BALTIC STATES

PROPERTY SNAPSHOT

Q4 | 2020

INVESTMENT MARKET

Despite some hiatus in activity in Q2-Q3 2020, the capital market in Estonia finished the year with a total investment volume reaching ca EUR 325 million, thus surpassing the previous year's result by 75%. In Q4, total known investment volume amounted to ca EUR 74 million, driven by activity in the stock-office segment. In November, a new Latvian-based investor entered the market by acquiring the Priisle Park (four stock-offices) and the recently completed K2 Stock Office for EUR 18 million in Tallinn, while LHV Pension Funds acquired three stock office-type buildings in Jüri Industrial Park. Additionally, Big Bank purchased the former Danske Bank building, while Novira Capital sold the newly completed Büroo 31 office complex in CBD. A remarkable yield compression towards 7.3% was registered in the industrial segment.

Key Investment Figures in the Baltic States, Q4 2020

Prime Yields	Estonia	Latvia	Lithuania
Office	6.1%	6.0%	5.5%
Retail	6.5%	7.0%	7.0%
Industrial	7.3%	7.5%	7.5%

Source: Colliers International

Activity in the Latvian investment market during 2HY 2020 led to surpassing last year's result with total investment volume in 2020 exceeding EUR 320 million. End-2020 saw several large transactions, such as the sale of the SC Riga Plaza; closure of the Laurus fund by selling its two remaining assets - SEB HQ and SC Olimpia - to Grinvest; EfTEN's acquisition of the Berģi LC and the acquisition of the Kungu 1 office building in Old Town by Corum. Overall, in 2020, the share of Baltic capital exceeded 80% of total volume (after less than 30% in 2019), which is mostly due to international investors not being able to easily travel and view local properties. Even though transactional evidence is not yet available, market sentiment brings prime retail yield to 7.0% (+20 bps from Q3) and prime industrial yield compressing towards 7.5% yield (-25 bps from Q3). Based on transactional evidence, prime office yield compressed to 6.0%.

Q4 2020 turned out to be the most active period of the year in the Lithuanian investment market with total investment volume reaching almost EUR 160 million. The main activity drivers were the office and industrial segments, both accounting for 39% of total volume in Q4. The largest deal was completed by Luxembourg-based company REInvest Asset Management, a new player in the Baltic States, which acquired the newly constructed SEB HQ in Vilnius CBD. Recently, the industrial segment gained stronger investor interest. The second biggest deal was closed by EfTEN Capital, which purchased the newly built SBA logistics centre and production facility in Klaipeda district for EUR 28.6 million. Other notable deals in the industrial segment included the Vinges Terminal and M7 Logistics Centre. Market sentiment led to yield compression in the office and industrial segments and an increase in the retail segment.

OFFICE MARKET

Development in the Tallinn office market remains active with a total area of approx 100,000 sqm (12 projects) under construction. Q4 2020 saw the start of construction work on six new projects with total GLA over 46,200 sqm, incl. the Sepise 7 Office Building in Ülemiste City, Polaris in Avala Quarter, Grüne in Haabersti, Tehnopol3KV in Mustamäe, Jõesuu tee 6 in Pirita, and P21 in CBD. Swedbank announced the signing of a pre-lease agreement for relocating its HQ and all units from various buildings in Tallinn to the Hipodroomi Quarter. The new Swedbank HQ has been planned for 2,000 employees and, according to the contract, the building will be completed in 2024. Vacancy continued to fluctuate around 9% (although growing in the Class A segment) as a result of moderate demand coupled with new supply added to the market. Hidden vacancy continues to grow as more companies would like to decrease / sublease the amount of occupied space.

