CBRE
Baltics
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MARKETVIEW

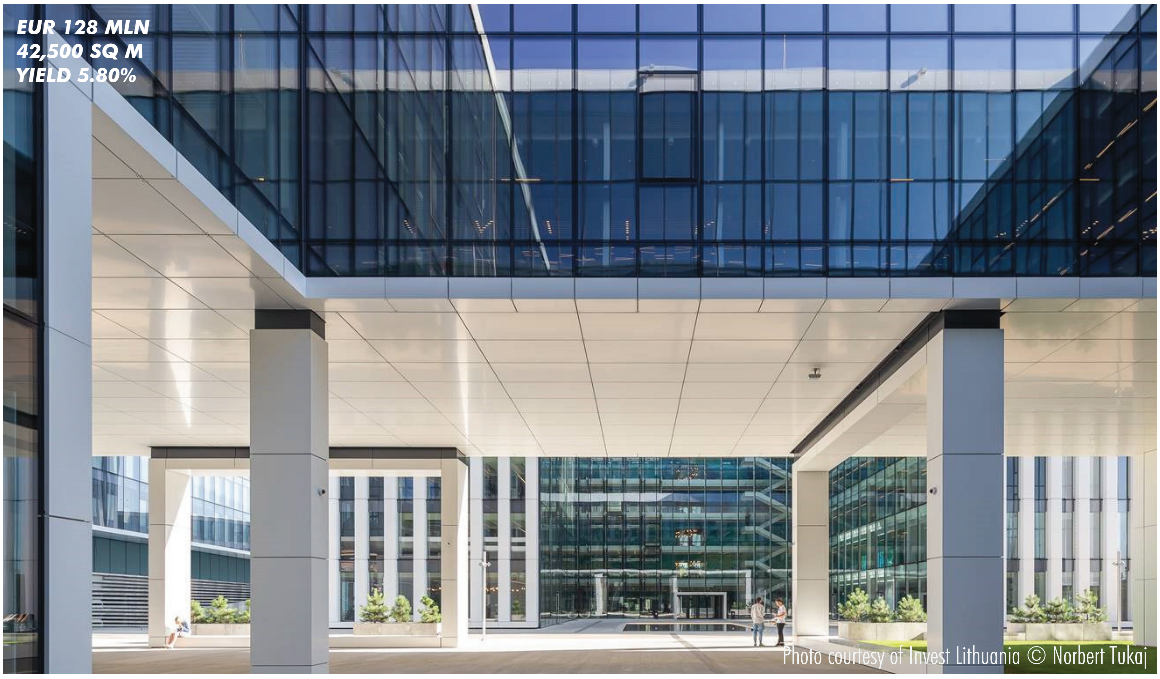
Baltics Investment, H1 2019

Another modest period, yet investors continue to seek opportunities

Investment Vol	Transactions	Prm Office Yield	Prm S/C Retail Yield	Prm Logistics Yield
EUR 432 mln	51	5.80-6.25%	6.25-6.50%	7.50%

*Arrows indicate change from the corresponding period of previous year

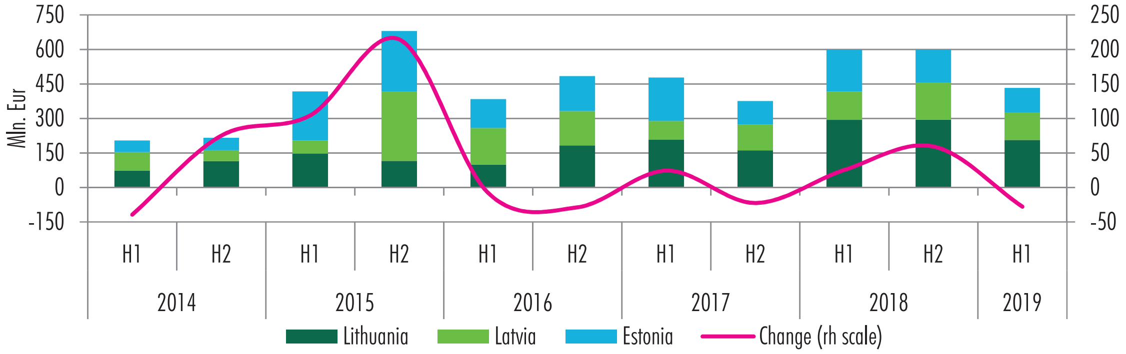
Picture: S7 (I,II,III stages) office project in Vilnius acquired by Eastnine



