

Baltic States

Investment Market

In Q3 2018, total known investment volume in Estonia amounted to ca EUR 32 million only, driven mostly by the sale of the Pirita Spa Hotel (267 hotel rooms) by Infortar in Tallinn. Other notable deals in summer 2018 included the acquisition of the Kärberi Centre and the Maxima store in Tallinn by Lumi Capital, the sale of the Bauhof DIY store in Rakvere and the Järveotsa tee 50b Stock Office in Tallinn plus the acquisition of two warehouse-office buildings in Tännassilma Industrial Park and Mõigu Industrial Park. Prime yields remained stable in Q3 2018.

Key Investment Figures in the Baltic States, Q3 2018

Prime Yields	Estonia	Latvia	Lithuania
Office	6.25%	6.45%	6.25%
Retail	6.4%	6.5%	6.5%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

In Q3 2018, total investment volume in Latvia exceeded EUR 70 million, driven by activity in the office segment (with ca half of total Latvian volume). The most notable deals in Q3 2018 included the acquisition of the Radisson Blu Daugava Hotel, the sale of the LNK Centre office building by LNK Properties to Baltic Horizon Fund for EUR 17 million and the second purchase of SG Capital in Latvia – the Dunties office building (sold by East Capital). The largest investment transaction outside Riga included the sale of the Kurzeme shopping centre (located in Liepaja) for more than EUR 7 million. In total, investment volume in Latvia in the first three quarters of 2018 exceeded 2017 full year results by one-third. Prime yields remained stable with slight compression recorded in the office segment.

In Q3 2018, the Lithuanian investment market continued to be buoyant with investment volume amounting to ca EUR 109 million, driven strongly by the office segment. DAO Family Office acquired two newly constructed Class A centres – Arka BC in Kaunas for EUR 20 million and Park Town BC (stage I) in Vilnius for EUR 19 million. Additionally, a preliminary agreement was concluded for the acquisition of Park Town BC (stage II) which

is due to be completed in 2019. Lords LB acquired the Lietuvos Energija HQ in Vilnius for EUR 20 million. As a result, prime office yields compressed by 25 bps, while other real estate segments recorded calmer investment activity and maintained stable yields.

Office Market

Development in the Tallinn office market remains active with a total area of approx 100,900 sqm (14 projects) under construction in September 2018. Following completion of the new milestone in Tallinn – the Maakri 19/21 Office Building – in summer 2018, Q3 2018 saw the commissioning of the Alexela HQ and the Rävåla 2 Office Building (expansion by 1,725 sqm) in CBD, the headquarters of eu-LISA (B-t-S project) in Põhja-Tallinn city district, the start of preparation work on the new SG Business Centre (Pärnu Rd 186) in Kristiine city district. Take-up activity in Tallinn is mainly driven by ICT companies, followed by the professional, scientific and technical services sector (notaries, lawyers, advertising companies).

Key Office Figures in the Baltic States, Q3 2018

CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	13.5-16.5	14.0-16.0	14.5-16.5
B1 Class Rents	9.0-13.5	10.0-12.0	9.0-13.5
A Vacancy*, %	8-9%	3-4%	1-2%
B1 Vacancy*, %	5-6%	8-9%	3-4%

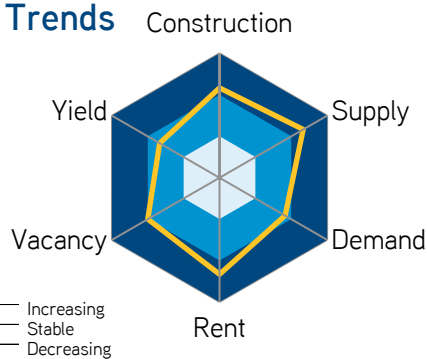
Source: Colliers International EUR/sqm/month; *-speculative office market vacancy rate

The vacancy rate in Class A buildings increased due to completion of the Maakri 19/21 office building, though the vacancy rate for Class B1 buildings continually stays slightly below 6.0 per cent in Tallinn, while the upper margins of asking rents continue to climb.

The Riga office market remained largely stable in Q3 2018 with no new additions to stock. Approx 98,930 sqm of total leasable speculative Class A and Class B1 office space is in the active construction stage. However, no addition to stock is expected during the rest of 2018. Following the acquisition of a land plot in Skanste area, Capitalica Asset Management announced plans to invest EUR 50 million into developing an office complex (ca 45,000 sqm). Total take-up of professional office space

exceeded 6,000 sqm with half leased by SSC (shared-service centres). In Q3 2018, vacancy decreased to 3.4 per cent in Class A and 8.5 per cent in Class B1 buildings, while rents showed upward movement, resulting in downward pressure on yields.

