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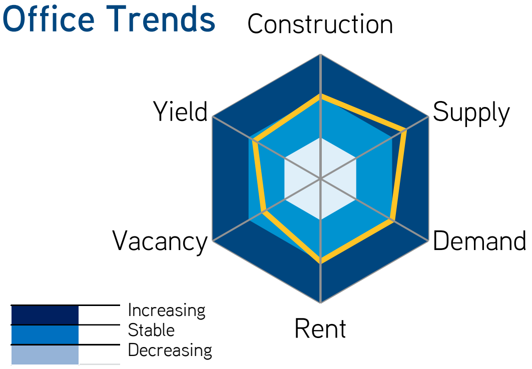
Baltic States

Office Market

Development in the Tallinn office market remains active with a total area of approx 119,725 sqm under construction in March 2018. Q1 2018 saw completion of the Lõõtsa 12 office building in Ülemiste City as well as the Flora Maja office building in Kristiine city district, while several other projects (e.g. Zenith BC in CBD, Järvevana 7b in City Centre, Pirni7 in Kristiine) are at the completion phase. Additionally, Q1 2018 saw the start of construction work on the new Eesti Meedia HQ in Fahle Park next to Ülemiste City, and Kardioru Plaza, a commercial-residential building in City Centre. Demand for new office premises continues to remain buoyant, pushing the vacancy rate in new office buildings down, while the upper margin of asking rents continues to climb somewhat. Take-up activity in Tallinn is mainly driven by the information (IT and High-Tech companies) and communication sector.

Office Trends



Source Colliers International

In Q1 2018, the Riga office market experienced stability, seeing active construction of recently initiated projects. Approx 121,000 sqm of total leasable office space is at the active construction stage in Riga, although after commencement of the liquidation process of ABLV Bank the future of the multifunctional New Hanza City project remains as yet uncertain. The strongest demand activity in the leasing market has been evident from companies providing professional services. Total take-up of professional office space reached 3,890 sqm. Moreover, interest is increasing from SSC, which is considering entering the Baltic market. Rents remained at the level of the previous period, while vacancy decreased in Class A properties, but increased in Class B properties.

In Q1 2018, the Vilnius office market remained active, with the commissioning of Park Town BC (stage I, GLA 7,190 sqm) in CBD. The development market is nonetheless intense with GLA of over 120,000 sqm under construction. Following the record-breaking volume of office space leased in 2017, demand for office space continued to be strong. SEB Bank signed a pre-lease agreement for a 10,000 sqm office in a business centre to be developed by Lords LB next to Konstitucijos Avenue. Robust demand decreased vacancy in both the Class A and Class B segments. Notably, vacancy in Class A business centres reached only 0.6 per cent. In Q1 2018, rent rates remained stable compared to year-end 2017.

Retail Market

In Q1 2018, no new developments were commissioned in Tallinn, although the retail development market remained active with a total area of approx 104,385 sqm under construction, with construction work in progress on the T1 Mall of Tallinn SC and the Porto Franco centre, expansion of the Ülemiste Centre and renovation of the Kristiine SC.

Key Office Figures in the Baltic States, Q1 2018

CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	13.0-16.4	13.0-16.0	14.0-16.5
B1 Class Rents	8.8-13.5	9.0-12.0	9.0-13.5
A Vacancy*, %	4-5%	2-3%	<1%
B1 Vacancy*, %	5-6%	6-7%	4-5%

Source: Colliers International

EUR/sqm/month; *-speculative office market vacancy rate

Start of construction work on several previously-announced new retail development projects is being postponed due to the fact that potential tenants for new developments are becoming increasingly complicated to find. Tenants are becoming more cautious and thoughtful because of intensifying competition and some continuing decline in shopper footfall which started in 2017 in several shopping centres.