KEY POINTS

- In H1 2019 GDP increased by within the 2.4-4.2% y/y range in the Baltics. The projections for the future growth broadly remain unchanged, at above 3% in 2019 and above 2.5% in 2020.
- The pace in the Baltics' investment market has decreased. In H1 2019, total investment volume reached EUR 432 mln and was 28% lower compared to the same period a year ago.
- There were only six deals of over EUR 10 mln, while at the same time a year ago there were 14 such transactions.
- Eastnine acquired 3 of the 4 buildings within the S7 project in Vilnius from M.M.M. projektai for 128 mln at 5.8% yield. The S7 sale accounted for more than 70% of the office investment volume in the region.
- Investments in retail decreased by 50% y/y and were the primary factor involved in the overall slowdown.
- The transaction volumes in the industrial sector increased by 72% y/y.
- Yields have dwindled marginally for office and industrial properties.
- In H1 2019, investment activity in Europe was weaker compared to the same period a year ago. Commercial real estate investment in Europe (excluding Russia) decreased by 11%. Hotels was the only sector that recorded higher investment volumes.

Figure 1: Investment Volume by Country 2014-H1 2019, Semi-Annual



Source: CBRE, Q3 2019

ECONOMY

Despite global uncertainty and worsening international economic conditions, economic growth in the Baltics remained solid. In H1 2019 GDP increased at within the 2.4-4.2% y/y range in the Baltic states. The projections for future growth remain broadly unchanged, at above 3% in 2019 and above 2.5% in 2020.

Inflation in the region has decreased and is projected to moderate further in the upcoming years, whilst remaining at a healthy level of just above 2%. In H1 2019 the average inflation rate in the Baltics ranged between 2.6% and 3.1%.

Long lasting economic growth has had a positive impact on improving labour conditions. However, the unemployment rate has stopped decreasing significantly. In H1 2019, the average unemployment rate was somewhat lower compared to the same period a year ago.

Bank lending conditions in the region continue to worsen. In H1 2019, the average cost of borrowing for businesses increased in the Baltic states and currently stand at 2.6-3.1%, while at the same time it slightly dropped in the Euro area.

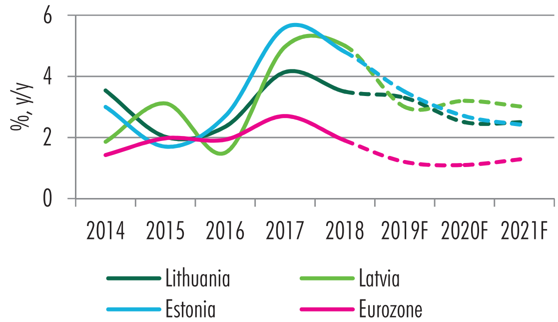
BALTICS - INVESTMENT ACTIVITY

Although demand continues to be robust in the Baltics, the limited supply of quality assets has slowed investment activity. The pace in the regional investment market was significantly lower than a year ago. In H1 2019, total investment volume reached EUR 432 mln and was 28% lower compared to the same period in 2018. The slowdown was primarily a result of fewer investments in retail, while growth was recorded only in the industrial and hospitality sectors.

The office sector traditionally led the investment market, constituting 41% of the total transaction volume. It was followed by retail, industrial, and hotels, which accounted for respectively a 27%, 27%, and 4% share of the market.

