

## INVESTMENT MARKET

In Q1 2020, total known investment volume in Estonia amounted to ca EUR 180 million, thus exceeding the total level achieved in 2019. This was due to one large deal - the sale of a portfolio of municipal rental apartments in Tallinn for EUR 140+ million. Another notable deal in Tallinn included the acquisition by LHV pension funds of the Valge Maja business centre (Class B, key tenants include Webhelp, Genius Sports Services, Nets Estonia and Tallink). Prime yield remained rather stable in Q1 2020 but any downward pressure on yields is off. Following the COVID-19 outbreak, the capital market will see a hiatus in activity as deals are put on hold starting from March. Still, some investors are looking forward to benefiting from decreased competition and possible new options.

### Key Investment Figures in the Baltic States, Q1 2020

Prime Yields	Estonia	Latvia	Lithuania
Office	6.1%	6.2%	5.8%
Retail	6.4%	6.6%	6.5%
Industrial	7.75%	7.75%	7.75%

Source: Colliers International

The investment sector in Latvia posted a promising start to the year, reaching EUR 60 million in total investment volume in Q1 2020, driven mostly by the acquisition of three properties – the airBaltic office building & Dominante and Piepilsētas logistics centres – by EfTEN for more than EUR 32 million. Another notable transaction included the acquisition of the A7 hypermarket by a private investor from New Agenda Partners. The COVID-19 pandemic will definitely cause a fall in investment volumes and reshape investor preferences and expectations. The best-case hope is for a swift V-shape recovery in 2HY 2020, but current market conditions point to a more protracted economic shock, meaning a recovery may not be until early 2021.

Q1 2020 was not disappointing for the Lithuanian investment market, with total investment volume exceeding the EUR 80 million benchmark. The office segment continued to be the main activity driver. The biggest deal of the quarter was completed by Lords LB, with the purchase of the centrally located IBC business centre (Class B) for EUR 33 million. Furthermore, Laurus sold SEB Bank office buildings in Vilnius, Kaunas and Siauliai, including the current headquarters in the capital city. At the same time, other RE segments recorded more tranquil investment activity, though Groa

Capital acquired the Rimi Hypermarket in Kaunas. In Q1 2020, prime yields remained stable across all property segments in Lithuania. Further investment activity will follow the economic environment, affecting prime yields.

## OFFICE MARKET

Development in the Tallinn office market remained active with a total area of approx 112,250 sqm (17 projects) under construction. Q1 2020 saw completion of the Sepapaja 1 Office Building in Ülemiste City, Kadrioru Plaza, Väike-Järve Business Centre, and the start of preparatory work on several new projects (e.g. Büroo113, Grüne Maja). Additionally, Q1 2020 saw 7 new building permissions issued for office building with a total GBA of 56,000 sqm, indicating a high “ready-to-start” development pipeline in Tallinn prior to March. Demand is continually driven by relocation and/or expansion of existing tenants (mostly ICT, the legal sector and retailers), also seeing relocation by several larger tenants. In terms of response to the COVID-19 outbreak - office is the least affected segment so far, but some large tenants have started to postpone or freeze expansion plans. Tenants are seeking to cut or lower additional costs (as employees are working from home). Renegotiations and disposals are very likely to increase in Q2 2020.

### Key Office Figures in the Baltic States, Q1 2020

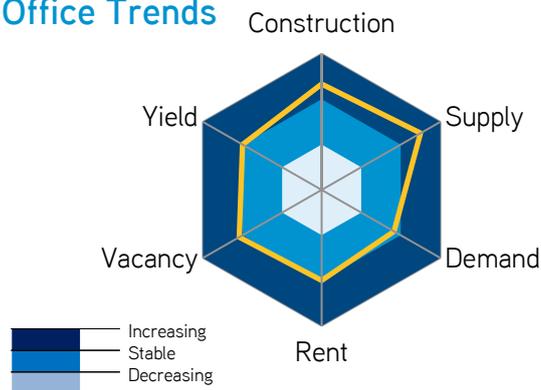
CLASS	TALLINN	RIGA	VILNIUS
A Class Rents	14.0-16.8	14.0-16.0	14.7-17.0
B1 Class Rents	9.5-14.5	10.0-14.0	9.0-14.0
A Vacancy*, %	4-5%	24-25%	2-3%
B1 Vacancy*, %	5-6%	15-16%	2-3%

Source: Colliers International EUR/sqm/month; \*-speculative office market vacancy rate

In Riga, 2020 commenced with finally putting into operation the long awaited multi-functional Z-Towers project, which alone added 25,000 sqm of leasable space to the market. However, the office market in Riga has been hit by the COVID-19 pandemic and all recently finished projects are now struggling to get new tenants, which has led to an increase in vacancy. Several companies have postponed plans to move or expand for now or, if they continue, they are following the most conservative scenario - without assuming a future workforce increase. For the office market quarantine can be treated as an experiment as companies can review their existing digital solutions, test new ones and check how

remote work impacts their business. This might have a negative impact on planned expansions as companies may realize that part of their workforce can work remotely, while this can also have a long-term positive effect on increasing business process outsourcing to other countries.

