

INVESTMENT MARKET

In 2019, total known investment volume (w/o development) in Estonia amounted to ca EUR 174 million, the lowest result since 2010. Notable deals in Q4 2019 included the acquisition of the Danske HQ in Tallinn CBD by Estonian-owned company Estiko, the sale of the Veerenni Stock Office in Tallinn city centre, and the acquisition of the Mauri Industrial Park in Pärnu by Prategli Invest. Prime yields remained rather stable in Q4 2019 with some minor compression registered in the office segment. Harder financing conditions and lack of investment-grade products are still putting pressure on investment market activity.

Key Investment Figures in the Baltic States, Q4 2019

| Prime Yields | Estonia | Latvia | Lithuania |
|--------------|---------|--------|-----------|
| Office | 6.1% | 6.2% | 5.8% |
| Retail | 6.4% | 6.6% | 6.5% |
| Industrial | 7.75% | 7.75% | 7.75% |

Source: Colliers International

The investment market in Latvia remains active. However, the second half of 2019 saw few large transactions closed as objects offered for sale are not prime assets, forcing investors to consider development properties, the logistics sector and value-added strategies. In 2019, total investment volume in Latvia reached ca EUR 295 million, while some transactions expected by the end of the year were finalized at the beginning of 2020. Two notable investment deals took place in Q4 2019 – VIG Fund acquired three historic office buildings in Riga city centre, while East Capital purchased the Lidostas Parks industrial complex in Marupe (Class A, developed by Piche) for EUR 19 million. Additionally, Q4 2019 saw one notable development transaction – Eastnine acquired Kimmel Quarter, a mixed-use development property, for EUR 9.5 million. Prime yields remained rather stable with some compression registered in the office segment (down to 6.2%).

In Q4 2019, the Lithuanian investment market saw a highly dynamic year end, mainly driven by investment in office properties. This is mostly due to the Quadrum BC deal, which was implemented by Deka Immobilien Investment for EUR 156.1 million. Moreover, the office segment saw two other notable deals in the capital city: GO40 BC was acquired by AJ projektai for EUR 6.8 million and Highway BC was purchased by Eika Real Estate Fund for EUR 5.8 million. French investor Corum, a new market player, has already

completed its second transaction this year, acquiring a newly constructed Depo DIY store in Kaunas. In Q4 2019, prime yields were unchanged in all segments.

OFFICE MARKET

Development in the Tallinn office market remains active with a total area of ca 119,060 sqm (18 projects) under construction in December 2019. Q4 2019 saw completion of the Eesti Meedia HQ (BtS) in Fahle Park in the Ülemiste sub-area and the start of construction work on the second phase of the Bolt HQ (1,800 sqm; BtS) in the Veerenni area. Tallinn is experiencing some delays in delivery of new projects to the market due to a longer construction process. Demand is continually driven by relocation and/or expansion of existing tenants (mostly IT and high-tech companies, followed by professional (consultancy, accounting) companies and retailers). Rent rates remained largely stable, while vacancy continued to slightly tighten (below 6% in Class A and Class B1 buildings).

Key Office Figures in the Baltic States, Q4 2019

| CLASS | TALLINN | RIGA | VILNIUS |
|----------------|-----------|-----------|-----------|
| A Class Rents | 14.0-16.8 | 14.0-16.0 | 14.7-17.0 |
| B1 Class Rents | 9.5-14.0 | 10.0-14.0 | 9.0-14.0 |
| A Vacancy*, % | 4-5% | 5-6% | 3-4% |
| B1 Vacancy*, % | 5-6% | 13-14% | 2-3% |

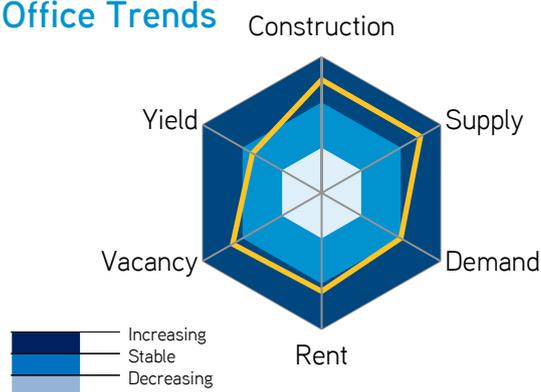
Source: Colliers International EUR/sqm/month; *-speculative office market vacancy rate

