

## INVESTMENT MARKET

In Q3 2019, total known investment volume (w/o development) in Estonia amounted to just ca EUR 35 million, driven mainly by the sale of the Skype HQ to LHV pension funds, the acquisition of the Telliskivi Centre by Rimi as owner-occupation deal and the sale of the two newly completed MotorCenter Peetri and MotorCenter Lasnamäe properties (commercial properties suitable primarily for automotive services) by YIT Eesti, a development and construction company, to a local private investor. Prime yield remained rather stable in Q3 2019 with some minor compression registered in the office segment. The harder financing conditions are still putting pressure on yields.

### Key Investment Figures in the Baltic States, Q3 2019

Prime Yields	Estonia	Latvia	Lithuania
Office	6.15%	6.4%	5.8%
Retail	6.4%	6.6%	6.5%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

In Q3 2019, investment volume in Latvia amounted to EUR 60 million, indicating that total transaction volume in 2019 has reached EUR 210 million or 7% more compared with the corresponding period in the previous year. Even though transaction closing is taking longer than before, Colliers foresees investment volume in 2019 reaching last year's result, amounting to at least EUR 300 million in total. Q3 2019 saw activity in the office segment with the Luminor HQ (Class A, purchased by Colonna) deal in Skanste district being the largest investment transaction in the quarter, followed by the Valdemara Centrs (Class A office building) acquired by Eastnine from Capital Mill for EUR 25 million. In Q3 2019, prime office yields compressed to 6.4%, while retail yield increased up to 6.6%. Industrial yield remains stable at 7.75%.

The Lithuanian investment market revived in Q3 2019 after a calmer previous quarter, achieving over EUR 110 million of total investment volume. High investment activity was driven by large-scale deals in the office and retail segments. Notably, French investor Corum completed its first transaction in Lithuania, purchasing the Depo DIY store at Ukmerges street in Vilnius for EUR 25.6 million. EfTEN Capital acquired two properties in Kaunas – River Mall and Class A River Hall business centre. Other major deals in the office segment

included Class B1 business centres: North Star BC was acquired by Northern Horizon Capital for EUR 20.8 million, while Sostena BC was purchased by Orion Asset Management for EUR 11.4 million. Prime yields remained stable compared to the previous quarter. Remarkably, the beginning of Q4 2019 recorded one of the most significant office deals in history of the Baltic region. The German Deka Immobilien is buying Quadrum BC for EUR 156.1 million. The transaction is expected to be completed later this year.

## OFFICE MARKET

Development in the Tallinn office market remains active with a total area of ca 129,420 sqm (17 projects) under construction in September 2019. Q3 2019 saw completion of the Bolt HQ (BtS) in the city-centre Veerenni area and the start of construction work on the Ellips House, also in the Veerenni area, as well as two office projects in Haabersti city district – the M16 Office Building and the Rocca Business Centre (redevelopment project). The demand is continually driven by relocation and/or expansion of existing tenants (mostly IT and high-tech companies, followed by professional (consultancy, accounting) companies). 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, Q3 2019

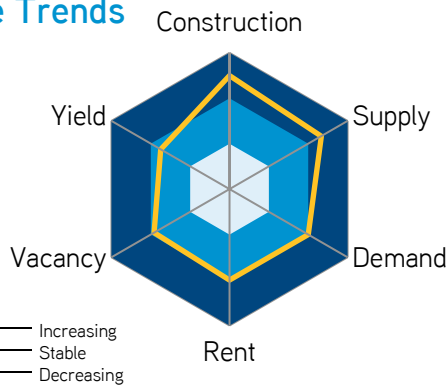
CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	14.0-16.8	14.0-16.0	14.7-16.5
B1 Class Rents	9.5-14.0	10.0-13.5	9.0-13.5
A Vacancy*, %	5-6%	5-6%	3-4%
B1 Vacancy*, %	5-6%	11-12%	2-3%

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

Q3 2019 has been relatively active in the Riga office market with several projects added to the market, such as Business Garden (GLA 14,500 sqm) developed by Vastint in Marupe, RedLine office (4,400 sqm) developed by Dambis in the Ganibu Dambis area and the renovated SWH Biroji office. Even though the market has already been supplemented by 42,200 sqm of leasable space this year, take-up numbers are quite low – ca 20,100 sqm of GLA. This fact has had an impact on vacancy levels: these have increased up to 6% in Class A class office buildings and 11% in Class B buildings. Developers continue actively planning new office projects; however, no new projects have entered the construction phase yet.

Capitalica has announced its Verde project in the Skanste area which is expected to supplement the market by GLA 30,000 sqm.