Office Trends



Source Colliers International

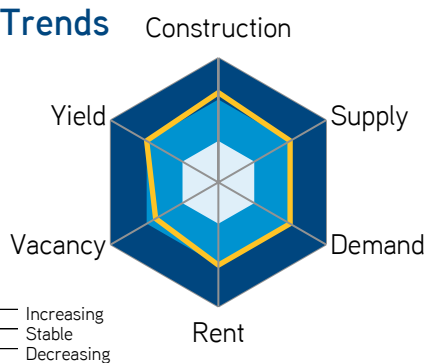
Prime office yields in Riga compressed slightly from 6.5 per cent in Q2 2018 to 6.45 per cent in Q3 2018 and downward pressure on yields is expected to continue.

In Q3 2018, the Vilnius office market saw completion of the 3 Bures BC (extension, GLA 11,000 sqm, leased to Swedbank and Visma) in CBD, while 14 projects with total GLA 141,500 sqm remained under construction at the end of the quarter. The largest lease deals in Q3 2018 included the pre-lease of the whole Green Hall BC (stage III, GLA 2,600 sqm) by an international e-commerce company and Teleperformance, a global leader in providing exceptional omnichannel customer experience, occupying 2,300 sqm in Business Stadium West BC. The coworking market continued to grow in Vilnius, seeing the opening of the fourth Regus centre (1,200 sqm) at City BC. Rent rates remained stable compared to the previous quarter, while vacancy increased slightly due to relocation of tenants from older to newer office properties.

Retail Market

In Q3 2018, the Tallinn retail market experienced stability, seeing active construction of previously initiated projects (T1 Mall of Tallinn, expansion of Ülemiste Centre, Porto Franco) and somewhat decreased vacancy rates in major shopping centres in Tallinn. Development of a new SG Business Centre at Pärnu Rd 186 should bring an additional 10,800 sqm of retail space by 2020 (anchor tenants – Ehituse ABC DIY store (6,400 sqm) and MyFitness sports club (2,000 sqm)). New tenants in extending Ülemiste Centre include Vapiano restaurant and O’Learys sports bar as well as Imaginarium, Matinique and Calvin Klein brand stores. The highly anticipated opening of the T1 Mall of Tallinn in November is expected to sharply intensify industry rivalry, resulting in redistribution of footfall and affecting retailer profitability.

Retail Trends



Source: Colliers International

In Q3 2018, the Riga retail market remained active, witnessing the opening of the first IKEA store (33,600 sqm) in Latvia. Approaching the opening of the Akropole SC in Q1 2019,

Galerija Azur in Riga was closed for renovation that will add 6,000 sqm of new leasable space. Galerija Azur is changing its concept and will have two anchor tenants – Rimi and K-Senukai (20,000 sqm) after reconstruction of the shopping centre. EfTEN Capital started its expansion of Domina Shopping – part of a parking area will be redeveloped into an entertainment area (7,000 sqm). VIA Jurmala (13,500 sqm), the first outlet centre concept in Latvia, is also under construction and is expected to open in the second half of 2019. Vacancy is decreasing; however, some increase in the vacancy rate can be expected after the opening of Akropole SC.

In Q3 2018, no new developments were commissioned or started in Vilnius. Nevertheless, two new retail projects are expected to be completed by the end of the year, bringing an additional 25,800 sqm in total to the market. Apranga announced the opening of the first Sandro affordable luxury brands store and Maje store in Didzioji high street in Lithuania. The wellness segment remains in growth mode in Lithuania – MG Valda revealed its new health club chain, opening three clubs in 2019 with the first situated in Business Triangle. Vacancy in major shopping centres continued to be low, while rent rates remained fluctuating in the same range.

Key Retail Figures in the Baltic States, Q3 2018

	Tallinn	Riga	Vilnius
Prime SC Rents*	24-48	35-55	25-50
Prime High Street Rents*	30-48	40-55	25-60
Vacancy in SC	0.8%	2.1%	1.6%

*EUR/sqm/month; SC – shopping centre

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. 85,000 sqm under construction in September 2018. Q3 2018 saw completion of the Peterburi tee 49 production building (11,000 sqm) for Eolane, the Omniva logistics centre (14,350 sqm) and the commissioning of several Stock Office projects in Tallinn region (Kadaka tee 4, Mureli 3, Treiali tee 2/4). Rent rates continue to remain under downward pressure, while vacancy decreased, partially due to occupation of vacant space (16,000 sqm) in Kawe Logistics. Prospective clients continue looking for vacant land plots for B-t-S developments as one of the current market trends is clear dominance of the owner-occupation approach in the sector.

