

Property Snapshot

Q1 | 2023

Investment market

After a “normal” 2022 with total investment volume exceeding EUR 336 million, Q1 2023 remained as expected calm in Estonia with investment volume reaching only 15% of last year's volume over the same period. Several smaller deals included acquisition of the 5* superior Park Mainson Hotel (distressed asset; sold at auction), sale of the restaurant-office building at Narva Rd and sale of the BiteStop fast-food restaurant in Tartu. Yields remain under upward pressure with estimated growth reaching 0.25-1.0 pp, still experiencing a lack of market evidence. Higher interest rates are starting to push some investors to consider selling their properties, although not yet publicly, a trend expected to continue in Q2 2023.

Key Investment Figures in the Baltic States, Q1 2023

Prime Yields	Estonia	Latvia	Lithuania
Office	5.8%	5.8%	5.5%
Retail (SC)	7.0%	7.25%	7.25%
Retail (grocery-led)	6.1%	6.5%	6.25%
Industrial	6.75%	6.5%	6.75%

Source: Colliers

As expected, the start of the year in Latvia has been quiet in terms of investment activity with total investment volume reaching only EUR 12 million in Q1 2023 and seeing only one notable transaction - Lithuanian company Norvelita, which acquired the Mercure Hotel in 2021, purchased the former PNB Bank office premises at E.Birznieka-Upisa St. As sellers are not yet ready to adjust their expectations, investors are shifting their focus to other markets where price correction has already occurred. Even though no transactional evidence is available, it is clear that yield adjustment will take place once market activity revives. In most European markets prime yields have already increased on average by 0.25-1.5 pp depending on geography and segment. As a result, in Riga, prime office and retail yields expanded to 5.8% and 7.25% respectively, while so far indications for prime industrial yield remain at the 6.5% level.

In Q1 2023, Lithuanian investment market activity remained buoyant, despite previous forecasts. Total investment volume stood at around EUR 120 million. This was mainly due to the transfer to Titanium Baltic Real Estate of the shareholding in Avia Solutions' office building with a total area of 10,800 sqm. This deal is one of the largest this quarter in the Lithuanian office segment. A large transaction was also recorded in the retail segment - the Domus PRO shopping centre was transferred from investment company Baltic Horizon to PREF III for more than EUR 23 million.

Market sentiment led to expansion of yields in all segments. Yields in certain segments are expected to increase further by mid-2023.

Office market

Development in the Tallinn office market remains constantly active with total GLA exceeding 132,000 sqm (11% of total stock; 15 projects) under construction in March 2023. Q1 2023 saw completion of phase II of the Porto Franco project and the start of construction work on Tule Maja (16,000 sqm). Remarkable activity is driven by the healthcare segment, seeing development of Ülemiste Healthcare Centre II (7,000 sqm), while Qvalitas and Unimed announced the opening of a new centre (3,000 sqm) at Rävåla 5 in CBD. Although some tenants are indicating interest in relocation and looking for new premises, monitoring alternative potential options can rather be used as a market reference for getting better lease terms when renewing existing agreements. Overall, demand remains calm with most enquires being for smaller (up to 500 sqm) premises. Additionally, Workland opened the Workland Fahle co-working centre (3,000 sqm) while a new Spaces co-working centre (3,000 sqm) will open in Arter Quarter in 2024.

Key Office Figures in the Baltic States, Q1 2023

Class	Tallinn	Riga	Vilnius
A Class Rents	16-21	15-18	16.5-20
B1 Class Rents	9.9-16	9-14	10.5-15.5
A Vacancy*, %	5.5-6%	22-23%	5.5-6%
B1 Vacancy*, %	8-9%	12-13%	7.5-8%

