

INVESTMENT MARKET

The capital market in Estonia continues to see a hiatus in activity, although finalizing of several deals is still expected in the coming months. The most notable deals in Q3 2020 included the sale of the newly completed Ilunurme tee 2 industrial building and the acquisition of the Stock 101 Stock Office by Stevorte. EFTEN Capital announced the establishment of a new fund that will invest in rental apartment buildings in the Baltic States. The first planned and committed investment of the fund will be a residential building with 112 apartments and 93 parking lots at the Kadaka Metsapark development in Tallinn, to be completed by autumn 2021. Prime yields continued to remain rather stable with some upward movement registered in the retail segment.

Key Investment Figures in the Baltic States, Q3 2020

Prime Yields	Estonia	Latvia	Lithuania
Office	6.1%	6.2%	5.8%
Retail	6.5%	6.8%	6.75%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

In Latvia, investment volume in Q3 2020 reached EUR 90 million. The most notable deal included the acquisition of the Citadele bank HQ by Lords LB Baltic Green Fund, which was the second office transaction this year. Activity with hypermarket-type retail objects also continued in Q3 - Lords LB sold Rietumu Centrs in Liepaja to the Lusins family; while Avenū Centrs in Daugavpils was sold by Ditton Nams for EUR 5.2 million to Megarons (a company related to grocery chain Mego); and East Capital sold the former Prisma Deglava building to K47. Redstone Boutique Hotel in Riga Old Town was sold for EUR 1.72 million. Activity in the development segment remains low since the start of the COVID-19 outbreak - transaction volume with development properties during the last two quarters decreased by 65% y-o-y. Even though transactional evidence is not yet available, market sentiment brings prime retail yields closer to 7.0% (6.8% in Q3), while prime industrial yields might be compressing towards 7.5%. Prime office yields remain at 6.2%, though for landmark properties investors are still ready to pay a premium.

Q3 2020 was quite active in the Lithuanian investment market with total investment volume reaching EUR 103 million. Eastnine acquired the office part of the Vilnius Vartai property for EUR 20

million. EFTEN Capital acquired the Atea administrative building for EUR 11.8 million. Lords LB Asset Management completed the acquisition of Vilnius central post office at Gedimino Avenue for EUR 11.22 million. Tuma acquired administrative and retail premises at Dominikonu St. for EUR 3 million. Estonia-registered company Ballena Blanca purchased the former Citadele HQ for EUR 2.75 million – the building has been leased to a school. Activity in the office segment in other cities included the sale of Laracija BC in Klaipeda to Krantina for EUR 3.65 million, and the sale of the former SEB Bank building in Panevezys to Gedsta. Additionally, Lietpak acquired the former Cola Cola factory in Alytus for EUR 1.2 million, while Domestique Asset Management sold a newly constructed factory in Akmeņe FEZ to VMG. The hotel segment saw the sale of the 3* Conti Hotel for EUR 4.3 million. Market sentiment denotes an increase in prime retail yield due to a more conservative attitude.

OFFICE MARKET

Development in the Tallinn office market remains active with a total area of approx 73,360 sqm (10 projects) under construction. Q3 2020 saw completion of the Pharma Plaza and Ellips Maja in the Veerenni district of the city centre, and the start of construction work on several new projects, incl. the Büroo113 Office Building in the city centre and the M33 project in Pirita. Additionally, Kawe started preparatory works for construction of Kawe Plaza 2 in CBD. Demand remained rather calm in the summer months (seeing some hike in the number of enquiries in September), being continually driven by relocation of existing tenants. Lowered demand coupled with new supply added to the market has led to an inevitable increase in vacancy up to 8-9%. Vacancy in new buildings completed in 2020 amounts to ca 40%. Short-term lease incentives are very likely to continue throughout 2020.

Key Office Figures in the Baltic States, Q3 2020

CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	14.0-17.0	14.0-16.0	14.5-17.0
B1 Class Rents	9.5-14.5	10.0-14.0	9.0-14.0
A Vacancy*, %	7-8%	29-31%	5-6%
B1 Vacancy*, %	8-9%	17-18%	5-6%

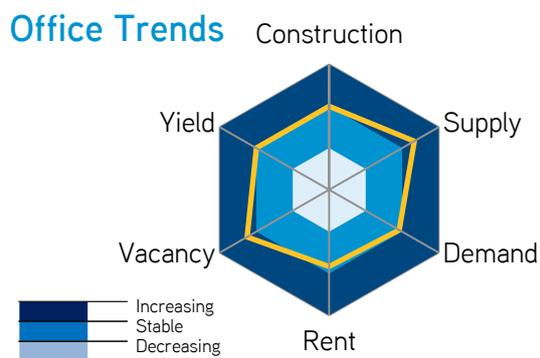
Source: Colliers International EUR/sqm/month; *-speculative office market vacancy rate

