land plots.

4. Several hundred customers have commissioned KIVI to sell their real estate or have asked it to cooperate and find the most appropriate solution for leasing or renting their premises or for the acquisition of property.

5. Over the past nine years, more than 2,000 transactions have been completed.

6. At present, the company employs 21 real estate professionals.

7. #KIVIREALESTATE:
   #values #performance #loyalty #more than asked for #personalities #ethics
   #to understand #to find out #experience #professionalism #result

8. The prestigious financial market magazine EUROMONEY named KIVI REAL ESTATE the best Letting/Sales Agency in Latvia in the 2018 in its annual Euromoney Real Estate Survey.

9. Our work contributes to the development of your company.

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INTRODUCTION

The year 2017 has proved – yet again – the confidence of local and international market players in the long-term commercial property market in Latvia, which is manifested not only by engaging in new purchase transactions but also by announcing ambitious development projects across all segments. In 2017, total investments in Latvian commercial property declined compared to 2016, which was more likely due to an insufficient supply of high quality assets at an appropriate price. On the part of investors, interest in such properties has remained high.

In the commercial space lease market, tenants are still eager to move to new, newly built buildings, however, they are more interested in the projects where construction has already been started and is under way. Notably, the most significant leasing activities start immediately prior to the commissioning of these projects.

The prestigious financial market magazine EUROMONEY has named KIVI REAL ESTATE the best real estate Letting/Sales Agency in Latvia in 2018. For the KIVI team, this recognition not only means great honour, but also responsibility and a challenge to keep improving past the achieved standard and meet customers’ expectations. This achievement was possible not only owing to the enthusiastic and relentless teamwork on the part of KIVI, but certainly also due to the long-standing confidence of customers. Therefore I would like to say a big thank you to all involved!

On 1 September 2018, KIVI REAL ESTATE celebrated its 9th anniversary. As it is entering its tenth year of operation, KIVI has convincingly become one of the most recognisable companies in the industry. Looking back, the many success stories of our customers have been the source of the greatest satisfaction. Based on mutual trust and cooperation, KIVI has succeeded in achieving outstanding results. KIVI’s team is committed to keep pursuing our values now and in the future – teamwork, vigour, integrity, and knowledge. Over the years, these values have helped us achieve the results expected by our customers, and we plan to have a focus on them in the future, too.

Looking forward to our cooperation,

Ivars Gorbunovs
Head of Commercial Property Department
OFFICE SPACE MARKET REVIEW

The developments and trends in the office rental market in 2017 generally showed that office space plays a significant role for the development of business and for competitive advantage in terms of attracting quality and productive workforce, which was supported mainly by two factors. First, a fast and successful occupying of the new office building, Place Eleven, by tenants – companies that were leasing lower-quality premises previously. Secondly, meeting the demand of tenants fully is still difficult. The supply that meets the most relevant criteria is very limited. Overall, the changes were similar to the trend observed in recent years, with companies increasingly making decisions in favour of energy-efficient and modern office buildings with a layout tailored to the needs of the relevant company.

Demand

The demand for modern and high-quality office space on the part of tenants has been continuing to grow. This is driven not only by the need for larger or more efficient layout spaces; the opportunities to design the space, the quality of microclimate, the overall infrastructure of the building and environmental benefits are the reasons why both local and international companies are interested in new as well as prospective office buildings in Riga.

It has been observed that in job vacancy ads, as part of the description of the relevant company, companies highlight an opportunity of working in a new, modern, well designed and comfortable office.

There is still a high demand for offices with a floor area of up to 150 sq m as well as those with a floor area of 200-350 sq m. The demand is lower for new office spaces with a floor area of 1,000-2,000 sq m and greater.

The demand by IT and financial services companies, including banks and insurance companies, has remained constant. The GBS (Global Business Services) segment in Latvia has been growing year from year as the branches and offices of new foreign companies are being established. Most of the companies of this type expand their businesses on a regular basis, thus they need new employees as well as larger office spaces. In addition, the premises must have stylish fittings and in a convenient location, as the said service centres are actively competing with each other for employees.

The most demanded office space locations are the city centre, VEF, Teika, Purvciems and the near Pardaugava. The relevant locations must have an easy access to public transport as well as car parking facilities.

Supply

In 2017, premises of approx. 23,000 sq m were added to Riga’s Class A and Class B office market, bringing the total supply to approx. 638,000 sq m at the beginning of 2018.

Around 67% of the total supply are intended to be leased out, consequently, 33% are envisaged for the needs of the relevant companies.

In 2017, the most significant additions to the offer of newly built high-class office buildings in Riga were the following buildings: LOFToffice, Katrīnas Osta, Mūkusalas 42 (MBC) and Place Eleven.

Still, most of Riga’s contemporary office market consists of buildings built some ten years ago (during the pre-crisis period). The tenants of these buildings tend to consider alternative offers in the new buildings with a modern design, technical solutions, current energy efficiency indicators, and a convenient and efficient layout. A better surrounding infrastructure and the services offered in the building (catering, fitness, co-working premises, underground car parking lots, green relaxation areas, etc.) is of no lesser importance.

Tendencies in the office market in 2017

- Interest in office spaces on the part of tenants in 2017 was moderate. After all, recognising that there is a shortage of top-quality and modern offices in Riga, some customers have been choosing the “wait and see” approach in finding their right office.
- New co-working or collaborative space concepts continue to be developed. PeopleWork with a floor space of 3,500 sq m was opened in the city centre at E. Birznieka-Upīša iela. The building has been renovated and offers a modern and comfortable environment for various types of companies as well as for the organisers of conferences.
- In 2017, the most significant new entrant in the GBS segment was WebHelp (the office is located at Valdemara iela 21) and Arvato Systems Latvia (the office is located at Zājā iela 1). An open layout office, which is based on the activity-based work concept has been gaining increased attention and interest on the part of tenants. This is considered the most contemporary type of an office layout. This layout provides for the creation of such areas in an office, which are suitable for individual work and making phone calls, communication in larger or smaller groups, and for recreation and activities (for example, board games).

