

Baltics Industrial, 2020

Development activity slowed. Rents and yields remain stable



Total Modern Industrial Stock
4,215,000 sq m



New Stock
213,000 sq m



Prime Yields
7.25 %



Prime warehouse rent range
4.2 – 4.6 EUR/sq m

Figure 1: Loo Logistics Park by Levstal Capital in Harju County, Estonia

*Arrows indicate change from the corresponding period in the previous year



Source: Levstal Capital

KEY POINTS

- In 2019, before the COVID-19 pandemic, economic growth in all three Baltic countries was beginning to slow and was in the range of 2.2%-4.4%. The 2020 forecast is that economic growth will decrease in all three Baltic countries by ca 7%.
- At the beginning of 2020 the unemployment rate was one of the lowest in the Eurozone ranging from 4.4% to 6.4%, compared to 7.6% in the Eurozone.
- In 2019 industrial stock was expanded by 213,000 sq m, bringing the total stock of industrial premises to over 4 million sq m in the Baltics.
- Ca. 325,000 sq m of industrial stock is expected to be delivered in 2020.
- In 2019, for the second consecutive year, the annual commercial real estate investment volume surpassed EUR 1.2 billion, of which industrial investment accounted for approximately EUR 176 million or 14%.
- In 2019 the largest industrial investment deal was the acquisition of the Harmet production factory in Tallinn by Corum for ca . EUR 29 million.

ECONOMY

The COVID-19 pandemic did not leave the Baltics untouched. According to the latest European Commission forecasts, the GDP decrease comparing to 2019 could be 6.9% in Estonia, 7% in Latvia and 7.9% in Lithuania, while the Eurozone average is expected to decrease by 7.4%.

The trade turnover in the Baltics has kept rising, with the most notable increase in Lithuania. According to Oxford Economics, in Estonia for 2019, compared to 2018, the exports of goods increased by 4.0 % and imports by 1.5%. In Latvia for 2019 export volumes increased by 3.7% compared to 2018, but import volumes decreased by 1.3%. In Lithuania comparing 2019, against 2018, exports and imports increased by 10.2% and 6.4%, respectively.

INVESTMENTS

In 2019 the investment volume surpassed EUR 1.2 billion. The industrial sector constituted 14% or EUR 176 million of the total investment volume. The most notable transactions were the sale of the Airport Park logistics centre for EUR 19 million in Latvia, the Harmet factory building purchase for ca. EUR 29 million by Corum in Estonia and the sale of an industrial/warehouse building in the industrial area of Vilnius, for EUR 6.5 million. Industrial yields reduced slightly during the second half of 2019 and have remained stable since then. The sector proved to be quite resilient in the face of the current pandemic. In all three Baltic countries, standard prime warehouse yield stands at 7.25%.

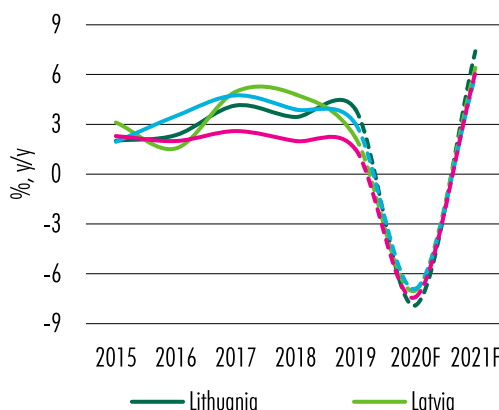
Over the past few years, investors have been actively looking for suitable properties to purchase, but the continuing expectations of high sale prices from the owners have been an issue. With the COVID-19 pandemic, owners are beginning to be more flexible in meeting investors' requirements.

SUPPLY

In 2019 modern industrial stock growth slowed down—the main reason being the lack of new projects in Estonia and Lithuania. Of the three Baltic countries, Latvia was the only one that delivered more properties than in 2018. In 2020 the growth rate should accelerate once again. It is forecasted that ca. 325,000 sq m of new logistics space will be delivered in 2020.

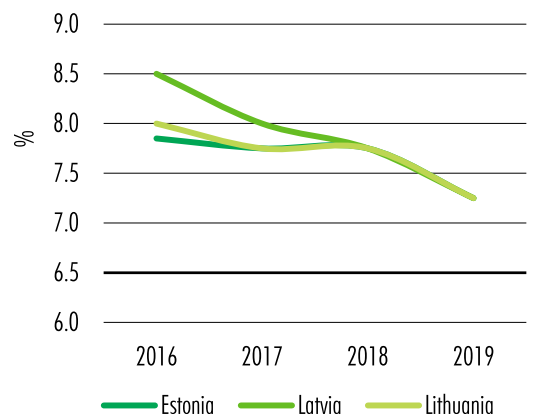
In 2019 in Estonia, a total area of 49,500 sq m was completed, which is almost 70,000 sq m less than the year before. The biggest project delivered was the Eugest LC warehouse in Rae parish, Estonia, developed by Nordassets OÜ. In 2020 nearly 100,000 sq m of new warehouse space will be delivered. The largest upcoming project in Estonia is a new development by Hausers, called Steinpark.