## Office Trends



Source Colliers International

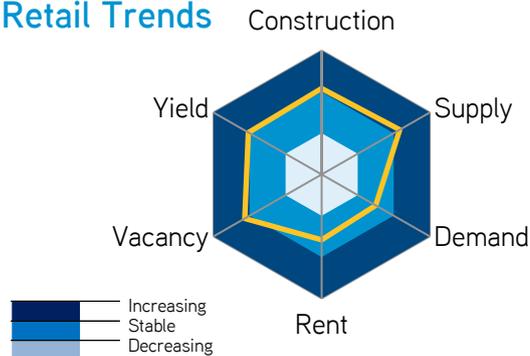
Currently, no developers have announced that they are stopping their planned projects. However, development might be delayed due to market uncertainty.

In Q1 2020, modern office stock in Vilnius remained unchanged compared to year-end 2019. Nevertheless, activity in the development market continued to be on the high side, with GLA of 280,500 sqm under construction. This amounts to roughly 40% of existing office stock. Almost 70% of construction volume will be completed outside the CBD. The lease market was likewise active, experiencing take-up of office space in both new and older properties. Among the largest lease deals were agreements by Citadele and Tesonet for office premises in Green Hall BC (stage I), reaching 2,200 sqm and 1,550 sqm respectively. Demand for office space in existing properties resulted in a decrease of the vacancy level, while rent rates stood unchanged compared to year-end 2019. Looking ahead, rent rates are expected to come under downward pressure as a result of the COVID-19 outbreak and a possibly changing balance between supply and demand for office space. Nevertheless, the greatest pressure is likely to be felt by Class B properties, likewise due to abundant new supply under construction.

## RETAIL MARKET

The retail sector in Estonia started positively at the beginning of 2020 with turnover of retail trade enterprises increasing by 3-7% in the first two months of the year. March 2020 saw the opening of a new Väike-Järve BC at Pärnu Rd 186 with Ehituse ABC (6,400 sqm) as anchor tenant. Additionally, A1000 Market opened a new grocery store in the Tähesaju City area of Tallinn in March, while Lidl started construction work on two new stores in Tallinn. At the beginning of 2020, shopping centres continued to diversify the tenant mix – Solaris started refurbishment of its second floor, T1 Mall of Tallinn announced plans to expand its entertainment offering, while Tallink announced plans to open four Burger King restaurants in Tallinn. In terms of response to the COVID-19 outbreak - it is increasingly evident that the hotel, hospitality and retail (especially entertainment and catering) sectors are being hit the hardest, seeing a decrease in footfall & sales figures by 30-60% in March. Due to the severe shock to the sector, tenants (anything non-grocery/pharmacy) have started to ask for rent-free periods & rent reductions. Shopping centres (except for groceries, pharmacies) are temporary closed from March 27.

## Retail Trends



Source: Colliers International

The current situation with the COVID-19 pandemic is testing the Riga retail market and its ability to survive, adjust and transform. Shopping centres, entertainment providers and businesses related to travel and outdoors are currently hit the hardest, while grocery stores (especially those that operate online stores and deliveries), pet stores and pharmacies are showing stable numbers. Gyms, theatres, dining venues, and stores are now being forced to switch to online. The retail industry is changing significantly: companies (even larger brands) are withholding expansion plans and are asking for rent reductions and rent-free periods. Decrease in rents is significantly affecting landlords, meaning that the profitability of shopping centres will be strongly affected, at least in the short term. Market uncertainty has led to a situation where international companies looking at the Riga market have suspended their entry plans for now.

In Q1 2020, Vilnius retail stock remained unchanged. Ozas SC announced a renewal in order to expand the leisure experience through the opening of a pool and a new children's playground. The main changes in the retail market occurred in March due to the coronavirus outbreak, which resulted in the closure of most stores and a prompt switch to online mode. As a result, consumer demand for home delivery of grocery goods simply skyrocketed. Earlier than initially planned, the Rimi chain launched its online retail platform. Barбора expanded its drive-in network, plus increasing its employee and logistics capacity. E-commerce solutions will remain vital for all retailers during the stay-at-home economy.