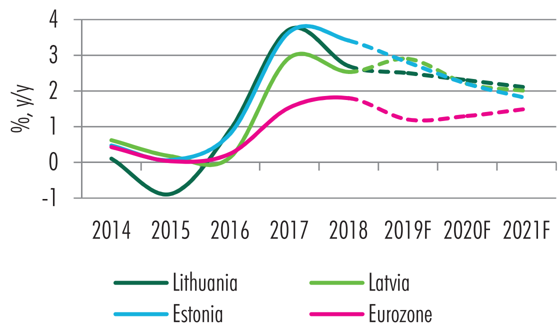
The investment volume in Latvia was only marginally lower compared to the last year's result, while Lithuania and Estonia observed significantly lower volumes. However, transactions in Lithuania still

Figure 2: GDP growth and forecast



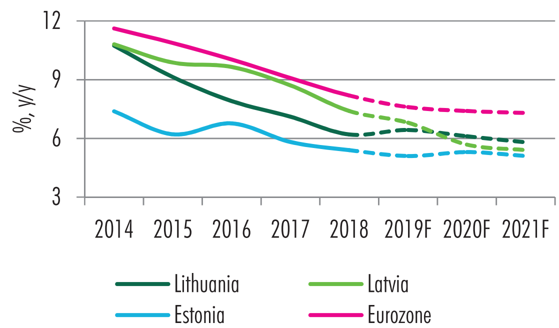
Source: Oxford Economics, CBRE Baltics, Q3 2019

Figure 3: Inflation rate by country



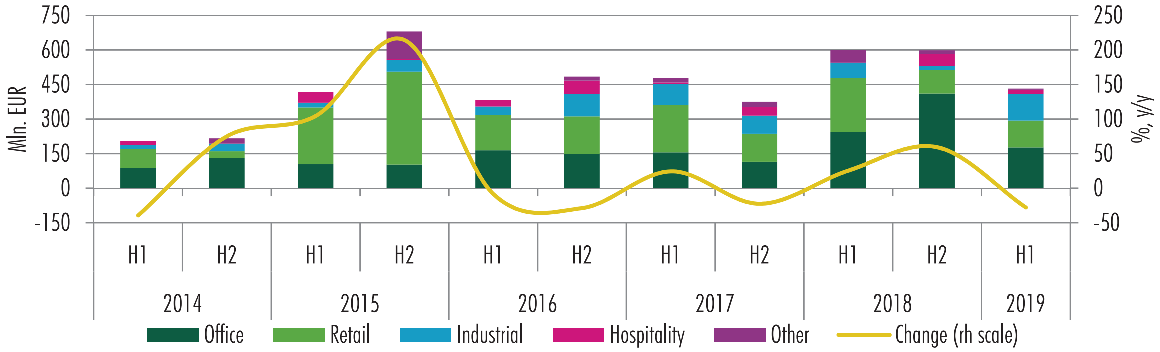
Source: Oxford Economics, CBRE Baltics, Q3 2019

Figure 4: Unemployment rate by country



Source: Oxford Economics, CBRE Baltics, Q3 2019

Figure 5: Investment Volume by Sector 2014-H1 2019, Semi-Annual



Source: CBRE, Q3 2019

accounted for 48% of the volume. Latvia followed it with 28% and Estonia with 24%.

The decrease in the market was also apparent in the number of deals and in terms of average deal size. The market has witnessed some large deals within the local market. However, there was a noticeable lack of mid-sized properties sold at the EUR 10-50 mln price range popular with domestic institutional investors. In H1 2019, there were six deals over EUR 10 mln, while at the same time a year ago there were 14 such transactions.

It is expected that by the end of the year and early next year the investment volume should pick up as there are ongoing multiple large-scale acquisitions in the late stages, of which at least a few should materialize.

