

Property Snapshot

Q2 | 2021

Investment market

The capital market in Estonia continued the year, showing lively activity with total investment volume reaching ca EUR 89 million in Q2 2021, driven by activity in the industrial and office segments. East Capital purchased the Via 3L LC (33,000 sqm; sale-leaseback deal) in Rae, thus securing its market share as the largest owner of industrial assets in Estonia. In the office segment – Summus Capital finalized the acquisition of the Pharma Plaza medical centre, while EFTEN Capital sold the Kadaka tee 63 office building for EUR 8.25 million to US Real Estate OÜ (owner-occupation). The retail segment has remained very calm so far in 2021, although two landmark objects - T1 Mall of Tallinn and Stockmann department store - were put up for sale during the quarter. Q2 2021 saw continual yield compression towards 7.0% in the industrial segment as well as some compression in the office segment.

Key Investment Figures in the Baltic States, Q2 2021

Prime Yields	Estonia	Latvia	Lithuania
Office	5.9%	5.8%	5.5%
Retail	6.5%	7.0%	7.0%
Industrial	7.0%	7.0%	7.0%

Source: Colliers

In 1HY 2021, investment volume in Latvia reached almost EUR 170 million, twofold higher compared to 1HY 2020. During Q2 2021, one-third of investment volume in Latvia came from 3 hotel transactions: Norvelita acquired the 4* Mercure Hotel (143 rooms) for EUR 17.9 million, Kapitel acquired the 4* Europa Royale Riga (60 rooms) for EUR 4.8 million, while Rigensis purchased the 3* Irina Hotel (75 rooms). Other notable deals included the sale of the Zala 1 office building for EUR 14.5 million by Vastint to Eastnine as part of a portfolio deal and the sale of SC Valdeka by Lords in Jelgava. Based on transactional evidence, prime office yields in Riga compressed by 20 bps to 5.8%, while prime industrial yield continued compression towards 7.0%, a trend expected to continue due to high demand and lack of industrial products in the market.

In Q2 2021, the Lithuanian investment market continued to demonstrate strong activity, resulting in total investment volume of over EUR 150 million. In contrast to the previous quarter dominated by the retail segment, in Q2 2021 investors targeted industrial properties, followed by office and, unexpectedly, residential assets. Notably, the market observed the sale of 76 apartments in Vilnius above the threshold of EUR 20 million. Among large-scale deals in the industrial segment was the acquisition of Titnago Logistics Park by East Capital, Adax and AQ

Wiring Systems industrial buildings in Panevezys by EFTEN Capital, and Klaipeda Business Park by Baltic Sea Properties. The biggest deal in the office segment was the acquisition of UniQ BC, closed by Eastnine. Investor activity led to compression of prime industrial yield, while office and retail yields remained unchanged compared to the previous quarter.

Office market

Development in the Tallinn office market remains active with a total GLA of over 140,000 sqm (16 projects) under construction in June 2021. Q2 2021 saw completion of the Ajamaja office building (Class A) in Rotermann Quarter. In addition to Kawe City and Liivalaia Quarter, remarkable new projects started in 2021 include the Vektor office-residential development in Pärnu Road subarea and Maakri Hub and Volta1 redevelopment projects. Vacancy continues to fluctuate around 8-9% in Class A and B1 buildings, seeing a steady demand for newly built office space. Thus, Ellex Raidla law firm signed a pre-lease agreement to become one of the anchor tenants in Roseni Maja in CBD planned for completion in 2023. Upward trajectory of vacancy rates and downward pressure on rents is seen mostly in the Class B2 segment.

Key Office Figures in the Baltic States, Q2 2021

Class	Tallinn	Riga	Vilnius
A Class Rents	14-17	14-16	14-17
B1 Class Rents	9.5-15	10-14	9-14
A Vacancy*, %	8-9%	21-22%	4-5%
B1 Vacancy*, %	8-9%	14-15%	10-11%

Source: Colliers

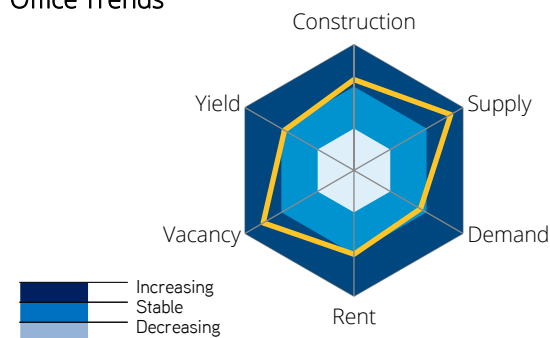
EUR/sqm/month; *-speculative office market vacancy rate

