BALTIC
PROPERTY
OUTLOOK

Autumn 2018
The Estonian Property Market ........................................ 4  
The Latvian Property Market ....................................... 6  
The Lithuanian Property Market ................................ 8  
Macroeconomic Data .................................................. 9  
Property Data .......................................................... 11  
The Full Service Property House ................................. 13  
Contact and Addresses .............................................. 14
Estonia’s economy was one of the strongest performing in the European Union in 2017, with a GDP growth rate of 4.9 per cent. To follow up with equally strong growth in 2018 is a tall order, but a strong growth rate ranging up to 4 per cent looks to be achievable this year. This strong economic growth in Estonia has positively influenced the real estate market. Supply has increased rapidly, as developers have been very active, primarily in the office and retail sectors.

Expansion of IT and communication companies has been the strongest contributor to office market activity. Although no new shopping centres were opened in 2018, several shopping centre openings are planned for the second half of 2018 as well as 2019. Yield compression continues as interest rates in global markets remain low, and Estonia is increasingly seen as a low-risk country. Prime office premises have seen yields fall to 6.25 per cent, while prime retail and industrial remain at 6.75 and 7.75 per cent, respectively. Total transaction volume in the first half of 2018 in Estonia exceeded EUR 100 million. The total transaction volume for 2018 is expected to reach at least EUR 200 million.

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Interesting occurrences on the Estonian property market in 2018:

**INVESTMENT TRANSACTION ACTIVITY IS BOOMING**
The largest transaction of the first half of 2018 in Tallinn was the sale of a class A office building located on Liivalaia st in the CBD. The building GBA is 15,000 sqm and the building’s anchor tenant is Luminor Bank.

**OFFICE MARKET GROWTH CONTINUES**
In the first half of 2018, almost 50,000 sqm of new office space was completed in Tallinn. 40 per cent of the newly developed GLA belongs to the Maakri Quarter – a new high-rise building in the CBD. Other notable completions are the Pärnu rd 22 and Lõõtsa 12 office buildings, both with GLA’s of over 9,000 sqm. In the second half of the year, the amount of new office space added will be more modest at 22,300 sqm. However, significant demand for high quality office premises remains, with approximately 120,000 sqm of office space currently under construction.

**AN INNOVATIVE SHOPPING CENTRE IS SET TO OPEN**
The T1 shopping centre will be opened by the end of 2018, adding approximately 55,000 sqm of GLA to Tallinn’s retail stock. The fourfloor building will be located at the edge of Lasnamäe, the biggest city district in Tallinn. The centre will place emphasis on entertainment, and is set to include a movie theatre and an observation wheel on the roof.

**NEW DEVELOPMENT BY THE HARBOUR**
The multifunctional complex Porto Franco is currently under construction. The building is situated in the central area of Tallinn, near the harbour passenger terminals. It is expected to be completed in 2019. The Porto Franco premises include a shopping centre, office space and a CityBox fully automated hotel, with 270 guest rooms.

**CREASE IN APARTMENT PRICES**
The average price of apartments in Tallinn reached an all-time high of EUR 1,850 per sqm in the first half of 2018. The average price of new-build apartments exceeded EUR 2,500 per sqm. Prices continue to rise despite high development volumes. This growth tendency is expected to continue short-term, primarily owing to rapidly rising salaries.
2017 was a strong year for Latvia, as the country's GDP growth surged to 4.5 per cent after a relatively timid 2016. While 2018 looks set to be a somewhat weaker year in terms of growth, the Latvian real estate market has remained relatively stable. The first half of 2018 was somewhat quiet, with major openings in the office and retail sectors planned for the end of 2018 and 2019. Existing companies that relocate or expand to new premises have driven development of many of the new office buildings. Further, rents in the office sector are slowly growing, while the vacancy rate remains near 6 per cent. Meanwhile, retail premises are in high demand among existing and new international actors. Vacancy rates in the retail sector remain fairly stable, while rents are gradually increasing. Prime office and retail properties are currently trading at yields of 6.50 and 7.00 per cent respectively, while the prime logistics yield has fallen to 8.00 per cent. The total volume of investment transactions in the first half of 2018 exceeded EUR 100 million. Total transaction volume in 2018 is expected to reach more than EUR 200 million, significantly higher than the EUR 160 million total transaction volume seen in 2017.