OFFICES

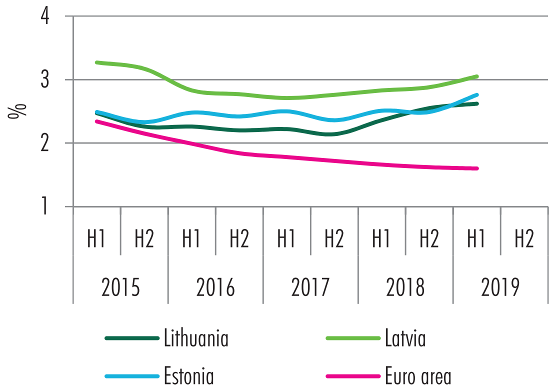
During H1 2019, the office market was very calm. At the very start of the year, a large deal by was completed by Eastnine, which acquired 3 of the 4 buildings at the S7 project in Vilnius from M.M.M. projektai for 128 mln at 5.8% yield. The S7 transaction accounted for more than 70% of the office investment volume in the region. Other than this, the Baltics observed only small-scale office transactions well below EUR 10 mln. The S7 transaction reinforced the prime office yield in Vilnius at below 6%. The yields in the other two capital cities – Riga and Tallinn – stand at 6.25%.

Another noteworthy transaction is an acquisition of Finnish office company Technopolis by Kildare Partners, executed at the end of 2018 with additional details announced in Q1 2019. The portfolio was valued at EUR 1.665 billion, of which up to EUR 230 million could be attributed to properties in Vilnius and Tallinn. The transaction is among the largest recorded in Baltics. The entry of Kildare Partners is significant and gives confidence to other large investment managers considering the region.

RETAIL

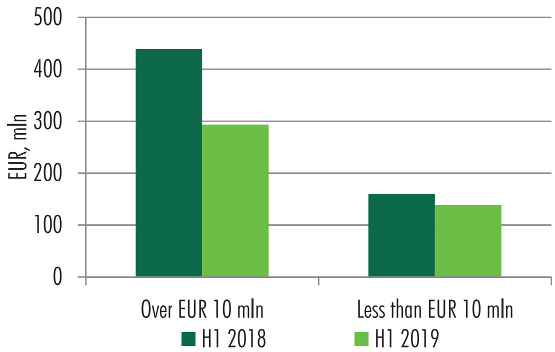
During the first half of the year, investments in retail slowed down by 50% compared to the same period in

Figure 6: Cost of Borrowing for Non-Financial Corporations



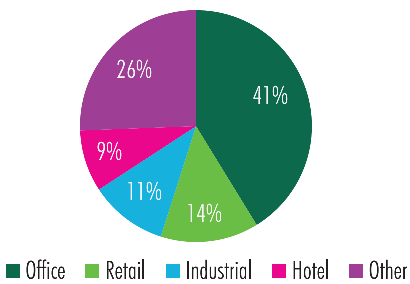
Source: CBRE Baltics, Q3 2019

Figure 7: Investment volume by transaction size



Source: CBRE Baltics, Q3 2019

Figure 8: Investment volumes by sectors in Europe



Source: CBRE Research, Q3 2019

2018. There was one significant transaction that occurred in Riga. Baltic Horizon Fund acquired Galerija Centrs Shopping Centre from Linstow for EUR 75 mln at 6.7%. In a similar fashion as offices, the other recorded retail transactions were mostly of a small scale of below EUR 10 mln.

INDUSTRIAL

In H1 2019, the industrial sector outperformed other main sectors, mirroring the trend observed across many European countries recently. Investment activity in the industrial sector picked up significantly. The transaction volumes increased to EUR 115 mln or 72% y/y. There were three transactions of a larger scale, one for each country. In Estonia, Corum acquired the Harmet Modular Houses production site from ITT Capital for EUR 29 mln. In Lithuania, Domestique Industrial Real Estate Fund purchased a yet to be built wood processing site Akmenes Projektai from Vakaru Medienos Grupe for EUR 26 mln. In Latvia, Mariner Capital acquired a logistics complex next to Riga International Airport.

