

NEWSEC

# BALTIC INVESTMENT OUTLOOK

2019

Office Investment Transaction: S7 Office Buildings  
Buyer: Eastnine AS

# BALTIC INVESTMENT OUTLOOK

## MARKET HIGHLIGHTS

- 2019 started with excitement as the largest office transaction in the history of the Baltics was closed in the first quarter. Swedish Eastnine, listed on the Stockholm Stock Exchange, acquired three office buildings in the S7 complex with 42,500 sqm of GLA. The total value of the transaction exceeded EUR 128 million.
- For the first time, the Baltics have comparable transactions in the office market that are in line with the CBDs of mature markets. New investment products are attractive not only qualitatively but also based on blue-chip international tenants with institutional leases at stable market rent rates.
- Sustainable solutions in office buildings are giving higher returns to investors. The new quality level of office supply with BREEAM, LEED-certified properties are dominating new supply, with a significant share planning their certification in the early development stages.
- A considerable risk premium in the Baltic capitals is still valid. The yield gap of 200bps between Baltic and Nordic and Western markets remains one of the most attractive investment triggers.
- It is likely that the growing activity

of local real estate fund management companies will increase the liquidity of the Baltic market. The professional management companies active in the market are forming portfolios that likely meet the demand for institutional and sizeable assets from foreign investors.

- Growing pension funds' investments in real estate funds may fuel gradually increasing liquidity and somewhat offset banks' reduced lending.
- The Baltic investment market increased by nearly one fifth in 2018 and is forecast to grow even more in 2019. Overall, investment will remain strong, focusing on prime investment properties as investors search for more stable cash flows and attractive returns in relation to risk.

## VOLUME

In 2018, the value of Baltic investment transactions reached EUR 810 million. The total annual result was 19% higher than it was a year ago. The volume growth was largely driven by strong activity in Lithuania. The country has set a new record reaching EUR 400 million and secured a 49% share of total transactions, followed by Latvia (32%) and Estonia (19%). The Baltic investment market, which

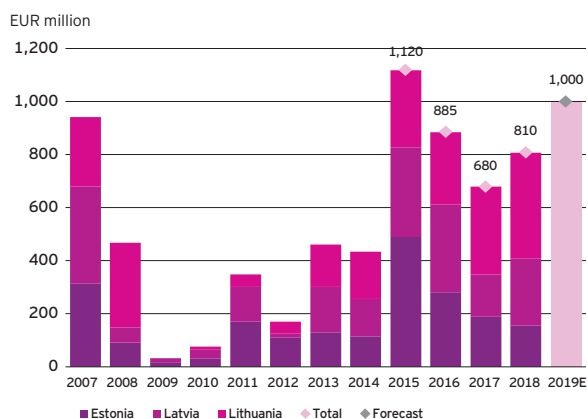
saw about EUR 1.1 billion transactions closing in 2015, continued to remain robust for the fourth consecutive year with an average annual volume of EUR 800 million and approx. 40 transactions per year. 2018 was a unique year in the Baltics as almost EUR 500 million transactions were closed by the leading Baltic asset management companies and real estate investors. The increasing activity of local funds may provide a needed boost to market liquidity. Strong interest in investment properties is expected to continue and reach levels seen during previous years. The current forecast for 2019 is set at ca. EUR 1 billion.

## STRUCTURE

There is no clear trend as to whether the office or retail segment was dominant in the last five years. All that can be noticed is that both attract approx. 70-80% of the region's total investments. The focus on the office segment has increased recently. This mainly reflects a global shift; however, the new development quality level is in line with institutional investors' expectations. For the first time, the transactions closed are the right comparable and set the bar

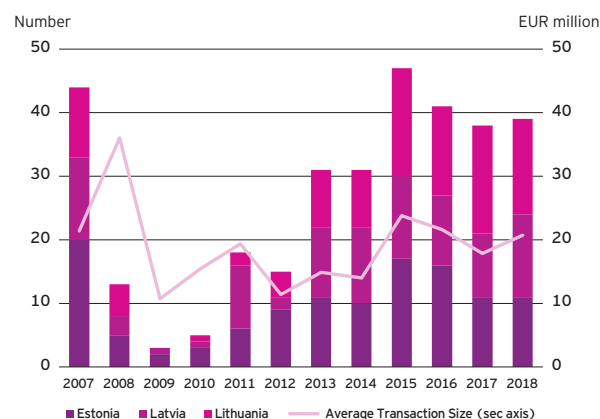
Total Investment Volume by Country

Source: Newsec



Average Transaction Size and Number

Source: Newsec



Cash flow generating transactions exceeding EUR 5 million included.

## »The Baltic property market has seen a robust increase in both volume and activity in recent years«

for future transactions.

### PLAYERS

The Baltic region has a pool of Baltic and Nordic investors that actively participate in the market, the main ones being EfTEN Capital, Eastnine, East Capital, Northern Horizon, Lords LB, Lumi Capital, and others. Deka Immobilien, Technopolis (acquired by Kildare Partners in 2018), LCN Capital, and other investors have been present in the market for many successful years. Moreover, in recent years new major investors from Western Europe and other regions have come to the market such as Corum, W.P. Carey, Lone Star, Blackstone, Nepi Rockcastle, and others.

