

Baltic States

Investment Market

In Q1 2019, total known investment volume in Estonia amounted to ca EUR 65 million, driven strongly by the industrial segment (with more than two-thirds of total Estonian investment volume). Q1 2019 saw the sale of the Harmet production facility (28,000 sqm, completed in 2017) in Harku parish to Corum (sale-leaseback deal; lease length – 15 years). Other notable deals in Q1 2019 included the acquisition by United Partners of the DPD & Onninen Logistics Park in Põrguvälja Industrial Park next to Jüri borough. Prime yield remained rather stable in Q1 2019. Harder financing conditions are putting pressure on yields. Financing may have an even bigger impact in the near future.

Key Investment Figures in the Baltic States, Q1 2019

Prime Yields	Estonia	Latvia	Lithuania
Office	6.25%	6.45%	5.8%
Retail	6.4%	6.5%	6.5%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

In Q1 2019, activity in the Latvian investment market remained high, seeing two notable deals – acquisition of the Elipse BLC (speculative industrial project, Class A) in Marupe by Mariner Capital Limited (part of Hili Company) and sale of the neighbourhood centre in Imanta district of Riga with Rimi and MyFitness as anchor tenants to Lumi Capital. No notable deals in the office segment were finalized during Q1 2019, though increased activity has been observed with small-scale non-professional office buildings. The development market also continues to be active, especially the residential segment with LNK Properties acquiring Ezerparka nami II project, Vastint acquiring 17.8 ha of land, Bonava acquiring 3 land plots with total area 3.4 ha and YIT acquiring a 5.4 ha land plot. Prime yields remained stable.

In Q1 2019, activity in the Lithuanian investment market remained heightened with total investment volume surpassing EUR 170 million. This is mostly due to the sale of the S7 office

park (stages I, II, III) with total GLA of 42,500 sqm to Eastnine for EUR 128.3 million, representing a yield of 5.8% (the largest ever deal in the Lithuanian office segment so far). Other real estate segments recorded calmer investment activity at the beginning of 2019. As a result, prime office yields compressed by 20 bps, while prime retail and industrial yields remained stable compared to year-end 2018.

Office Market

Development in the Tallinn office market remains active with a total area of approx. 119,550 sqm (16 projects) under construction in March 2019. Q1 2019 saw completion of the Ovaal House (6,000 sqm) in the Veerenni area in the city centre and the start of construction work on Mauruse Maja (office building and a multi-storey car park with commercial GLA of 7,770 sqm) in Mustamäe city district plus a new BtS office development (Heathmont HQ) in Põhja-Tallinn city district. Co-working is gaining momentum in Tallinn – Workland announced the opening of the Workland Maakri centre (800 sqm) in summer 2019 and co-working premises in the Porto Franco BC (2,400 sqm) in 2020. Additionally, a brand-new workspace in Tallinn CBD, UMA Maakri (1,800 sqm), will also open its doors during the summer of 2019.

Key Office Figures in the Baltic States, Q1 2019

CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	13.5-16.8	14.0-16.0	14.7-16.5
B1 Class Rents	9.5-14.0	10.0-13.5	9.0-13.5
A Vacancy*, %	6-7%	3-4%	4-5%
B1 Vacancy*, %	5-6%	4-5%	4-5%

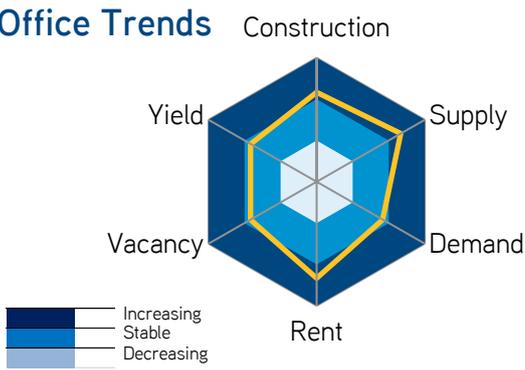
Source: Colliers International EUR/sqm/month; *-speculative office market vacancy rate

Rent rates remained largely stable, while vacancy continued to slightly tighten with the vacancy rate for Class B1 buildings continually remaining below the 6.0% level in Tallinn.

