

Diversity Between the Baltic States



Note: Arrows indicate change from the previous year

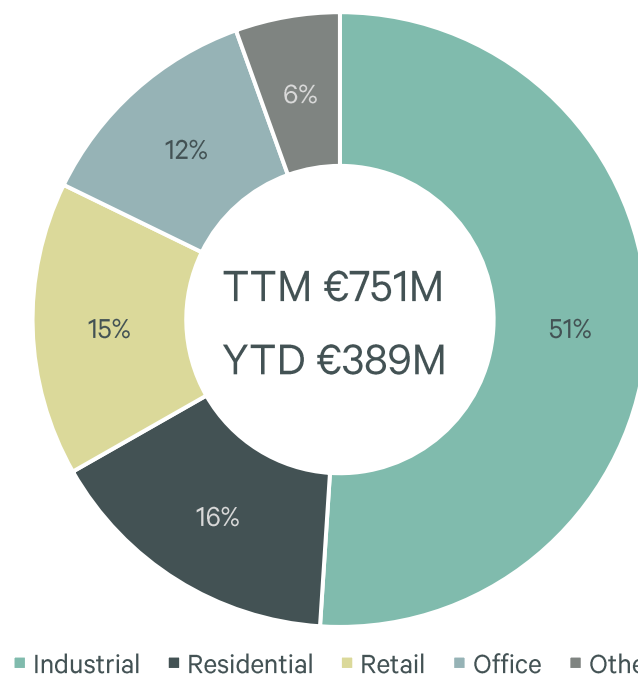
Total Volumes. After a surge in investment volumes during the previous quarter, Q3 2023 witnessed a significant decline. Compared to Q2 2023, in the third quarter of 2023, investment volumes fell by approximately 60%, and a similar drop can be reported when comparing this quarter's performance to the corresponding period a year ago. However, the decrease is less pronounced when considering the number of transactions. In comparison to Q2 2023, the number of transactions dropped by 32%, but when compared to Q3 2022, it even increased by approximately 27%, indicating that the market remains relatively active. However, the average transaction size is almost three times smaller than a year ago, explaining the large drop in overall investment volumes. This suggests the real estate market is losing its privileges due to a more advantageous bond or debt market with higher yields and lower risks.

During the quarter, investments in Lithuania amounted to approximately €33 million, representing around 42% of all Baltic investment volumes. Estonia and Latvia attracted €27 million (34%) and €18.7 million (24%), respectively. If compared with Q3 2022, investments increased only in Latvia, although slightly. In Estonia and Lithuania, investments followed a sharp downward trend, decreasing by 45% and 75%, respectively. Local investors continue to assert their influence in the Baltic market, reaching the highest share recorded at almost 90% of the total investment volume for the quarter.

Asset Classes & Transactions. Throughout Q3 2023, the industrial sector attracted more than 50% of all transactional volumes, totaling €40.3 million. The majority of industrial investments occurred in Lithuania and Estonia, with the largest transaction, exceeding €10 million, taking place in the Tallinn port area. In Latvia, investments in the residential sector dominated, with EfTEN Residential Fund's acquisition of a 12-story building and Kalpaka Park Residences in Riga being the most notable transaction. On a broader Baltic scale, the residential sector has been gaining momentum, drawing around 16% of all investments and totaling €12.4 million. Simultaneously, the retail sector and the office sector are not far behind, contributing €12.2 million (15%) and €9.7 million (12%), respectively.

Yields. The substantial increase in interest rates has caused property yields to shift significantly upward compared to the previous year, resulting in substantial declines in capital values (ca. -20%). If interest rates continue to rise, the market is likely to experience even larger yield shifts in the upcoming quarters.

