



## Baltic States

### Investment Market

In Q2 2018, total known investment volume in Estonia amounted to ca EUR 65 million, driven by the sale of the 14-storey Class A office building (Luminor HQ) in Tallinn CBD and the acquisition of Kärberi Centre (anchor tenants - Selver and MyFitness) by Lumi Capital. Overall, the investment market remained reasonably active in 1HY 2018 with total volume reaching EUR 164 million. The office segment remained investors' most favoured choice, attracting almost two-thirds of total volume in 1HY 2018. Prime yields remained stable, influenced mainly by tightening competition and harder financing conditions, resulting in some possible pressure on yield increase in the future.

#### Key Investment Figures in the Baltic States, Q2 2018

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 Q2 2018, total investment volume in Latvia exceeded EUR 65 million, driven by activity in the retail and industrial segments. The most notable deals in Q2 2018 included the acquisition of SC Galerija Riga and the purchase of the newly constructed P5 logistics and industrial complex in Marupe, both by East Capital Baltic Property Fund III, followed by the sale of the Open Office project (Class B) in Brivibas street to SG Capital Partners Fund for EUR 6.3 million. Additionally, Latpro 2 AS (New Agenda Partners) purchased Penta SC in Mezciems. Several significant deals in the office segment are in the closing stages (e.g. LNK Center to be acquired by Baltic Horizon for EUR 17 million). Prime yields remained stable. However, due to harder financing conditions upward pressure might occur on retail yields.

In Q2 2018, the Lithuanian market witnessed fiery investment recovery with investment volume exceeding EUR 287 million, driven by the retail segment (over 50%). NEPI Rockcastle entered the Baltics with the acquisition of Ozas SC in Vilnius for EUR 125 million. In addition, Partners Group sold BIG SC in

Klaipeda to Dutch capital company Westerwijk Klaipeda for EUR 25 million. The office segment also remained active in the capital city. MG Valda sold the Business Triangle office complex to Lewben Investment Management and EFTEN Capital acquired Evolution BC for EUR 9 million. Additionally, the Advantec factory in Klaipeda was acquired by LCN Capital Partners, a new player in the market, for EUR 3.9 million, demonstrating activity in the industrial segment as well. Prime yields remained unchanged compared to the previous quarter, although yield compression is likely further on in 2018.

### Office Market

Development in the Tallinn office market remains active with a total area of approx. 94,500 sqm (14 projects) under construction in June 2018. Q2 2018 saw completion of the new milestone in CBD – the Maakri 19/21 Office Building, a large-scale high-rise project with approx 18,300 sqm of Class A office space as well as the commissioning of Finest and Zenith Business Centres in CBD, the Järvevana 7b office building in City Centre, the Pirni7 project in Kristiine city district, the start of construction work on the new Taxify HQ in City Centre and the Metalli 5 Office Building in Kristiine city district.

#### Key Office Figures in the Baltic States, Q2 2018

CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	13.4-16.5	13.0-16.0	14.5-16.5
B1 Class Rents	8.8-13.5	9.0-12.0	9.0-13.5
A Vacancy*, %	8-9%	6-7%	<1%
B1 Vacancy*, %	5-6%	9-10%	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, leading to an overall vacancy increase in Tallinn, while rent rates remained steady. At the same time, new office premises continue to show a good absorption ratio. Take-up activity in Tallinn is mainly driven by the ICT sector.

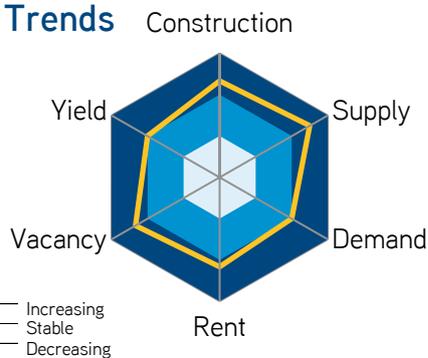
In Q2 2018, the Riga office market saw completion of three projects with total GLA 21,500 sqm, including the Teodors-Jauna Teika office building added to the stock with approx 50%

occupancy. Ca 99,530 sqm of total leasable office space is in the active construction stage. Nevertheless, the volume of office take-up is quite low, nearly reaching GLA 1,800 sqm. The vacancy level increased noticeably, reaching 9% in the speculative segment, partially due to commissioning of a new and not fully occupied Class A office building at Brivibas 21. Recent incidents in the banking sector in Latvia have resulted in

reduction of staff and, consequently, in the need for office space, this being one of the additional reasons for the higher vacancy level. At the same time, it is very likely that existing vacant stock will be absorbed shortly. Changes in rent rates were not observed during Q2 2018.