Key Office Figures in the Baltic States, Q4 2020

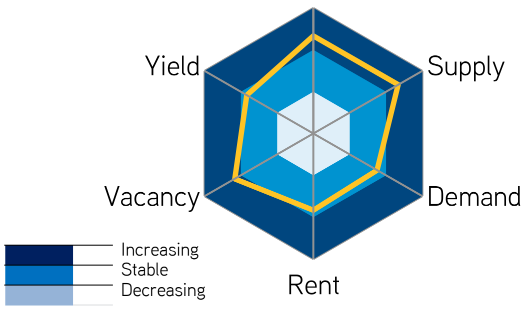
CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	14-17	14-16	14-17
B1 Class Rents	9.5-14.5	10-14	9-14
A Vacancy*, %	9-10%	27-28%	5-6%
B1 Vacancy*, %	8-9%	16-17%	5-6%

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

In Q4 2020, the Riga market saw completion of the SAGA offices (GLA 2,000 sqm) and the start of construction work on the Verde, Class A office complex in Skanste district developed by Capitalica. If traditionally there were only 1-2 new companies entering the market each year, then in 2020, Norwegian Air Resources SSC, The Soul Publishing and Swisscom signed agreements to open new offices in Riga, being responsible for 17% of total take-up. So far, total known take-up in 2020 reached around GLA 34,000 sqm, which is better than was previously expected. However, the pandemic had a negative impact on increasing hidden vacancy - around 10,000 sqm of space is covered by lease agreements but still available for (sub)lease. Overall, there is a strong tenant market, with tenants currently requiring higher flexibility than before. It is observed that landlords are starting to accept some new requirements, meaning landlords are ready to discuss incorporation of a break clause even in pre-lease agreements.

The Vilnius office market completed the year in an active manner, observing completion of two new business centres (Nova and Zalgirio 94), which together delivered GLA of 29,900 sqm. The development pipeline remained intense with 14 new office properties or GLA of 224,600 sqm under construction at the end of the year. Development was dominated by large-scale projects, with the three largest properties forming around half of the pipeline. The lease market was quite calm in this quarter. Belarussian companies showed increased interest in relocating to Vilnius, a trend which is expected to accelerate in the first half of 2021. Rent rates for Class A space demonstrated a slight decrease in the lower margin. Vacancy remained virtually unchanged compared to the previous quarter.

Office Trends

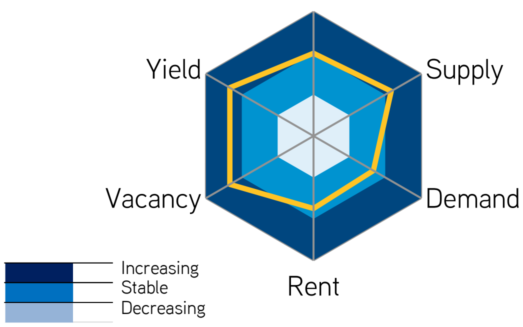


Source Colliers International

RETAIL MARKET

Retail continues to adjust to the new reality caused by the pandemic and restrictions in Estonia. Thus, all sales and service premises of catering companies had to be closed to customers from December 28 to January 17. Interestingly, demand continues to be driven by catering providers (KFC, Burger King, Burger Kitchen, Pelm, Repa), although the clothing segment also saw several new openings. Fashion-driven Bestbrands Superstore opened in Nautica SC, occupying ca 220 sqm, while Nike Outlet (350 sqm) opened in Lasnamäe Centrum. Additionally, a new Humana store opened in Magistral SC and a Kilomax store opened in Järve Centre. October 2020 saw the opening of the first DEPO (Latvian DIY chain) store (24,400 sqm) in Estonia in the Veerenni area of Tallinn city centre, which was quite warmly welcomed by customers. Overall, the DIY segment expanded in Tallinn by almost 30,000 sqm in 2020. Active expansion of DIY chains was expected to continue across Estonia, but the end of 2020 saw all plans being re-evaluated and further openings rather stopped or postponed.

Retail Trends



Source: Colliers International

One day after the second state of emergency was declared in Latvia, a new Sāga SC opened in Riga. Lockdown measures have become tougher week by week, having a strong negative effect on both turnover and footfall figures in all types of retail concepts. Due to lack of government support, an increasing number of local stores & restaurants are being forced to end operations. SC vacancy levels continue to slightly increase as it is difficult to attract new tenants during lockdown. In Q4 2020, the first Burger King in Riga opened in SC Akropole and the first Vapiano restaurant opened in SC Origo, both being able to offer only takeaway service. The Lidl and Maxima grocery chains continue to actively acquire new land plots, while Lidl announced recently that it has completed recruiting for its stores.