Figure 1: GDP Growth in the Baltics and the Eurozone



Source: Oxford Economics, European Commission, CBRE

Figure 2: Prime yield rates in the Baltic industrial market



Source: CBRE Baltics, Q2 2020

In Latvia, 73,000 sq m of new logistics space was commissioned in 2019. That is almost the same amount as in 2018. The biggest project delivered to the Latvian industrial market in 2019 was the Airport Park in the Riga area. In 2020 four new projects with a total GLA of 123,000 sq m will be delivered, bringing total modern stock in the Riga area to 1.2 million sq m. The biggest development to be completed in 2020 will be the new 41,000 sq m Rimi warehouse expansion.

In Lithuania, which unlike the other two Baltic countries has three cities and surrounding areas where industrial stock is monitored, the new supply delivery compared to 2018 was down from 115,000 sqm to 90,000 sq m. In 2020 there will be more projects introduced, and 140,000 sq m of new warehousespace is expected to appear on the market. The biggest completion is already commissioned the 14,200 sq m Lithuanian Post Logistics Centre in Vilnius. In all three Baltic countries the potential for new deliveries is much higher, but a number of projects that are ready to begin construction are still awaiting new tenants.

RENT

Rent prices stabilized in all three Baltic countries in 2019. Due to the COVID-19 pandemic it is expected that there will be no further increases in 2020. In Estonia, rents were very stable from 2014 to 2019, reflecting the decline of delivery of new premises. In 2020 we forecast that there may be a small increase. The average sq m rent price for industrial space in Tallinn and Harju county is 4.5 EUR/sq m.

In Latvia rent prices increased hugely in 2018, but due to sufficient new supply, rents for new warehouses have since stabilized, with the current average sq m rent price for industrial space in and around Riga being 4.1 EUR/sq m.

In Lithuania rent prices have been climbing steadily since 2014, going up from 4.5 EUR/sq m in 2018 to 4.6 EUR/sq m in 2019. This increase mainly reflects the growth of industrial space demand due to increasing economy and consumption. As for the upcoming year, the average sq m rent price for industrial space across the Baltics is expected to stabilize due to slower economic development.

Figure 3: The most substantial industrial stock pipeline in the Baltic

<i>Project</i>	<i>Country</i>	<i>City</i>	<i>Type of development</i>	<i>Year</i>	<i>Total space, sq m</i>
ETRA	Estonia	Tallinn	Warehouse	2020	3,300
Steinpark	Estonia	Tallinn	Warehouse	2020	12,000
Rombula Logistics Park (phase 2)	Latvia	Riga	Warehouse	2021	32,500
Green Park (phase 1)	Latvia	Riga	Warehouse	2020	24,300
LIDL Logistics Centre	Latvia	Riga	Warehouse	2020	51,000
Rimi Logistics	Latvia	Riga	Warehouse expansion	2020	41,200
Kaunas Logistics Centre	Lithuania	Kaunas	Warehouse	2021	16,000
Liepkalnis IP II (phase 1)	Lithuania	Vilnius	Warehouse	2021	25,600
Westhub	Lithuania	Kaunas	Warehouse	2021	15,800
Oribalt Vilnius	Lithuania	Vilnius	Warehouse	2021	6,800
Delamode Baltics Vilnius	Lithuania	Vilnius	Warehouse	2021	8,300

