

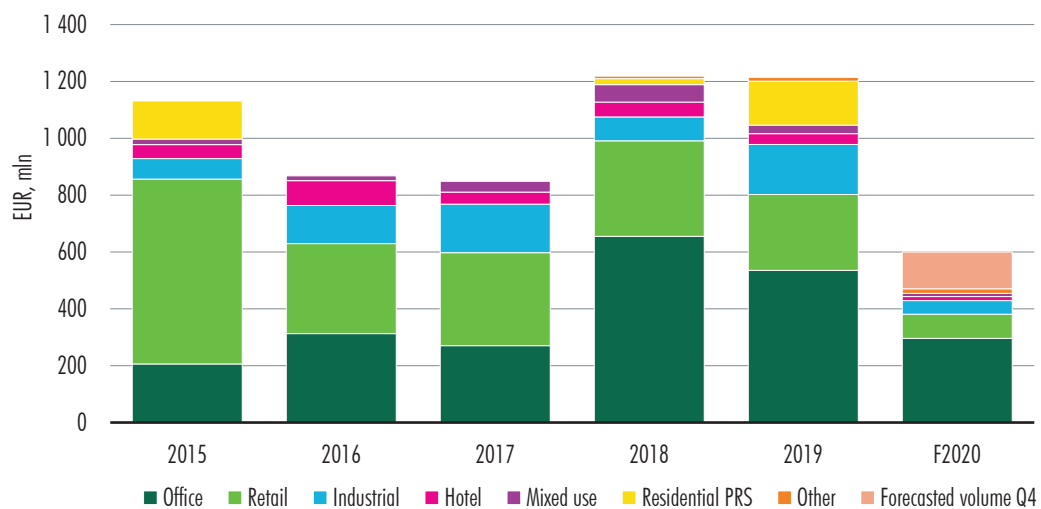
**Baltics Investment, Q3 2020**

**Investment activity was hit by a short but sharp stop, yet a quick bounce back is expected**

▼ Investment Vol **EUR 471 mln**
▼ Prm Office Yield **5.85-6.15%**
▲ Prm S/C Retail Yield **7.00-7.25%**
▼ Prm Logistics Yield **7.25%**