## Office Trends



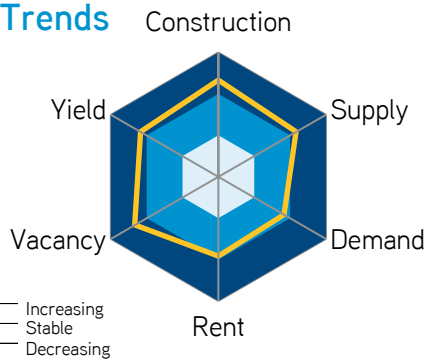
Source Colliers International

In Q3 2019, the Vilnius office market recorded completion of the Park Town BC (stage II, GLA 14,800 sqm) in the central business district, anchored by Yara with 4,400 sqm (represented by Colliers). The development market was at a high level, observing office space of over 210,000 sqm under construction at the end of the quarter, of which the Business Garden Vilnius (stage I) with GLA of 40,000 sqm was the largest. The lease market was active as well. Tesonet signed for 15,000 sqm in the former Sparta factory, which will witness transformation into a technology campus, while AmerisourceBergen pre-leased 1,700 sqm of office premises at Quadrum BC (stage III) and will open a new SSC next year. Rent rates remained at the same level. Vacancy decreased in both Class A and B business centres due to robust demand for modern office space.

## RETAIL MARKET

Competition in the grocery, home goods and DIY segments in Tallinn is constantly growing. Q3 2019 saw the opening of the IKEA pick-up point and showroom in Tallinn, while Rimi opened its 17<sup>th</sup> hypermarket – this time in the renovated Lasnamäe Pae Centre (also anchored by Maxima). Prisma started expansion in Tallinn with the opening of a smaller supermarket-format store in Old Town, while Lidl started construction work on a store in Tähesaju City right next to the Selver supermarket and future A1000 Market grocery store (currently under construction). The DIY segment will also expand in Tallinn by almost 30,000 sqm in 2020 due to the opening of the Ehituse ABC store in SG BC (Pärnu Rd 186, currently under construction) and the first DEPO store in Estonia in the Veerenni area. PEPCO continues to expand, opening a new store in Mustikas centre in August and planning further new openings across Estonia. Deichmann's first store opened in August (380 sqm) in Nautica Centre, followed by the opening of its second store in Kristiine SC in September.

## Retail Trends



Source: Colliers International

Alfa shopping centre has regained the status of the largest shopping centre in Riga after the opening of its extension in September. Due to the extension, total leasable space in Alfa reached 71,000 sqm, seeing new brands such as Zara Home, Home&You, Black Star Wear, and Vans entering the Latvian market. Additionally, construction of the first German discount grocery chain – Lidl – store in Riga has been officially completed, although no official opening date has been announced so far. The opening of Akropole is starting to impact the market – vacancy levels turned to growth, reaching 3.2%: this might also have a later impact on rent rates in secondary shopping centres.

In Q3 2019, the Vilnius retail segment remained stable in terms of new supply, observing construction of the Moki-vezi store and Vilnius Outlet, both situated in the Pilaite district. G9 SC opened its doors after reconstruction with new tenants, such as the – first in Lithuania – COS store, also the first Nespresso store in the Baltic States, Lidl, Gym Plus and gastronomic space Food Hall, which have recently been gaining popularity in the market. Akropolis SC strengthened its leisure offer, introducing the first O'Learys entertainment centre and a new kids' play space. Besides, the first Apollo cinema in Lithuania opened at Babilonas SC in Panevezys. Apollo is also scheduled to open in Vilnius Outlet in 2020. In Q3 2019, no changes were recorded in vacancy and rental levels in Vilnius prime shopping centres.

### Key Retail Figures in the Baltic States, Q3 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	1.9%	3.2%	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 ca 104,000 sqm under construction in September 2019. Q3 2019 saw completion of the new Eugesta LC (10,000 sqm) in Rae, the Bestnet production facility in Paldiski, Onninen Express in Valdmäe IP and three Stock Offices in Tallinn (K2, Priisle BP, III stage and Stock101). New projects started in Q3 include the expansion of Selver's Kitchen in Tondiraba IP; Etra Balti, Volume Design and Windak production facilities in Rae and several new Stock Offices (Veldi tee 5, Ülemiste LoftOffice). Rent rates continue to fluctuate, mainly between 3.8-5.0 EUR/sqm, while vacancy stands at 4% by end Q3 2019.