In the final quarter of the year, the pandemic and gradually tightening restrictions continued having the greatest impact on the Vilnius retail market. It is observed that consumer flows in Vilnius shopping centres during Black Friday were 25% to 45% lower compared to last year. As a result of the rising number of confirmed COVID-19 cases, in mid-December all non-essential stores had to be closed once again. Some of them remained functional as pickup points for online orders. In this period, Burger King opened the first restaurant in Lithuania, occupying 310 sqm at Akropolis SC, which currently operates only for takeaway and home delivery. Vacancy in prime shopping centres slightly increased, but overall remained low, reaching about 2%.

Key Retail Figures in the Baltic States, Q4 2020

	Tallinn	Riga	Vilnius
Prime SC Rents*	23-46	25-45	25-50
Prime High Street Rents*	30-48	20-35	25-50
Vacancy in SC	4.2%	7.4%	2.0%

*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. 89,135 sqm under construction in December 2020, driven by SBU facilities (12 stock-offices and mini-warehouses). Q4 saw completion of 7 projects in Tallinn region with a total of GLA 21,500 sqm, of which more than half were speculative premises. Despite high new supply, Stock Office premises continue to remain in demand - at least 29,530 sqm of new Stock Office space under construction as of Q4 will be commissioned in 2021, while more than 70,000 sqm of new Stock Office space remains in the pipeline. Logistics operators and retailers generate the strongest demand for new space. Thus, a Weekend pick-up point with total area of ca 4,500 sqm, of which 1,500 sqm is dedicated to showrooms with the remaining 3,000 sqm for logistics and e-commerce handling needs will be opened in the former Baltika production premises in Tallinn.

Key Industrial Figures in the Baltic States, Q4 2020

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-4.7
Vacancy	4.4%	4.1%	1.8%

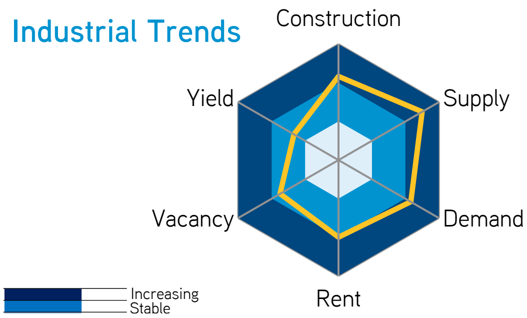
*EUR/sqm/month

Source: Colliers International

Following completion of the Lidl Logistics Centre in Q3 2020, the industrial segment in Riga saw completion of the Rimi Logistics Centre in Q4 2020, both being the largest BTS projects so far. As previously expected, new supply has resulted in a slight vacancy increase, while further growth in vacant stock is expected at the beginning of 2021 as almost 110,000 sqm of space remain under construction and part of that volume will soon enter the market. Take-up figures in 2020 remain in line with the last year's result, amounting to ca GLA 90,000 sqm, though with owner occupation deals adding an extra GLA 125,000 sqm.

In Q4 2020, the Vilnius warehouse market grew by GBA of 29,400 sqm, formed by new space for own needs and speculative purposes. The development pipeline remained active, observing construction of three new warehouse properties, together amounting to GBA of 41,100 sqm. Likewise, occupier activity has been quite active in Q4, mostly observed from companies engaged in distribution, logistics, and production. Notable deals included lease agreements by a food distribution company for 10,000 sqm premises and a global logistics company for 3,000 sqm premises in Liepkalnio Industrial Park (stage III), mediated by Colliers. Strong demand was reflected in the vacancy rate, which decreased compared to the previous quarter, reaching 1.8%. Warehouse rent rates remained stable.

