

INVESTMENT MARKET

Transaction Volume

In 1HY 2019, the total volume of investment in commercial real estate in the Baltics amounted to ca EUR 470 million, thus remaining below the five-year average.

Total investment turnover in the Baltic States decreased by one-fourth in 1HY 2019 in comparison to EUR 622 million closed in 1HY 2018.

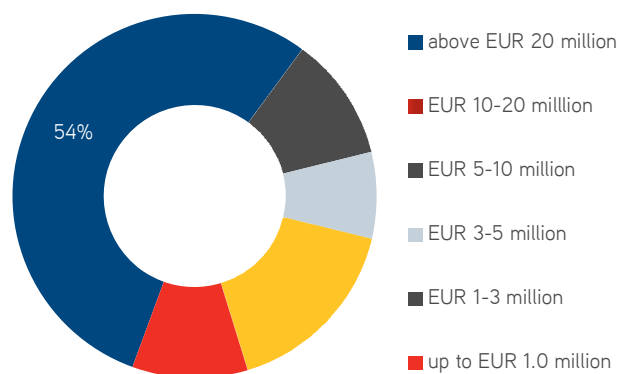
In Latvia, after a major step back in 2017, the investment market returned to growth in 2018 and continued to improve in 1HY 2019, achieving a volume of EUR 150 million in total or 17 per cent higher than in 1HY 2018.

In Lithuania, following a particularly buoyant 2018 which transformed into an active start for 2019, Q2 2019 saw more moderate investment activity. As a result, investment in the Lithuanian commercial real estate market reached EUR 220 million in 1HY 2019 (which is still almost half of total Baltic investment volume), thus decreasing by 33 per cent compared to the corresponding period in the previous year.

A lack of large transactions in Estonia resulted in total investment volume being 39 per cent less than in 1HY 2018, thus reaching EUR 100 million in 1HY 2019.

Average transaction size across the market as a whole was EUR 3.3 million in 1HY 2019 (compared with EUR 4.4 million in 1HY 2018). The decrease in average transaction size can be attributed to lack of deals between the EUR 10–20 million threshold and the large number of deals of less than EUR 3 million (approx. 90 per cent of the total number of transactions) in 1HY 2019 in the Baltic States.

Investment Turnover in the Baltic States by Size in 1HY 2019

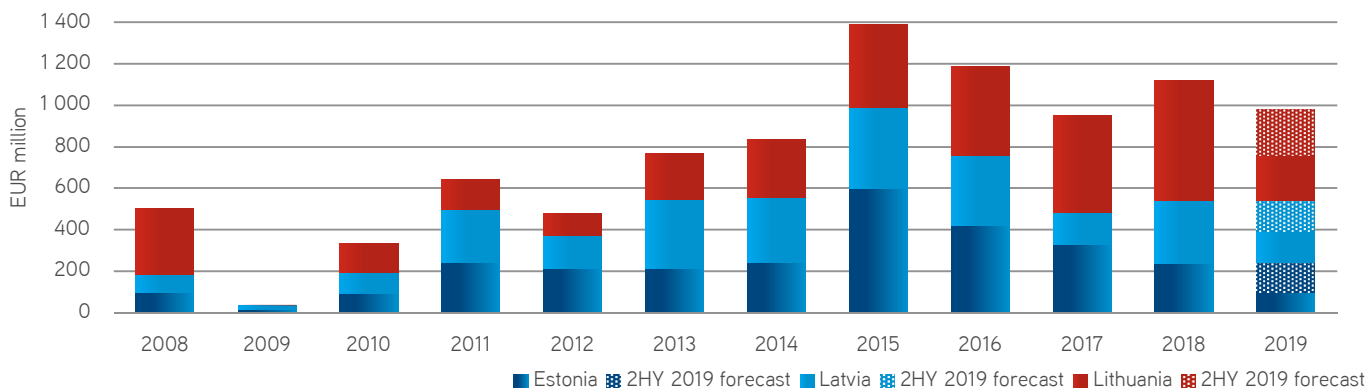


Source: Colliers International

Nordic investors were the most active in the market, responsible for 45 per cent of total volume in the Baltic States, while foreign capital in total was behind 61 per cent of invested volume, followed by Baltic investors, accounting for 39 per cent of total volume respectively.

The share of the TOP3 investors – Eastnine, Baltic Horizon and Corum – amounted to half of total investment volume in the Baltic States.

Dynamics of Investment Volume in the Baltic States



Source: Colliers International

Although local capital was responsible for over half of acquisitions in Estonia, foreign capital was behind 46 per cent of invested volume mostly due to one large deal over the EUR 20 million threshold closed by Corum. At the same time, previously very active Nordic investors continue to remain passive in Estonia for the second year in a row.