Investments in the Baltics by Sector, Q3 2023

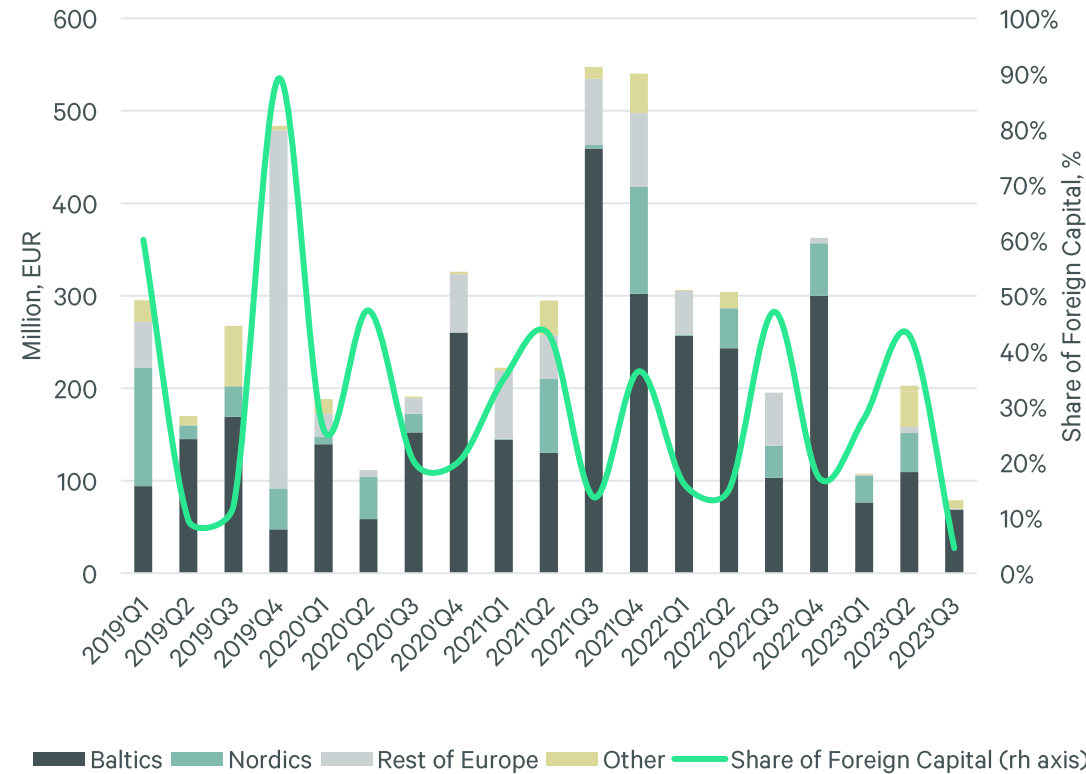


TTM – trailing twelve months
YTD – year-to-date

Source: CBRE Baltics Research

Foreign investments persist in declining...

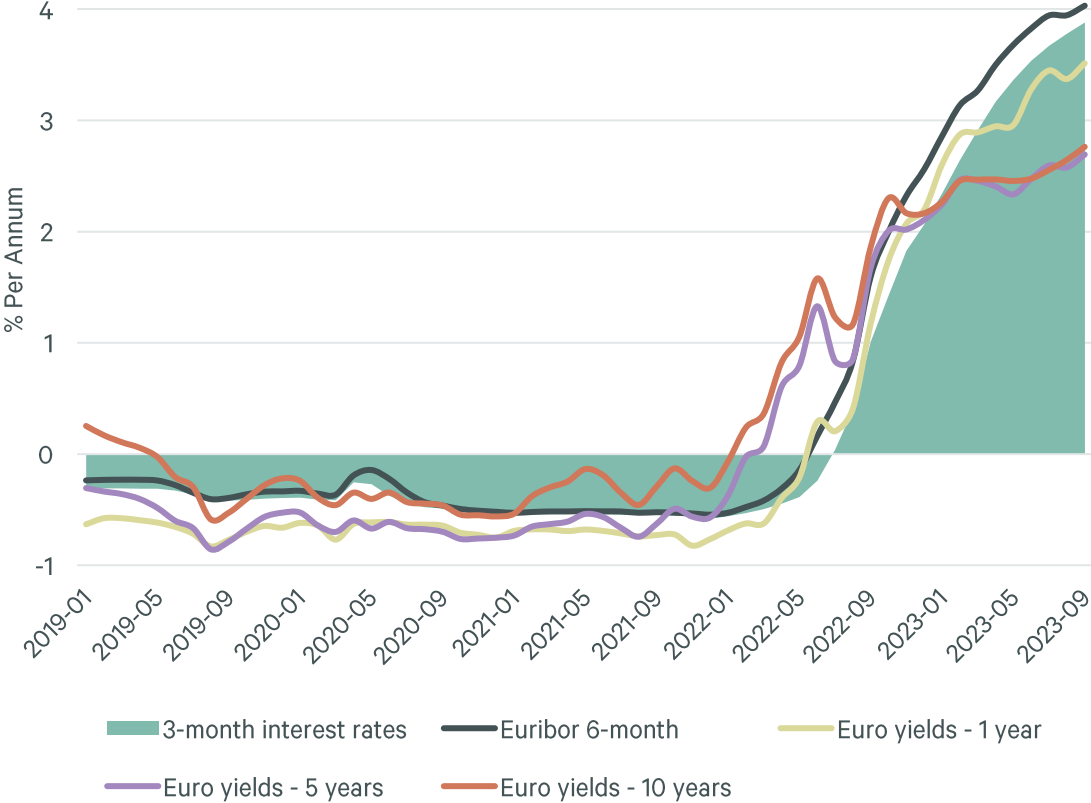
Quarterly Investments into the Baltics by Investor Origin, 2019 Q1-2023 Q3



