

MARKETVIEW

BALTIC INDUSTRIAL,
2020/2021

Development is on the rise again



Picture 1: Liepkalnis Industrial Park in Vilnius



Source: Sirin Developments

KEY POINTS

- The forecast for economic growth in 2021 is estimated to be 3 - 4 %.
- In 2020, modern industrial stock expanded by 314,000 sqm, which is 85% more than in 2019, bringing the total to 3.7 mil. sqm in the Baltics.
- Build-to-suit and pre-leased schemes constituted 72% of the entire pipeline delivered in 2020. Ca.313,700 sqm of new stock is expected to be delivered in 2021.
- The need for urban logistics solutions will increasingly drive stock office development in all three Baltic capitals.
- Despite reduced investment volume compared to 2019, interest in logistics/warehouse assets remains strong.
- Investment in the industrial sector was primarily from domestic investors and Baltic-based asset management vehicles.
- According to the CBRE September 2020 Cap Rates Survey, 68% of buyers responded with a willingness to bid above asking prices for international-grade logistics assets. Higher asking prices are also expected from 62% of sellers in 2021.

Notes:

¹This marketview does not include production properties stock, rents and yields

ECONOMY

The COVID-19 pandemic second wave did not leave the Baltics untouched. It has hit Latvia and Lithuania especially hard, forcing these countries into a second quarantine at the end of 2020. According to the latest Oxford Economics forecasts, in 2020 the GDP decrease compared to 2019 could be 3.2% in Estonia, 4.5% in Latvia and 1.7% in Lithuania, while the Eurozone average is expected to decrease by 7.3%. In 2021 it is forecasted that GDP growth will rise again to pre COVID rates. Unemployment has risen due to the COVID pandemic in all three Baltic countries. In Estonia, it rose from 4.4% in 2019 to 6% in 2020. In Latvia, the unemployment rate has gone up by 1.7%. Lithuania's unemployment rate has risen the most: from 6.3% in 2019 to 8.9% in 2020. In 2021 as the economy in the Baltics will reboot, the unemployment rate is expected to decrease once again in all three countries.

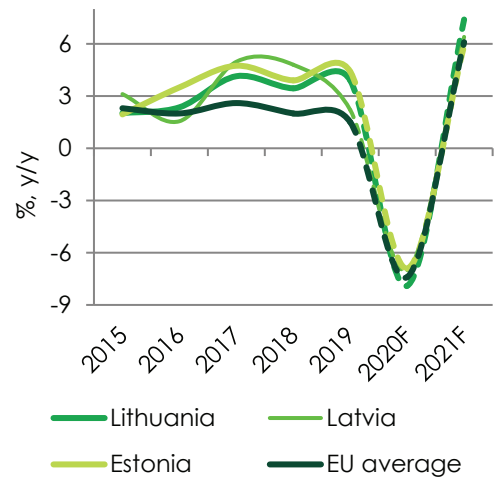
INVESTMENTS

Despite the pandemic shock in 2020 the annual Baltics investment market volume was only one third lower than the same period a year ago, with the total volume exceeding forecasts and surpassing EUR 814.5 mln. The industrial investment market volume constituted EUR 147.5 mln or 18 % of the total investment volume (+3.5 p.p when compared with 2019). Therefore, we see the tendency for increased activity within the sector resulting from the continued attractive yields in the region and liquid assets put on sale. Strong demand for core industrial assets will continue; however, the market's lack of such schemes could put the brakes on investment.

During 2020 there were multiple notable investment transactions registered in the market. The Eften Real Estate Fund III and IV managed by Eften Capital was one of the most active ones and invested ca. EUR 84 mln in the sector, constituting more than a half (ca.57%) of the total industrial transaction volume in the Baltic region. The largest transactions in Latvia and Lithuania were also done by Eften Real Estate funds, taking over the SBA Logistics & Production site ownership in Klaipeda (EUR 28.6 mln) and Bergi LC in Riga. In Estonia, five stock offices were purchased by Priisle Äripark for EUR 13.3 mln.

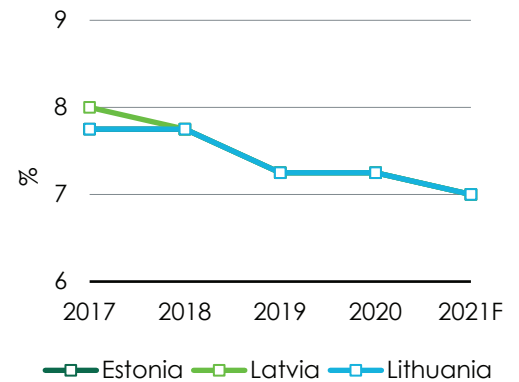
It is expected that in 2021 the investment market will bounce back as a whole and considering the amount of equity targeting the logistics sector, yields in this asset type may see further compression in 2021.