Source: Colliers

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

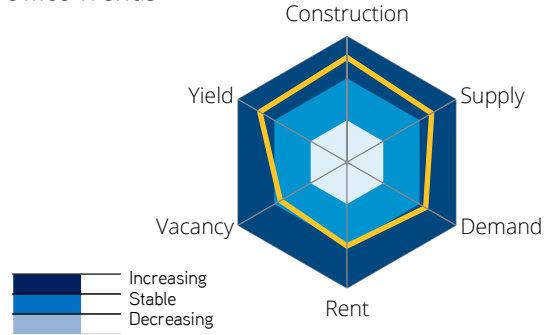
Following a relatively quiet 2022, the start of the year has brought some positive news to the Riga office market. In March, Swiss healthcare giant Roche announced the opening in Riga of a new Services & Solutions centre, which will provide up to 200 new workplaces. Q1 2023 also saw completion of construction work on the first stage of Gustavs BC (GLA 12,400 sqm), which will house the entire SEB Global business services unit. The office pipeline remains full with around 166,000 sqm (20 projects) of office GLA under construction. Two new projects were initiated: Linstow is developing the Satekles BC, which will accommodate the new SEB HQ, covering approx. 9,500 sqm. Additionally, Vastint expanded the Magdalenas Quarter construction site, while both Antonijas St office buildings with total GLA 9,600 sqm are now under active construction. Major development projects have already secured pre-leases with anchor tenants, and around 15% of the under-

construction area is already leased out. The wide availability of new premises has adapted tenants to accepting higher rent rates, as well as new concepts such as add-on factors and open-book maintenance fees.

The Vilnius office market started 2023 actively, recording completion of three business centres - Cyber City (B-t-S), Kintu 11 and Kauno 22, which together increased office stock with new leasable area of 6,700 sqm in the first quarter of the year. The new openings have not led to a decrease in construction activity and development volumes remain high, reaching 125,770 sqm, of which 109,270 sqm is expected to be completed this year and the rest in 2024. Nevertheless, office space meets tenants' growing demand, which is expected to be reflected in lease agreements signed later throughout the year. Rent rates demonstrated growth driven by new, higher quality projects offered on the market.

During the quarter, the vacancy rate in the Vilnius office market slightly decreased, mainly in Class A buildings.

Office Trends



Source Colliers

Retail market

The Tallinn retail development market continues to remain largely inactive, with no new projects added to the market and still no new remarkable additions expected during 2023. Still, Tallinn SCs continue refurbishment and diversification of their tenant mix – Kristiine Centre opened a MyFitness sports club (2,000 sqm) and will open a Lido restaurant, Viru Keskus announced the opening of the first Arket store in the Baltics by H&M Group that offers essential products for men, women, children and the home. Järve Centre started refurbishment, investing EUR 4 million in a new façade, entrances, parking lots, etc. Despite all recent challenges and a slow selling season, shopping centres rather enjoyed good sales in January-February. Thus, the opening of various outlets in the T1 Centre has positively resulted in footfall figures that have almost doubled, reaching ca 10,000 people per day.

In the grocery segment, Lidl secured a market share of approx. 10% during its first full year of operation and opened 2 new stores. Spar announced a new franchise partner with plans to rebrand 24 former Elvi stores across Latvia. Demand in the street retail segment remained low during the winter season, primarily driven by coffee shops, which have started to search for premises in the greater city centre as well.

Key Retail Figures in the Baltic States, Q1 2023

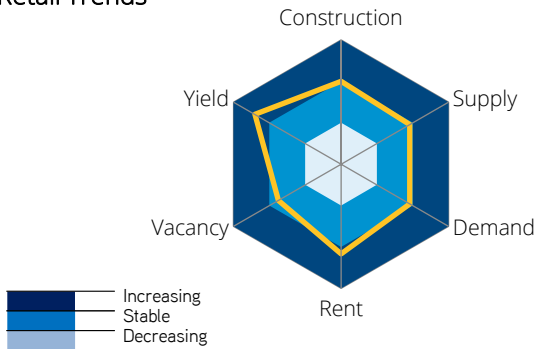
	Tallinn	Riga	Vilnius
Prime SC Rents*	23-45	23-40	25-50
Prime High Street Rents*	25-38	15-30	25-45
Vacancy in SC	3.8%	6.5%	2.3%

*EUR/sqm/month; SC – shopping centre

Source: Colliers

The Vilnius retail market remained tranquil at the beginning of 2023 with no particular developments or news on the market. Massimo Dutti, the famous fashion brand, renovated its stores in major shopping centres, redesigning and significantly increasing retail space. At the beginning of the year, IKI, one of the largest grocery chains in the country, presented new format stores, investing EUR 5 million in the first phase. The main idea of the new concept stores is to create an environment in which the customer's shopping journey is intuitive, their favourite products can be found as quickly and conveniently as possible. Some changes are also seen in Vilnius high street retail with tenants located on prestigious streets changing their locations to try the parts of streets with the most footfall. Vacancy remains stable. While some premises are quite quickly leased out, most vacant stock has to wait longer for new tenants.