Key Industrial Figures in the Baltic States, Q3 2018

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.5	3.8-5.0
Vacancy	4.2%	1.6%	2.6%

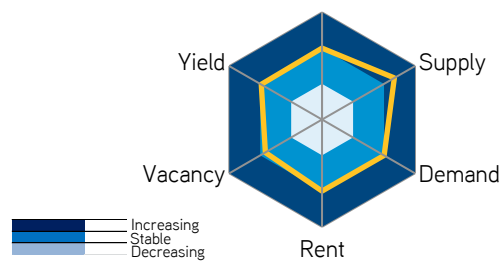
*EUR/sqm/month

Source: Colliers International

In Q3 2018, the Riga industrial market was supplemented with VGP (34,000 sqm, I phase, fully leased). VGP has pre-lease agreements secured for the second phase as well (expected to be commissioned at the beginning of 2019). Approx 58,500 sqm of industrial space (4 projects) is under construction. Some 9,000 sqm of new space is expected to accrue to the market by the end of 2018 due to anticipated commissioning of the LNK project Dienvidu vārti. Vacancy decreased from 2.5 per cent in Q2 2018 to 1.6 per cent in Q3 2018 and only a few relatively small premises are currently available on the market for lease.

In Q3 2018, the Vilnius warehouse market was rather calm, seeing completion of a 1,930 sqm expansion by Transekspedicija. The development market was active with GBA of 51,200 sqm under construction at the end of the quarter, dominated by new speculative development. Furthermore, the construction of Liepkalnio Industrial Park (stage III) is expected to commence in the final quarter of the year, supplementing speculative supply by 29,800 sqm. Rent rates remained steady, while vacancy persisted at a low level. However, a slight upward correction in the vacancy rate is expected in connection with new speculative supply.

Industrial Trends Construction



Source: Colliers International

Economy

- > According to Statistics Estonia, GDP of Estonia increased 3.7% in Q2 2018 compared to Q2 2017, driven the most by construction for the sixth quarter in row. Significant contributions to the growth came also from manufacturing and information and communication activities. In Q2 2018, GDP has increased by 5.3% y-o-o in Latvia (mainly driven by growth in construction (by 32% y-o-y), information and communication (+16.2%) and manufacturing (+4.2%)). The GDP growth in Lithuania was 3.8% y-o-y in Q2 2018. The fastest growth in the value added was observed in enterprises engaged in construction (15.5%), wholesale and retail trade; transportation and storage; accommodation and food service activities (4.8%), information and communication (5.0%) and manufacture (4.3%).
- > In Q3 2018, inflation (HICP): in Estonia stood at 3.5% compared with 3.3% in Q2 2018; in Latvia rose to 2.9% in Q3 2018 from 2.4% in Q2 2018; in Lithuania declined to 2.2% in Q3 2018 from 2.5% in Q2 2018.
- > According to the data of the Baltic States' statistical offices, in Q2 2018, the highest unemployment rate of persons aged 15-74 was recorded in Latvia (7.7%), the lowest – in Estonia (5.1%), while in Lithuania it stood at 5.9%. Over a quarter, in Estonia, the unemployment rate decreased by 1.7 percentage points, in Latvia – decreased by 0.5 percentage points, while in Lithuania, it decreased by 1.3 percentage points.
- > In Q2 2018, the retail sales index fell by 0.7% in Estonia and rose by 5.0% in Latvia. One of the highest annual increases in total retail trade among the EU Member States was registered in Lithuania (+7.1% y-o-y in Q2 2018), according to Eurostat.
- > In Q2 2018, the average monthly gross wages and salaries were EUR 1,321 in Estonia, and compared to Q2 2017, the average monthly gross earnings grew by 6.4%. Compared to Q2 2017, gross wages and salaries in Q2 2018 have risen by 8.4% in Latvia – from EUR 926 to EUR 1,004. In Q2 2018, against Q2 2017, average gross monthly earnings increased by 10.5% in Lithuania and amounted to EUR 927.

Source: National Statistics, Eurostat

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