In addition to three large office projects under construction in Riga: Verde, Preses Nams and Novira Plaza, Q2 2021 saw the start of construction work on the Zeiss office building. Around 89,000 sqm of mostly Class A office space remains currently under construction in Riga. Even though vacancy in Class A buildings is still quite high, the market continues to absorb office space and projects like Origo One are fully let one year after completion. Interest from potential tenants remains, though larger companies are currently trying to redefine their workplace needs and are expected to come back with new strategies later during 2021. In Q2 2021, Riga City Development Department announced the signing of a 5-year lease agreement for 4,505 sqm office premises in Riverside Offices (Class B2). Another notable take-up deal included the Prinful lease agreement for a full office building occupation in the city centre (The Icon, Class B1 project developed

by Baltic RE Group). Most landlords are trying to maintain pre-covid asking rental rate levels, at the same time being flexible in terms of expansion and/or reduction of occupied space as well as providing higher fit-out contribution.

In Q2 2021, the Vilnius office market maintained stability in terms of new supply. The development pipeline increased up to 209,000 sqm, observing the start of construction work on two office buildings in Naujamiestis district. Demand for office space picked up due to improving business sentiment and a gradual return to offices on the back of the accelerating vaccination process. Office take-up in Q2 reached almost 20,000 sqm in total. The largest lease agreement was signed by Belarusian company Wargaming for 5,000 sqm premises at Quadrum BC. Another major lease deal was closed by Alter Domus for 3,100 sqm premises at Business Stadium North BC. Office rent rates remained stable. The overall market vacancy rate stood roughly at the same level.

Office Trends



Source Colliers

Retail market

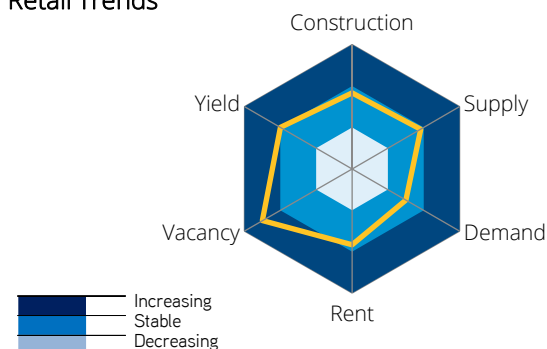
The retail sector remains active in Tallinn region with several new developments started in the first half of the year – Q2 2021 saw the start of construction work on the new Tabasalu Centre (anchor tenant - Selver). A new development boost is expected in Kurna area next to Tallinn's ring road as in addition to construction under way of the IKEA concept store, development of a new retail park (20,000 sqm) is planned on the neighbouring plot. The latest large-scale retail development in Tallinn - T1 Mall of Tallinn SC – filed for bankruptcy. The centre's largest creditor, Lintgen, is waiting for the centre to be put up for sale and is also interested in purchasing it. Following the opening of stores and malls after the lockdown, leasing activity remained active, seeing new openings across Tallinn. The grocery segment remains unstopably active – Maxima started construction work on its local store in Laagri (redevelopment project), while Lidl announced the opening of its first stores this year in Estonia.

In Riga, the long period of restrictions has led to increased SC vacancy, exceeding 8% level as of Q2 2021. Cinemas, gyms and indoor dining in Latvia is currently possible for vaccinated persons only.

Although MyFitness continues its expansion in Riga, taking over former People Fitness premises in city centre under the MyFitness brand, opening Gym! in Imanta (2nd location in Riga) and signing an agreement for a new gym in SC Saga. Additionally, Sportland group has expanded in Olimpia (reopened part). The fashion segment remains calm: most of the brands would prefer to have fewer locations but rather larger stores, while discounters are ready to have more locations and less emphasis on e-commerce. Asking rent rates in the market are currently lower than 2-3 years ago with a continuous tendency of putting greater emphasis on turnover-based rent rates. Potential tenants are more than ever examining the force-majeure and break option clauses in agreements, thus trying to mitigate potential risks.