In Q3 2020, Hanzas 2A, a small boutique style office project, was delivered by LNK to the Riga market. Even though the Riga office market remains quiet, some development projects continue to make

progress: 1. Lords LB started demolition of the older buildings in the Preses Nams Quarter; 2. Vastint announced a tender for the contract to build the II stage of Business Garden Riga (3 office buildings); 3. Eastnine received a construction permit for The Pine project (the first WELL certified office in Riga). As several companies have been downsizing and relocating to smaller units and/or less expensive premises, vacancy slightly increased. Still, if vacant premises in the Z-Towers building were to be excluded from vacant stock, then speculative Class A vacancy would decrease from more than 30% to less than 15%. Rents remain stable, though increasing supply puts downward pressure on rents and gives tenants more negotiating power.

In Q3 2020, the Vilnius office market recorded completion of four new developments - Business Stadium North BC (Class A) and Class B1 business centres - U219, Uptown Park, and Wave - which altogether delivered a total of 53,500 sqm of leasable space. The development market remained buoyant with a pipeline of 221,100 sqm under construction at the end of the quarter. The lease market observed some movement by the public sector. State-controlled energy company Ignitis Group selected Business Garden Vilnius for

its new office (a preliminary 10,500 sqm). The Migration Department signed for 1,480 sqm in the former Telia administrative building, while Lithuanian Railways leased 1,300 sqm at U219 BC. Office rent rates continued fluctuating within similar ranges. In connection with new supply presented to the market, vacancy grew to 5.5% on average at the end of the quarter.



Source Colliers International

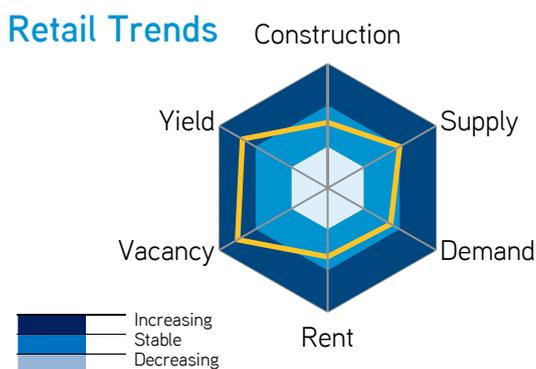
RETAIL MARKET

Retail continues trying to recover from the severe shock to the sector caused by the COVID-19 outbreak. Footfall in some of the Tallinn SCs in July and August has even started to exceed last year's results, especially in SCs located next to residential areas. Still, Old Town and City Centre continued to suffer from a considerable fall in tourist numbers. New mid-size developments in Tallinn include grocery-led projects Linnamäe tee 95 (4,700 sqm) and Liiva tee 61 in Tiskre (4,000 sqm). Demand is largely driven by catering providers that opened several new / smaller locations in Lasnamäe Centrum, Nautica, Solaris, and Ülemiste Centre. Rahvaraamat bookstore closed in Rocca al Mare SC and will be replaced by Apollo bookstore. Additionally, Apollo, the largest entertainment provider in Estonia, is looking to acquire Forum Cinemas. New lease deals closed in Q2-Q3 2020 often include some incentives offered by landlords, e.g. a 20-30% rent discount during the first year of tenancy.

The retail market in Latvia is currently recovering from the lockdown period, and even though sales in a few places are almost back at last years' volumes, some retail concepts have suffered more.

Thus, Riga street retail vacancy amounts to around 20% (concepts that worked for several years have recently been closed), while vacancy in shopping centres reached 6.1%, the highest level since 2011. As only a few companies are ready to open new locations, leasing of vacant units will be challenging and time consuming. Sāga home & lifestyle shopping centre (by VPH) next to IKEA is due to open on November 10th. This is going to be a non-fashion centre with a kindergarten, office premises, modern food court and new brands such as Decathlon, Hortes and Jahipaun. Lidl opened its new logistics centre and announced over 1,000 new job vacancies all over Latvia, indicating that the opening of the first Lidl stores in Latvia might be expected in Q4 2020.

In Q3 2020, the Vilnius retail market saw expansion of the DIY segment, observing completion of a new Moki-vezi store. In addition, Senukai announced plans to construct a store next to Vilnius Outlet. Dakus is reviving the Olinda SC project and started ground works, with planned completion in Q3 2021. The four-storey centre will offer 31,700 sqm retail premises for tenants including Ermitazas, Maxima, and a gym. Retailers continue improving e-commerce solutions, with Kesko Senukai investing in parcel terminals, Rimi offering delivery subscription, and Varle.lt expanding in the Lithuanian regions. Food halls continue gaining popularity. The first food hall situated in a business centre will open at Nova, occupying an area of over 600 sqm. Retail trade turnover showed recovery in the summer period, although footfall remains below the pre-pandemic level. Vacancy in prime centres remained low.