Q4 2019 has been active in the Riga office market with two Class B1 projects added to the market – the last office building of the Jauna Teika complex (Hanner) called Henrihs and an office building in Mezaparks developed by Domuss. Overall, 65,000 sqm of new office premises were added to the Riga office market in 2019 in total. Even though vacancy in the market is higher than before – over 13% for Class B1 – the city centre still lacks large office premises. At the beginning of 2020, the Origo One project developed by Linstow will enter the market, offering both large premises and a central location – the first of such projects to enter the market (more than 250,000 sqm in planning in the central part of Riga).

As has been observed in recent years, good quality projects in easily accessible locations and with reasonable rent conditions

manage to achieve 40-50% occupancy prior to completion, while projects that fail to follow these conditions might have a low occupancy level even a year after commissioning.

Office Trends



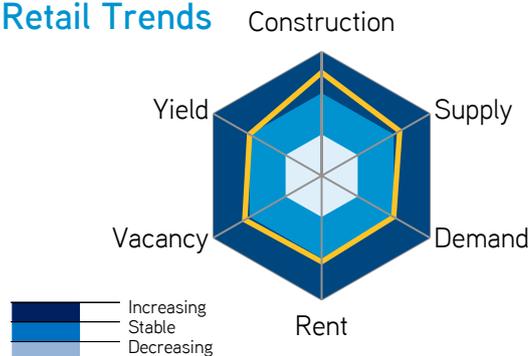
Source Colliers International

In Q4 2019, the Vilnius office market expanded in the central business district by GLA 24,500 sqm, following completion of S7 BC (stage III) and Quadrum BC (stage III). Development of new office properties remained intense, recording the start of construction work on Core BC (GLA 33,000 sqm), Meraki BC (GLA 15,900 sqm) and OFFICE 100 BC (GLA 9,500 sqm). In total, new space amounting to as much as GLA 252,000 sqm was under construction at the end of the year. Demand for new high-quality office space continued to be strong. For instance, Swedbank pre-leased office premises of 2,260 sqm at Wave BC. In Q4 2019, rent rates demonstrated growth in connection to new, higher quality projects offered to the market.

RETAIL MARKET

Competition in the grocery and home-goods segments in Tallinn is constantly growing. In Q4 2019, Maxima opened four new local stores in Tallinn, including its second Express store in the city centre and two stores in Põhja-Tallinn city district. Rimi opened its Pihlaka supermarket in Nõmme city district, while the Coop became the grocery anchor in the newly opened sports and leisure centre located in Peetri, Tallinn's neighbouring municipality. October saw the opening of a fully renovated (both inside and outside) Kristiine SC with a brand-new dining area. November 2019 saw the opening of a new Hortes gardening centre with total GLA 5,300 sqm (building 4,250 sqm + outdoor sales area) developed and financed by EfTEN Capital in Tähesaju City area of Tallinn. Estonia's first KFC opened in Ülemiste Centre in October, followed by the second opening in Kristiine Centre in December. The New Year 2020 will also see the entry of Burger King to the market. Deichmann's third store (372 sqm) opened in December in Postimaja SC in Tallinn city centre.

Retail Trends



Source: Colliers International

Recent openings and expansions of shopping centres in Riga continue to affect shopping centres that have not yet adjusted their concepts – shopping centre vacancy is currently around 3%. Q4 2019 saw H&M Group's brand "& other stories" enter the market with the opening of its first store in Galleria Riga. Additionally, the Riga retail market saw the reopening of Ozols shopping centre (formerly: Galerija Azur) with two strong tenants: K-Senukai and Rimi. LIDL continues to acquire more land plots for future development and is thus approaching the opening of its first stores in 2020. At the same time, Maxima and Rimi continue to expand in the street retail convenience segment.