In Q2 2021, retail stock in Vilnius stood unchanged. Nevertheless, the market recorded the start of reconstruction works at Europa SC. Upgrade solutions include a new 800 sqm food hall, which is planned to open in the final quarter of 2021. The new construction pipeline remained stable with three projects, which are forecast to bring 73,900 sqm of new retail space in the period 2021-2022. Italian fashion brand Pinko entered the Lithuanian market, opening its first stores at Panorama and Europa SCs. Overall, shopping centre restrictions were lifted, although some restaurants continued to operate in takeaway mode. This led to an improvement in market sentiment. At the same time, not all stores reopened, which slightly increased the vacancy level, while pressure on rent rates continued to persist.

Retail Trends



Source: Colliers

Key Retail Figures in the Baltic States, Q2 2021

	Tallinn	Riga	Vilnius
Prime SC Rents*	23-45	25-45	25-50
Prime High Street Rents*	30-45	18-35	25-50
Vacancy in SC	4.0%	8.4%	2.5%

*EUR/sqm/month; SC – shopping centre

Source: Colliers

Industrial market

The industrial segment remains rather active in Tallinn region in terms of new developments with a total area of approx. 139,070 sqm under construction in June 2021, seeing the start of construction work on the new pharmacy factory (19,300 sqm) in Tallinna Suur-Sõjamäe IP as well as development of the new Ringtee industrial park in Kurna village area next to the Tallinn ring road. Major development projects completed in Q2 included the HKScan LC (8,880 sqm) and Pakendikeskuse LC (10,500 sqm). Stock Office premises continue to remain in demand - at least 33,250 sqm (11 projects) of new Stock Office space remain under construction. Retailers continue to generate the strongest demand for new space. Due to buoyant demand, rental levels remained unchanged, while vacancy slightly decreased to 3.8%.

Key Industrial Figures in the Baltic States, Q2 2021

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-4.7
Vacancy	3.8%	4.6%	0.2%

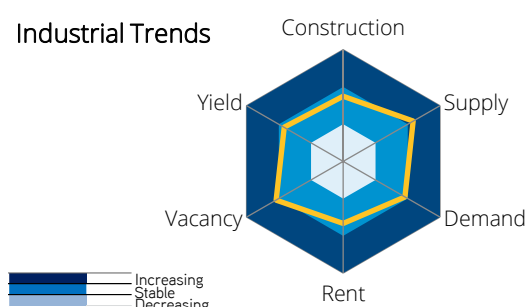
*EUR/sqm/month

Source: Colliers

In Q2 2021, the logistics sector helped the industrial market in Riga to gain momentum. Though a growing movement of tenants occupying premises below 1,000 sqm was observed in the market, these areas are still scarce. Due to a good match between rent rates, premises size, and technical characteristics, larger tenants are once again considering properties within the Riga ring-road area. Increasing demand could help to keep vacancy stable when new objects enter the market. 2 new industrial objects were commissioned during Q2, including the first part of Rumbula Logistics Park stage II (15,000 sqm) and DHL Riga Airport LC, with nearly 90,000 sqm of additional space remaining under construction. Rents remained consistent with slight upward pressure on objects in the early construction or planning stages, due to rising construction costs.

In Q2 2021, the Vilnius warehouse market experienced tranquillity in terms of new commissioning. Nonetheless, the development pipeline was active, comprising seven new projects with a total area of 89,600 sqm under construction (with 75% of this space being developed on a speculative basis). After a somewhat sluggish Q1, demand for warehouse space intensified in Q2, which was reflected in total take-up of over 30,000 sqm. Activity was driven by expansion and new lease agreements, predominantly from the wholesale and retail trade, light industry, and logistics companies. High demand translated into a decreasing vacancy rate, which fell to almost non-existent at the end of the quarter. Warehouse rent rates were under upward pressure due to rising construction costs.