Source: Colliers International

Key Retail Figures in the Baltic States, Q3 2020

	Tallinn	Riga	Vilnius
Prime SC Rents*	23-48	25-45	25-50
Prime High Street Rents*	30-48	20-35	25-50
Vacancy in SC	3.8%	6.1%	0.6%

*EUR/sqm/month; SC - shopping centre

Source: Colliers International

INDUSTRIAL MARKET

The industrial segment remains rather active in Tallinn and its suburbs in terms of new developments with a total area of approx. 81,500 sqm under construction and high pipeline. Q3 2020 saw completion of 9 projects in Tallinn region with a total of GLA 40,000 sqm, of which ca 38% were speculative premises (incl. three Stock Office projects). Major development projects completed in Q3 2020 included the IV phase of Smarten Logistics LC (7,500 sqm) and Ringtee Stock in Rae parish, Taevakivi Ärikeskus (5,600 sqm) and K3 Stock Office projects in Tallinn. Despite high new supply, Stock Office premises continue to show a good absorption ratio. August-September again saw an increase in development activity with several new medium-size BtS projects and Stock Offices under way.

Key Industrial Figures in the Baltic States, Q3 2020

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-4.7
Vacancy	4.5%	2.5%	2.9%

*EUR/sqm/month

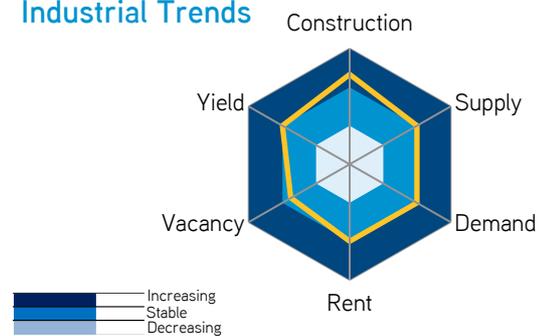
Source: Colliers International

In Q3 2020, the industrial segment in Riga saw completion of the Lidl Logistics Centre and Dienvidu Vārti, a Stock Office project. Even though many projects are at the planning stage, construction work started on only one project during Q3 2020 - New Hanza Capital started A6, a speculative Class A project with GLA 20,000 sqm. Rent rates remain stable at 4.2-4.7 EUR/sqm in prime objects in Riga city and at 3.5-4.2 EUR/sqm in Riga ring road area.

Vacancy remains stable, although an increase in vacant stock is expected at the end of year/ beginning of next year as 137,000 sqm of speculative & BtS space will be delivered to the market. Some activity has emerged in the Stock Office segment, with construction work on U30 (developed by Hepsor) and DV8 expected to commence this year.

Q3 2020 was active in the Vilnius warehouse market in terms of new supply, which amounted to GBA of 28,700 sqm. In particular, Baltic Sea Properties completed two BtS projects in the shape of Delamode Baltics and Oribalt Logistics Centres, while Transekspedicija delivered new speculative supply. Thus, the development market remained with GBA of 29,400 sqm under construction at the end of the quarter, indicating no new projects started in the Lithuanian capital. Maxima announced that it is considering expansion of its warehousing capacity. In addition, Lidl leased a 6,000 sqm warehouse in Kaunas and is planning to expand its own logistics centre by 8,000 sqm. Market sentiment demonstrates that modern warehouse space remains in demand and occupiers are looking for better quality premises. Warehouse rent rates remained stable in Vilnius, while vacancy slightly decreased.

Industrial Trends



Source: Colliers International

TRENDS FOR 2020

- > Investors are currently looking for either prime properties or distressed assets with value-add possibility, while property owners are quite resistant to selling.
- > Continuous travel restrictions limit the entry of new international investors to the market.
- > Investors are looking for new opportunities. For example, EFTEN Capital announced establishment of a fund for investing in residential rental properties in the Baltics.
- > Neighbourhood / grocery-led type retail properties show good turnover and footfall figures, resulting in increasing interest from investors.
- > Logistics properties are gaining attractiveness as investment grade objects, indicating a potential for yield compression.
- > Intense development activity is forecast to maintain an upward vacancy trend in the Vilnius and Tallinn office markets, maintaining a negotiating position strongly in favour of tenants.
- > Sub-lease of office premises is getting more active, indicating some invisible vacancy in the market.
- > Considering the acceleration of the stay-at-home economy, home improvement and DIY trends will continue playing a role in shaping consumer needs.
- > E-commerce will continue to grow at a fast pace, making an impact on both the retail and warehouse markets.