Upcoming new and reconstructed office building projects

Already in the previous years, the years 2018 and 2019 have been marked as the prospective times of changes for tenants and landlords as well as developers. In 2018, the office market in Riga was characterised by several construction projects at various stages of completion of construction and reconstruction projects, and some of them have been completed and leased out. The projects mentioned below, still under construction, will be completed and commissioned in 2019. In the event that all of these projects are carried out, their total floor area available for lease would exceed 100,000 sq m, or about seven Place Eleven buildings.

- Imperial Palace, reconstruction, 4,000 sq m, commissioned and leased out
- Brīvības 275, a new building, 1,400 sq m, commissioned and leased out
- Telegraph, reconstruction, 2,340 sq m, partly leased out
- Z-Towers, a new building, 22,500 sq m, at the stage of construction
- Teodors, Jaunā Teika, a new building, 15,000 sq m, commissioned and almost leased out
The year 2017 was a dynamic and diversified year for Kivi Real Estate’s commercial property team not only in terms of construction and partly leased out
• RED LINE Offices, a new building, 5,000 sq m, at the stage of construction, partly leased out
• Salmo Offices, reconstruction, 4,000 sq m, commissioned into operation and partly leased out
• InDi biroji, reconstruction, 3,000 m², almost leased out
• Business Garden, Stage I, a new building 14,230 sq m
• Origo One, a new building, 11,500 sq m
• Mežaparka Offices, a new building, 2,646 sq m

They will be followed by other office building projects in 2020-2021, such as Salas Biroji, Capital City, Elemental Skanste, InDi II, Zeiss biroji, Loffs&Rosegold, Valdemāra Biroji, New Hanzo City, Business Garden Round II, and other.

The completion of these projects will bring about changes to the market – for tenants as well as landlords.

Rent rates
Rent rates have not changed dramatically. However, given the share of vacant spaces in Class A and B office buildings, individual landlords have increased their rates by EUR 0.50 to 1.50 per sq m. Depending on the floor area of the relevant office and its lease term, rent rates may vary individually for each tenant.

Average rent rates for Class A offices: EUR 12 - 16 per sq m
Average rent rates for Class B offices: EUR 8 – 12 per sq m.

In addition to rates, the maintenance costs of the relevant space are of importance, too, and they vary by building. Consequently, customers have been focusing on energy-efficient buildings, which helps minimising the utility service rates.

An increased supply of office space in the market and increased competition among landlords are expected to change the rates.

Trends in 2018
• Customer interest in new office building projects has increased. Alternatives are being considered for the coming year, and the future projects are being evaluated.
• Potential tenants are knowledgeable about the market circumstances; unfortunately, the majority of them does not believe that all of the promised office building projects will be carried out or are sceptical about the length of the construction period.
• Customers who need a floor space of more than 500 sq m for modern and top-quality offices have been postponing the relevant decision-making due to the limited supply, demonstrating corporate social responsibility.

• Rent rates charged for some office buildings have increased due to an increased demand and the shortage of premises. On the other hand, rates charged for the premises that are more difficult to lease out – due to their poor quality or an inconvenient location – have been falling.
• Entering into preliminary lease agreements for the office buildings not built yet is still common. This way, tenants have the opportunity to choose the best premises in the building.
• A stable demand for large offices (at least 1,000 sq m) of the companies having business in financial technologies, IT, banks and other types of service companies is expected to continue to grow at large offices with expansion possibilities within the relevant building.
• Riga is becoming more attractive to entice the entrance of foreign companies – there is a wider variety of office buildings to choose from and an increase in the number of services they provide.

• In 2017 as well as in 2018, selling of office buildings has been continuing. There has been a change in the owners of the following buildings: Brīvibas 39 (Open Centre), Duntes 3 (Duntes Nami), Kr. Valdemāra 62 (Alojas Biznesa Centrs), J. Dalīņa iela 15 (LNK Centre), Vaiņode 1 (Latvijas Valsts Mežu ēka), O. Vācieša 6b (Draugiem Group the current building), Matrožu 15 (Ostas Skati)
• The tenants are increasingly focusing on the sustainability and ecological characteristics of offices, low maintenance costs, taking care of the environment, and demonstrating corporate social responsibility.
• The developers of new buildings make use of BREEAM or LEED certificates to prove the quality of their buildings in terms of sustainability and to increase market competitiveness.
• It is expected that the office buildings built ten years ago will be reconstructed or improved, rendering them more competitive along with the new projects, which as a result may delay the outflow of tenants.
• The trend of moving to better buildings has been continuing among well-established and growing companies. Tenants will continue to move to more contemporary offices as the economy continues to grow.

The year 2017 was a dynamic and diversified year for Kivi Real Estate’s commercial property team not only in terms of custom- er demand – significant and substantial office lease transac- tions were entered into. The transactions worth mentioning took place in the newest office buildings in Riga – Loft Office at Atmaņu Street 14 (the tenant is Neotech), several transactions in the Place Eleven building (one of the tenants is Amplexor) and in the Jaunā Teika building Teodors. Concurrently, offices have also been rented out in other well-known buildings, such as Unity Biroji, Ostas Skati, Indi, etc. It is of particular satisfaction that for the companies operating in IT, pharmaceutical, finan- cial as well as other sectors, we succeeded in finding a new home for the leading Internet recruitment company CV-Online Latvia.
Supply and vacancy

At the beginning of 2018, the supply of available spaces on the busiest and most popular shopping streets in the city centre was similar to the trends observed in recent years, because retail trade is affected by the popularity of online shopping and the expansion of shopping centres.

