The recently opened Nodrika

Large scale pipeline developments mark the Baltics retail landscape

Alex Webber

The gentle upward trajectory enjoyed by the economies of the Baltic States has been mirrored by a lively retail sector that continues to steadily expand. While the number of new projects has remained relatively modest, those that are being implemented have proved to be ambitious in both size and scope, thereby mirroring a maturing market that learned painful lessons during the crisis years – and the news hasn't just manifested itself in bricks and mortar, but also in pipeline developments that suggest a bright future.

"The retail market has remained buoyant, allowing developers to plan and announce new large-scale developments, expansions and refurbishments in all three Baltic capitals," said Maksim Golovko of Colliers International.

Just outside Tallinn, that meant the June launch of the 15,000 sqm Viimsi Market, the fifth shopping centre to appear in what has been previously described as "Estonia's richest parish". And in spite of misgivings that the Tallinn district is facing saturation, stock continues to be added. Of the developments that have broken ground, with a footprint of 130,000 sqm and a GLA of 52,000 sqm it is T1 that is perhaps the most anticipated. Due for completion in Q3 of 2017, the €70 million project will include space for 200 retail units and will play a key role in the creation of a new "centre" for the city – the bold plans include a tram link running to the airport and an international rail terminal.

This is not the only development that is forthcoming: Capfield, who already own six cen-tres in Estonia, plan to extend the Norde and Lasnamae Centrum, while also adding to their portfolio with the 2016 opening of the RAE Shopping Center. Set in one of the fast-est growing residential areas around Tallinn, and with a wider catchment area of 400,000 people within a 30-minute drive, the 20,000 sqm scheme will be a major retail destination hub positioned right at the mouth of one of the major entry points to the Estonian capital.

A similar situation is being played out in Lithuania. "Investors have continued to show great interest in successfully operating shopping centres, and while the supply of new projects has not been huge, developers are starting to implement projects on a larger scale," said Saulius Vagonis of Ober-Haus.

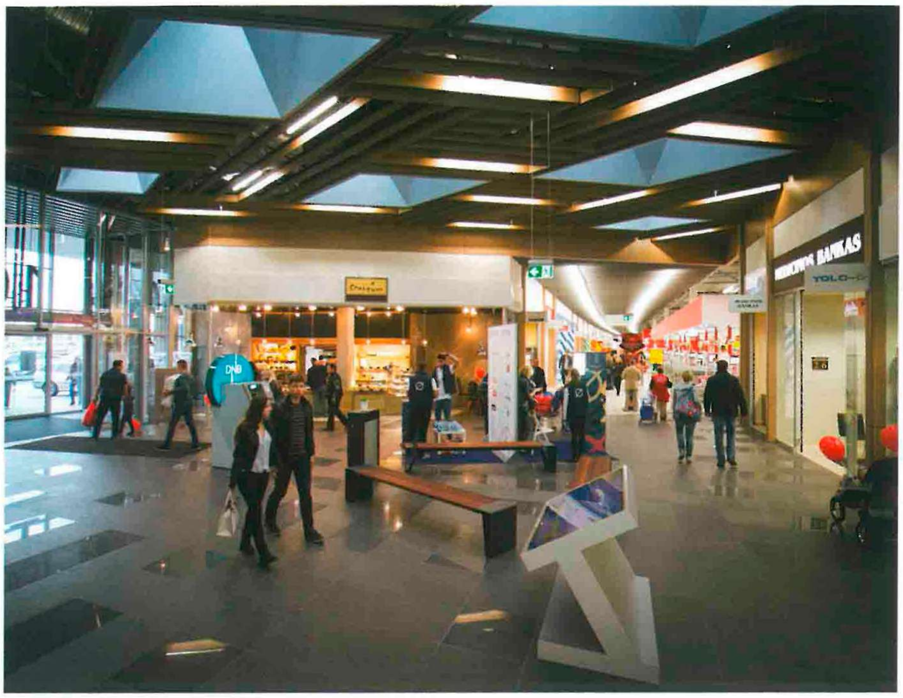
In Vilnius that has been demonstrated by the October opening of phase one of the Nordika Shopping Valley. The first significant launch in six years, the €50 million complex will eventually tout a GLA of 40,000 sqm once phase two is finished in Q2 of 2016. Hoping to attract consumers from as far afield as Minsk, Nordika is expected to transform southern Vilnius, thanks to a tenant base that includes several new entrants to the Lithuanian retail market.

