

Investment remains on course despite sluggish pace



Note: Arrows indicate change from the previous year

Total Volumes. Investment activity in the Baltic region continues to face challenges, with volumes reaching 200 million EUR during Q2 2023. This reflects a 37% year-on-year decrease, but there is a notable 86% quarter-on-quarter increase, primarily driven by more active transactions in Lithuania. However, as market uncertainties persist, a somewhat more conservative outlook on investment volumes is anticipated by the end of the year.

Looking at the distribution of investment volumes country-wise, Lithuania gathered the highest, accounting for 60% or 120 million EUR of the total investments in the Baltics during Q2 2023. Following Lithuania, Latvia represents 22% or 45 million EUR, while Estonia accounts for 18% of the total investments in the region. Notably, when observing annual investment volumes, there has been an overall decrease in the Baltics, except for Lithuania, where the volumes have remained the same as in Q2 2022.







Asset Classes & Transactions. During Q2 2023, the office sector dominated, capturing the greatest share of investment activity, accounting for 87 million EUR or 44% of all asset classes. This growth was largely influenced by significant transactions in the Lithuanian market, particularly the sale of several prominent business centers, including Duetto I&II, acquired by East Capital for close to 40 million EUR in Vilnius.

The hotel sector, which experienced a sluggish period due to the pandemic, showed significant revival and represented a third of the total investment volume (55 million EUR), with substantial transactions occurring across all three Baltic countries. The largest single transaction was recorded in Latvia, involving the Pullman Riga Old Town. In Estonia, two transacted hotels, L'Embitu Hotel and L'Ermitage Hotel, will operate under the Mövenpick and ibis Styles brands, both belonging to the Accor group. Additionally, in Lithuania, the most significant transaction in the hotel sector was a private investor's purchase of Banga Hotel in Palanga.

The industrial sector ranked third in terms of active transactions and accounted for 10% of the total investment. Notable deals in this sector included East Capital's purchase of U30 Stock offices from Hepsor in Riga and the acquisition of a meat-processing factory in Lithuania.

Yields. Similar to the rest of Europe, the yields in the Baltics continue to experience upward pressure as the expectations of buyers and sellers have not yet found a consensus. This is evident from lower number of concluded transactions and decreased volumes.

Investment in Sectors, Annual increase, Baltics, Q2 2023

	OFFICE	▲	10M
	44%		Y-o-Y Change
	HOTEL	▲	53M
	27%		Y-o-Y Change
	INDUSTRIAL	▼	-35M
	10%		Y-o-Y Change
	RETAIL	▼	-106M
	8%		Y-o-Y Change
	RESIDENTIAL	▲	-0.3M
	2%		Y-o-Y Change
	OTHER	▼	-25M
	9%		Y-o-Y Change

Source: CBRE Baltics Research

Top Selective Transactions in Baltics, H1 2023

Project	Sector	Country	City	Price Range	Purchaser
Duetto I&II	Office	Lithuania	Vilnius	25-40M	East Capital Real Estate IV
Avia Solutions HQ	Office	Lithuania	Vilnius	15-30M	Titanium Baltic Real Estate
Link BC	Office	Lithuania	Vilnius	15-30M	Private
Domus PRO	Mixed Use	Lithuania	Vilnius	10-25M	Prosperus Asset Managment
Pullman Riga Old Town	Hotel	Latvia	Riga	10-25M	IDK Investment
L'Embitu Hotel	Hotel	Estonia	Tallinn	5-20M	Tallinn MP
Vilnius Plaza	Mixed Use	Lithuania	Vilnius	5-20M	Grinvest/ Singlita
Savanoriu 7	Cinema	Lithuania	Vilnius	5-20M	Reverest AM
Ernesta Birznieka-Upisa 21; 21A; 21E	Office	Latvia	Riga	5-20M	Mercure LV
L'Ermitage Hotel	Hotel	Estonia	Tallinn	5-20M	Hotel Styles
Jogailos 10	Office	Lithuania	Vilnius	5-20M	TURTO Tesura

Definitions

Investment Volume – the total amount of the value of commercial real estate investment transactions with income-producing assets, 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, 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 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.

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