Figure 1: GDP Growth in the Baltics and the Eurozone



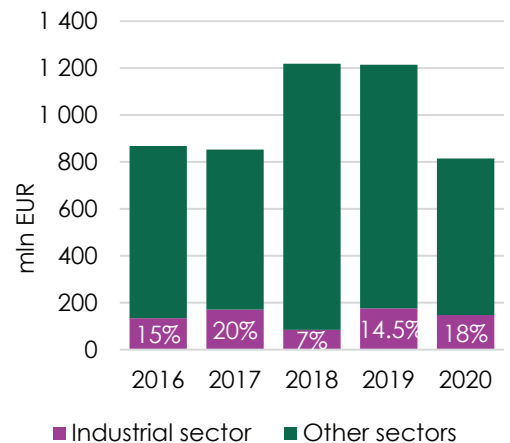
Source: Oxford Economics, 2021

Figure 2: Prime yields in the Baltic industrial market



Source: CBRE Baltics, 2021

Figure 3: Industrial investment volume and share in the Baltic investment market



Source: CBRE Baltics, 2021

SUPPLY

In 2020 modern logistics stock growth increased—the main reason being the introduction of new projects in all three Baltic countries. In 2021 the growth rate should stay the same. It is forecasted that ca. 314,000 sqm of new logistics space will be delivered in 2021.

In 2020 in Estonia, a total area of 54,000 sqm was completed, which is 41,000 sqm more than in the previous year. The biggest project delivered was the Eugest LC warehouse in Rae parish, Estonia, developed by Nordassets. In 2021 over 50,000 sqm of new warehouse/logistics space will be delivered. The largest upcoming project in Estonia is the Pakendikeskus Logistics Centre.

In Latvia, 125,000 sqm of new logistics space was commissioned in 2020. That is over 40,000 sqm more than the year before. The biggest projects delivered to the Latvian logistics market in 2020 were the 47,000 sqm Lidl logistics centre and the 41,000 sqm Rimi logistics centre in Riga. In 2021 six new projects with a total GLA of 103,500 sqm will be delivered, bringing total modern stock in the Riga area to over 1.1 mln sqm. The most significant development to be completed in 2021 will be the new 32,000 sqm A6 Logistics Park.

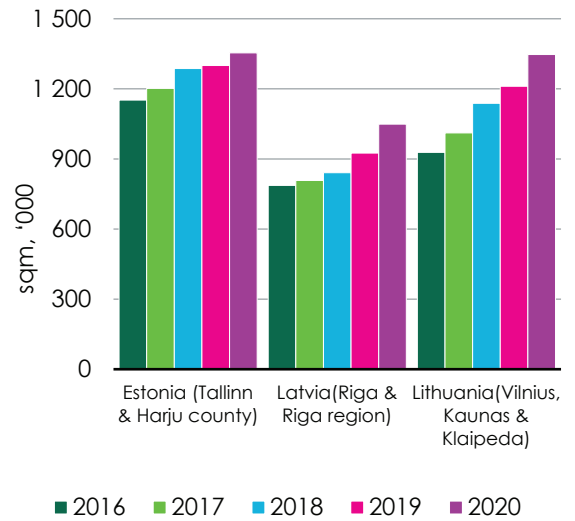
Unlike the other Baltic countries, Lithuania's warehousing and logistics sector is concentrated in three cities rather than in just one. The new supply delivery compared to 2019 was up from 73,000 sqm to 135,200 sqm. Mostly it can be attributed to Klaipeda where 89,500 sqm of new supply was added to the market. In 2021 there will be more projects introduced, and 160,000 sqm of new warehouse/logistics space is expected to appear on the market. The most significant completion in 2020 was the 25,000 sqm Transekspedicija in Vilnius. In all three Baltic countries, the potential for new deliveries is much higher, but a number of projects that are ready to begin construction are still awaiting new tenants.

RENT

Rent prices stabilized in all three Baltic countries in 2020. Due to the COVID-19 pandemic, it is expected that there will be no further increases in 2021.

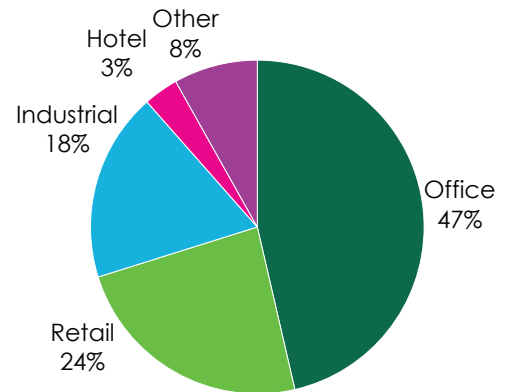
In Estonia, rents were remarkably stable from 2014 to 2020, reflecting the decline in the delivery of new premises. In 2021 we forecast that there may be a small increase. The average sqm rent price for industrial space in Tallinn and Harju county is 4.3 EUR/sqm.