Source: CBRE Baltics Research

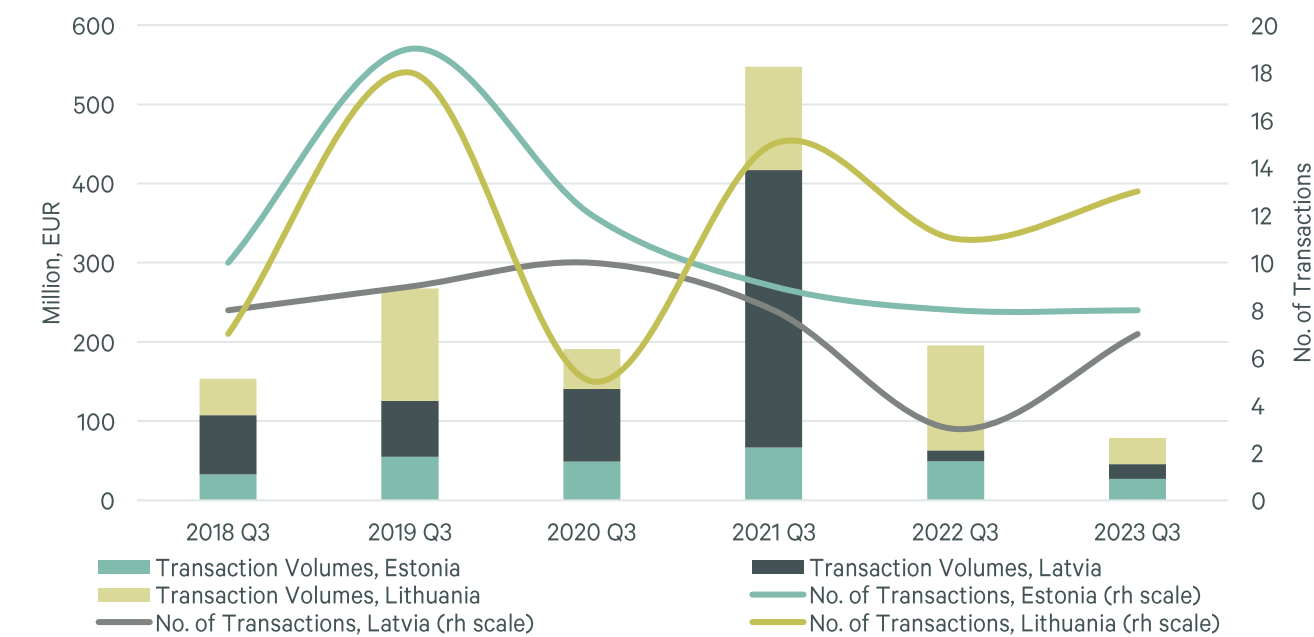
...while interest rates remain elevated

Interest Rates, Euro Area, 2019 January-2023 September



Source: CBRE Baltics Research, Eurostat

Quarterly Transaction Volumes and Quantities by Country, Baltics, 2018 Q3-2023 Q3



Source: CBRE Baltics Research

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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.