In Latvia, two large deals closed by Baltic Horizon Fund and Mariner Capital Limited resulted in foreign capital being responsible for over 74 per cent of acquisitions in total.

In Lithuania, activity by international investors also grew sharply, capturing 58 per cent of total Lithuanian volume in 1HY 2019 due to one large deal closed by Eastnine.

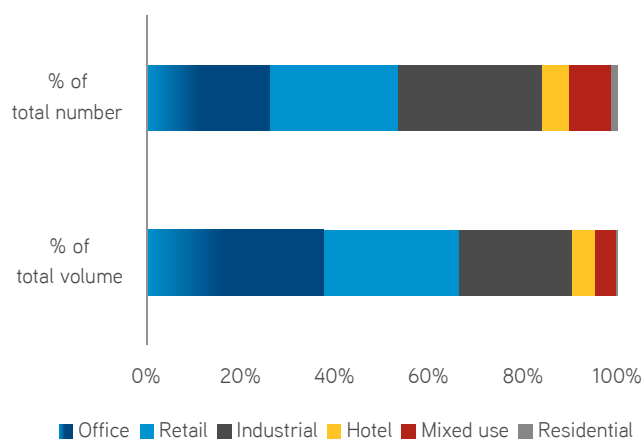
Investment Properties

The office segment attracted the biggest share of investment (38 per cent) in the Baltics. In Lithuania, this segment was the main investment activity driver in the first half of the year.

Investment in office property in Lithuania accounted for two-thirds of total volume due to the sale of the S7 office park (stages I, II, III) with total GLA of 42,500 sqm to Eastnine for EUR 128.3 million (the biggest deal recorded in the Lithuanian office segment so far) and the acquisition of Trapecija BC by Paysera for EUR 2.9 million.

In Estonia, investment in office property accounted for 20 per cent of total volume, driven by the acquisition of the Harju 11 building by Harju KEK.

Investment Turnover in the Baltic States by Property Sector in 1HY 2019



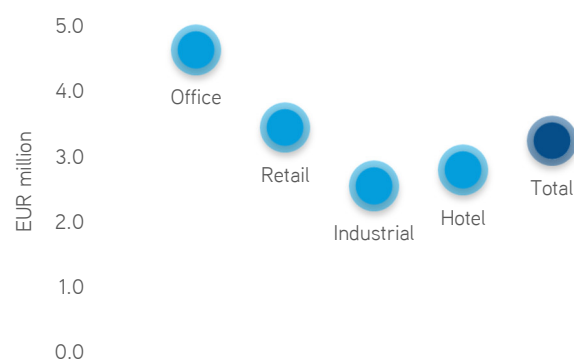
Source: Colliers International

In Latvia, although there were no significant investment deals in the office segment in 1HY 2019, the second half of the year began with the sale of the Luminor main office building in Riga to commercial property investor Colonna Kinnisvara.

Investment in the retail segment attracted the second biggest share of total transaction volume in the Baltic States in the first half of the year, accounting for 29 per cent of total volume, and being the main investment activity driver in Latvia (with 61 per cent of total Latvian volume) due to the acquisition from Linstow AS of Galerija Centrs shopping centre by Baltic Horizon Fund for EUR 75 million and yield estimated at 6.7 per cent. In Estonia, Varoteks acquired Võru 79 Business Centre (commercial-office property anchored by ONOFF) in Tartu with a price exceeding EUR 4.5 million, while Maru sold Audru Maksimarket in Pärnu. In Lithuania, notable retail deals included the purchase by Rivona of Liepa SC with the anchor tenant Norfa for EUR 4.5 million in Klaipeda and the sale of the Deco Furniture and Interior Centre in Klaipeda by East Capital for EUR 2.5 million.

At EUR 113 million, investment in industrial/warehouse property accounted for the third largest share of transaction volume in 1HY 2019. In Estonia, remarkable deals in the industrial segment included the sale of the Harmet production facility (28,000 sqm, completed in 2017) in Harku parish to Corum (sale-leaseback deal; lease length – 15 years), the acquisition by United Partners of the DPD & Onninen Logistics Park in Põrguvälja Industrial Park next to Jüri borough, and the sale of Stock Office property in Tallinn. In Latvia, the industrial segment also enjoyed a strong start to the year, comprising 20 per cent of total Latvian investment volume. Thus, Elipse BLC logistics centre was acquired by Mariner Capital Limited, while Lumi Capital, a new player in the Latvian market, continued acquisitions in Riga with DHL logistics centre, which now complements their retail property at Anninmuzas Blvd 40 acquired earlier this year.

Average Transaction Size by Sector



Source: Colliers International

The share of hotel deals in total transaction volume remained rather low in 1HY 2019 due to the very small number of transactions, though with some notable deals closed in Riga, where Radi and Draugi Hotel was sold to Estonian investors, while RIJA VEF HOTEL was acquired by local hotel operator Mogotel.

