

## Investment Market

### Transaction Volume

The total volume of investment in commercial real estate in the Baltics amounted to EUR 611 million in 1HY 2018, thus surpassing the record level achieved in 1HY 2015.

Total investment turnover in the Baltic States increased by 22 per cent in 1HY 2018 in comparison to EUR 502 million closed in 1HY 2017.

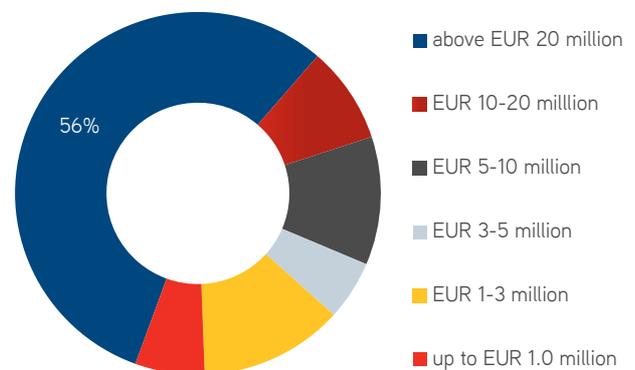
Lithuania leads in terms of volume of investment in commercial real estate with EUR 321 million (which is over half of total Baltic investment volume), followed by Estonia with EUR 164 million and Latvia with EUR 126 million. Even though 2018 saw a soft start to the year, the second quarter was distinguished by several large investment transactions in all three Baltic States but most notably in Lithuania. It is also important to note that investment in development schemes in Latvia, totalling an additional EUR 51 million in 1HY 2018.

Average transaction size across the market as a whole was EUR 4.4 million in 1HY 2018 (compared with EUR 4.0 million in 1HY 2017).

The increase in average transaction size can be attributed to the large number and volume of deals over the EUR 20 million threshold in 1HY 2018 (ca 56 per cent of total volume).

At the same time, approx 80 per cent of the total number of transactions in 1HY 2017 in the Baltic States were deals of less than EUR 3 million.

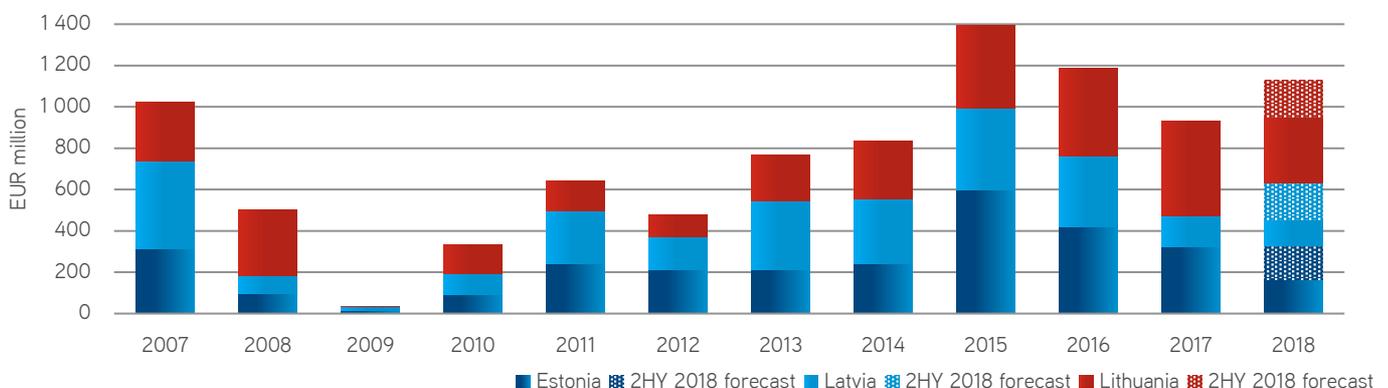
### Investment Turnover in the Baltic States by Size in 1HY 2018



Source: Colliers International

Baltic investors were the most active in the market, responsible for 53 per cent of total volume in the Baltic States, followed by international and Nordic investors, accounting for 33 per cent and 14 per cent of total volume respectively. The share of TOP3 investors – NEPI Rockcastle, Lewben Investment Management and East Capital – amounted to 40 per cent of total investment volume in the Baltic States.

### Dynamics of Investment Volume in the Baltic States



Source: Colliers International

In Estonia, local capital was responsible for almost two-thirds of acquisitions in 1HY 2018, while traditionally active Nordic investors preferred to sell assets instead.