The supply is mainly made up of the premises with an inefficient layout, a high share of unusable areas, high rent rates, difficult access and the lack of parking lots nearby. At the current demand, renting out of premises is rendered difficult unless the owner is not prepared to make improvements, offer rent discounts and cooperate with the prospective tenant.

The number of distinctly bustling shopping streets is declining, especially with the decline in the popularity of conventional shops. They are being replaced by the showroom/shop/cafe concepts, and overall, the diversity and number of the providers of catering service has been increasing.

Demand and trends

Overall, the demand for commercial premises in the centre of Riga as well as outside it was similar to that in the previous two years – it was steady, with a more pronounced seasonality in the spring-summer period. This is particularly relevant of catering companies that are looking for premises with a possibility of setting up a terrace and have a focus on tourists as well as the local enjoyers of summer evenings.

The demand is affected by fashion trends in Latvia and abroad, consumer habits and the desire to try out new things. Individual concepts are usually popular for two to three years, driving up the demand for suitable premises, as in the case, for example, of the escape room entertainment concept. Currently, there are various types of printing studios, design shops, including children's entertainment studios, virtual reality, science centres, trampolines, ball pools, etc.

Still, the location is the key criterion driving the demand. The largest demand is due to interest in commercial premises with a floor space of around 100 sq m in the city centre and in the old and the busiest and most popular areas: some sections at Tērbatas, Dzirnava, Elizabetes, Gertrude, Kalku, Audēju and Valju streets. There is a demand for premises in renovated, well maintained moderate size wooden buildings with historical charm. Despite the demand for modern premises, a special aura and the charm of the relevant building are regarded as the success and great customer service factors.

Although the demand for second-hand clothing/footwear stores has been declining in recent years, some of them still keep occupying the premises in good locations in the city centre and are willing to keep them. On the one hand, this indicates the financial possibilities of a certain part of the population, on the other, it is a way for one to be original, avoid purchasing boring clothing offered by chain stores as well as to follow a new trend – an eco- and zero waste lifestyle. It is expected that in the next few years, the business lines following the zero-waste principles would develop most. In 2018, three non-packaging stores for zero waste supporters have already been opened in Riga: Burka, Turza and Zeroveikals.

In 2017, along with the busy daily routine of city dwellers, demand for a small-scale grocery store has gone up, and in 2018, several of them were opened in central locations where there is a busy flow of people. The Rimi Express concept network has been expanding. Meanwhile, the Maxima chain of supermarkets opened its first Maxima Express shop in Latvia and also in the Baltic States at Merkela Street in the beginning of summer.

There is a continued demand for alcohol outlets in the city centre as well as in residential areas.

The demand from eco and bio shops has fallen. This could be explained by the fact that despite their popularity, they offer niche products at a higher price. Also, the assortment of these products is becoming more varied in conventional grocery superstores.

Supplementing the healthy food niche, there is a high demand for premises for sports facilities. The demand also exists from the providers of various medical services, whose needs are often difficult to meet because the premises are not suitable, nor do they comply with the requirement of a suitable environment.

Changes and tendencies in the retail space segment in 2017 and in the middle of 2018

- In 2017, the range of commercial premises at Kr. Barona Street was complemented with Costa Coffee, the design and champagne shop Modernists, and the book and stationery store Jānis Roze in a new format.
- In the beginning of 2018, a fast-food and convenience store KOOOL was opened in the central and busy section of Kr. Barona Street. It was previously known as a store, which together with a petrol station was opened at Augšēģatne last autumn. The company announced its plans to form a network of 40 shops. However, KOOOL at Kr. Barona street was closed at the end of summer after it found its new home at the beginning of the Tērbatas Street, near Vērmesdārzs.
- At the end of 2017, two more Rimi Express stores were opened: in the city centre (at Brivibas Street) and in Grizinkalns (at Pernavas Street), thus complementing the existing mini-concept shops located at Merkela Street and Grēcnieku Street.
- The second largest grocery store network, Maxima, has also been busy planning to open fast shopping stores in various places in Riga and not only in Riga. (The first Maxima Express shop was opened at Merkela Street, at the junction with Barona Street).
- Along with the replacement of the visual brand, Narvessen opened a new retail outlet not far from the junction of Valdemara Street and Elizabetes Street.
- The fitness club network My Fitness opened its branches at Matīsa Street (Bērnu pasaule and Galleria Riga), as well as took over the premises of the previously leading fitness club in Riga – Atlētika (at Barona Centrs, Zolitūde and Imanta). In Jugla, Lemon Gym will be opened where once Atlētika used to be. People Fitness has joined the existing fitness clubs.
- In addition to the existing range of children’s entertainment places, a new interactive centre for the whole family – Childspace – was opened on the ground floor of the office building at Grētūres Street 66. The playgrounds Annels will complement its network in 2018.
- In 2017, new venues that combine the functions of a store and a café, such as Bang Bang, Četras Zoles, the concept shop IMAGEHOUSE, etc. were opened in Riga.
In 2017, there was a slight rotation among catering businesses. However, the existing companies have been expanding, taking up more locations in Riga. For example, Vairāk saules opened a new dining hall in Māls, Lulu Pizza has also been expanding actively (in 2017, it opened a branch in Mēbeļu nams). Whereas, Čili pica and Hesburger network bought premises at Audēju Street in the Old Town opposite Gallerija Centrs last year.

Last year as well as this year, large-scale facade repair works of the building were observed, which is essential, because retailers do pay attention to whether or not the appearance of the building would be improved.

The restaurant/high-end catering business segment has been less dynamic compared to the segment of various cafe concept types.

