Baltic States

Investment Market

In Q2 2018, total known investment volume in Estonia amounted to ca EUR 65 million, driven by the sale of the 14-storey Class A office building (Luminor HQ) in Tallinn CBD and the acquisition of Käberi Centre (anchor tenants - Selver and MyFitness) by Lumi Capital. Overall, the investment market remained reasonably active in 1HY 2018 with total volume reaching EUR 164 million. The office segment remained investors’ most favoured choice, attracting almost two-thirds of total volume in 1HY 2018. Prime yields remained stable, influenced mainly by tightening competition and harder financing conditions, resulting in some possible pressure on yield increase in the future.

Key Investment Figures in the Baltic States, Q2 2018

<table>
<thead>
<tr>
<th>Prime Yields</th>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>6.25%</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Retail</td>
<td>6.4%</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Industrial</td>
<td>7.75%</td>
<td>7.75%</td>
<td>7.75%</td>
</tr>
</tbody>
</table>

Source: Colliers International

Office Market

Development in the Tallinn office market remains active with a total area of approx. 94,500 sqm (14 projects) under construction in June 2018. Q2 2018 saw completion of the new milestone in CBD – the Maakri 19/21 Office Building, a large-scale high-rise project with approx 18,300 sqm of Class A office space as well as the commissioning of Finest and Zenith Business Centres in CBD, the Jarvevana Tb office building in City Centre, the Pirni7 project in Kristine city district, the start of construction work on the new Taxify HQ in City Centre and the Metalli 5 Office Building in Kristine city district.

Key Office Figures in the Baltic States, Q2 2018

<table>
<thead>
<tr>
<th>CLASS</th>
<th>TALLINN</th>
<th>RIGA</th>
<th>VILNIUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Class Rents</td>
<td>13.4-16.5</td>
<td>13.0-16.0</td>
<td>14.5-16.5</td>
</tr>
<tr>
<td>B1 Class Rents</td>
<td>8.8-13.5</td>
<td>9.0-12.0</td>
<td>9.0-13.5</td>
</tr>
<tr>
<td>A Vacancy*, %</td>
<td>8-9%</td>
<td>6-7%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>B1 Vacancy*, %</td>
<td>5-6%</td>
<td>9-10%</td>
<td>3-4%</td>
</tr>
</tbody>
</table>

Source: Colliers International

The vacancy rate in Class A buildings increased due to completion of the Maakri 19/21 office building, leading to an overall vacancy increase in Tallinn, while rent rates remained steady. At the same time, new office premises continue to show a good absorption ratio. Take-up activity in Tallinn is mainly driven by the ICT sector.

In Q2 2018, the Riga office market saw completion of three projects with total GLA 21,500 sqm, including the Teodors-Jauna Teika office building added to the stock with approx 50%
In Q2 2018, the Riga retail market remained active. Current-ly, more than 167,000 sqm of retail space is under construction, among which approx 72,000 sqm is planned to be commissioned by the end of 2018. Grocery chains continue to expand with the opening of express shops in the street retail sector. In addition to five Rimi Express stores opened in Riga, Maxima has entered the market with its Maxima Express brand as well. After a relatively long period of grocery premises being vacant in SC Riga Plaza, Maxima opened an upgraded grocery store (GLA 5,000 sqm) in the shopping centre. The first iMax Cinema in Latvia will open in the new Akropole Riga, which will be a part of Apollo Cinema, while SC Spice has announced plans for future development of Spice Wellness centre. In Q2 2018, rent rates held steady, while vacancy slightly decreased.

In Q2 2018, the Vilnius retail market saw an increase in supply after a yearlong break, recording completion of the Depo DIY store (GLA 30,000 sqm) in Gariunai, while two other Depo stores remained under construction in Vilnius and Kaunas. Kesko Senukai opened a new concept store, Proficentras1000. Existing shopping centres continue to update their tenant mix and concept. The first Oysho store (340 sqm) in the Baltic States opened in Akropolis SC in Vilnius, which has also announced plans to renew an area of over 40,000 sqm in total by the end of Q3 2019. In addition, Panorama SC opened a gastronomy house (1,000 sqm) that unites 20 premium food and beverage venues in the shopping centre. The first iMax Cinema in Latvia will open in the new Akropole Riga, which will be a part of Apollo Cinema, while SC Spice has announced plans for future development of Spice Wellness centre. In Q2 2018, rent rates held steady, while vacancy slightly decreased.

In Q2 2018, the Vilnius office market was supplemented with Link BC (GLA 8,800 sqm, Class A, fully leased, anchor tenant - Cognizant SSC) located in Zverynas, a part of the central business district that has experienced major office development activity lately. The office development market remained highly active with GLA 128,000 sqm under construction, of which half was pre-leased at the end of Q2 2018. Besides, new development is dominated by Class A office space. In Q2 2018, vacancy in Class A business centres persisted below the 1 per cent level, resulting in a slight growth in rent rates. Nevertheless, upward correction in vacancy is expected later in 2018.

Retail Market

In Q2 2018, the Tallinn retail development market remained reasonably active, with the opening of the extended Mustakivi Prisma Hypermarket in Lasnamäe city district by approx. 3,500 sqm of leasable space. New tenants in Mustakivi Prisma include PetCity, Lemon Gym fitness club, CityAlko and Almudu restaurant. June 2018 saw the entry to the Tallinn retail market of PEPCO - the new-to-Estonia retail chain offering clothing and household products at very low prices - with the opening of two stores in Magistral and Nautica shopping centres. Additionally, in June 2018, Apollo Group opened O’Learys sport and leisure restaurant, covering 4,000 sqm, while Reserved opened the biggest store in the Baltic States in Kristiine Centre.