"Nordika Shopping Valley isn't just for local resident, but a destination for families from other parts of Lithuania as well as neighbouring countries – we expect foreign visitors to make up a significant share of our buyers," said Peter Gage-Morris, CEO of the principal investor. Its completion makes it the 25th shopping centre to open in Vilnius, bringing the total GLA in the city to 439,000 sqm.

Beyond Nordika, vacancy rates have remained low in Lithuania, more so in the popular shopping centres, leading to a slight increase in rents, though mainly the market has been defined by its stability. If there has been a trend, it has been the subtle shake-up of the tenant mix.

"Shopping centres have been actively adjusting this with international and local brands expanding in the market," said Dmitrijs Kacalovs of Colliers. "This expansion into the retail market has mostly been related to clothing and catering services. For example, McDonald's, Subway and Cili, whilst new brands such as Samsung have also entered the market."

With no large shopping centres opened outside the capital, the GLA in Lithuania's other principal cities remained at 221,000 sqm in Kaunas, 163,500 sqm in Klaipeda and 109,700 sqm in Siauliai.



Nordika interior

The market has been sluggish but stable in Latvia, though a marked improvement since 2014 when only one shopping centre – the 7,200 sqm Maxima XX – was delivered, thereby bringing the nation's retail stock to 627,400 sqm: 380,000 sqm in shopping centres, 214,600 sqm in big box developments and 32,000 sqm in department stores. As things stand, the market awaits news on two big developments that have both been postponed in the past. First, Riga Akropole, a 60,000 sqm retail project with an additional 7,400 sqm of office space as well as a wealth of facilities that would include an ice skating arena, a food court with the capacity to hold 1,2000 diners, bowling alley and multiplex cinema. However, construction on the €100 million investment is not expected to start until Q4 of 2016.

Equally frustrating have been plans for the Daugavgrivas project, a multi-functional development with over 90,000 sqm of space earmarked for retail and a lavish entertainment centre. Also priced at about €100 million, the scheme has faced repeated setbacks over the years, and it's now widely understood that construction won't begin until 2018 – but even if the latest plans do actually materialize, work will be conducted over several stages and would be split over the course of six to seven years.

Therefore, and in place of new developments, the Latvian market has been characterized by renovations. "The major shopping centres are still making improvements and changes," said Saulius Vagonis. "For example Linstow Centre Management, one of the key local market players, are planning to expand their two shopping malls: Alfa and Origo."

These plans include the extension of Alfa by approximately 11,500 sqm and the expansion of Origo with a new wing six or seven floors in height. Of the 40,185 sqm of total floor space, 15,750 sqm space would be for retail purposes. With work forecast to begin in the imminent future, the Alfa expansion is scheduled for completion in Q2 2017, while the new-look Origo is set to be unveiled the year after.

With memories of the economic crisis still fresh – when Riga's vacancy rates rocketed to horrific levels of just under 20 percent – the current statistics make for pleasant reading. Currently wavering around the 2.5 percent mark, demand for units, especially those in well-performing shopping centre, remains high. "There is still a very high demand for spaces in shopping centres, most shopping centres are nearly fully leased with minimal vacancy rates," said Saulius Vagonis. "The vacancy rates at the largest shopping centres at the beginning of the year were 0 percent at Spice and Spice Home, 0 percent at Alfa, 0.3 percent at Mols, 2.6 percent at Origo, 1.9 percent at Galerija Centrs, 2 percent at Riga Plaza, 2.7 percent at Dole and 0 percent at SC Domina."

With the economy in general looking reasonably robust the Latvian retail sector is expected to continue to grow steadily. "Retail stock will be supplemented by a number of hypermarkets, and we also expect demand for retail premises to remain high, however, in the context of the low vacancies, the activity will most probably materialize in additional improvements to tenant mix as well as the creation of new concepts for existing brands," said Deniss Kairans of Colliers. ■

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