Dzirnavu Street, between Valdēmāra Street and Antonijas Street has become a more distinctive section of the location of restaurants and cafés. In 2017, in addition to the existing ones, Rocket Bean was opened, whereas in 2018, Zivju Lete and Catch appeared. Epilogue was opened (and closed) in 2018. Whereas the premises of the former shoe/clothing store located at Dzirnavu Street/Tērbatas Street is now home to a dumplings eatery Handmade Kitchen.

In the services segment, the beauty industry has been on the rise, and new concepts for mini-cosmetics or hairdressing salons are being opened increasingly often. There are plans to open Skaistuma Vēstniecība (Ambassade de la Beaute) at Elizabetes Street 33.

At the beginning of Tērbatas Street, the boutique stores were complemented by women's fashion stores MAX & Co and MARELLA.

The branches of banks and other financial services in the centre of Riga have been closing at an increasing pace.

Rent rates

The year 2017 is over; in 2018 there were no significant changes in rent rates in the city centre.

The terms and conditions of rent rates vary, which occurs to factors, such as the configuration of premises, the size of shop windows or the absence thereof, the rate of unusable floor space, steps, and the lack of parking possibilities.

Rent rates have increased for certain premises that share the following common features: location, pedestrian flow, the quality of buildings and premises, shop windows, an ideal and efficient layout of the commercial premises. Lower rent rates and their declining has been observed for certain retail premises located mostly at A. Čaka/ Marijas and Brīvības Streets, as well as in the far downtown.

For commercial premises with a floor space of up to 75 sq m, depending on the layout and location of the premises, rent rates range from EUR 20 to 40 per sq m in the city centre and from EUR 35 to 55 per sq m in the Old Town.

For commercial premises with the floor space ranging from 75 to 150 sq m, rent rates vary from EUR 16 to 25 per sq m in the city centre and from EUR 20 to 50 per sq m in the Old Town.

For commercial premises with a floor space above 150 sq m, the rent rates asked vary from EUR 12 to 22 per sq m in the city centre and from EUR 20 to 50 per sq m in the Old Town.

Changes and tendencies in the popular shopping centres and supermarkets

Currently, some of Riga's largest shopping centres are undergoing the most significant changes in recent years. The works aimed at improving the concepts of these centres and expansion of premises were started in 2017 and will be carried on in the coming years.

At present, the visitors of the Alpha shopping park have to accept the inconvenience caused by the lack of parking to due to the works aimed at expanding the shopping centre to 100,000 sq m (by 30,000 sq m more than currently) in the autumn of 2019; new shops (Zara Home, Massimo Dutti, Stradivarius, House, Sinsay, etc.) and eating halls, as well as the fitness club My Fitness and children's entertainment area will be opened there.

In the summer of 2017, the Origo expansion project was launched aimed at the twofold increasing the floor space of the shopping centre Origo. The extension as well as the reconstruction of the existing Origo building includes both a significant increase in the floor area and improvements: more modern premises, a more varied selection of shops and eateries, a wider and more convenient underground car parking lot and an exclusive A-grade office centre Origo One (with a floor area of 11,500 sq m).

The shopping centre Domina is still being improved, which has been carried on since there was a change in the centre owners in 2016. Currently, there are no vacant spaces. Domina Shopping has announced its plans to open a new entertainment and recreation area of 7,000 sq m at the end of 2019, which is to be located partly in the current parking lot. It will host a cinema theatre and new restaurants, as well as an entertainment and amusement park.

Major changes in rent rates and the availability of vacancies are expected after the current expansion projects of shopping centres are completed, as well as after the opening of a multifunctional shopping, entertainment and office centre Acropolis in Kengarags, at Maskavas Street 257, where construction works are being carried out. The shopping centre with a floor space of more than 60,000 sq m, a Maxima XXX shop and diverse entertainment options are expected to be completed in 2019.

On 30 August 2018, with a great deal of attention from the public and the media, the Swedish furniture giant brand IKEA shop was opened in the Stopini county. The construction of it was completed within the set deadlines, and the buyers' activity is high and is expected to stay at the same level in the coming months. With the long-awaited arrival of a furniture and home merchandise retailer in Riga, the popularity of the area surrounding IKEA also increased among retailers and real estate developers. Undoubtedly, the opening of IKEA will impact the overall retail sales, particularly for furniture, household goods and dishware manufactureRs. IKEA products will pose serious competition to a number of the current market leaders. Also, the cafes in the store offer much cheaper prices than other catering places. Interest and activities in the vicinity of IKEA have been already rising, which is complemented, for example, by the expansion of Sky Mezciems, where the Annels playground with a floor space of more than 2,000 sq m is due to be opened. Developers are also more interested to buy land plots for the construction of commercial premises as well as residential premises.

At the end of 2017, the construction of Decco Centre was completed (at Katlakalna Street 6d) and the largest interior and design merchandise and decoration material quarter was opened in the Baltics. At the moment, Decco Centre has opened its own salon stores for interior and furniture retailers who have been previously located in different, not so convenient locations, such as Laura Ashley store, formerly located near the junction of Dzirnavu/Tērbatas Street.
Depo is contemplating the construction of a shop in Imanta, Kurzemes prospekts, where the former administrative office of the Radiotehnikas plant has already been dismantled.

In 2017, the retail segment was also affected by the reconstruction of the shopping centre Damme and changes in the tenants thereof, the opening of the Lithuanian brand Berry furniture store at Brīvibas Street 201 (with a floor area of 10,000 sq m), as well as the withdrawal of the Prisma network from Latvia, leading to an increased competition between the two leading supermarket chains – Rimi and Maxima. Maxima XXX was opened in Domina, which was followed by opening another Maxima XXX in Riga Plaza, whereas Maxima XX was opened at Grostonas Street 1.