\*Arrows indicate change from the corresponding period of previous year

Figure 1: Investment volume by sector

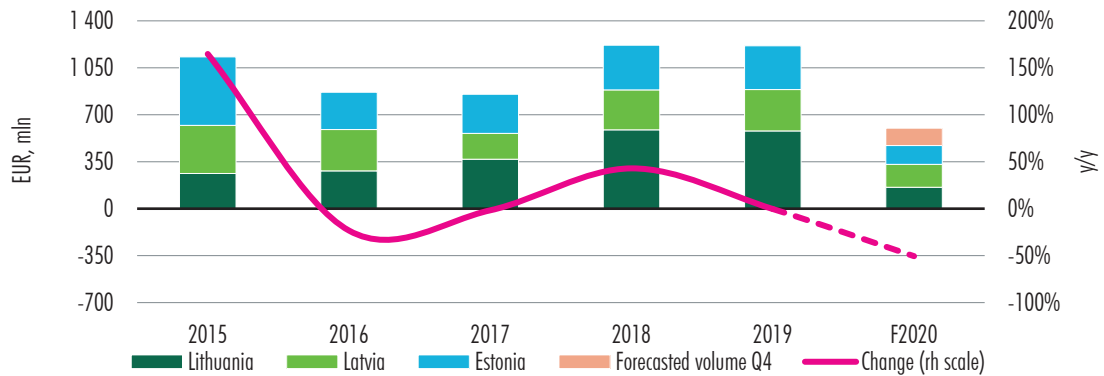


Source: CBRE Baltics; 2020

**KEY POINTS**

- The turbulent 2020 is expected to shrink the economies in the Baltics by 1.5-5.2% y/y.
- A short lived shut down of the economy resulted that in three quarters the investment volume reached EUR 471 mln or ca. 2/3 of the amount achieved in the same period last year.
- The cap rates for most industrial, office, and residential assets have remained at pre-COVID levels and have gone down for the best assets. Meanwhile, the situation in respect of shopping centres and hotels has deteriorated.
- The office market, as usual, revealed strong confidence, as the sector showed some resilience in the light of current events. The total investment volume constituted ca. EUR 296 mln.
- One of the largest transactions was completed in Riga, where the Citadele Bank headquarters of ca. 30,000 sq m was acquired by Lords LB.
- Retail real estate, especially that targeting occupiers in the consumer discretionary market, is observing a downward trend. The total retail investment volume in the Baltics constituted a meagre EUR 85 mln.
- The industrial sector showed resilience to current events, with a volume of just over EUR48 mln, yet the lack of available assets in the market prevented a higher investment figure.
- Multi-family housing has grown in interest in recent years as it offers attractive fundamentals and investors are increasingly seeing it as one of the safer bets.
- The Latvian investment market was the most active among the three countries with 36% of the total volume. Lithuania and Estonia constituted 34% and 30%, respectively.

Figure 2: Investment Volume by Country



Source: CBRE Baltics; 2020

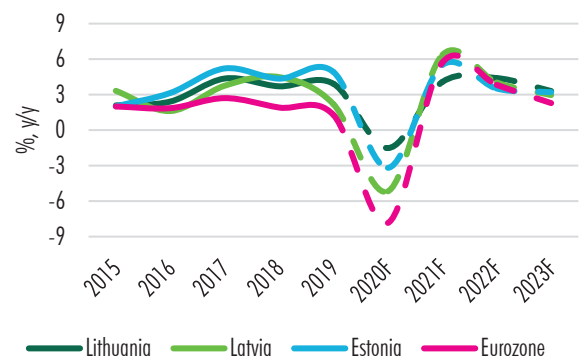
### ECONOMY

There were signs of a somewhat slowing economic growth pace in the Baltic states at the end of 2019, although GDP growth in the region was among the highest in the Eurozone. The pandemic caused a stop in some industries, especially those involving services that require physical interaction. The short pause caused economic activity to drop sharply for the period, reflecting 3.2% lower GDP for Estonia, 5.2% for Latvia, and 1.5% for Lithuania in 2020. However, the economy, including consumer confidence and purchasing power seems to be recovering quickly. The following year is expected to deliver a swift rebound on annual economic growth. Naturally, even a short-lived stop of economic activities was followed by a jump in the level of unemployment. The re-opening of the economy reversed the trend and unemployment is expected to remain well below Euro area levels. The inflation rate in the region largely remains moderate, yet above the Euro area level. In 2020, it is forecasted that prices will dwindle below 2%, mostly due to lower energy prices.

### INVESTMENT MARKET

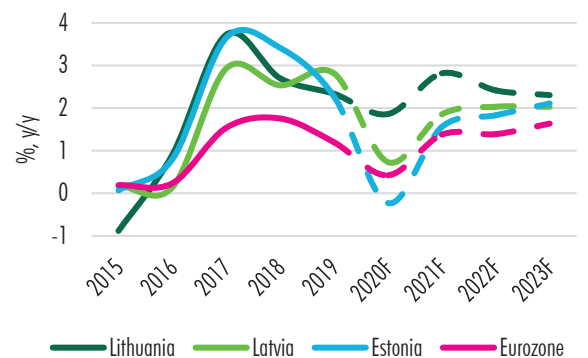
The pandemic had a significant effect on the commercial real estate market. In Q1-Q3, the investment market contracted more than one third to EUR 471 mln, compared to the same period a year ago. The investment market was weaker, as the pandemic caused short-lived stop in activity. Properties in more affected sectors, such as hotels and shopping centres, were offered at higher yields and distressed prices. On the other hand, prime offices and industrial assets with reliable tenants and low vacancy will continue to trade well and observe yield contraction. In addition, the current activity of value-add and opportunistic investors is more likely

Figure 3: GDP growth and forecast



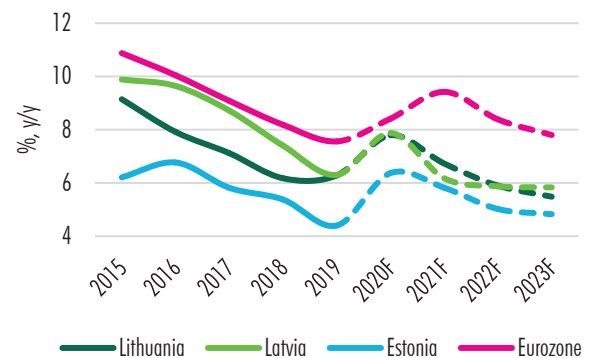
Source: Oxford Economics, CBRE Baltics, 2020

Figure 4: Inflation rate by country



Source: Oxford Economics, CBRE Baltics, 2020

Figure 5: Unemployment rate by country



Source: Oxford Economics, CBRE Baltics, 2020

and favourable.