In Q2 2018, the Vilnius office market was supplemented with Link BC (GLA 8,800 sqm, Class A, fully leased, anchor tenant - Cognizant SSC) located in Zverynas, a part of the central business district that has experienced major office development activity lately. The office development market remained highly active with GLA 128,000 sqm under construction, of which half was pre-leased at the end of Q2 2018. Besides, new development is dominated by Class A office space. In Q2 2018, vacancy in Class A business centres persisted below the 1 per cent level, resulting in a slight growth in rent rates. Nevertheless, upward correction in vacancy is expected later in 2018.

## Office Trends



Source Colliers International

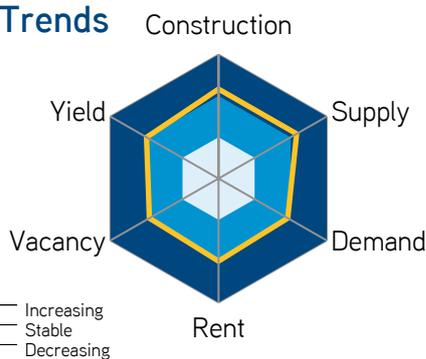
## Retail Market

In Q2 2018, the Tallinn retail development market remained reasonably active, with the opening of the extended Mustakivi Prisma Hypermarket in Lasnamäe city district by approx. 3,500 sqm of leasable space. New tenants in Mustakivi Prisma include PetCity, Lemon Gym fitness club, CityAlko and Almudu restaurant. June 2018 saw the entry to the Tallinn retail market of PEPCO - the new-to-Estonia retail chain offering clothing and household products at very low prices - with the opening of two stores in Magistral and Nautica shopping centres. Additionally, in June 2018, Apollo Group opened O'Learys sport and leisure restaurant, covering 4,000 sqm, while Reserved opened the biggest store in the Baltics in Kristiine Centre.

expand with the opening of express shops in the street retail sector. In addition to five Rimi Express stores opened in Riga, Maxima has entered the market with its Maxima Express brand as well. After a relatively long period of grocery premises being vacant in SC Riga Plaza, Maxima opened an upgraded grocery store (GLA 5,000 sqm) in the shopping centre. The first IMax Cinema in Latvia will open in the new Akropole Riga, which will be a part of Apollo Cinema, while SC Spice has announced plans for future development of Spice Wellness centre. In Q2 2018, rent rates held steady, while vacancy slightly decreased.

In Q2 2018, the Vilnius retail market saw an increase in supply after a yearlong break, recording completion of the Depo DIY store (GLA 30,000 sqm) in Gariunai, while two other Depo stores remained under construction in Vilnius and Kaunas. Kesko Senukai opened a new concept store, Proficentras1000. Existing shopping centres continue to update their tenant mix and concept. The first Oysho store (340 sqm) in the Baltic States opened in Akropolis SC in Vilnius, which has also announced plans to renew an area of over 40,000 sqm in total by the end of Q3 2019. In addition, Panorama SC opened a gastronomy house (1,000 sqm) that unites 20 premium food stores. Vacancy and rent rates remained at the same level compared to Q1 2018.

## Retail Trends



Source: Colliers International

In Q2 2018, the Riga retail market remained active. Currently, more than 167,000 sqm of retail space is under construction, among which approx 72,000 sqm is planned to be commissioned by the end of 2018. Grocery chains continue to

### Key Retail Figures in the Baltic States, Q2 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%	2.6%	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. 104,000 sqm under construction in June 2018. Mixed-use projects, combining business and warehouse space, continue to gain momentum in Tallinn with several new projects completed (e.g. Peterburi tee 47, K1 Stock Office), started (Härgmäe 21, Priisle Business Park, III stage) or in the pipeline (Stock Office projects at Artelli 19, Kadaka 133, Peterburi tee 101b, Tähesaju tee 5/7). Rent rates in the warehouse and industrial segment continue to remain stable, although continually feeling some downward pressure, while vacancy continues to tighten slightly.