Industrial Trends



Source: Colliers International

TRENDS FOR 2021

- > Industrial properties have been gaining increased interest from investors, resulting from resilience to the pandemic and expectations concerning future market changes.
- > Investors are forecast to target new and niche investment products, such as residential rental, student and senior housing, and data centres. Thus, EfTEN Capital entered the seniors care home segment with the acquisition of the Pirita Pansionaat in Tallinn in the end of 2020.
- > Despite current high development activity, new office supply in Tallinn in 2021 is forecast to remain calm totalling only 30,000 sqm, while 2022 should see close to record-high supply volumes (over 90,000 sqm) if all current projects will still be completed.
- > As no notable additions are planned to the Riga office market till the end of 2022, some part of current office vacant stock is expected to be absorbed.
- > 2020 was a record-breaking year in the Vilnius office market in terms of new supply presented to the market, and 2021 has potential to be even more active.
- > Tenants are expected to continue asking for more flexibility and landlords might be forced to continue adjusting to a new reality.
- > Overall, the office markets in Tallinn and Vilnius will continue to be affected by intense development, pandemic-related uncertainty, and working-from-home trends.
- > Sub-lease of office premises is forecast to remain active in 2021.
- > No major additions to the Tallinn and Riga retail markets are expected apart from the anticipated opening of the first Lidl stores, while Vilnius Outlet is planned to open in the Lithuanian capital.
- > Success in the retail market during 1HY 2021 will heavily depend on restrictions imposed and available support mechanisms.
- > Due to current uncertainty, it is hard to predict whether negative impact on rent rates and vacancy will continue in 2021.
- > The second virus wave is forecast to give another stimulus to the growth of e-commerce, which will impact not only the retail, but also the warehouse market.
- > The large increase in speculative industrial stock in Riga might have a negative medium-term effect on vacancy, though the market still shows a good absorption ratio and high take-up levels.
- > In 2021, the stock-office segment will continue to boom in Tallinn, while few stock-office projects are expected to be started in Riga and Vilnius.

BALTIC STATES MARKET REVIEW

Q4 2020

Colliers INTERNATIONAL

INVESTMENT

INVESTMENT VOLUME IN Q1-Q4 2020

LATVIA	324
ESTONIA	325
LITHUANIA	421

*m EUR

PRIME YIELDS

	Office	Retail	Industrial
Tallinn	6.1 →	6.5 →	7.3 ↓
Riga	6 ↓	7 ↑	7.5 ↓
Vilnius	5.5 →	7 →	7.5 ↓

Office Retail Industrial → trend

OFFICE

VACANCY RATES

Riga	19.2%
Tallinn	8.2%
Vilnius	5.4%

*Class A+B1 speculative office stock

SPECULATIVE OFFICE STOCK

	Existing office space	Under construction
Tallinn	770 m²	100m²
Riga	582 m²	47m²
Vilnius	855m²	225 m²

200 400 600 800 1000 1200
Thousands m²

RENTS

EUR/sqm/month

	A class max	A class min	B1 class max	B1 class min
Tallinn	17 →	14 →	14.5 →	9.5 ↘
Riga	16 →	14 →	14 →	10 →
Vilnius	17 →	14 →	14 →	9 →

A class: B1 class: → trend

RETAIL

VACANCY RATES

Riga	7.4%
Tallinn	4.2%
Vilnius	2%

*SC vacancy rates

RETAIL STOCK

	Existing retail space	Under construction
Tallinn	754 m²	32m²
Riga	873 m²	24 m²
Vilnius	698 m²	79 m²

200 400 600 800 1000 1200
Thousands m²

RENTS

EUR/sqm/month

	Prime SC Rents max	Prime SC Rents min	Prime High Street Rents max	Prime High Street Rents min
Tallinn	48 →	23 ↓	42 ↓	20 ↓
Riga	45 ↓	25 ↓	35 ↓	20 ↓
Vilnius	50 ↓	25 ↓	50 ↓	25 ↓

Prime SC Rents Prime High Street Rents → trend

INDUSTRIAL

VACANCY RATES

Tallinn	4.4%
Riga	4.1%
Vilnius	1.8%

*Spec.+BTS

TOTAL INDUSTRIAL STOCK

	Existing industrial space	Under construction
Tallinn	1702 m²	89 m²
Riga	1265 m²	110 m²
Vilnius	816 m²	41m²

400 600 800 1000 1200 1400 1600 1800
Thousands m²

RENTS

EUR/sqm/month

	A class max	A class min
Tallinn	5 →	3.9 →
Riga	4.7 ↘	3.5 ↘
Vilnius	4.7 →	3.8 →

A class: → trend

HOW ELSE CAN WE HELP?

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