Retail Trends



Source: Colliers

The retail development market remains limited in Riga with one mixed-use project with retail space of 6,600 sqm under active construction in Q1 2023. Nevertheless, the market recorded the start of construction work on the Depo DIY store at K. Ulmana Ave near SC Spice. SC Galerija Centrs opened Burzma, a new concept food court area covering 400 sqm. Footfall in SCs is finally back at pre-pandemic levels, while increase in sales is mostly driven by high inflation but actual consumer spending – especially on higher-priced goods – is shrinking. "Off-price" concept retailer HalfPrice announced plans to enter the Latvian market by opening its first store (1,600 sqm) in Akropole Alfa.

Industrial market

The industrial segment remains active in Tallinn region with a total area of approx. 171,200 sqm (25 projects) under construction in March 2023, incl. 12 projects (124,000 sqm in total) above 5,000 sqm each. Q1 2023 saw the start of construction work on a new ETS NORD production facility (8,700 sqm) developed by Mõigu Ehituskoondis in Lasnamäe, while Harju Elekter started development of a new production building (5,800 sqm) for Reimax Electronics in Allika Industrial Park.

Lack of available large vacant land plots limits development of large-scale speculative projects in Tallinn region. As a result, speculative development is mostly driven by stock-offices although the pace of growth is starting to ease with total stock-office volume under construction reaching just 31,570 sqm (7 projects). Rents for newly built premises will depend on construction costs, which are expected to stabilise and/or decrease.

In Latvia, Q1 2023 saw commissioning of VGP Park Riga (41,000 sqm; a large-scale B-t-S project for JYSK) in Dreilini area; and the NP Business Park (10,000 sqm; a fully leased speculative project) in Sampeteris area; and the start of construction work on two notable projects - Pet Baltija (26,000 sqm; B-t-S project) and the fourth building of Green Park (14,140 sqm; speculative project) by Piche in the Airport area. Overall, around 51,000 sqm of leasable warehouse space was added to the market during the quarter, while more than 111,000 sqm remains under construction. Notable logistics and manufacturing companies are planning to expand. Vacancy remains low, and while new projects are entering the market, most of them are fully pre-leased before commissioning. Lack of options in the market continues to pressure the upper rent rate threshold. Meanwhile, a few tenants that were affected by economic difficulties and that have unbreakable agreements are now sub-leasing their unused areas.

Key Industrial Figures in the Baltic States, Q1 2023

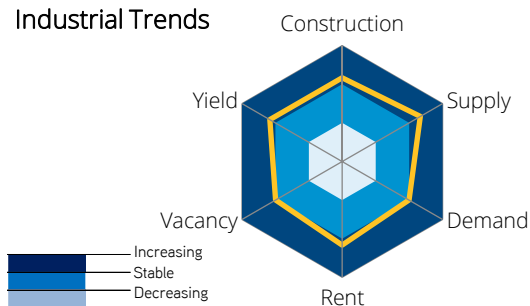
	Tallinn	Riga	Vilnius
Prime Rents*	5.0-6.7	4.2-5.3	4.8-5.6
Vacancy	2.8%	0.4%	0.8%

*EUR/sqm/month

Source: Colliers

During Q1 2023, the industrial segment in Vilnius saw completion of part II of the second stage of J55 LC, which supplemented speculative supply by GBA 13,500 sqm and the start of construction work on the new Moki Vezi warehouse (GBA 23,500 sqm; BTO project) at Jogėliškių St. 12. Rent rates established a new equilibrium at the 5 EUR per sqm per month level, while vacancy experienced a minor upward correction / movement. In Vilnius, leasing activity remains modest with take-up volume amounting to 3,800 sqm. Land prices remain high and stable. Stock-office as an investment opportunity is still attracting attention, while overall demand in the industrial segment could be noted as somewhat weakened.