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Interesting occurrences on the Latvian property market in 2018:

**MAJOR INVESTMENT TRANSACTIONS**
Several major transactions occurred in Riga in 2018. Eastnine acquired the Alojas office and retail centre for EUR 30 million, while East Capital purchased the Galleria Riga shopping mall. Riga continues to be attractive to a wide range of international investors.

**OFFICE MARKET EXPANSION**
Several major office buildings are scheduled to open in 2018. Z-Towers will be one of the biggest office centres in Riga with a total area of 24,000 sqm. The Jauna Teika complex is also set to open, and will have a GLA of 16,300 sqm. In total, construction works will commence on 56,700 sqm of new office stock in Riga in 2018. As a result, at least 10 new office buildings will open in the city in 2019-2021.

**IKEA MOVE INTO LATVIA**
IKEA opened its second shopping mall in the Baltics and its first one in Latvia in August 2018. The project cost more than EUR 60 million. The total area of the store is 34,000 sqm, which makes it the biggest IKEA store in the Baltics. The only other IKEA store in the Baltics is located in Vilnius.

**LIDL ENTER THE LATVIAN MARKET**
Lidl is planning to open at least four stores in Latvia in the near future. The company have invested around EUR 30 million into the purchase of land for supermarkets. All initially planned stores will be located in Riga. Lidl is one of the biggest supermarket chains in the world. It has stores in all of the European Union countries, except for Latvia and Estonia.

**PEPCO ARE ALSO EXPANDING INTO LATVIA**
The Polish retail chain Pepco plans to open 12 stores in its first year of activity in Latvia. Pepco sells household and clothing items and has 1,200 stores in eight countries located in Eastern Europe. Over a three-year period, Pepco plan to open 30 stores in Latvia.
In 2017, the Lithuanian economy grew by 3.8 per cent, the country’s highest annual GDP growth in five years. 2018 looks set to be another strong year, though growth is likely to be a little lower than the record-breaking 2017. Nevertheless, the Lithuanian real estate market has remained very active. Take up in the Vilnius office market has been high, with a number of large business centres set to launch shortly, while the retail market in the city also remains strong. The Kaunas office market is also quickly developing, with record completion and transaction volumes. Rents for all types of commercial property are gradually growing, and are expected to continue doing so in the future. The total transaction volume in the first half of 2018 in Lithuania was close to EUR 250 million, which is equal to 80 per cent of total 2017 transaction volume. 2018 is expected to be a record-breaking year in terms of transaction volume, which could possibly reach EUR 400 million. This is owing to new international investors entering the Vilnius real estate market, while local institutional investors start investing in Kaunas. The prime office yield has fallen to 6.25 per cent, while prime retail and industrial yields remain at 6.75 and 7.75 per cent respectively.

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Interesting occurrences on the Lithuanian property market in 2018:

A DYNAMIC INVESTMENT MARKET
In the first half of 2018, major international investors participated in large-scale transactions both in the retail and office sectors. NEPI Rockcastle entered the Baltics market by purchasing the Ozas shopping mall (62,000 sqm), while Lewben Fund acquired the Business Triangle (28,000 sqm). Institutional investors also started discovering the potential of Kaunas, with three modern office buildings being purchased by different funds (18,000 sqm in total).

DEVELOPMENTS ON THE OFFICE MARKET
Kaunas saw the opening of its first two class A office buildings. Both business centres were fully pre-leased showing high demand for high quality office premises. In Vilnius, SEB signed a 10,000 sqm deal for the development of their HQ building in the CBD. The Link office building was also launched in the first half of 2018 in the Vilnius CBD area, while four more business centres will be opened in the second half of 2018, adding a total of 39,000 sqm of GLA. The vacancy rate in Vilnius remains extremely low at 2.6 per cent.