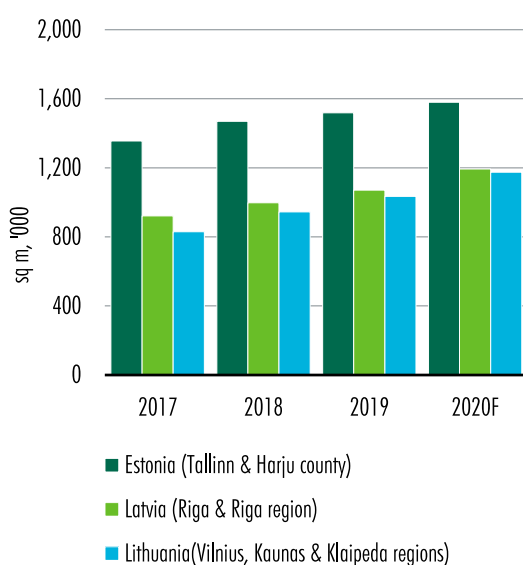
Source: CBRE Baltics, Q2 2020

The COVID-19 pandemic is impacting the industrial market the least of all the sectors. The full impact of the pandemic is yet to show its results. In Estonia, the most popular industrial premises are warehouses, in the size range of 1,000-3,000 sq m. They are mostly occupied by small logistics companies. In 2019 in the industrial market in Estonia, the highest demand was for the so-called stock offices, which is a warehouse, production area and office combined. Most of the premises were developed mainly for owner occupation, but the stock offices provided some speculative space. The vacancy rate has remained stable at 4 %. The most popular locations for new tenants in Tallinn and its surrounding area were Tännassilma next to the Tartu Highway and also Lasnamäe within the city of Tallinn.

In Latvia, the greatest demand is for buildings of between 1,000 to 2,000 sq m, but the need for smaller industrial premises is growing. The vacancy level in the Riga area has been going down since 2016, and the trend has continued this year as well. The vacancy rate has dropped from 4.0% in 2018 to 3.0% this year. In Latvia there is increasing market activity for industrial and stock-offices' development site acquisitions. The newly developing commercial area at Dreilini, in the Eastern part of Riga between the two main arteries leading towards Estonia and Russia, is where international and internal logistics cargo and business transport flow is being created. Strong interest from investors and tenants for both built-to-suit and multi-let properties is apparent. The area is already a prime location for several large industrial/retail companies, such as Ikea, Lidl, Rimi, Coca Cola and Depo Diy.

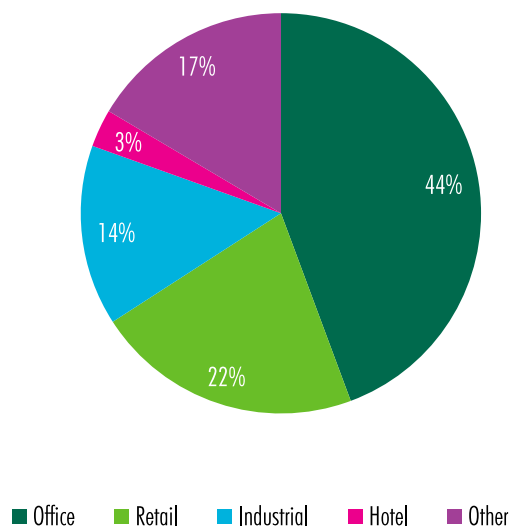
In Lithuania newly completed projects have attracted considerable interest from tenants, although the overall vacancy rate has remained quite stable. The vacancy rate of modern warehouses in Lithuania increased from 3.0% in 2018 to 3.2% in 2019. That trend is expected to continue as a result of a number of large speculative projects in the pipeline. The low vacancy rate reflects that modern industrial premises are still in high demand.

Figure 4: Total modern Industrial Stock in the Baltics



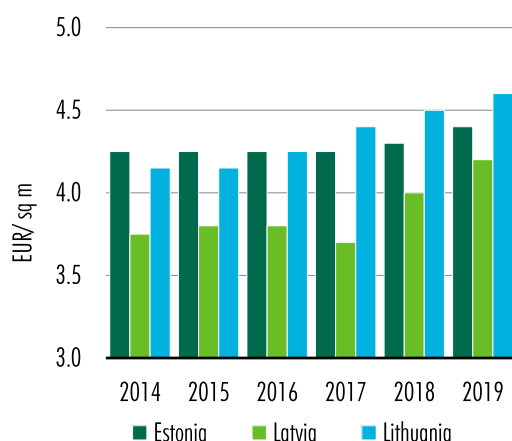
Source: CBRE Baltics, Q2 2020

Figure 5: Investment volumes by sector in the Baltics 2019



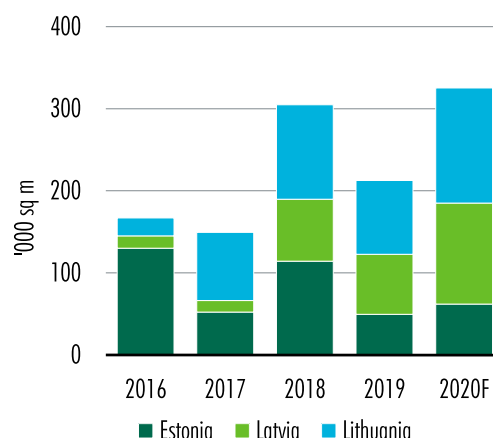
Source: CBRE Baltics, Q2 2020

Figure 6: Average rent prices for prime warehouses



Source: CBRE Baltics, Q2 2020

Figure 7: New deliveries to the Baltics Industrial market



Source: CBRE Baltics, Q2 2020

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