Industrial Trends



Source: Colliers

Trends for 2021

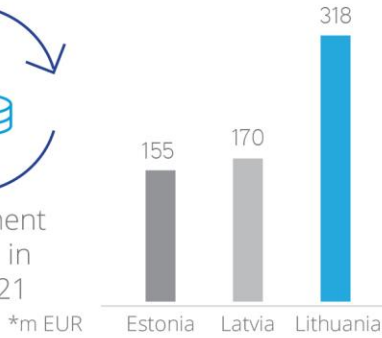
- Investors are expected to continue the hunt for industrial assets in all three Baltic States due to favourable market fundamentals.
- Industrial (as well as office) yields have potential to compress further, as industrial assets are in particularly high investor demand.
- Total investment volume in 2021 will heavily depend on the number of large lot size deals. Expected closing of two-three deals above the EUR 25 million threshold will make a notable contribution to the year's sales volumes.
- More and more companies are opting for hybrid work models, which is likely to impact workspace solutions and demand for office space.
- Professionals are expected more and more to return to the office environment on the back of vaccination and an improving epidemiological situation.
- Take-up activity in the office segment is expected to increase at the year-end once the companies observe overall working tendencies and specify their workplace strategies.
- Most landlords are trying to maintain pre-covid asking rental rate levels, at the same time being flexible in terms of expansion and/or reduction of occupied space as well as providing higher fit-out contribution.
- Rising construction costs impact the pace and potential of further development activity.
- As construction costs continue to increase, some developers start to postpone the start of construction work and wait until next year.
- Although most retail restrictions have been lifted, the market is still likely to feel some adverse pressure and uncertainty for the future in the near term.
- Profitability of shopping centres will remain lower compared with the pre-Covid period; new lease agreements are being signed with lower rent rates and overall, the amounts owed by debtors is considerably higher than previously.
- Following market dynamics, warehouse space remains in great demand in all three Baltic States.
- The vacancy level in the industrial segment in Vilnius and Tallinn is expected to remain low despite active speculative development.
- Warehouse rent rates in Vilnius are likely to grow in the second half of the year due to increasing construction costs.

Market Review

Q2
2021



Investment
Volume in
1HY 2021



Investment

Prime Yields



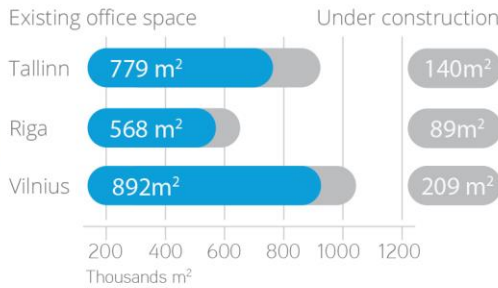
Office

Vacancy Rates



*Class A+B1
speculative office stock

Speculative Office Stock

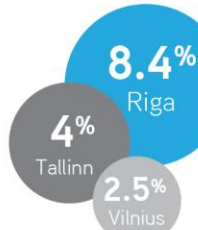


Rents



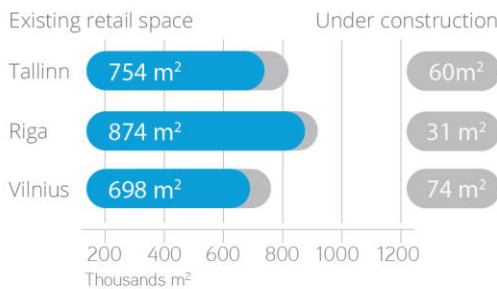
Retail

Vacancy Rates

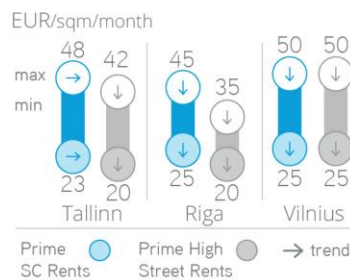


*SC vacancy rates

Retail Stock

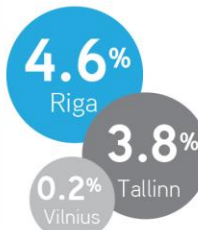


Rents



Industrial

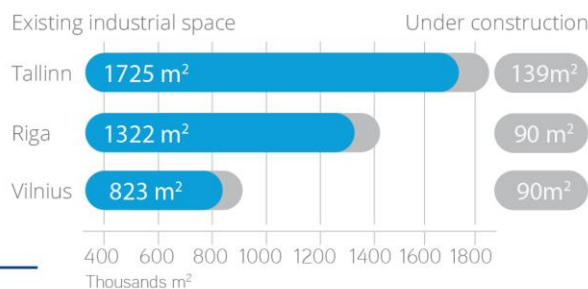
Vacancy Rates



*Spec.+BTS



Total Industrial Stock



Rents



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