Industrial Trends



Source: Colliers

Trends for 2023

- Higher interest rates are starting to push some investors to consider selling their properties.
- Buyers continue to follow a rather wait-and-expect-a-better-price attitude.
- The investment market is expected to be led by local players and a higher proportion of smaller lot-size transactions.
- Higher interest rates continue to put upward pressure on yields.
- Lower quality office space will underperform in 2023.
- Older office stock might face difficulties with filling vacancy in case of relocation by existing tenants to new, better-quality premises.
- Office developers are looking for cheaper construction opportunities that together with current high uncertainty may result in postponing some projects.
- As a result, that might lead to scarcity of new high quality office space, especially in CBD.
- Speculative office vacancy in Riga could surge up to 25% once all development projects planned for 2023 are delivered to the market.
- Although the pipeline of offices under construction in Tallinn is significant, notable vacancy increase is not yet forecast.
- Office rent rates are growing and a trend for rent reduction in the short or medium term is unlikely.
- The retail segment is waiting for new brands from other markets.
- With the retail sector quite competitive within the format of traditional shopping centres, future developments are strongly linked with new formats such as retail parks and stock-offices.
- Despite a strong industrial and warehouse development pipeline, demand in Latvia remains high, and projects that are commissioning this year are likely to be fully pre-leased.
- At the same time, demand in the industrial segment in Lithuania is forecast to be somewhat eased compared to pre-war times.

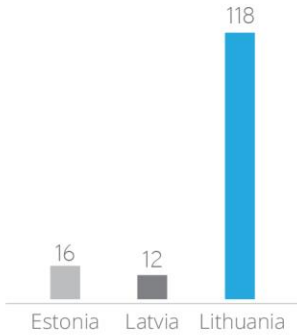
Market Review

Q1
2023



Investment
Volume in
Q1 2023

*m EUR



Investment

Prime Yields



Office

Vacancy Rates



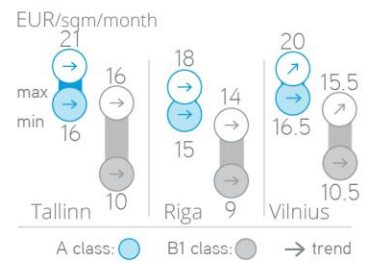
*Class A+B1
speculative office stock



Speculative Office Stock

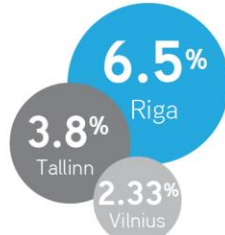


Rents



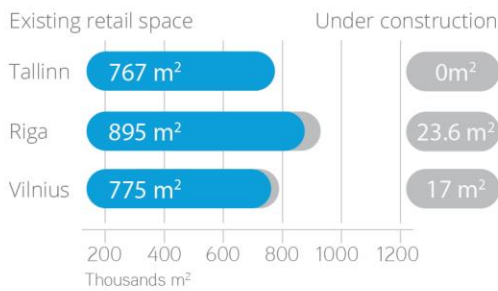
Retail

Vacancy Rates

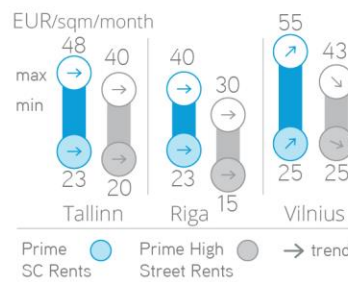


*SC vacancy rates

Retail Stock



Rents



Industrial

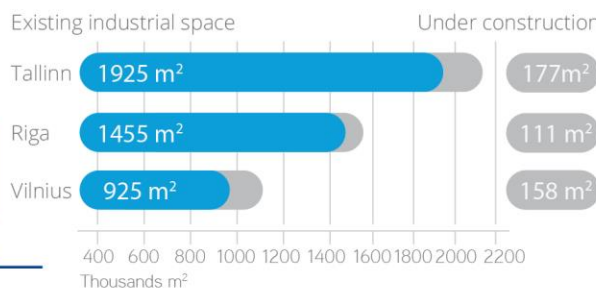
Vacancy Rates



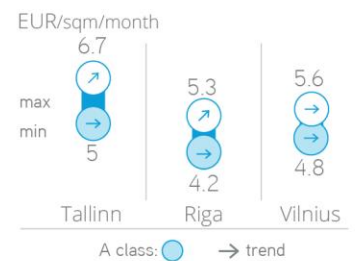
*Spec.+BTS



Total Industrial Stock



Rents



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