Figure 4: Total modern logistics/warehouse stock in the Baltics



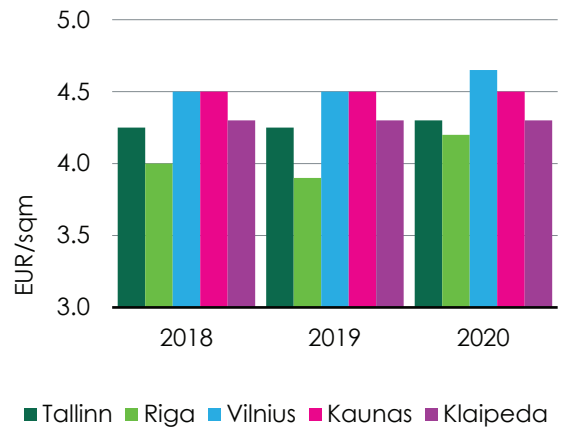
Source: CBRE Baltics, 2021

Figure 5: Investment volume by sector in the Baltics | Y2020



Source: CBRE Baltics, 2021

Figure 6: Average rent prices for prime warehouses



Source: CBRE Baltics, 2021

In Latvia, rent prices increased hugely in 2018, but due to sufficient new supply, rents for new warehouses have since stabilized, with the current average sqm prime rent price for warehouse and logistics space in and around Riga being at 4.2 EUR/sqm.

In Lithuania average rent prices have been stable, remaining at 4.65 EUR/sqm in Vilnius and Kaunas. As for the upcoming year, the average sqm rent price for logistics space across the Baltics is expected to continue to be stable reflecting slower economic development.

DEMAND

For developers, a new tendency is to look for new development opportunities near to city borders due to urbanization and workforce shortages. In Estonia, the most popular industrial premises are warehouses, in the size range of 1,000-3,000 sqm, which are mostly occupied by small logistics companies. With the growth of e-commerce, there is an increasing need for warehousing for retail companies. The so-called stock offices, a warehouse, production area, and office combined, are still among the most popular types of premises. Most of the properties were developed mainly for owner occupation, but stock offices have also provided some speculative space.

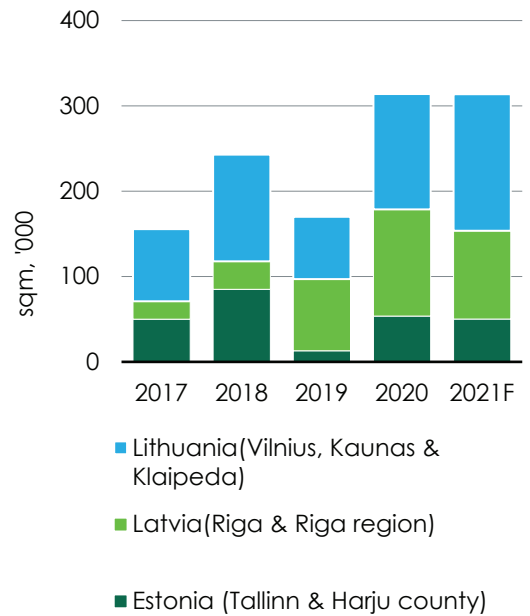
The vacancy rate has remained stable at 4 %.

The most popular locations for new tenants in Tallinn and its surrounding area were Rae parish next to the Tartu Highway and Lasnamäe within Tallinn.

In Latvia, the biggest demand is for buildings of between 1000 – 2000 sqm. The vacancy level has been going down since 2016, but the situation has now stabilized slightly. There is increasing market activity for industrial and stock-offices development site acquisitions.

In Lithuania, newly completed projects have attracted considerable interest from tenants, although the overall vacancy rate has remained stable. The vacancy rate for modern warehouses in all three Baltic countries is below 5%.

Figure 7: New deliveries to the Baltic warehouse /logistics market



Source: CBRE Baltics, 2021

Figure 8: Largest upcoming deliveries to the Baltic warehouse/logistics market

Project	Country	City	Type of development	Year	GLA, sqm
HK Scan Logistics Center	Estonia	Tallinn	Logistics	2021	9,000
Pakendikeskus Logistics Center	Estonia	Tallinn	Logistics	2021	10,500
Green Park (phase 2)	Latvia	Riga	Warehouse	2021	25,700
A6 Logistics HUB	Latvia	Riga	Logistics	2021	32,000
Rumbula Logistics Park (phase 2)	Latvia	Riga	Warehouse	2021	32,500
Transekspedicija	Lithuania	Vilnius	Logistics	2021	9,500
Baltics Logistics Center	Lithuania	Klaipeda	Logistics	2021	13,500
Westhub	Lithuania	Kaunas	Warehouse	2021	15,800
Kaunas Logistics Centre	Lithuania	Kaunas	Warehouse	2021	16,000
Liepkalnis IP II (phase 1)	Lithuania	Vilnius	Warehouse	2021	25,600
Total					190,100

Source: CBRE Baltics, 2021

RESEARCH DEFINITIONS

Total Modern Logistic/Warehouses Stock – represents the total completed warehouse and logistics space (occupied or vacant) in the private and public sector at the survey date. Includes owner occupied (OO) space.

Prime Rent – represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location) of the highest quality and specification and the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

Stock Office / Small Business Unit – a building that combines together a showroom, office space, warehouse and in some cases manufacturing premises, unit could size from 200 sq m, designed for small and medium business operations.

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