Investment Yields

In 1HY 2019, prime office yield in Vilnius declined to 5.8 per cent while prime retail and industrial yields remained stable compared to year-end 2018. This is due to active development of office properties, which resulted in higher quality projects corresponding to international standards, making them more attractive to investors.

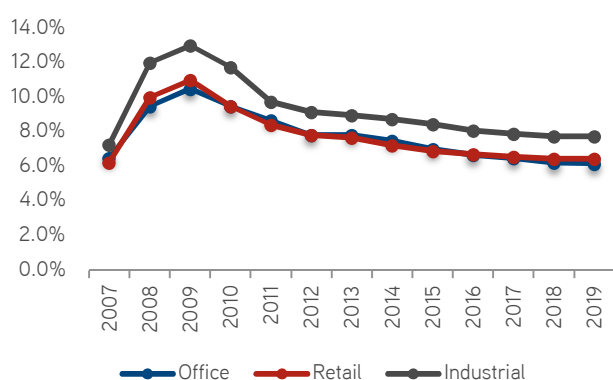
Prime Yields in the Baltic States by Country

Prime Yields	Estonia	Latvia	Lithuania
Office	6.25%	6.45%	5.8%
Retail	6.4%	6.5%	6.5%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

In Riga, prime yields remained stable at 6.45 per cent in the office segment, 6.5 per cent in the retail segment and at 7.75 per cent in the industrial segment.

Average Prime Yield Dynamics in the Baltic States, 2007 – 2019



Source: Colliers International

In Estonia, prime yields remained at 6.25 per cent in the office sector, 6.4 per cent in the retail sector and 7.75 per cent in the industrial sector.

TOP10 deals in Baltics in 1HY 2019

Object	City	Type	Total area, sqm	Vendor	Investor
S7 BC (stages I, II, III)	Vilnius	Office	42 500	M.M.M. projektai	Eastnine
Galerija Centrs	Riga	Retail	20 000	Linstow	Baltic Horizon Fund
HARMET factory	Harku parish	Industrial	28 000	ITT Capital	Corum
Elipse BLC	Riga region	Industrial	31 350	Family Investment	Mariner Capital Limited
Anninmuizas Centre	Riga	Retail	5 300	AIFP Hipo Fondi aktīvu pārvalde	Lumi Capital
Pärnu Audru Centre	Pärnu	Retail	4 700	Audru Keskus (Maru)	Harju Tarbijate Ühistu (Coop)
Radi un Draugi	Riga	Hotel	1 870	SIA «Anglijas Daugavas Vanagu Fonda viesnīca «Radi un draugi»	SIA Hotel Property Old
DHL Logistics Centre	Riga region	Industrial	6 100	Catella Real Estate AG	Lumi Capital
Elizabetes 75	Riga	Office	4 400	Private	Linstow
Onninen Logistics Centre	Rae parish	Industrial	7 700	Korso Holdings	United Partners

Source: Colliers International

Tendencies and Forecasts

- > Colliers foresees transaction volume in 2019 remaining below EUR 1 billion in total. But ongoing negotiations and an attractive supply of new properties give grounds to expect that 2HY 2019 is likely to be more vibrant.
- > The Baltic market will continue to attract foreign investors due to availability of investment grade products and higher returns than in Western Europe or Scandinavia.
- > International investors that have already entered at least one of the Baltic States are expected to expand to other Baltic countries as well.
- > Commercial properties located in capital cities will remain the top priority for investors. In addition, Lithuania's second largest city, Kaunas, has become more appealing to investors due to supply of new projects, especially in the office segment, while successfully operating objects in other cities are expected to likewise receive attention.
- > Investors are increasingly considering alternative investment options in the hotel, healthcare, housing and development segments due to higher returns.
- > Although interest rates remain low, bank lending is becoming more conservative, affecting the LTV ratio.
- > Investors' financing expectations are not always in line with conditions offered by banks, which have put pressure both on transaction timelines and prices.
- > Yields are forecast to remain largely stable (with rather small fluctuations) in 2HY 2019 due to more conservative bank lending and, consequently, adjusting expectations of market participants. Thus, already in Q3 2019, prime office yield in Riga has compressed to 6.4 per cent, while retail yield has increased to 6.6 per cent.
- > A more pronounced difference is expected between yields for prime and secondary assets as the latter are more strongly affected by stricter lending conditions.

436 offices
68 countries
6 continents

United States: 155

Canada: 48

Latin America: 20

Asia Pacific: 94

EMEA: 119

€2.9

billion in
annual revenue

180

million square meters
under management

17,300

professionals and staff

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