Key Retail Figures in the Baltic States, Q1 2018

	Tallinn	Riga	Vilnius
Prime SC Rents*	23-48	30-55	25-50
Prime High Street Rents*	30-45	40-55	25-60
Vacancy in SC	1.0%	2.9%	1.6%

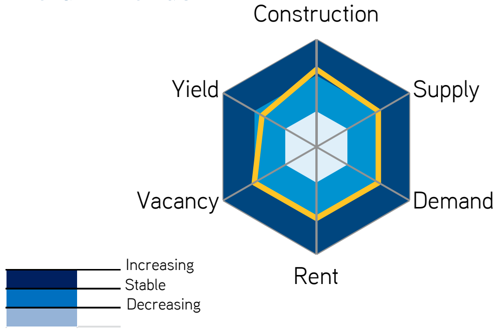
*EUR/sqm/month; SC – shopping centre

Source: Colliers International

In Q1 2018, the Riga retail market witnessed stability, with the start of construction work on one smaller Cash&Carry big-box project. This, means that over 167,000 sqm of retail space is under construction in Riga, among which approx 72,000 sqm is planned for commissioning by the end of 2018. Retail premises remain in high demand – new international brands are opening new stores in Riga shopping centres and existing retailers are expanding their premises. In March 2018, Pepco, the Polish household goods retail chain, which had so far not yet appeared on the market, opened its first store in Mežciems. Rent rates in shopping centres remained stable, though a slight increase in rent rates was observed in High Street Retail.

The Vilnius retail market saw a quite tranquil start of the year. Nevertheless, the rest of the year is expected to be more dynamic with the completion of two Depo DIY stores and the VNO Business & Retail Park (stage I) for Decathlon. Demand for retail space remained high. The new planned Vilnius Outlet project has been successfully collecting pre-lease agreements. Street retail was active, with the opening of a Sportland store (1,200 sqm) at Gedimino Avenue 20. People Fitness expanded with the opening of their second fitness club in Vilnius. Limited new retail development resulted in vacancy and rent rates remaining at the same level compared to year-end 2017.

Retail Trends



Source: Colliers International

Industrial Market

The industrial segment remains active in Tallinn and its suburbs in terms of new developments with a total area of approx. 112,000 sqm under construction in March 2018, including several medium-scale development projects, such as the new Omniva LC, phase III of Smarten Logistics, phase II of Lookivi Park and the Peterburi tee 49 building (for Eolane) in Tallinn. Rent rates in the warehouse and industrial segment continue to remain under downward pressure, although the vacancy rate continues to tighten, resulting in a shortage of vacant space in the size range starting from 3,000 sqm.

Key Industrial Figures in the Baltic States, Q1 2018

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.6	3.8-5.0
Vacancy	5.2%	2.5%	3.0%

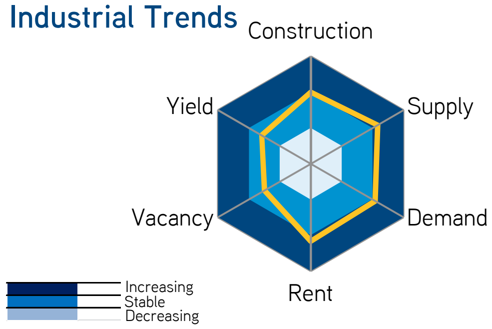
*EUR/sqm/month

Source: Colliers International

The Riga industrial market remained largely unchanged throughout Q1 2018 with no new additions to stock, while 57,700 sqm of industrial space is under construction and over 220,000 sqm is at the planning stage. Demand remained stable during Q1 2018. Due to lack of new industrial premises, tenants have to expand within their existing locations. As a result, the total take-up of 7,400 sqm was compiled by expansion agreements with existing tenants. Vacancy rates continued to decrease in Q1 2018, though both the lower margin of rent rates for Class A industrial space as well as the upper margin of rent rates for Class B premises experienced a slight increase.

In Q1 2018, the Vilnius warehouse market saw completion of M7 LC (GBA 8,700 sqm) developed by Avisma for company needs as well as speculatively for other tenants. The development market was active with GBA of 55,500 sqm under construction, mostly dominated by built-to-suit projects. At the beginning of the year, export and industrial production volume continued to grow compared to the corresponding period of the previous year. Besides, Lithuania's free economic zones continued to capture new investments by manufacturers, such as furniture manufacturers VMG, Fitsout and Freda. The vacancy rate slightly decreased compared to year-end 2017, while rent rates remained stable.