Along with the increasing volume of total investment, a shift in origin of the investors has been noticed. Three stages in the Baltics' investment market development can be distinguished: the first until the end of 2008 with more than 45% of Nordic capital investors in total volume; the second until 2014 with more than 55% of Baltic capital investors; and since 2015, with almost 55% of Western Europe, Nordic, USA and other origin investors dominating the market. The share of Western Europe capital in the overall transaction volumes reached 11%.

### KEY TRANSACTIONS

Global sentiment in the retail segment has recently been fairly cool, with doubts about the future of e-commerce and the impact on the popularity of physical stores. However, the Baltic region shows buoyant trust together with several notable transactions.

The most important transaction of 2018 was the sale of the Ozas shopping centre for the price of EUR 124.6 million. The German company ECE Projektmanagement sold it to Nepi Rockcastle, a South African company, a deal that shows once again that the Baltic real estate market is able to attract large international investors.

The exceptional transaction of the RYO shopping centre was closed in the city of Panevezys. The Estonian EfTEN Capital fund acquired the property from another Estonian company, Pontos Baltic, for EUR 47 million.

East Capital acquired the shopping centre Galleria Riga, with a 24,300 sqm leasable area and a potential for value enhancement. Assessing the number and volume of transactions made in 2018, the retail segment was extremely attractive in all three Baltic countries. Lewben Investment Management Fund bought Business Triangle office projects

of more than 28,000 sqm GLA in Vilnius for more than EUR 60 million.

In 2018, Eastnine acquired the business centre Alojas Biznesa Centrs, Alojas Quartals and Alojas Residence for a total of EUR 29.6 million from LNK Group.

The largest transaction in Estonia was closed by Rondam, which acquired the Luminor HQ office building with a total area of more than 15,000 sqm from the company Arealis Holding.

SG Capital Partners acquired SWH Biroju Centrs in Riga including 26,400 sqm of GLA and additional development opportunity. The transaction was the largest office market deal ever closed in Latvia. An EfTEN Capital real estate fund bought the Evolution business centre containing 6,200 sqm of leasable office area for EUR 9 million. The investment company DAO Family Office purchased the first phase of Park Town in Vilnius with a gross leasable area of 7,200 sqm and an option to acquire the second phase of 14,800 sqm after completion. The logistics segment returned to investors' horizons in Estonia and Latvia, with some noticeable transactions closing in 2019 Q1. In Estonia, the French real estate fund Corum continued its expansion in the region and acquired the Harmet industrial building with more