In the autumn of 2017, the entrance of the retail chain Lidl to Latvia was approved, and the first store is due to be opened in Purvciems, at Dzelzavas Street 75b, it was purchased by the Lidl store developer MMS Property Solutions, who owns land plots also in other locations in Zolitude and Mezciems. Lidl also contemplates building a logistics base.

The Polish low-price retail chain well-known in Eastern Europe – PEPCO – announced its plans to enter the Baltic States market early in 2017. In March 2018, the first of the planned stores (the shopping centre TC Mežciems) was opened at Bikerniekus Street in Riga. PEPCO stores offer clothing and household goods at affordable prices. The shop has attracted the buyer’s attention from the very beginning. This was followed by shops in the shopping centre Zoom and Riga Plaza. Overall, 12 stores would be opened in Latvia in 2018.

After opening its first stores in Bērnu Pasaule and Mēbeļu nams in Purvciems, the fixed-price chain-store Fixed Price has also been proceeding with the expansion of the network.

As regards renting out retail premises, Kivi Real Estate’s team is one of the most dynamic and experienced teams not only in Riga but also in regional cities. In 2017, a number of interesting events were added to the statistics of successful deals. Among them – the opening of the store Jysk in Daugavpils as well as the first stores of an international low-price chain in Riga. There have also been changes in the streets of the Riga centre, e.g., the pharmacy Latvijas Aptieka has moved to new premises, moreover – the new popular catering companies – Rocket Bean Roastery and Catch have opened their places in Dzirnavu Street.

INDUSTRIAL PROPERTY MARKET REVIEW

Supply

At the beginning of 2018, the total supply of modern industrial spaces in Riga and the neighbouring areas amounted to approx. 945,000 sq m, whereof 75% were available for lease, whereas the remaining 25% were available for own use by businesses. In 2017, new spaces with a floor area of only approx. 23,000 sq m were added to the industrial space market. Thus, compared to 2016, the number of new buildings put into operation has increased by 15%. The total annual increase has remained low despite the low share of vacant premises.

The most significant addition was “PS” Ulmaņa gatve industrial park with a floor area of 14,000 sq m at Marupe. (At the beginning of 2018, the developer and owner thereof Piche sold itto the Swedish real estate fund East Capital Property Fund III.) Considering the relatively small area of the premises commissioned in 2017, no such considerable turnover of tenants occurred, which would have a significant impact on the industrial space market.

The offered industrial premises that have not been leased out for a long time have an insufficient number of gates and ramps, separating which among several tenants is rendered difficult. They are usually suitable for specific industries. The premises may also represent poor quality or unreconstructed spaces, which have once been created for specific industries. The supply of these, however, declined in 2017, too, because they are occupied after their quality is improved.

The supply is clearly short of warehouse premises with a floor area of 700-2,000 sq m in Class A and Class B in Riga and nearby Riga.

In January 2018, the share of vacant premises declined compared to January 2017, reaching 3%.

New industrial projects

In the future years, a significant increase in modern industrial spaces is expected in Riga and nearby Riga compared to 2017. At present, industrial premises with a floor area of approx. 60,000 sq m are at the construction stage, whereof 75% are being constructed for lease without entering into preliminary lease agreements.

In turn, there are industrial projects of more than 200,000 sq m at the design stage in Riga and nearby Riga. Among the contemplated projects there are new industrial parks for lease, the expansion of the existing parks, as well as a number of ambitious projects. For example, RIMI Baltic logistics centre at Augusta Deglava Street, LIDL logistics centre at Dreliņi and DEPO logistics centre at Dreliņi. The construction of a number of pre-contracted tenant projects tailored to specific needs are also being contemplated.

There are more such developers, which are ready to start the construction of new projects without entering into preliminary lease agreements, thus potentially contributing to the growth of the supply of modern industrial premises in the forthcoming years. Similarly, the interest of businesses in acquiring land plots for the construction of the industrial buildings of their own has also significantly increased.

Demand

• In 2017, the warehouse and production facilities segment experienced a slow growth.
• A significant activity in the market was created by logistics companies, the segment characterised by activity and an influx of new customers.

However, overall, in 2017, the demand also grew in other segments, such as light manufacturing, services, retail trading, services provided in Riga, nearby Riga and also in the Baltics.
The factors driving up the demand is not only the need of larger spaces but also the modernisation of businesses, improving competitiveness and the efficiency of processes, merging of offices and warehouses.

In general, the tenants’ confidence, and hence the demand, has also been boosted by greater confidence and optimism about their business as well as the economic upsurge.

The demand for modern warehouses and production facilities was mainly driven by the branches of foreign companies and successful local companies.

As economic circumstances in the main export markets were improving, exporting companies continued to expand within the existing buildings and complexes. The said circumstances contribute to the activity of developers, by evaluating the opportunities for expansion and for developing new projects.

The foreign companies that have not been represented in Latvia yet, keep an eye on Latvia as a location for setting up their production and warehousing facilities, however, in 2017, no significant new companies entered the market.

The largest demand is for modern warehouses and production facilities with a floor area of 500 - 2000 sq m in Riga and nearby Riga. The next most demanded industrial floor space area is starting from 10,000 sq m.

The most popular locations among industrial tenants are the places nearby Riga (Dreiliņi, Mārupe, Stopiņi county) and the vicinity of Katlakalna/Lubānas streets. There is some demand in Ķekava, Olaine, and in Ādaži and Salaspils.

New industrial projects

In 2017, the rent rates of Class A and B industrial spaces remained largely unchanged compared to the previous year, whereas the rent rates of the facilities of poorer quality continued to decline. Rent rates have remained high for such modern facilities, which have been adapted to the needs of the tenants in locations with well-developed infrastructure. Compared to the previous year, more lease agreements have been entered into at the maximum rent rates referred to below.