The Riga office market remained largely stable in Q1 2019 with no new additions to stock. Demand for office space remains considerably low and Class B2 office buildings commissioned during 2018 are still vacant. Pre-lease activity also remained lower than anticipated. The momentum gained by co-working spaces in 2017-2018 is likely to continue this year as well, with

Workland announcing the opening of co-working premises (1,400 sqm) in the Telegraph office building in Q2 2019.

Office Trends



Source Colliers International

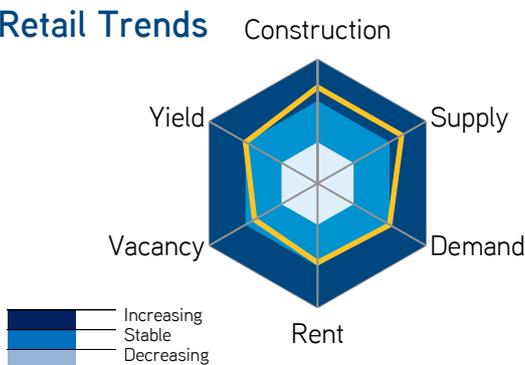
Asking rent rates for Class B1 office premises currently under construction in Riga are close to the rental level of existing Class A premises, forcing tenants to choose between a central location or newer and higher quality premises instead.

In Q1 2019, the Vilnius office market witnessed a busy start to the year, seeing the completion of two Class A business centres in CBD - S7 (stage II) and Asgaard Keys, while GLA 156,500 sqm (13 projects) remained under construction at the end of the quarter. The largest lease deals in Q1 2019 included Bentley Systems, a global software supplier, occupying 2,700 sqm in Uptown Park BC and MarkMonitor and Tia Technology, occupying 1,700 sqm and 1,500 sqm in Park Town BC (stage II) respectively. Rent rates remained stable compared to the previous quarter, while vacancy slightly declined.

Retail Market

Latest activity in the retail segment in Tallinn (opening of the T1 Mall of Tallinn SC in November 2018) results in intensifying industry rivalry and decreasing footfall. Shopping centres aim to diversify the tenant mix and increase the share of tenants providing leisure and catering (e.g. the new food court concept in Kristiine Centre). PEPCO, a Polish low-cost clothing and household chain, continues to expand, opening a new store in Kristiine Centre in February and planning further new openings across Estonia in 2019. Opening of new-format smaller grocery stores is gaining momentum in Tallinn, with March seeing the opening of the Melon Rimi Express store in Tallinn CBD next to Viru Centre, while Maxima announced the opening of its Maxima Express store (100 sqm) in Old Town in summer 2019. IKEA finally announced that it will be coming to Estonia – an IKEA pick-up point with total area of ca 6,000 sqm, of which 1,500 sqm will be dedicated to showrooms with the remaining 4,000 sqm for logistics and e-commerce handling needs, will be located in Tallinn at Peterburi tee 66. Colliers provides tenant representation services to IKEA.

Retail Trends



Source: Colliers International

In Q1 2019, the Riga retail market remained active, preparing for the opening of the long-awaited Akropole shopping centre in April with more than 170 tenants, including many new brands earlier not present in Latvia. Akropole will be the largest shopping centre in Latvia until completion of the extension to the Alfa shopping centre. In Q1 2019, VPH announced plans to build a home & lifestyle shopping centre in Stopini next to IKEA. The grocery segment also remains active – Rimi opened its 7th Rimi Express concept store on Gertrudes street and reopened its supermarket in newly built premises in Purvciems district (also anchored by MyFitness). Maxima opened a Maxima XXX hypermarket in Grostonas street (in the former Prisma premises) and announced plans to build a store next to the State Revenue Service office complex.

In Q1 2019, the Vilnius retail market saw the start of preparing the ground for Vilnius Outlet construction, which is expected to be completed in 2020. The shopping centre has been successfully collecting pre-leases by various tenants, including Rimi, Apranga, Lemon Gym, and others. In addition, Q1 2019 saw the start of reconstruction work on GO9 SC, while renovation work continued on Akropolis shopping centre. New brands will enter the market this year – the first COS store by H&M and the first O'Learys sports bar and restaurant (over 2,000 sqm) in the Akropolis shopping centre. Strong demand for retail premises kept vacancy in major shopping centres at a low level, while rent rates continued to fluctuate within the existing range.

