

Real Estate Market Stumbles: Recovery Ahead?



Note: Arrows indicate change from the previous year

Total Volumes. Investment activity in the Baltic real estate market experienced a decline in Q1 2023, with a total volume of €108 million, representing a 70% quarterly decline (-66% y/y). This was due to higher costs of financing and a wider gap between the sellers and buyers expectations, together with increased interest rates, affecting particularly the highly leveraged asset classes. As a result, investors have become even more cautious and continue with a wait-and-see approach to mitigate risks, while others are choosing to be active in different markets. Long income and strong tenant properties were the most preferred opportunities in the Baltics.

In terms of country-wise investment, Lithuania shows relatively robust results and accounted for approximately 75% or €80 million (-1% y/y) of the total investment in the Baltics, followed by Latvia with 17% or €18 million (-81% y/y), and Estonia with 8% of the total investments made in the Baltics. Estonia showed the biggest annual (-94% y/y) as well as quarterly change (-90% y/y) during the quarter. As for the last four years, the investor origin continues to be mainly local with 70% of total volume being sourced from Baltic investors.

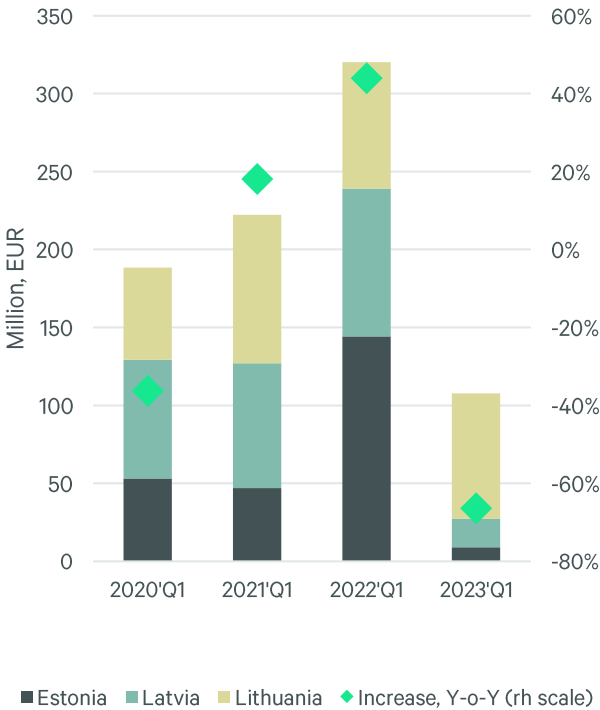
Asset Classes and Transactions. As the total volume generated in the Baltics was low, the biggest deals had a significant impact on the share of asset classes. The largest investment flows (ca. 40%) were in the office sector, with the most notable transaction happening in Lithuania, with *Titanium Baltics* purchasing *Avia Solutions* HQ. The biggest transaction in Latvia for 10M EUR involved local investor *Mercure LV* purchasing three office buildings, coworking premises and a sports complex in the centre of Riga.

The second largest transaction bringing up the mixed-use share in the sectorial split to 22% was *Baltic Horizon Fund*’s sale of the retail park and office complex *Domus Pro* in Vilnius for 23.5M EUR to *Prosperus Asset Management*.

The industrial sector remains resilient, accounting for an average of 20% of the investment volume over the long term as well as in Q1 2023. The most substantial transaction happened in Riga, with the fully-leased logistics complex in Ulbrokas st. 42G purchased by *Capitalica Asset Management*.

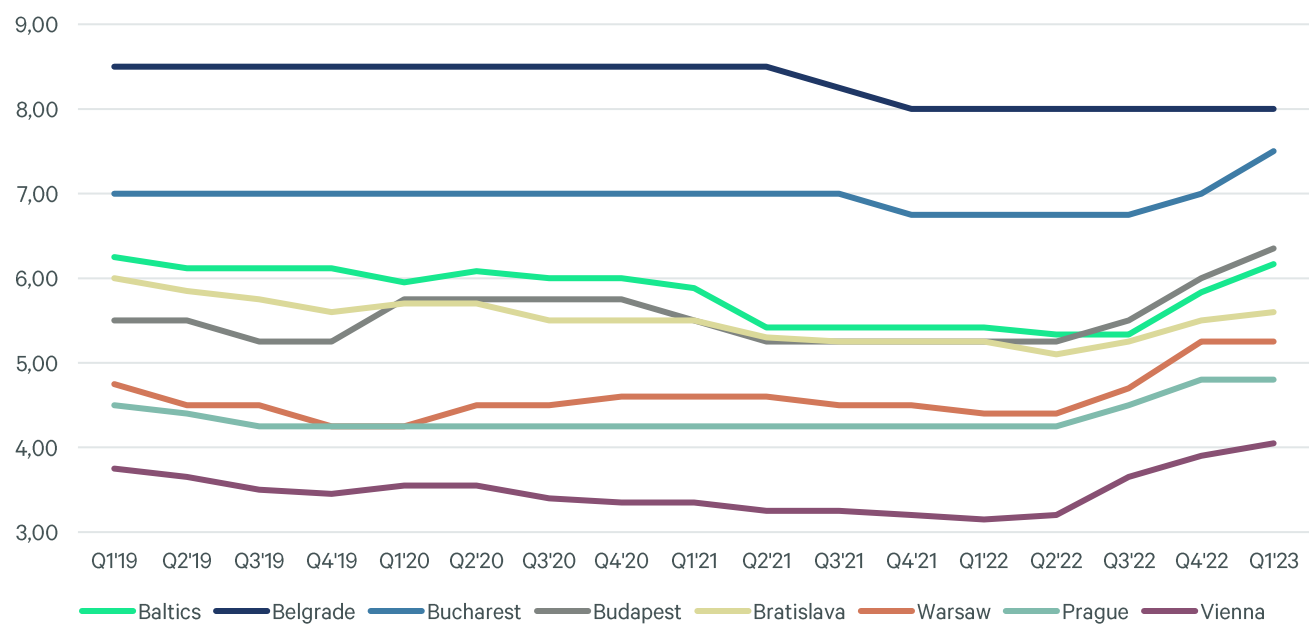
Estonia witnessed several smaller investment transactions, with the most notable being in the hotel sector. *NEIQ Finants* acquired a luxury hotel in Tallinn, representing the largest deal in the country during the period.

Investment in the Baltics, Q1 2020 – Q1 2023



Source: CBRE Baltics Research

Prime Office Yields in the Baltics and CEE, Q1 2019 – Q1 2023



Definitions

Investment Volume – the total amount of the value of commercial real estate investment transactions with a value over 1 million EUR, 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.

Contacts

Andrius Radiul

Senior Investment Consultant
Investment Properties
+370 62081273
andrius.radiul@cbre.lt

Mārtiņš Grīnbergs

Senior Investment Consultant
Investment Properties
+371 26177874
martins.grinbergs@cbre.lv

Joel Armei

Associate Director
Investment Properties
+372 5125525
joel.arme@cbre.ee

Denis Rein

Director
Transactions & Investment
+370 69851716
denis.rein@cbre.lt

Vineta Vigupe

Senior Director
Investment Properties
+371 29162408
vineta.vigupe@cbre.lv

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