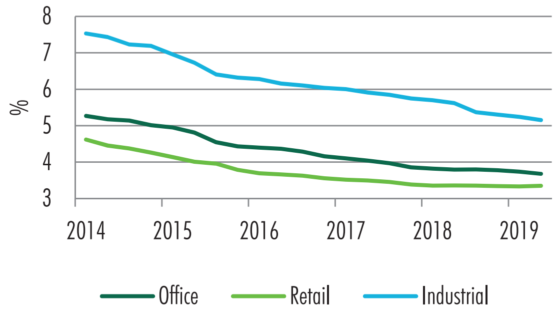
Industrial yields have moved downward during the half year. Currently, a prime warehouse yield stands at 7.5% across all three states.

EUROPEAN INVESTMENT ACTIVITY

In H1 2019, investment activity in Europe was weaker compared to the same period a year ago. Commercial real estate investment in Europe (excluding Russia) decreased by 11%. The retail sector contracted by 34%, while hospitality was the only sector that recorded semi-annual growth of 4% y/y.

Yields have somewhat stabilized or only slightly decreased across the continent as investors' confidence has slumped since the beginning of the year. On the other hand, interest rates remain very low without bright prospects of increasing, therefore forcing investors to diversify into secondary markets or away from the main sectors while seeking higher yields. In H1 2019, offices and industrial estates recorded slightly lower yields throughout the European countries compared to the end of 2018 while retail yields were marginally higher, especially for secondary shops and shopping centres.

Figure 9: Eurozone yield indexes



Source: CBRE Research, Q3 2019

Figure 10: Yields in H1 2019 in selected Eurozone countries and change direction compared to the previous period

Prime	Offices	Retail S/C	Industrial
Lithuania	↓5.80	6.50	↓7.50
Latvia	↓6.25	6.75	↓7.50
Estonia	6.25	6.25	↓7.50
Austria	↓3.65	↑4.10	↓5.10
Belgium	↓4.10	↑4.25	↓4.75
Finland	↓3.40	4.60	5.00
France	3.00	↑3.85	↓4.30
Germany	2.90	↑4.00	↓3.80
Greece	↓6.25	7.75	↓9.00
Ireland	4.00	↑5.50	5.10
Italy	3.40	↑5.25	↓5.30
Netherlands	↓3.20	↑5.15	↓4.30
Portugal	↓4.25	4.75	6.50
Slovakia	↓5.85	↑5.75	6.50
Spain	↓3.50	4.75	↓5.15

Source: CBRE Research, Q3 2019

Figure 11: Selected Investment Transactions in the Baltics , H1 2019

No.	Property	Sector	Investment, mln EUR	Country	Investor	Vendor
1	S7 (I-III stages)	Office	128.0	Lithuania	Eastnine	M.M.M. projektai
2	S/C Galerija Centrs	Retail	75.0	Latvia	Baltic Horizon Fund	Linstow
3	Harmet modular houses	Industrial	28.9	Estonia	Corum	ITT Capital
4	Akmenes projektai	Industrial	26.0	Lithuania	Domestique Industrial Real Estate Fund	Vakaru medienos grupe
5	Elipse BLC	Industrial	20.6	Latvia	Mariner Capital	Private

Source: CBRE Baltics, Q3 2019

RESEARCH DEFINITIONS

Sellers' Market - a market situation where sellers are outnumbered by buyers by a big margin and the quantity of income generating commercial properties available for sale becomes far less than the quantity demanded. As a result, sellers are able to increase the prices and obtain better sale conditions and the situation becomes favourable for sellers.

Prime Yield – represents the net yield that an investor would receive when acquiring a class A building in a prime location (for an office in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

Transaction Count – the number of single investment transactions in the Baltic region during the research period; portfolio transactions across the Baltic region are counted as one transaction. The transaction count may differ if counted for each country separately - in that case a portfolio transaction could be divided by the number of properties located in each country.

Cap Rate (%) – represents the projected net pre-tax return (net operating income) on the capital employed from ownership of a property without consideration of the cost of financing or purchase costs. In terms of calculation, it is the rate at which net operating income is discounted to determine the value of a property.

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  - Consulting,
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  - Tenant Representation,
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