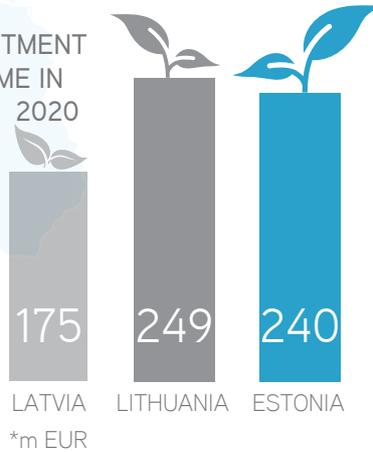


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BALTIC STATES MARKET REVIEW

Q3
2020

INVESTMENT
VOLUME IN
Q1-Q3 2020



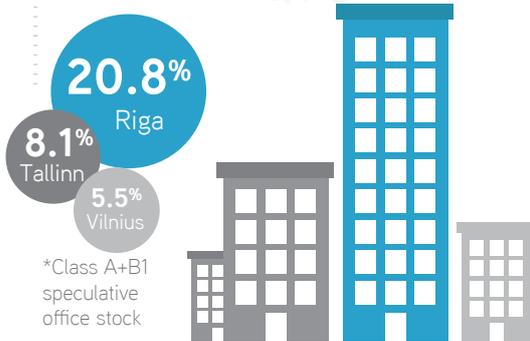
INVESTMENT

PRIME YIELDS

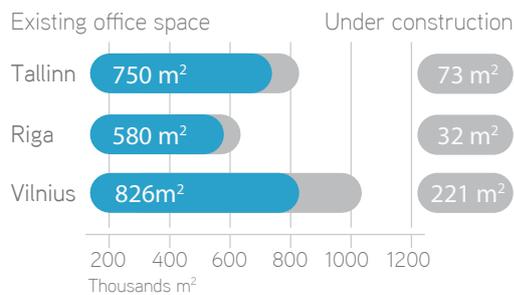


OFFICE

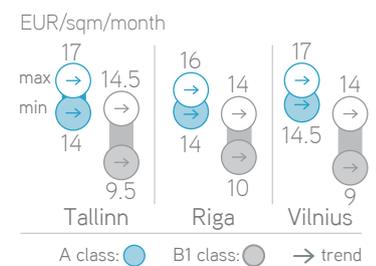
VACANCY RATES



SPECULATIVE OFFICE STOCK



RENTS

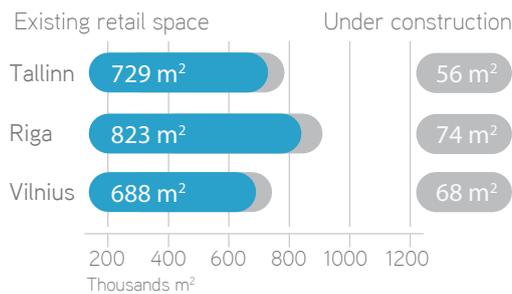


RETAIL

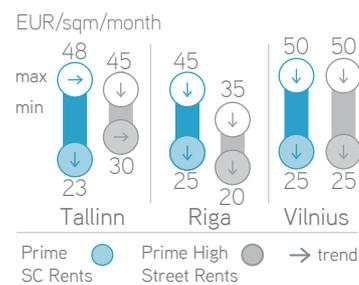
VACANCY RATES



RETAIL STOCK

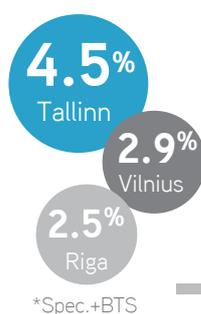


RENTS

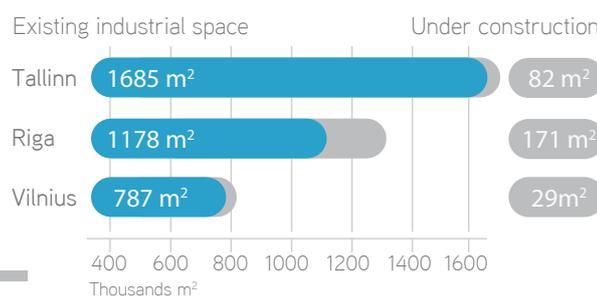


INDUSTRIAL

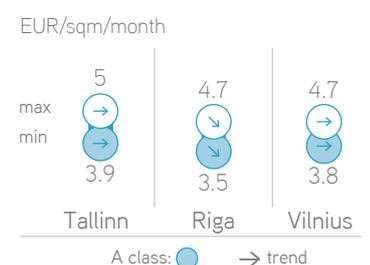
VACANCY RATES



TOTAL INDUSTRIAL STOCK



RENTS



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