### Key Retail Figures in the Baltic States, Q1 2020

	Tallinn	Riga	Vilnius
Prime SC Rents*	23-48	30-50	25-58
Prime High Street Rents*	30-48	25-40	25-60
Vacancy in SC	1.8%	3.7%	0.4%

\*EUR/sqm/month; SC – shopping centre

Source: Colliers International

# INDUSTRIAL MARKET

The industrial segment remains reasonably active in Tallinn and its suburbs in terms of new developments with a total area of approx. 104,000 sqm under construction and a considerable number of small and mid-scale projects in the pipeline ready for delivery. Starting from March, developers and tenants started to reconsider their plans for 2020 - some new leasing deals and development projects have been postponed, but the market otherwise remains stable for now. The industrial market is expected to witness limited activity from occupiers as many may start to postpone decision-making, producing low levels of leasing activity. Landlords are already prepared to propose a somewhat lower rent to secure new lease deals.

## Key Industrial Figures in the Baltic States, Q4 2019

	Tallinn	Riga	Vilnius
Prime Rents*	3.9-5.0	3.5-4.7	3.8-4.9
Vacancy	4.0%	2.8%	2.3%

\*EUR/sqm/month

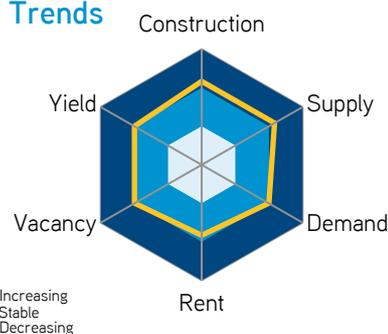
Source: Colliers International

At the beginning of 2020, the Riga industrial market was active, seeing the opening of the Baltic Container Terminal, while more than 200,000 sqm of leasable space was under construction in Riga region. In addition to limited demand from international companies and the COVID-19 pandemic, increase in supply is the main factor that is having and will have an impact on rent rates at the end of the year - these are expected to decrease for older properties located further away from the labour force.

Vacancy slightly increased; however, the market is healthy and there are no indications of further significant growth in vacant stock. In contrast to other sectors (even though short-term plans are on hold), long-term plans for expanding and relocating are continuing - tenants are actively monitoring the situation. Developers have temporarily stopped acquisitions of land plots.

In Q1 2020, the Vilnius warehouse market maintained stability in both existing stock and the development pipeline. In total, six new properties with GBA of 79,900 sqm were in the construction stage at the end of the quarter. This allowed a minor vacancy decline, although vacancy is expected to increase somewhat upon commissioning of new speculative supply later this year. Nevertheless, almost 60% of currently constructed space is dedicated for either own or client needs, which brings some balance to the situation. Warehouse rent rates remained unchanged compared to 2019 year-end. To cope with an increase in parcel flows, DPD temporarily leased an additional 5,000 sqm. A clearer picture of the impact of the coronavirus on logistics and production is likely to unfold over the next quarter. So far, the perspectives seem to be the most promising for grocery, pharmacy, e-commerce and needs-based sectors (a trend that could be observed in Latvia and Estonia as well).

## Industrial Trends



Source: Colliers International

## Trends for 2020

- > Investment activity will follow the economic environment, affecting prime yields.
- > 2020 will see a lower investment volume in all three Baltic States.
- > Some investors are looking forward to benefiting from decreased competition and possible new options.
- > In the office segment, some occupiers are adopting a wait-and-see approach, putting some deals on hold, while others are continuing lease processes already under way.
- > Still, tenants that are continuing their plans are applying a more conservative approach to expansion and relocation.
- > Short-term lease incentives in the office segment are expected both for new deals and from landlords who want to hold onto existing tenants.
- > Economic and labour market conditions are likely to adversely affect discretionary spending.
- > Due to a decrease in footfall & sales figures, tenants are asking for rent-free periods & rent reductions.
- > Increased vacancy is expected in all type of shopping centres, especially in secondary SCs.
- > E-commerce solutions will remain vital for retailers.
- > The industrial market is expected to witness limited activity from occupiers as many may start to postpone decision-making, producing low levels of leasing activity.
- > Speculative development plans in the industrial segment will be carefully re-evaluated.
- > Negotiating conditions are turning in favour of tenants, pressuring rent rates.
- > Perspectives are the most promising for grocery, e-commerce, pharmacy, distribution, and needs-based sectors.



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## FOR MORE INFORMATION

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