The most active market in the Baltics was Latvia with a 36% market share. Lithuania followed it with 34% and Estonia with 30%. Local investors, mostly professionally managed real estate funds, constituted an absolute majority of investment purchases in terms of value. Conversely, the share of European investors, including the ones from Nordic countries that are usually very active, have decreased tremendously. However, it does not necessarily mean that the market is no more attractive for potential buyers from other European countries. Usually, the well-established funds are very selective on investment assets, picking only core prime properties or portfolios that are also of a sizable value. There are fewer such assets available, which has resulted in reduced activity from European investors. In addition, the pandemic caused investors to focus more on the home markets. Nevertheless, yields in the Baltics are still well above the level seen in core European countries, and it continues to draw investors' attention.

In Q1-Q3 of 2020, the office sector accounted for 66% of all transactions. It was followed by the retail (15%) and industrial sectors (9%). The dominance of the office sector increased as retail became a less attractive asset, and there are few other prime assets that are little affected by the pandemic.

**OFFICES**

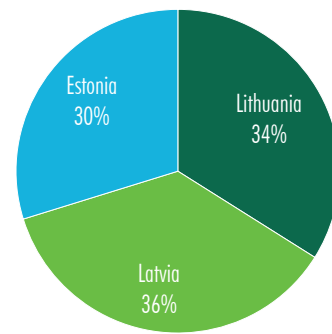
The office market, as usual, showed strong confidence, as the sector revealed some resilience to current events. The total investment volume constituted ca. EUR 296 mln. Office properties were the major transactions carried out in all three Baltic states.

Notable deals in Q1-Q3 2020 included the Citadele HQ in Riga that was acquired by a Lithuania based real estate fund managed by Lords LB from Citadele Bank. The purchase price or yield of the ca. 30,000 sq m size building are confidential, yet it is likely the most significant A-class office transaction in Riga to date and the largest Latvian transaction so far this year.

In Estonia, a major transaction was the purchase of the SEB HQ by a fund managed by the Sweden based East Capital. The 16,000 sq m property, commissioned in 1999, was acquired for EUR 45.75 mln from Switzerland based Partners Group and Denmark based Northern Horizon.

Another notable property in Tallinn, which also was sold by Partners group and Northern Horizon was

**Figure 6: Investment Volume by Country, Q1-Q3 2020**



Source: CBRE Baltics; 2020

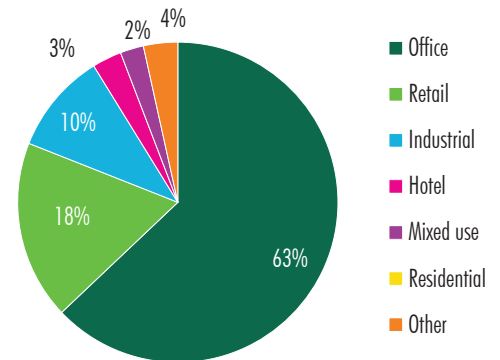
**Figure 7: Investors' origin by region**

Region	Q1-Q3 2020	2019
Baltic	↑74%	33%
Europe*	↓9%	40%
Nordic	↓14%	27%
Other	↑3%	0,5%

Note: Europe excluding Baltics and Nordics.