- Rent rates for Class A spaces: ranging from 3.50 to 4.60 EUR/sq m;
- Rent rates for Class B spaces: ranging from 2.85 to 3.50 EUR/sq m.

Key transactions in 2017

The following transactions may be regarded as the most significant transactions in 2017: the Rimi warehouse with a floor space of 20,000 sq m at VGP industrial park at Ŷekava, Venipack 5,000 sq m – PS, Wellman 2,300 sq m – Dominante Park.

Trends in 2018 and forecasts for 2019

- The rent rates for Class A premises is expected to rise moderately, as landlords will take the advantage of the short-term supply shortages and the expansion needs by tenants on the demand side.
- Smaller tenants may need to look for new premises due to anchor tenants expanding within the logistics centres.
- Preliminary agreements would be entered into for such new warehouse facility complexes, which are expected to be commissioned at the end of 2019. These developments will affect the market activity and may reduce the number of transactions, while companies will take a “wait and see” approach as well as take temporary optimisation measures.
- The rates will continue to decline for warehouse and production facilities built under the Soviet times owing to a large number of similar offers.
- The growing construction costs will require companies to review their plans to buy land and build warehouses to accommodate for their own needs. Some of these customers might return to the rental market.
- The leading logistics companies will continue to attract new customers and expand, causing an increase in the demand for modern logistics facilities.
- The construction works of the first new logistics centres is expected to be started; announcements of new projects to be launched in 2020 and beyond is expected, too.

As regards the industrial premises rented out in 2017, Kivi Real Estate has been successful in cooperating with international logistics companies, as well as in being particularly actively involved with strong local manufacturers that were looking for specific premises. Also, the preliminary lease contracts have been signed for premises in the buildings that have not been built yet.
INVESTMENT TRANSACTIONS IN THE COMMERCIAL PROPERTY MARKET

Whereas 2016 was marked with a record-high amount of the largest investment transaction carried out in Latvia (over EUR 90 million), the largest transaction in 2017 was carried out for a considerably lower amount, i.e., approximately 36.6 million euros. In the urban environment, one of the possibly most significant sale transactions of investment objects was the sale of Preses Nams and the territory thereof (EUR 16.8 million). In 2017, approximately EUR 145 million were invested in objects with a view to generating rental income, whereas a larger amount – over EUR 200 million were invested specifically to purchase land and buildings for reconstruction. In 2017, the average amount of investment property purchase transactions was around EUR 3 million.

The total amount of investments is lower not because investors are not interested in making investments in Latvia, but due to the lack of an adequate supply. A downward trend indicates that the best investment objects have already been bought during the previous years, rather than suggests pessimism or crisis. In addition, in Latvia, the variety of supply is less diverse than in Estonia and Lithuania, because after the crisis, the property development projects were resumed later and also at a slower pace. Therefore, the transactions currently occurring are mainly related to the buildings built before the crisis.

Demand

In 2017, the demand for prime assets in office buildings, industrial facilities, shopping centres and supermarkets exceeded the supply. Stratifying has begun within the Baltic market; all of the professional large-sized prime assets have been slowly passing into the hands of a small group.

The demand for the objects intended for development, including in the residential project segment has been growing. There is a high demand for the facilities suitable for grocery store chains as well as for worthwhile and economically justified industrial development objects.

In 2017 as well as this year, real estate investors have been buying not only leased out objects, but also the buildings requiring reconstruction and land plots for the property development.

Demand by segment:

• Shopping centres or supermarkets – such, where the anchor tenant is one of the two currently largest grocery chains in Latvia. (Interest about superstores with other leading grocery stores is also expected);
• As for offices, Class A and Class B buildings are still in demand;
• Industrial – the high-end, modern industrial parks.

Supply

In 2017, certain trends emerged indicating that Latvian investment market has been undergoing changes. Investors are forced to adjust to the circumstances, buy unfinished objects or objects that require improvement rather than such objects, which have been put in order and generating cash flows. Investment funds have also been buying land plots and developing projects in the segment that they are best familiar with or for which they expect a future demand.

Changes in rent rates would affect the activity of investors. A growing market might trigger interest in selling objects or starting reconstructions. Considering the growing construction costs, rent rates are likely to rise.

• It is expected that investors that had not been engaged in the development of objects so far might buy objects that require reconstruction or redevelopment.
• More transactions may occur outside Riga, i.e., in regional centres, for the most attractive objects available there.

Trends in 2017 and the part of the 2018

• In 2017, there were no dynamic changes in the market. It was stable, and stability has been continuing in 2018.
• There was an increase in amount of transactions of the sale of land plots, development objects and property that requires reconstruction.
• There were no significant changes in the rent rates in any segment, which motivates institutional investors to buy more expensive, lower-yielding property that has a potential rental revenue growth.
• The location in Riga and Riga vicinity is still the key factor. The demand is lower in regions, which is supported both by the availability of the workforce and demographics, as well as by concerns about the liquidity of the relevant object.
• Fewer transactions from the end-users are expected, which is due to the lack of a suitable supply. Consequently, the demand for land has been increasing.
• Up until 2015, end-users had a good chance of finding suitable real estate assets. End-users are now ready to buy land or invest in reconstructions, which might force developers to take decision in favour of the BTS projects because not all end-users are prepared to assume the organisering of the construction of a suitable building.
• Changes in rent rates would affect the activity of investors.