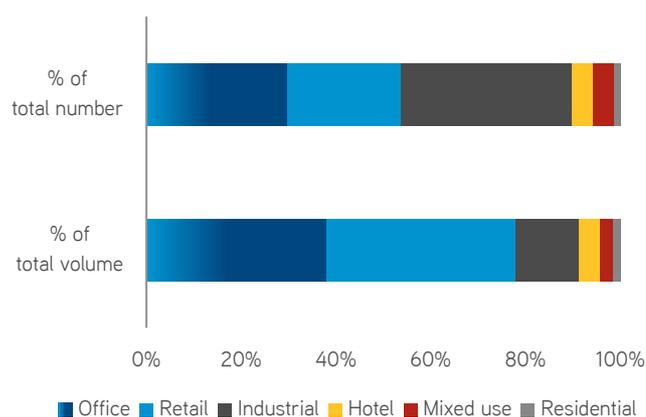
Even though domestic investors have become more active in the investment market in Latvia (for example, a domestic commercial real estate fund managed by SG Capital closed its first deal with the acquisition of a fully occupied office building at Brivibas 39), investment grade products are still mostly acquired by Scandinavian funds.

The Lithuanian investment market continues to gain stronger confidence among international investors. Thus, in 1HY 2018, the largest deal was concluded by a new international player in the Baltics, the South Africa-listed investor NEPI Rockcastle. Another new investor was American company LCN Capital Partners. Consequently, activity by international investors grew sharply, even reaching 48 per cent of total volume in 1HY 2018 in Lithuania.

## Investment Properties

The retail segment attracted the biggest share of investment (40 per cent) in the Baltics, being the main investment activity driver in Latvia and Lithuania in the first half of the year. In Lithuania, investment in retail property accounted for over half (52 per cent) of total volume, driven by the acquisition of Ozas SC by NEPI Rockcastle for EUR 125 million and the sale of BIG SC in Klaipeda to Dutch capital company Westerwijk Klaipeda for EUR 25 million. In Latvia, investment in retail property accounted for 46 per cent of total volume due to the acquisition of SC Galleria Riga by East Capital.

### Investment Turnover in the Baltic States by Property Sector in 1HY 2018



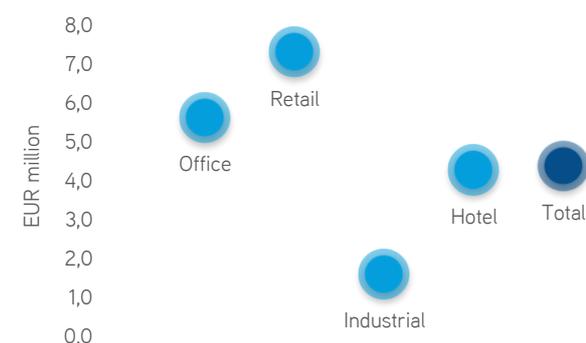
Source: Colliers International

Other notable deals in the retail segment included the sale of the former Prisma store in Vilnius for EUR 6.3 million and the acquisition of Kärberi Centre in Tallinn and two Maxima stores in Narva and Tallinn by Lumi Capital.

Investment in the office segment attracted the second biggest share of total transaction volume in the Baltic States in the first half of the year, accounting for 38 per cent of total volume, and being the main investment activity driver in Estonia (with 60 per cent of total Estonian volume). The most notable office deals in Tallinn included the sale of a 14-storey Class A office building (Luminor HQ) in Tallinn CBD as well as the sale of the Marienthal commercial centre to EfTEN Capital for more than EUR 24 million, the acquisition of the Järvevana tee 7b office building by Capital Mill from the developer company and the sale of the Maakri 23a office building to Fausto. Notable office deals in Vilnius and Riga included the acquisition of the Business Triangle office complex by Lewben Investment Management and the Evolution business centre (Class B1) by EfTEN Capital for EUR 9.0 million in Vilnius, and the sale of Alojās Biznesa centrs, a Class A office project in Riga, to Eastnine for EUR 24.8 million. Additionally, Q3 2018 started with two significant transactions in the office sector in Latvia: SG Capital made their second investment by acquiring the Dutes nami office building, while Baltic Horizon Fund acquired the LNK Centre (Class A) for EUR 17 million.

At EUR 83 million, investment in industrial/warehouse property accounted for the third largest share of transaction volume in 1HY 2018. Remarkable deals in the industrial segment included the sale for EUR 7.8 million of Business Park Vilija (stage I) in Vilnius to KS Investicija, which owns current tenant Eugesta, and the acquisition of the Advantec factory in Klaipeda by LCN Capital Partners for EUR 3.9 million; the sale of the newly constructed and fully occupied warehouse building in Marupe to East Capital for EUR 10.7 million; the acquisition of the Lasbet Reinforced Concrete Products Factory and the sale of two Stock Office properties in Tallinn.