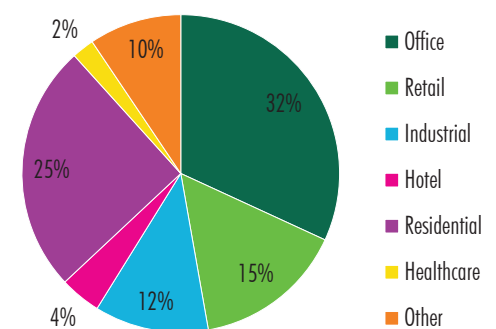
Source: CBRE Research, 2020

**Figure 8: Investment volumes by sector in the Baltics, Q1-Q3 2020**



Source: CBRE Baltics, 2020

**Figure 9: Investment volumes by sector in Europe, H1 2020**



Source: CBRE Research, 2020

Valge Maja. 16,360 sq m property was sold for EUR 14.6 mln to LHV managed pension funds.

In Vilnius, the second phase of Park Town was purchased by the Estonia based Zenith AM from Lithuanian developer Darnu Group. The first phase was transacted last year between the same parties.

Lords LB acquired the IBC office campus in Vilnius from local real estate fund INVL Baltic RE for EUR 33 mln, which totals more than 17,600 sq m of office space.

INVL Baltic RE has also sold one more office property from their portfolio. A 7,200 sq m building, a part of the Vilniaus vartai project was sold to Swedish Eastnine for EUR 20 mln at 6% yield. The property was commissioned in 2007 and had a 5% vacancy.

Despite its resilience, the office occupying sector also suffered some losses, resulting in budget cuts, reductions in employment, and consequently looking for ways to optimize office space. In the long term, widespread doubts on the sector's future may arise with the increasing work from home trend and hybrid way of working.

Overall, modern offices with quality tenants remain a desirable investment, and there is a downward yield pressure across all three countries from the current 5.8%-6.2% level.

**RETAIL**

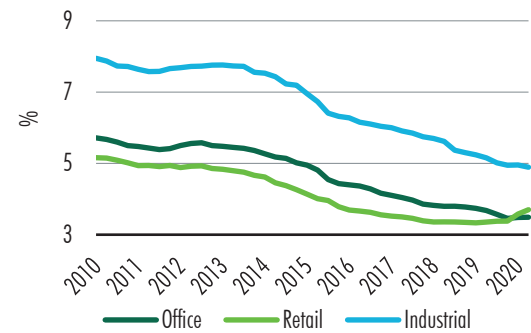
Retail real estate, especially schemes that target occupiers in a consumer discretionary market, is observing a downward trend. Challenges in consumer demand and behaviour, as well as the impact of e-commerce in reshaping physical retail may repel some investors from the sector until the transition is done.

Retail real estate activity has been relatively meagre. Total retail investment volume in the Baltics constituted to only EUR 85 mln. Only one notable transaction was executed. A fund managed by Lords Lb sold the Rietumu centre in Liepaja Latvia. The 6,300 sq m property with 25 retail tenants, which include the retail chain Rimi and household goods store Jysk, was acquired by a local family company.

On the other hand, some retail submarkets remain sound investments in the eyes of both developers and investors. Financially and commercially sound big-box formats, as well as the usual «bread and butter» formats driven by the supermarket and convenience sector, are highly pursued assets for real estate investors.

Rebound consumer confidence and purchasing power provide hope for the sector, yet the uncertainty of the

**Figure 10: Eurozone yields**



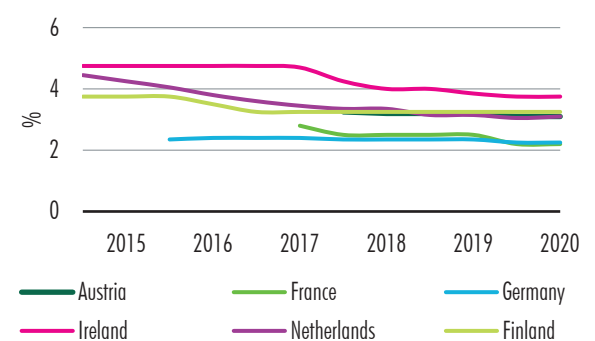
Source: CBRE Research, 2020

**Figure 11: Yields in September 2020 in selected Eurozone countries and change in direction compared to the end of 2019**