NEW SHOPPING CENTRES ARE OPENING
Two new major retail centres were announced in 2018. Construction works for the Vilnius Outlet, set to be the largest Baltics discount outlet, will start towards the end of 2018. Further, the building of a second Akropolis shopping centre in Vilnius was initially scheduled before the 2007 financial crisis, but was later delayed indefinitely. However, plans to build a second Akropolis have resurfaced, with construction works set to commence in 2019.

THE HOTEL MARKET IS SURGING
The Loop Hotel, Courtyard by Marriott and Pacai were opened in Vilnius in 2018. Hotel market expansion will continue as Hilton, Radisson Red and other international operators are going to enter the market and/or expand in the near future.

LOGISTICS IS LOOKING MORE ATTRACTIVE
The industrial market has historically been undervalued. Recently, however, low vacancy levels have prompted development of logistics premises throughout a number of Lithuanian cities. Interest in industrial premises has caused some yield compression, but yields still remain relatively high at 7.75 per cent. Such profitability should attract more new investors, which, in turn, should keep the market active.
MACROECONOMIC DATA

**Estonia**

**Economic Indicators**

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**Latvia**

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**Lithuania**

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PROPERTY DATA

Office rents
Prime Office Rents (CBD) | Baltic Region
Per cent | EUR/m²
--- | ---
7 | 210
6 | 180
5 | 150
4 | 120
3 | 90
2 | 60
1 | 30
0 | 0
Tallinn | Riga | Vilnius

Average Annual Rental Growth 2013-2018E (left axis)
Average Annual Rental Growth 2019-2020 (left axis)
Rent Level 2018E (right axis)

Office yields
Prime Office Yields | Baltic Region
Per cent | Source: Newsec
--- | ---
10 | 9
9 | 8
8 | 7
7 | 6
6 | 5
5 | 4
4 | 3
3 | 2
2 | 1
1 | 0

Prime Retail Rents | Baltic Region
Source: Newsec

Prime Logistics Rents | Baltic Region
Source: Newsec

Retail yields
Prime Retail Yields | Baltic Region
Source: Newsec

Prime Logistics Yields | Baltic Region
Source: Newsec

Retail rents
Prime Retail Yields | Baltic Region
Per cent | EUR/m²
--- | ---
3 | 300
2 | 200
1 | 100
0 | 0
Tallinn | Riga | Vilnius

Average Annual Rental Growth 2013-2018E (left axis)
Average Annual Rental Growth 2019-2020 (left axis)
Rent Level 2018E (right axis)

Logistics rents
Prime Logistics Rents | Baltic Region
Source: Newsec

Prime Logistics Yields | Baltic Region
Source: Newsec

Logistics yields
Prime Logistics Yields | Baltic Region
Source: Newsec

Logistics yields
Prime Logistics Yields | Baltic Region
Source: Newsec
### Annual transaction volumes

Transaction Volumes – Annual | Baltic Region

MEUR - Source: Newsec

- **Estonia**
- **Latvia**
- **Lithuania**

### Office new construction

Office New Construction (Capital Office Market) - Source: Newsec

- Thousand m²
- Per cent of stock

- **2017 (left axis)**
- **2018E (left axis)**
- **2018E (right axis)**

### Office stock

Office Stock Q4 2018 (Capital Office Market) - Source: Newsec

- Million m²
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.

Newsec was founded in 1994 and is today a partner-owned company with some 2 000 co-workers spread across the seven Nordic and Baltic markets. Newsec has approx. EUR 39 billion under management and annually signs lease agreements of some 760 000 square meters, manages transactions of some EUR 3 billion and does real estate valuations of underlying property worth almost EUR 180 billion. Thanks to large volumes, 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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