### Average Transaction Size by Sector



Source: Colliers International

The share of hotel deals in total transaction volume remained rather low in 1HY 2018 due to the very small number of transactions, though with one remarkable deal closed in Vilnius, where ImmoBilitas acquired the newly opened 5\* Hotel Pacai in the Vilnius Old Town.

## Investment Yields

In 1HY 2018, prime yields remained largely stable, influenced mainly by tightening competition and harder financing conditions. In Vilnius, prime yields compressed in the industrial segment, reaching 7.75 per cent due to the increasing attractiveness of industrial assets, while prime office and retail yields remained stable at 6.5 per cent.

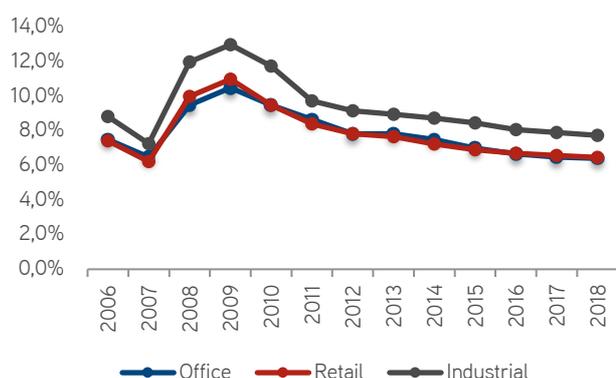
### Prime Yields in the Baltic States by Country

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 Riga, prime yields remained stable at 6.5 per cent in the office and retail segments and at 7.75 per cent in the industrial segment.

### Average Prime Yield Dynamics in the Baltic States, 2006 – 2018



Source: Colliers International

In Estonia, prime yields remained at 6.25 per cent in the office sector, 6.4 per cent in the retail sector and 7.75 per cent in the industrial sector.

### Investment Deals in the Baltic States of over EUR 15 million in 1HY 2018

Object	City	Type	Total area, sqm	Vendor	Investor
Ozas SC	Vilnius	Retail	93 000	ARENA Zweite Verwaltungs GmbH	NEPI Rockcastle
Business Triangle	Vilnius	Office	30 900	MG Valda	Lewben Investment Management
SC Galleria Riga	Riga	Retail	36 895	Fritrade SE, Titan Invest	East Capital
Luminor HQ	Tallinn	Office	15 000	Arealis	Rondam
Alojas Biznesa Centrs	Riga	Office	10 590	LNK Group	Eastnine
BIG SC	Klaipeda	Retail	19 920	Partners Group	Westerwijk Klaipeda
Marienthal Centre	Tallinn	Office/Retail	20 050	Gildhall	EfTEN Capital
Hotel Pacai	Vilnius	Hotel	7 360	BJK	Immobilitas

Source: Colliers International

## Tendencies and Forecasts

- > Colliers foresees transaction volume in 2018 exceeding EUR 1.1 billion in total, thus surpassing the level achieved in 2017.
- > 2018 has the potential to become a recording-breaking year in Lithuania in terms of investment volume, considering impressive transaction volume closed in the first half of the year.
- > New global investors will continue to enter the Baltic market in search of higher returns than in Western Europe or Scandinavia.
- > Commercial properties located in capital cities will remain the top priority for investors. In addition, Lithuania's second largest city, Kaunas, is becoming more attractive for investors due to supply of new projects, especially in the office segment.
- > Sector-wise, the office and retail sectors will remain the most favoured by investors, international and local alike.
- > Despite the higher level of risk, investors increasingly consider alternative investment options in the development segment due to higher returns.
- > Although interest rates remain low, bank lending is becoming more conservative, affecting LTV ratio.
- > Competition for bank financing in Latvia has grown since the closure of ABLV bank.
- > There is a room for further yield compression in Lithuania due to limited supply of investment grade products and high investor appetite.
- > At the same time, tightening competition and harder financing conditions may have a more significant impact in the future, resulting in some possible pressure on yield increase in Estonia and Latvia, especially in the retail segment.

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413 offices  
69 countries  
6 continents

United States: 145

Canada: 28

Latin America: 23

Asia Pacific: 86

EMEA: 131

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€2.4

billion in  
annual revenue

180

million square meters  
under management

15,400

professionals and staff

**AUTHORS:**

**Maksim Golovko**

Research & Forecasting | Baltics  
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 6778 3333  
colliers.latvia@colliers.com

**Diana Lebedenko**

Research & Forecasting | Lithuania  
diana.lebedenko@colliers.com

**Colliers International Advisors | Lithuania Office**

+370 5 249 1212  
colliers.lithuania@colliers.com



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