Among the investment transactions carried out in 2017, the most significant transaction carried out by Kivi Real Estate commercial property team was the selling of five grocery superstores to a private investor group. Several industrial objects have also been sold to end-users as well as investors. For example, an object at Dzelzavas Street 124, previously known as the Onninen building.
Key investment transactions in 2017 and 2018

<table>
<thead>
<tr>
<th>Name of the property, Address</th>
<th>Type</th>
<th>Price, EUR, million</th>
<th>Seller</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>t/c Mežciems, Biķernieku 143</td>
<td>Retail</td>
<td>8.4</td>
<td>VHP</td>
<td>Prosperus capital</td>
</tr>
<tr>
<td>K SENUKAI veikali</td>
<td>Retail</td>
<td>NA</td>
<td>KSENUKAI</td>
<td>W.P. Carey</td>
</tr>
<tr>
<td>Ostas Skati, Matrožu 15</td>
<td>Office</td>
<td>8.4</td>
<td>Ostas Skati SIA</td>
<td>Capital Pro</td>
</tr>
<tr>
<td>Olaines Loģistikas parks</td>
<td>Industrial</td>
<td>31</td>
<td>Sirin</td>
<td>United Partners Property</td>
</tr>
<tr>
<td>Maskavas 462</td>
<td>Industrial</td>
<td>8.8</td>
<td>Baltkorts</td>
<td>New Hanza Capital</td>
</tr>
<tr>
<td>Latvijas Valsts Meži, Vaiņodes 14</td>
<td>Office</td>
<td>21.3</td>
<td></td>
<td>Northen Horizon</td>
</tr>
<tr>
<td>Preses nams, Balasta 2 K-1</td>
<td></td>
<td>16.8</td>
<td>LASCO Investment</td>
<td>Lords LB</td>
</tr>
</tbody>
</table>
Generally, the work force has been declining in Latvia as well as in other European countries, except those that have a large number of immigrants and migrant workers, such as Germany, the Netherlands, Sweden, the UK, etc. In Latvia, the work force has been declining quite prominently, i.e., by at least 10,000 people annually due to demographics and emigration. Right now a positive tendency is emerging – the emigrants have been returning to Latvia due its economic growth in recent years.

We can expect and there are already signs that the most energetic employers address and recruit young people without experience. In the past, it was much harder for young people to land their first job. It will also be easier for people over 50 to find a job because employers will prefer to keep the domestic work force reserve before thinking of attracting employees from other countries.

Although finding employees in Latvia is becoming much harder, the situation here is not as dire as elsewhere in Europe where the unemployment rate is even lower. For example, the unemployment rate in the Czech Republic is below 4%, which impedes economic growth, and the share of companies that find it hard attracting employees has been increasing year from year. According to CV-Online research data, more than 60 percent of Latvian companies acknowledge that over the past year, it has been much harder to find employees than the year before.

The situation is becoming more challenging in staff recruitment as well as human resource management. Keeping the employees in the company, maintaining their satisfaction and the employer’s image are topical questions.

Currently, employees have a higher bargaining power than employers. In addition, great professionals cost more. When competing for employees, having easily accessible information is key – providing information about the location of the office, the environment and team on the social media. From a job seeker’s point of view, the most viewed job categories on CV.lv are finance, assistance, administration and management.

Young people, the so called, generation Z, require a different approach. They change their jobs frequently. On average, they spend one to two years with a single employer. Consequently, the companies should expect that it is unlikely that the costs related to these employees, or their training will be a long-term investment. If the work environment is not appealing to them, they would be willing to change jobs, in search of a better environment and additional benefits. The modern work environment has to be interesting, entertaining and related to new technologies.

Existing companies are looking for growth opportunities and are dynamic in seeking employees. Each year, new companies are set up in Latvia. Various international companies also enter the market. A large part of our experience is related to recruitment projects for various service centres (BPO, SSC), where hundreds of employees are needed to perform mainly customer or business support functions. In light of the huge demand for employees, these service centres often encounter difficulties in finding suitable class A office premises in a short period of time.
Latvia has the largest share of Russian-speaking population among the three Baltic countries, which has been the determining factor for many service centres to open their company in Latvia. People growing up in a bilingual environment and speaking both Latvian and Russian have many advantages in the job market. An average employee in the Baltics speaks three languages, which is comparatively more than in the mature European countries, where the majority of people speak up to two languages. Overall, people in the Baltics are more hardworking, willing to invest more in their work and work longer hours. However, often that does not go hand in hand with productivity, which is higher in Western European countries.

Service centers are a popular workplace for young people due to offering great career opportunities, working in a service centre is regarded as a more prestigious job than employment in retail or catering. Experience is not the decisive factor when applying for a job in a service centre. What really matters is communication and language skills, including the most popular ones, i.e., English, Russian and German as well as Scandinavian languages. The remuneration of a service centre specialist with Scandinavian language skills is by 20-30% higher than for someone who only speaks English or Russian. Specialists with Scandinavian language skills are in high demand and difficult to find, so the companies host foreign language academies that train in the particular Scandinavian language and offer a job position after completing the courses. Similarly, in the IT sphere companies organize training in programming training with a guaranteed job offer after completing it. The key is motivation and interest, the ability to sell yourself in the job market, and the desire to grow and learn.

A high activity has been also observed in the retail industry, where the existing companies have been active in seeking to expand their operations. New players are entering the market, offering hundreds of new jobs. The retail industry is characterised by a significant labour turnover, which results in a regular demand for employees in this field.

The new retail companies entering the market mainly attract employees with higher salaries and additional benefits. Salaries in the retail industry are expected to rise very rapidly because the demand for employees will only grow. In the next 2-3 years, the average salary of a shop assistant might grow from the current 500 to 700 EUR net per month. Landing a job with a shop of a new brand is an opportunity to escape the routine and experience a different company culture. However, the decisive factor is still a higher salary. In a more distant future, the demand might decrease as it will be affected by an increasing use of technologies in the processes of companies, similarly as with the current self-help checkout systems.