Industrial Trends



Source: Colliers International

Investment Market

Total known investment volume in Estonia amounted to approx EUR 95 million in Q1 2018, driven mainly by the office segment. The most notable deal in Q1 2018 was the sale of the Marienthal commercial centre with GLA 13,430 to EfTEN Capital. Other notable deals included acquisition of the new Järvevana tee 7b office building by Capital Mill, sale of the Maakri 23a office building in CBD to Fausto and the purchase of two office buildings by Colonna. Additionally, Baltic Horizon has finalised the acquisition of the Postimaja shopping centre, located in Tallinn CBD, for EUR 34.4 million. Prime yields remained stable in Q1 2018, influenced mainly by tightening competition and somewhat harder financing conditions.

Key Investment Figures in the Baltic States, Q1 2018

Prime Yields	Estonia	Latvia	Lithuania
Office	6.25%	6.5%	6.5%
Retail	6.4%	6.5%	6.5%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

In Q1 2018, total investment volume in Latvia amounted to approx EUR 38 million, driven by activity in the office segment. Eastnine AB, a Swedish investment company, has acquired Alojas Biznesa Centrs, a Class A office project, from LNK Group for EUR 29.6 million. Moreover, several remarkable investment deals are in process. In Q1 2018, Riga prime yields in the office, retail and industrial segments remained at the level of the previous period.

The Lithuanian investment market experienced a passive beginning of the year. The main investment activity driver was the industrial segment, which captured over half of total investment volume. The largest deal was completed by Ogmios real estate, which sold Business Park Vilija (stage I, GBA of 21,000 sqm) located in Vilnius to KS Investicija, which owns the current tenant Eugesta. Another major transaction was closed by Lietuvos energija, which sold an educational centre and a dormitory situated in the capital city to Roko turtas for EUR 3.3 million. Prime industrial yields compressed by 25 bps due to the increasing attractiveness of industrial properties, while prime office and retail yields remained unchanged compared to year-end 2017.

Economy

> According to Statistics Estonia, GDP of Estonia increased 5.0% in Q4 2017 compared to Q4 2016, driven the most by information and communication, professional, scientific and technical activities, and manufacturing. The main hindrance to the economic growth were wholesale and retail trade, and real estate activities. In Q4 2017, as compared to Q4 2016, GDP has increased by 4.2% in Latvia (mainly driven by growth in manufacturing, construction, trade activities sectors and information and communication). The GDP growth in Lithuania was 3.9% y-o-y in Q4 2017. The fastest growth in the value added was observed in enterprises engaged in construction (8.5%), wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities (4.6%) and manufacture (6.8%).

> According to the data of the Baltic States' statistical offices, in Q4 2017, the highest unemployment rate of persons aged 15–74 was recorded in Latvia (8.1%), the lowest – in Estonia (5.3%), while in Lithuania it stood at 6.7%. Over a quarter, in Estonia, the unemployment rate increased by 0.1 percentage points, in Latvia – decreased by 0.4 percentage points, while in Lithuania, it increased by 0.1 percentage points.

> In Q1 2018, inflation (HICP): in Estonia stood at 3.2% compared with 4.1% in Q4 2017; in Latvia felt to 2.0% in Q1 2018 from 2.5% in Q4 2017; in Lithuania declined to 3.1% in Q1 2018 from 4.1% in Q4 2017.

> In Q4 2017, the retail sales index rose by 1.0% in Estonia and by 4.0% in Lithuania. One of the highest annual increases in total retail trade among the EU Member States was registered in Latvia (+5.8% y-o-y in Q4 2017), according to Eurostat.

> In Q4 2017, the average monthly gross wages and salaries were EUR 1,271 in Estonia, and compared to Q4 2016, the average monthly gross earnings grew by 7.5%. Compared to Q4 2016, gross wages and salaries in Q4 2017 have risen by 7.5% in Latvia – from EUR 894 to EUR 961. In Q4 2017, against Q4 2016, average gross monthly earnings increased by 7.5% in Lithuania and amounted to EUR 885.

Source: National Statistics, Eurostat

413 offices in 69 countries on 6 continents

United States: 145
Canada: 28
Latin America: 23
Asia Pacific: 86
EMEA: 131

€2.2
billion in annual revenue

179
million square meters under management

15,400
professionals and staff

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