In Q4 2019, Vilnius retail stock remained unchanged. Thus, the Vilnius retail market completed the year with no new projects. Two new developments with combined GLA of 45,000 sqm remained under construction at the end of the year. At the same time, some market dynamics were observed. The former Prisma store became the Moonplay leisure and entertainment centre, while the former Berry furniture store was replaced by Lidl and GymPlus. American fast-food restaurant chain Burger King is coming to the Lithuanian market, with the first restaurants expected to open in the first half of 2020. Strong consumption and limited availability of retail premises in prime shopping centres led to their rent rate growth.

Key Retail Figures in the Baltic States, Q4 2019

| | Tallinn | Riga | Vilnius |
|--------------------------|---------|-------|---------|
| Prime SC Rents* | 24-48 | 35-55 | 25-52 |
| Prime High Street Rents* | 30-48 | 30-50 | 25-60 |
| Vacancy in SC | 1.7% | 2.9% | 0.4% |

*EUR/sqm/month; SC – shopping centre

Source: Colliers International

INDUSTRIAL MARKET

The industrial segment remains reasonably active in Tallinn and its suburbs in terms of new developments with a total area of approx. 114,000 sqm under construction in December 2019, seeing completion of the new Module Tech production facility (7,800 sqm, BtS) in Jõelähtme parish. Development activity is continually driven mostly by built-to-suit projects. Rent rates continued to fluctuate largely between 3.8-5.0 EUR/sqm, while vacancy stood at around 4.0% by end-2019.

Key Industrial Figures in the Baltic States, Q4 2019

| | Tallinn | Riga | Vilnius |
|--------------|---------|---------|---------|
| Prime Rents* | 3.9-5.0 | 3.5-4.7 | 3.8-4.9 |
| Vacancy | 4.0% | 1.7% | 3.0% |

*EUR/sqm/month

Source: Colliers International

In 2019, more than 70,000 sqm of new warehouse and industrial space were added to the Riga industrial market with VGP (phase II), Lidostas parks and the recently finished Sirin Industrial Park (phase I) being the largest projects. Due to existing tenants relocating to newer premises closer to the city, total vacancy has slightly increased as the number of new tenants entering the market remains low (low new demand).

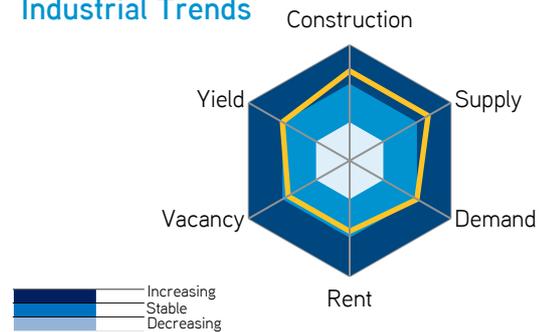
Trends for 2020

- > Transaction volume in Estonia in 2020 is expected to remain at or somewhat exceed the previous year's result. Harder financing conditions and lack of investment-grade products are continually putting pressure on investment market activity prospects.
- > Even though investors are active, and some new ones are entering the Latvian market, investment activity in 2020 will depend on bank requirements not only on property quality but also on investor reliability. Lack of good quality objects due to low development volumes in recent years will continue to be a limiting factor for higher investment volumes in Latvia.
- > Investment volume in Lithuania is expected to be lower compared to 2019, while yields are likely to remain stable, mainly due to financing conditions.
- > The office market in Tallinn will continue to demonstrate consistent development over the next two years. Office rent rates are expected to remain stable throughout 2020, although the gap between the lower and upper margins of asking rents may continue to widen.
- > The large number of development property acquisitions in Riga in recent years is expected to increase office construction volumes with new developments forming Riga's future CBD in the Centre, Skanste and Kipsala districts.
- > The Vilnius office market is forecast to be the most dynamic, recording large new supply as well as a construction pipeline. This will challenge older properties, leading to a widening quality gap compared to new properties.

High development volume is expected next year with more than 210,000 sqm already under construction. Many companies still prefer built-to-suit solutions; however, the number of speculative projects is also increasing.

In Q4 2019, the Vilnius warehouse market observed completion of Liepkalnis Industrial Park (stage III), which supplemented speculative stock with GBA of 30,000 sqm, as well as BSP LC expansion for tenant Rhenus Logistics with GBA 4,900 sqm. The new development pipeline with GBA 79,900 sqm was under construction at the end of the year. It is observed that new speculative supply is affecting the negotiating position of landlords and likewise challenging average rents. In connection to a large supply increase, vacancy demonstrated slight growth, although balanced by demand for higher quality space.

