

# Asset Valuations Lag the Race



Note: Arrows indicate change from the previous quarter

**Total Volumes.** Baltic commercial real estate investments in Q3 2022 fell by 34% quarter-on-quarter to EUR 190 million. Year-to-date investments in the Baltics have surpassed EUR 800 million, which is 25% lower compared to the same period last year. Investments in Lithuania have increased compared to the previous quarter, while volumes in Estonia and Latvia have declined by 33% and 87%, respectively.

**Asset Classes.** Investments in the office sector comprised the highest portion, accounting for a third of total investments in the region. The largest transaction included a sale of Lvivo BC, an A class office building in Vilnius CBD. The transaction was agreed between Lords LB Special Fund I Subfund B, which disposed of the asset as the fund's lifespan has expired, to Lords LB European Property Fund, a newly registered Luxembourg fund.

Logistics investments reached EUR 50 million, pushing year-to-date volumes up to EUR 190 million, reflecting a decline by 23% year-on-year. One of the major deals included Titanium Oyj investment fund acquiring Wendre production facility with ca. 43,000 sqm in Pärnu, Estonia.

Investment in retail assets reached EUR 40 million, the weakest quarter since the pandemics. Year-to-date volumes reached EUR 275 million, down 25% year-on-year. The largest transaction involved a local Lithuanian residential developer Homa acquiring Porsche and Krasta Auto anchored properties in Vilnius to hedge against the high inflationary environment.

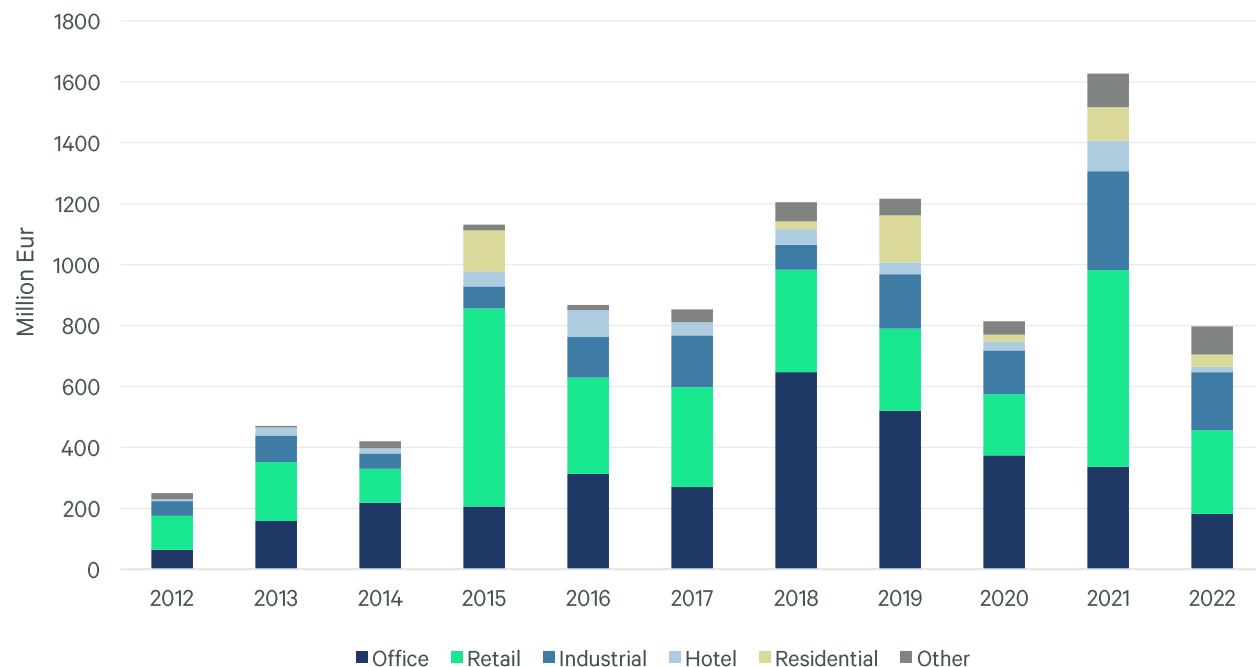
**Outlook.** The Baltics continue to show relatively strong domestic investor demand for real estate, with more than a half of total investments coming from local investors. However, some investment funds, which are present in the Baltics, are changing their investment strategies in favour of secondary regional Baltic cities or looking at a broader CEE region and searching for better yields, financing terms and liquidity. Although there is no evidence of changes in prime yields in the Baltics for almost all sectors, increasing borrowing and energy costs have weakened the general market sentiment, therefore the market expects more flexibility regarding pricing expectations and other conditions. Yet the Baltic markets witness robust asset values and strong rental growth for core assets, although investor price expectations of old and energy inefficient stock have decreased significantly.



Y-on-Y Change in Q3	Y-on-Y Change TTM	No. of Transactions in Q3
-65%	-3%	19
		153 TTM

Note: Y-on-Y: Year on Year; TTM: Trailing Twelve Months

## Annual Investment Volumes by Sector, Baltics



### Definitions

**Investment Volume** – the total amount of the value of investment transactions that have been completed during the period reported. A property is deemed to be sold only when contracts are signed, or a binding agreement exists.

**Yield** – represents the income return on an investment after operational costs have been deducted. Yield is determined by first subtracting the property’s annual operational costs from its gross operating income and then dividing this by a sum of the purchase price (PP), not including additional acquisition costs.

**Prime Yield** – the yield which an investor would receive when acquiring a grade/class A building in a prime location (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 is quoted, and is not a calculation based on particular transactions, but an expert opinion formed in the light of market conditions. The same criteria on building locations and specifications still apply.

Note: 2022 figures include investments made in Q1 – Q3

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