Countries	Offices	Retail S/C	Logistics
Lithuania	5.85	↑7.00	7.25
Latvia	6.00	↑7.25	7.25
Estonia	↑6.15	↑7.00	7.25
Austria	↓3.40	↑4.45	↓4.60
Belgium	3.90	↑4.50	↓4.40
France	2.85	↑4.10	↓3.90
Germany	2.60	↑4.75	↓3.55
Ireland	4.00	↑6.50	↓5.00
Netherlands	↑3.10	↑5.75	↓3.90
Italy	↓3.20	↑6.00	↓5.10
Portugal	4.00	↑5.25	↓6.00
Spain	3.25	↑5.25	↓4.75
Finland	↑3.35	↑5.00	↓4.50
Slovakia	↓5.50	↑6.00	6.25
Croatia	8.00	↑7.25	8.75
Greece	↑6.00	↑8.25	↓8.00
Slovenia	8.00	↑7.25	8.75

Source: CBRE Research, 2020

**Figure 12: Yields in multifamily housing in selected Eurozone countries**



Source: European Central Bank, CBRE Baltics; 2020

future remains. The current yield level for shopping centres is at 7.00-7.25% with an upward trend.

**INDUSTRIAL**

The industrial sector shows resilience in terms of yields and prices at current events, yet few available assets in the market prevent higher investment volumes being generated. In Q1-Q3 2020, the total industrial real estate market volume in the Baltics constituted EUR 48 mln. The only notable investment transaction was executed in Latvia. Dominante Park (1st phase) was purchased by a fund managed by the Estonian Eften Capital for EUR 16.5 mln. The 39,000 sq m property commissioned in 2007 in Riga region was purchased from One Baltic Investment Group of Russian origin.

Relatively mild disruption of consumer spending and manufacturing output, combined with growth in e-commerce provides confidence for investors in the sector. Industrial yields have moved downward, with continuing yield compression. Currently, a prime warehouse yield stands at 7.25% across all three states.

**MULTIFAMILY HOUSING**

Europe has seen a tremendous growth of interest in multi-family housing/residential PRS investments in recent years as it offers attractive fundamentals for growth and investors are increasingly seeing multi-family as one of the safer bets. Multi-family has emerged as one of the main real estate investment

sectors in Europe according to investment volume statistics.

While it seems that investors are increasingly focused on the core markets, the higher yields may attract more and more investors to the Baltic region. The only limit is the lack of good and professionally managed multi-family schemes available for acquisition as this sector is in the initial development stage. Nevertheless, the interest and activity is noticeable. Investors are searching for residential assets in the city centre as a cash flow property, with significant interest from the developers’ side as well for redevelopment purposes (properties in the city centre previously used as hotel or residential buildings) in order to create private rented residential assets or micro-living concepts.

**EUROPEAN INVESTMENT ACTIVITY**

In H1 2020, investment activity in Europe was higher compared to the same period a year ago due to the outstanding results of the first quarter, while the second quarter observed a significantly decreased level of activity. All sectors experienced a 35-45% decrease in volume, except for hotels, which dropped by more than 80%.

Yields have decreased for industrial sectors showing the strength and resilience of the asset class. Office yields have slightly increased, meanwhile, retail yields observed a significant increase compared to the end of 2019.

Figure 13: Investment transactions | Baltics 2020

No.	Project	Sector	Country	Purchaser	Seller
1	Citadele HQ	Office	Latvia	Lords LB AM	Citadele bank
2	SEB HQ	Office	Estonia	East Capital	Northern Horizon/Partners
3	Park Town – East Hill	Office	Lithuania	Zenith AM	Darnu Group
4	IBC	Office	Lithuania	Lords LB AM	INVL Baltic Real Estate
5	Part of Vilniaus Vartai	Office	Lithuania	Eastnine	INVL Baltic Real Estate
6	Dominante Park, 1st phase	Industrial	Latvia	Eften Capital	One Baltic Investment Group
7	Valge Maja	Office	Estonia	LHV funds	Northern Horizon/Partners
8	Rietumu centre SC	Retail	Latvia	Private	Lords LB AM
9	Atea HQ	Office	Lithuania	Eften Capital	Sonex Consulting
10	G7 Vilnius (Post)	Office	Lithuania	Lords LB AM	Lithuanian Post

Source: CBRE Research, 2020

#### 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.

**PRS** – Private Rented Scheme - residential property owned by a landlord and leased to a tenant. The tenants would either deal directly with a landlord, or with a management company caring for the property on behalf of the landlord.

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