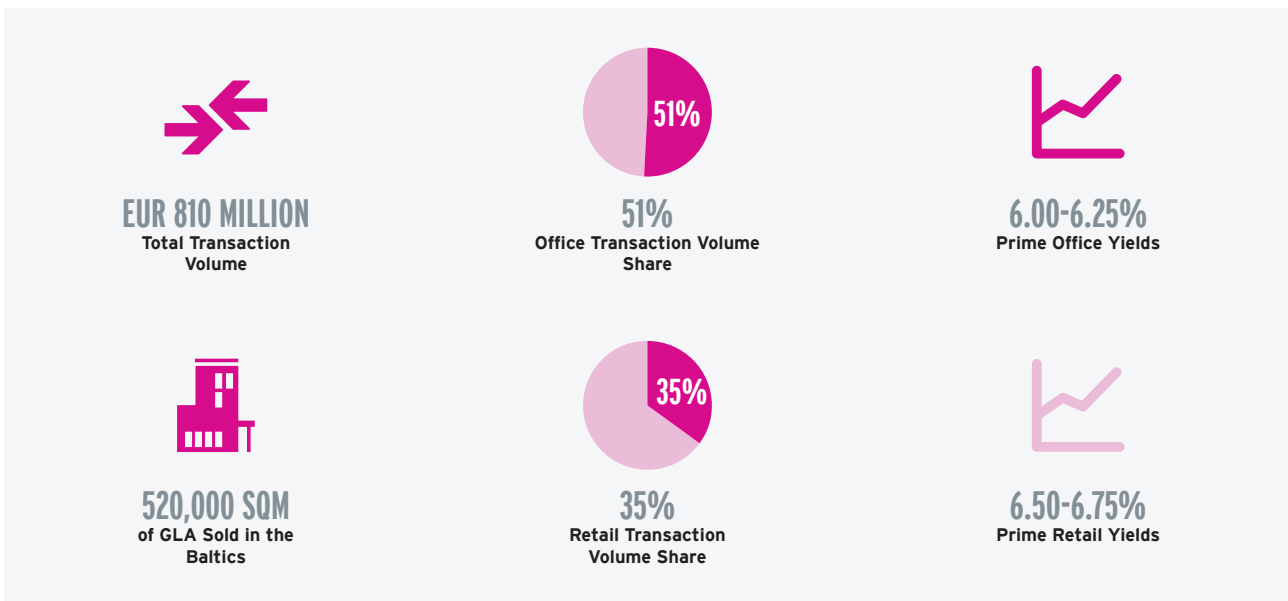
### TOP TRANSACTIONS 2018

Seller	Buyer	Property	Location	GLA, sqm
<b>TOP 5 Office Transactions</b>				
Darnu Group	Lewben Investment Fund	Business Triangle	Lithuania, Vilnius	28,400
SWH Grupa	SG Capital Partners	SWH Office Centre	Latvia, Riga	26,400
Arealis Holding	Rondam	Luminor HQ	Estonia, Tallinn	12,400
LNK Group	Eastnine	Alojas Biznesa Centrs	Latvia, Riga	9,000
Darnu Group	DAO Family	Park Town, 1st stage	Lithuania, Vilnius	7,200
<b>TOP 5 Retail Transactions</b>				
ECE Projektmanagement	NEPI Rockcastle	Ozas	Lithuania, Vilnius	62,000
Pontos Group	EfTEN Capital	RYO	Lithuania, Panevezys	24,300
Fritrade SE/Titan Invest AS	East Capital	Galleria Riga	Latvia, Riga	24,300
Partners Group	Westerwijk	BIG Klaipeda	Lithuania, Klaipeda	16,300
Gildhall	EfTEN Capital	Marienthal	Estonia, Tallinn	13,400

Cash flow generating transactions exceeding EUR 5 million included.

Source: Newsec

# »The market remains active in the ninth year of the global real estate market cycle«



than 28,000 sqm total area in a sale and leaseback transaction. In Latvia, Mariner Logistics, a Hili Company subsidiary, acquired the logistics complex Elipse BLC with 31,000 sqm of total area.

### YIELDS

The Baltic market's real estate yields remain higher than those achieved in Nordic and Western European markets.

However, despite increasing interest from foreign investors, prime yields should remain stable during 2019. The increasing cost of debt could stop yield compression that has lasted now for almost ten years.

Due to increased interest and qualitative improvement in office supply, a swap in average prime office and prime retail yields has been noticed. The gap between

office and retail yields increased slightly and is approx. 50 pp, compared to almost the same level 2-3 years back. In 2019, the prime office yield is forecast to remain at 6.00% - 6.25%. The average yield for prime retail will stay in the range of 6.50% to 6.75%. Deals in the logistics segment close with a capitalization rate of 7.50% - 8.00%.

Share of Transaction Volume by Investor Origin Source: Newsec



Average Prime Yields in Baltic Capitals Source: Newsec



Cash flow generating transactions exceeding EUR 5 million included.

# NEWSEC MARKET REPORTS



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Thanks to Newsec comprehensive knowledge we are able to offer a number of analysis and segment market reports which give you a valuable summary of the property market.



Newsec Property Outlook, Spring 2019



Baltic Property Outlook, Spring 2019



Baltic Investment Outlook, 2019



Baltic Office Outlook, 2019



Tallinn Office Outlook, 2019



Riga Office Outlook, 2019



Vilnius Office Outlook, 2019 Q1



Kaunas Office Outlook, 2018 H2

Access Newsec's market report portal here: [www.newsecbaltics.com](http://www.newsecbaltics.com)

# THE FULL SERVICE PROPERTY HOUSE IN NORTHERN EUROPE

Newsec – The Full Service Property House in Northern Europe – is by far the largest specialised commercial property firm in Northern Europe.

Newsec manages more properties and carries out more transactions, more lettings and more valuations than any other firm in Northern Europe. Through this great volume, and the knowledge and depth of our various operations, we acquire extensive and detailed knowledge of the real estate market. In turn, we can quickly identify business opportunities that create added value.

Our prime market is Northern Europe, but through our alliance membership with BNP Paribas Real Estate, we offer our services on the global market. This makes Newsec Northern Europe’s only full service property house, and provides us with a unique ability to forecast the future.

### A history of growth

Newsec is the result of a unique history of growth, characterised by constant originality of thinking. The first issue of the comprehensive market analysis, Newsec Property Outlook, was published in 2001. The Group expanded internationally into Finland in 2001, Norway in 2005, the Baltic countries in 2009 and Denmark in 2016. The Norwegian asset and property management companies First Newsec Asset Management and TM Partner were acquired in 2012. In 2013, Newsec acquired Jones Lang LaSalle’s Swedish property management operation. In 2017,

Newsec grew with the acquisitions of Norwegian Basale and Danish Datea, further strengthening the position within Property Asset Management. In 2018, Newsec opened a London office to assist international investors interested in the Nordic and Baltic region.

Newsec was founded in 1994 and is today a partner-owned company with some 1,800 co-workers. spread across the seven Nordic and Baltic countries. Newsec has approx. EUR 45 billion under management and annually signs lease agreements

of approx. 1 million square meters, management transactions of some EUR 3.3 billion and does real estate valuations with an underlying property value worth almost EUR 165 billion. Thanks to large volumes and local presence combined with in-depth understanding of a range of businesses, Newsec has a unique expertise of the real estate market in northern Europe.



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