The job market studies show that overall, the salary is the key criterion in choosing the employer, yet it depends significantly on the job position and the current employment status. Importance is attached to factors, such as, a modern work environment, the location of the office, the company’s culture, peers and management, and career growth opportunities. It is increasingly important for employees that the company commits to their work/life balance through offering the employees an opportunity to work remotely, flexible working hours as well as through granting additional leaves. The “clean desk” principle where the employees do not have a specific desk or place in the office and have the opportunity to work remotely and is not required to be in the office regularly will become a growing trend and gain importance for many companies. This will allow employers to preserve the existing office premises and use them most efficiently.
There is definitely room for new shopping centres in Riga. They would offer opportunities for a
number of brands, which are willing to operate in shopping centers but have not had the chance
to do it due to the limited offer.

Chain stores occupy a certain geographical area. One cannot say that many popular
chains have been entering the market through very energetic activities. Riga is a logical
choice due to its location in the Baltics. (That’s why opening the IKEA store in Lithuania first
was surprising in a way.)

In 2017, the overall tenor in the retail industry was “no development”. People were happy
because the inflation growth rate remained steady within the 4-5 percent margin, which is a
good indicator. There were no significant leaps. The dominant companies were getting stronger,
other companies started cooperating, the concentration of Latvian companies continued, and
new brands were emerging. The turnover of objects-brands at the rate of 5-10% p.a. is normal.

Unfortunately, the problem in our country is that the ‘whips’ are used and implemented for the
benefit of certain interest groups, allowing them to profit. Let’s take certification regulations for
cash registers as an example. The drastic administration methods applied were not based in
logic.

Although today’s situation cannot be compared to the crisis period, there is an increasing
number of empty premises in less economically viable locations. Naturally, small businesses
cannot survive if they comply with all legal requirements and tax policies.

Overall, Riga lacks adequate shop premises in locations with a high flow of people. The big
networks have their own specialists who monitor the available free spaces or the opportunities
to replace the tenants, thus finding themselves in a more privileged position.

The Riga City Council should put more effort in developing Barona Street for it to become the
longest shopping street in the Baltics. That would add to a balanced city development with a
central part and a collective offer for customers. I see it as a shopping and entertainment street
because it is a wider street, it has been architecturally designed for shopping, and it also has a
larger share of window displays. Barona Street begins with the shopping centres Origo and
Galerija Centrs; Domina is on the other side, where a pedestrian walk might lead across the
railway line in the future.

Theaters, museums and concert halls are located on Barona Street. It is possible to promote the
name of Krišjānis Barons (for example, say, by displaying folksongs (dainas) in three
languages), i.e., tourists would have an additional tourism object. The street can be accessed
easily from both sides. Right now its potential has not been tapped. It should have a single
owner – in the form of an association (society).

Tērbatas Street is not well-suited for shopping and pedestrians because it starts and ends with
“nothing”. Many buildings are not suited for retail trade purposes. There are no big shopping
spots. Moreover, a large number of parking spaces would be lost if the street were closed.
Conversely, Vaļņu Street might be well suited for catering services.
Unfortunately, the local retail scene has been destroyed. There are no local players with a stable segment, who are taking active strides towards an external market. These are individual merchants, but not chain stores in a broader sense. Latvia has imposed such regulations that other countries have not, administration costs are higher, hence higher prices. Lidl will be able to dump prices. Sadly, the State has supported the granting of business tax relief to newcomers rather than local businesses. The cases of Rimi and IKEA were similar. Supporting foreign investors at the expense of local taxpayers is not right.

Large companies (groups) must develop differently. The population is declining, so the groups are tasked with seeking extra income. Globally renowned concepts are used to accomplish this goal, for example, by opening mini grocery stores (Rimi, Circle K, Maxima.) Maintaining diversity in retail trade to ensure a wide range of offers is very important as is continuing to provide opportunities for small local businesses to sell their products.

The main cause of the tenant turnover is a wrong business plan or inability to cover the tax/maintenance costs. New stores, of course, are also being opened with a view to maintaining them as a source of activity rather than to earn profit.

The national tax policy is not friendly towards a mass consumer. Administrative requirements are burdensome, e.g. the expenses associated with the cash register reform. Simpler and more affordable solutions are possible.

Merchants and service providers have limited opportunities for development. This explains the inability or unwillingness of some companies to pay taxes. Eradicating shadow wages appears to be difficult. Therefore, not all new ideas can flourish because employing an employee in Latvia entails huge costs.

The VAT rate applicable to catering companies is harsh on consumers. Typically, countries reduce it because according to some social standards, everyone must be able to go to a café or a restaurant once a week. The daily lunch offers in Riga are also relatively expensive.

Furniture production industry in Latvia is underdeveloped, it is rather a luxury segment. Some of the furniture manufacturers are already providing services to Ikea. Thus, eventually, the current logistics companies will lose their customers, who up till now used their fright-forwarding services. Ikea catering service with its lower prices might out-compete the surrounding caterers.

People increasingly more value their time. They spend their time in the virtual environment and become less mobile because the range of offers on the Internet is growing, and online shopping is becoming more convenient. However, various services like grocery and clothing retailers will definitely stay as a part of the traditional retail trade.

There will always be people who look for brand products and consume them, even though a brand and quality are not interchangeable parameters. Generally, however, there is a demand for low-priced goods in Latvia.

The main event of 2018 (and 2019) was (will be) the entering of the Latvian market by three new operators – Lidl, IKEA, and Pepco. It will be exciting for consumers, whereas other merchants will be able to learn something new. One of the benefits for the consumers will be lower prices and savings due to price dumping, until such time as these companies acquire the coveted market share.