Key Retail Figures in the Baltic States, Q2 2018

<table>
<thead>
<tr>
<th>Category</th>
<th>Tallinn</th>
<th>Riga</th>
<th>Vilnius</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime SC Rents*</td>
<td>24-48</td>
<td>35-55</td>
<td>25-50</td>
</tr>
<tr>
<td>Prime High Street Rents*</td>
<td>30-48</td>
<td>40-55</td>
<td>25-60</td>
</tr>
<tr>
<td>Vacancy in SC</td>
<td>0.8%</td>
<td>2.6%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

*EUR/sqm/month; SC – shopping centre
Industrial Market

The industrial segment remains active in Tallinn and its suburbs in terms of new developments with a total area of approx. 104,000 sqm under construction in June 2018. Mixed-use projects, combining business and warehouse space, continue to gain momentum in Tallinn with several new projects completed (e.g., Peterburi tee 47, K1 Stock Office), started (Härgmäe 21, Priisle Business Park, III stage) or in the pipeline (Stock Office projects at Artelli 19, Kadaka 133, Peterburi tee 101b, Tähesaju tee 5/7). Rent rates in the warehouse and industrial segment continue to remain stable, although continually feeling some downward pressure, while vacancy continues to tighten slightly.

Key Industrial Figures in the Baltic States, Q2 2018

<table>
<thead>
<tr>
<th></th>
<th>Tallinn</th>
<th>Riga</th>
<th>Vilnius</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime Rents*</td>
<td>3.9-5.0</td>
<td>3.5-4.7</td>
<td>3.8-5.0</td>
</tr>
<tr>
<td>Vacancy</td>
<td>5.0%</td>
<td>2.3%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

*EUR/sqm/month

Source: Colliers International

In Q2 2018, the Riga industrial market was supplemented with only one built-to-suit project (3,500 sqm). Nevertheless, more than 105,000 sqm of industrial space is under construction. All new developments, especially large-scale projects, are absorbed prior to completion. Thus, VGP, the largest project under construction in Riga region, already has pre-lease agreements secured for both phases. Developers are seeking new sites for developing industrial/production space. Total take-up of industrial and warehouse space reached 50,000 sqm in 1HY 2018. Rent rates and vacancy remained unchanged, although due to growth in construction costs, a slight increase in rent rates might be expected in the future.

In Q2 2018, the Vilnius warehouse market remained dynamic, seeing completion of the Apranga Group administration and logistics centre (GBA 15,300 sqm) in Vilnius Business Park and the start of construction work by Transimelsa on two speculative projects with total GBA 13,000 sqm. The development market was active with GBA of 53,200 sqm under construction, dominated by speculative projects (60%). In Q2 2018, rent rates remained stable, while vacancy slightly decreased compared to the previous quarter. Nevertheless, new speculative supply is expected to push the vacancy level somewhat up by the end of 2018.

Industrial Trends

Economy

> According to Statistics Estonia, GDP of Estonia increased 3.6% in Q1 2018 compared to Q1 2017, driven the most by construction for the fifth quarter in row. It was followed by transportation and storage, which had its largest contribution in six years. In Q1 2018, as compared to Q1 2017, GDP has increased by 4.2% in Latvia (mainly driven by growth in construction (by 36% y-o-y), manufacturing, trade activities sectors and information and communication). The GDP growth in Lithuania was 3.7% y-o-y in Q1 2018. The fastest growth in the value added was observed in enterprises engaged in construction (15%), wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities (4.6%), information and communication (4.8%) and manufacture (5.1%).

> According to the data of the Baltic States’ statistical offices, in Q1 2018, the highest unemployment rate of persons aged 15–74 was recorded in Latvia (8.2%), the lowest – in Estonia (6.8%), while in Lithuania it stood at 7.2%. Over a quarter, in Estonia, the unemployment rate increased by 1.5 percentage points, in Latvia – increased by 0.1 percentage points, while in Lithuania, it increased by 0.5 percentage points.

> In Q2 2018, inflation (HICP): in Estonia stood at 3.3% compared with 3.2% in Q1 2018; in Latvia rose to 2.4% in Q2 2018 from 2.0% in Q1 2018; in Lithuania declined to 2.5% in Q2 2018 from 3.1% in Q1 2018.

> In Q1 2018, the retail sales index rose by 0.8% in Estonia and by 4.5% in Lithuania. One of the highest annual increases in total retail trade among the EU Member States was registered in Latvia (+5.5% y-o-y in Q1 2018), according to Eurostat.

> In Q1 2018, the average monthly gross wages and salaries were EUR 1,242 in Estonia, and compared to Q1 2017, the average monthly gross earnings grew by 7.7%. Compared to Q1 2017, gross wages and salaries in Q1 2018 have risen by 8.6% in Latvia – from EUR 884 to EUR 961. In Q1 2018, against Q1 2017, average gross monthly earnings increased by 9.5% in Lithuania and amounted to EUR 895.

Source: National Statistics, Eurostat
413 offices in
69 countries on
6 continents

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Canada: 28
Latin America: 23
Asia Pacific: 86
EMEA: 131

€2.2 billion in
annual revenue

179 million square meters
under management

15,400 professionals and staff

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