## Key Industrial Figures in the Baltic States, Q3 2019

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-5.0
Vacancy	4.0%	2.7%	1.0%

\*EUR/sqm/month

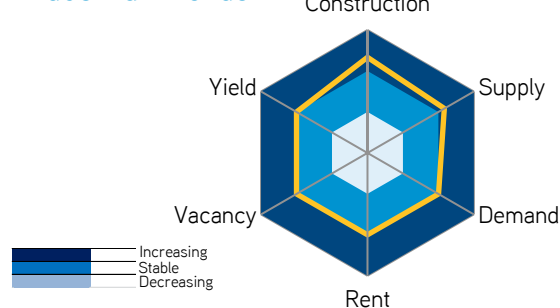
Source: Colliers International

In Q3 2019, the Riga industrial market was active, seeing the opening of the second part of Lidostas Parks (fully leased). After successful realisation of the Lidostas Parks project, Piche announced plans to develop a third logistics park called Green Park, near Riga airport. Total planned warehouse area of the project amounts to 50,000 sqm, while planned office area is around 7,000 sqm.

Remarkable built-to-suit projects under construction in Riga include a production facility for Orkla, a Rimi logistics centre and a Lidl logistics centre. Due to large supply and tenants moving to newer premises, some increase in vacancy is expected to continue, especially with new projects further entering the market.

In Q3 2019, Vilnius warehouse stock remained unchanged. In contrast, the development market was vibrant – new warehouse space amounting to GBA of 99,400 sqm in total was under construction at the end of the quarter, of which over 60% was speculative. Besides, Lithuanian Post started construction of a new logistics centre (GBA 14,200 sqm) in proximity to Vilnius Airport. Development on a speculative basis affected average asking rent rates, resulting in a slight downward correction. Vacancy remained low, standing at only 1%, although demonstrating a minor upward fluctuation – a trend that is expected to continue due to upcoming new large speculative supply.

## Industrial Trends



Source: Colliers International

## Economy

KEY ECONOMIC FIGURES			
Q2 2019	Estonia	Latvia	Lithuania
GDP Growth	3.6%	2.0%	3.9%
Unemployment	5.1%	6.4%	6.2%
Inflation	3.0%	3.3%	2.5%
Retail trade	4.5%	3.1%	6.8%

> According to Statistics Estonia, GDP of Estonia increased 3.6% in Q2 2019 compared to Q2 2018, driven the most by information and communication. In Q2 2019, as compared to Q2 2018, GDP has increased by 2.0% in Latvia (driven by growth in commercial services (by 8.9% y-o-y); agriculture, forestry and fishing (+12.8%); trade (+3.8%), and real estate activities (+4.5%). The GDP growth in Lithuania was 3.9% y-o-y in Q2 2019. The fastest growth in the value added was observed in enterprises engaged in construction (+9.1%), wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; professional, scientific and technical activities; administrative and support service activities (3.7%) and manufacture (4.1%).

> In Q2 2019, inflation (HICP): in Estonia stood at 3.0% compared with 2.3% in Q1 2019; in Latvia increased to 3.3% in Q2 2019 from 2.8% in Q1 2019; in Lithuania rose to 2.5% in Q2 2019 from 2.1% in Q1 2019.

> According to the data of the Baltic States' statistical offices, in Q2 2019, the highest unemployment rate of persons aged 15–74 was recorded in Latvia (6.4%), the lowest – in Estonia (5.1%), while in Lithuania it stood at 6.2%. Over a quarter, in Estonia, the unemployment rate increased by 0.4 percentage points, in Latvia – decreased by 0.5 percentage points, while in Lithuania, it decreased by 0.3 percentage points.

> In Q2 2019, the retail sales index rose by 4.5% in Estonia and by 3.1% in Latvia. One of the highest annual increases in total retail trade among the EU Member States was registered in Lithuania (+6.8% y-o-y in Q2 2019), according to Eurostat.

> In Q2 2019, the average monthly gross wages and salaries were EUR 1,419 in Estonia, and compared to Q2 2018, the average monthly gross earnings grew by 7.4%. Compared to Q2 2018, gross wages and salaries in Q2 2019 have risen by 7.8% in Latvia – from EUR 1,005 to EUR 1,083. In Q2 2019, against Q2 2018, average gross monthly earnings increased by 7.9% in Lithuania and amounted to EUR 1,289.

Source: National Statistics, Eurostat

# INVESTMENT

## INVESTMENT VOLUME IN Q1-Q3 2019



## PRIME YIELDS



# OFFICE

## RENTS



## SPECULATIVE OFFICE STOCK



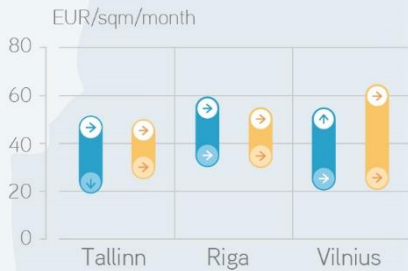
## VACANCY RATES



\*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

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