### Key Industrial Figures in the Baltic States, Q2 2018

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-5.0
Vacancy	5.0%	2.3%	2.2%

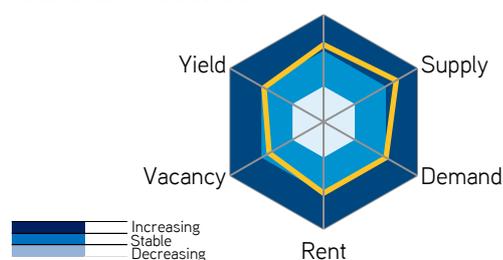
\*EUR/sqm/month

Source: Colliers International

In Q2 2018, the Riga industrial market was supplemented with only one built-to-suit project (3,500 sqm). Nevertheless, more than 105,000 sqm of industrial space is under construction. All new developments, especially large-scale projects, are absorbed prior to completion. Thus, VGP, the largest project under construction in Riga region, already has pre-lease agreements secured for both phases. Developers are seeking new sites for developing industrial/ production space. Total take-up of industrial and warehouse space reached 50,000 sqm in 1HY 2018. Rent rates and vacancy remained unchanged, although due to growth in construction costs, a slight increase in rent rates might be expected in the future.

In Q2 2018, the Vilnius warehouse market remained dynamic, seeing completion of the Apranga Group administration and logistics centre (GBA 15,300 sqm) in Vilnius Business Park and the start of construction work by Transimeksa on two speculative projects with total GBA 13,000 sqm. The development market was active with GBA of 53,200 sqm under construction, dominated by speculative projects (60%). In Q2 2018, rent rates remained stable, while vacancy slightly decreased compared to the previous quarter. Nevertheless, new speculative supply is expected to push the vacancy level somewhat up by the end of 2018.

## Industrial Trends Construction



Source: Colliers International

## Economy

- > According to Statistics Estonia, GDP of Estonia increased 3.6% in Q1 2018 compared to Q1 2017, driven the most by construction for the fifth quarter in row. It was followed by transportation and storage, which had its largest contribution in six years. In Q1 2018, as compared to Q1 2017, GDP has increased by 4.2% in Latvia (mainly driven by growth in construction (by 36% y-o-y), manufacturing, trade activities sectors and information and communication). The GDP growth in Lithuania was 3.7% y-o-y in Q1 2018. The fastest growth in the value added was observed in enterprises engaged in construction (15%), wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities (4.6%), information and communication (4.8%) and manufacture (5.1%).
- > According to the data of the Baltic States' statistical offices, in Q1 2018, the highest unemployment rate of persons aged 15–74 was recorded in Latvia (8.2%), the lowest – in Estonia (6.8%), while in Lithuania it stood at 7.2%. Over a quarter, in Estonia, the unemployment rate increased by 1.5 percentage points, in Latvia – increased by 0.1 percentage points, while in Lithuania, it increased by 0.5 percentage points.
- > In Q2 2018, inflation (HICP): in Estonia stood at 3.3% compared with 3.2% in Q1 2018; in Latvia rose to 2.4% in Q2 2018 from 2.0% in Q1 2018; in Lithuania declined to 2.5% in Q2 2018 from 3.1% in Q1 2018.
- > In Q1 2018, the retail sales index rose by 0.8% in Estonia and by 4.5% in Lithuania. One of the highest annual increases in total retail trade among the EU Member States was registered in Latvia (+5.5% y-o-y in Q1 2018), according to Eurostat.
- > In Q1 2018, the average monthly gross wages and salaries were EUR 1,242 in Estonia, and compared to Q1 2017, the average monthly gross earnings grew by 7.7%. Compared to Q1 2017, gross wages and salaries in Q1 2018 have risen by 8.6% in Latvia – from EUR 884 to EUR 961. In Q1 2018, against Q1 2017, average gross monthly earnings increased by 9.5% in Lithuania and amounted to EUR 895.

Source: National Statistics, Eurostat

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# 413 offices in 69 countries on 6 continents

United States: 145

Canada: 28

Latin America: 23

Asia Pacific: 86

EMEA: 131

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## €2.2

billion in  
annual revenue

## 179

million square meters  
under management

## 15,400

professionals and staff

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