Industrial Trends

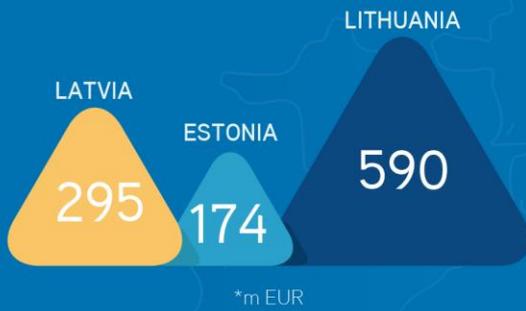


Source: Colliers International

- > 2020 will see the expansion of the DIY segment in Tallinn, incl. the opening of the first DEPO store in Estonia. Grocery retailers will continue to seek possibilities for further expansion in Tallinn and its suburbs.
- > Riga shopping centre stock will continue to increase in 2020 with a new shopping centre opening, existing ones adding more services, dining and entertainment and with older ones being forced to come up with new concepts.
- > The retail market is forecast to be rather calm in Vilnius, with the opening of a new DIY store. Existing shopping centres will benefit from this situation, although retailers will continue to face stronger competition from e-commerce.
- > The warehouse and industrial property market in Tallinn region is expected to remain active in terms of new (mostly built-to-suit) developments and buoyant demand for modern quality space.
- > A large increase of industrial stock is expected in Riga in 2020, though a lack of new companies entering the market might push up vacancy and put some pressure on rent rates. Stock Offices are also expected to strengthen their position in Riga.
- > The warehouse market in Vilnius is forecast to remain active, seeing development of more projects focused on companies' own needs.
- > Attention to sustainability will further strengthen, although mostly in the office segment.

INVESTMENT

INVESTMENT VOLUME IN 2019



PRIME YIELDS



OFFICE

RENTS



SPECULATIVE OFFICE STOCK



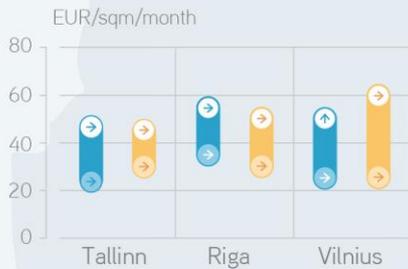
VACANCY RATES



*Class A+B1 speculative office stock

RETAIL

RENTS



RETAIL STOCK



VACANCY RATES



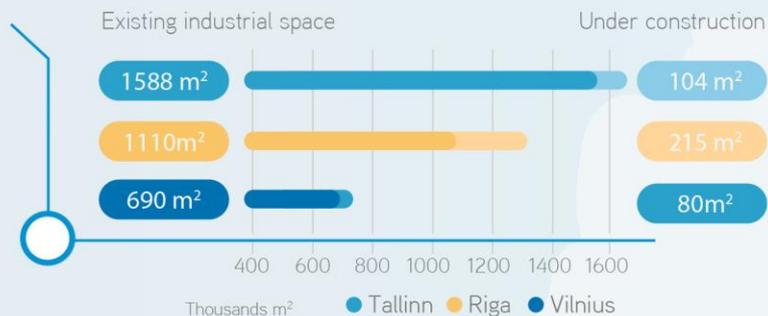
*SC vacancy rates

INDUSTRIAL

RENTS



TOTAL INDUSTRIAL STOCK



VACANCY RATES



*Spec.+BTS

FOR MORE INFORMATION



Maksim Golovko
Research & Forecasting | Estonia
maksim.golovko@colliers.com

Colliers International Advisors
Estonia Office
+372 6160 777
colliers.estonia@colliers.com



Toms Andersons
Research & Forecasting | Latvia
toms.andersons@colliers.com

Colliers International Advisors
Latvia Office
+371 67783333
colliers.latvia@colliers.com



Diana Lebedenko
Research & Forecasting | Lithuania
Diana.Lebedenko@colliers.com

Colliers International Advisors
Lithuania Office
+370 5 2491212
colliers.lithuania@colliers.com