Key Retail Figures in the Baltic States, Q1 2019

	Tallinn	Riga	Vilnius
Prime SC Rents*	24-48	35-55	25-50
Prime High Street Rents*	30-48	35-50	25-60
Vacancy in SC	1.6%	1.2%	1.4%

*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. 84,040 sqm under construction in March 2019, driven by construction of the new Eugesta LC (9,960 sqm in total), the Module Tech production facility and several Stock Offices (Priisle Business Park, Kadaka 133, Artelli 19, Liimi 4, Peterburi tee 101b, Härgmäe 21). At the same time, demand for Stock Office space continues to somewhat soften due to active development and high asking rent rates. Overall, rent rates continue to fluctuate largely between 3.5-4.8 EUR/sqm, while vacancy stood at 4.1% by Q1 2019.

Key Industrial Figures in the Baltic States, Q1 2019

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-5.0
Vacancy	4.1%	1.6%	1.2%

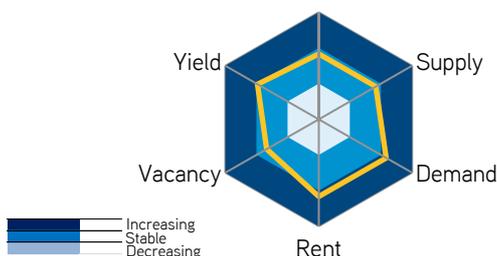
*EUR/sqm/month

Source: Colliers International

Riga industrial stock remained unchanged in Q1 2019, though three projects are expected to be added to the market in Q2 2019. Vacancy persists at a low level, resulting in slightly increasing rents for new premises. LNK announced plans to invest EUR 12 million in Stock Office project Dienvidu Varti (construction work is expected to start this year).

In Q1 2019, the Vilnius warehouse market was quite tranquil. The development market was active with GBA of 46,700 sqm (2 projects) under construction at the end of the quarter, of which 64% is being developed on a speculative basis. Vacancy in the Vilnius region shrank further, proving strong demand for modern warehouse premises. Nevertheless, rent rates continued to fluctuate within the same range, maintaining a competitive advantage over new large speculative volume supplementing the market later this year.

Industrial Trends Construction



Source: Colliers International

Economy

- > According to Statistics Estonia, GDP of Estonia increased 4.2% in Q4 2018 compared to Q4 2017, driven the most by construction for the seventh quarter in row. Significant contributions to the growth came also from manufacturing, followed by professional, scientific and technical activities, information and communication, and transportation and storage activities. In Q4 2018, as compared to Q4 2017, GDP has increased by 4.7% in Latvia (driven by growth in construction (by 10.3% y-o-y), transportation and storage (+13.7%), information and communication (+13.7%) and manufacturing (+0.8%). The GDP growth in Lithuania was 2.4% y-o-y in Q4 2018. The fastest growth in the value added was observed in enterprises engaged in construction (+12.7%), wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities (5.2%), professional, scientific and technical activities; administrative and support service activities (3.6%) and manufacture (3.1%).
- > In Q4 2018, inflation (HICP): in Estonia stood at 3.7% compared with 3.5% in Q3 2018; in Latvia remained stable at 2.9% in Q4 2018; in Lithuania slightly rose to 2.3% in Q4 2018 from 2.2% in Q3 2018.
- > According to the data of the Baltic States' statistical offices, in Q4 2018, the highest unemployment rate of persons aged 15-74 was recorded in Latvia (6.9%), the lowest – in Estonia (4.4%), while in Lithuania it stood at 6.0%. Over a quarter, in Estonia, the unemployment rate decreased by 0.8 percentage points, in Latvia – decreased by 0.1 percentage points, while in Lithuania, it increased by 0.1 percentage points.
- > In Q4 2018, the retail sales index rose by 2.2% in Estonia and by 2.7% in Latvia. One of the highest annual increases in total retail trade among the EU Member States was registered in Lithuania (+6.4% y-o-y in Q4 2018), according to Eurostat.
- > In Q4 2018, the average monthly gross wages and salaries were EUR 1,384 in Estonia, and compared to Q4 2017, the average monthly gross earnings grew by 8.9%. Compared to Q4 2017, gross wages and salaries in Q4 2018 have risen by 8.3% in Latvia – from EUR 961 to EUR 1,042. In Q4 2018, against Q4 2017, average gross monthly earnings increased by 9.7% in Lithuania and amounted to EUR 970.

Source: National Statistics, Eurostat

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