CBRE Baltics
Part of the CBRE affiliate Network

Robust performance despite the global pandemic

Investment Volume **EUR 815 mln**

Prime Office Yield **5.5-6.15 %**

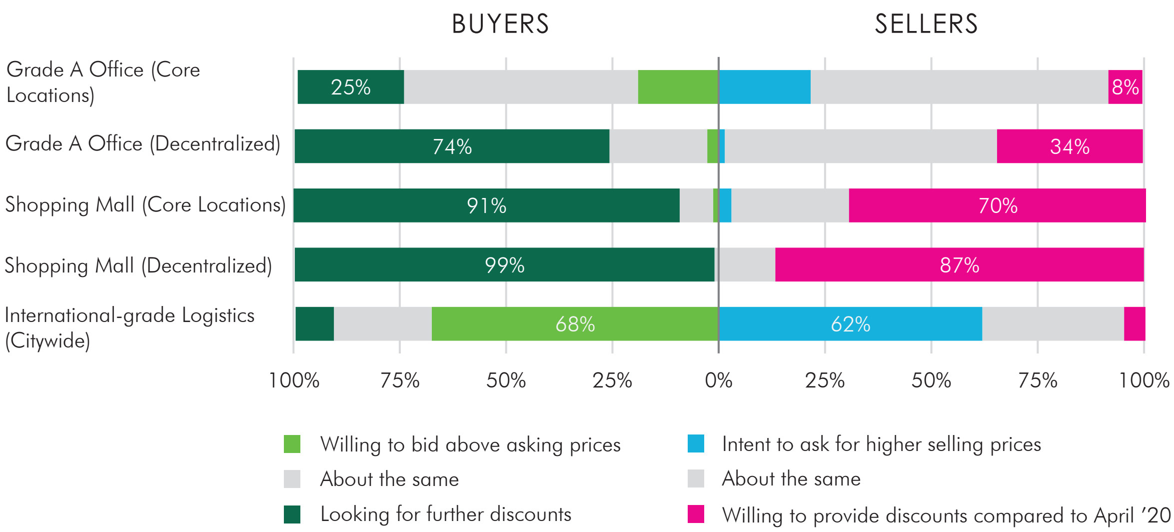
Prime S/C Retail Yield **7.0-7.25 %**

Prime Logistics Yield **7.25%**

*Arrows indicate change from the previous year

Figure 1: Observations on pricing – Cap rate survey

'How has buyers'/sellers' attitude towards asset pricing changed since the period immediately prior to the COVID-19 outbreak?'



Source: CBRE Research, survey sent to CBRE EMEA Capital Market Professionals, September 2020

KEY POINTS

- In 2020, according to Oxford economics, GDP in the Baltic countries shrunk by 0.9-4.5% y/y, positively exceeding mid-year expectations.
- In 2020, investment volume reached EUR 815 mln, which reflected 33% contraction on a y/y basis compared to 2019.
- Uncertainty and a shortage of core investment products significantly drained interest from foreign investors, with the market share of local investors increasing to 75% in 2020.
- The three largest office transactions comprised of the headquarters of commercial banks (SEB in Vilnius and Tallinn, and Citadele in Riga), suggesting that core assets with solid occupiers are in demand, even during the pandemic.
- Latvia was the driving country in terms of retail investment volume, constituting 68% of the total transactions. The most notable transaction was the acquisition of the shopping centre Riga Plaza.
- Industrial assets are increasingly the focus of investor interest. The industrial investment market volume constituted EUR 147.5 mln or 18 % of the total investment volume (+3.5 p.p when compared with 2019). According to the CBRE Cap Rates Survey, buyers of logistic assets have also indicated willingness to bid-up prices.
- European investment volumes declined ca. 17%, compared to the previous year. However, the Healthcare, Industrial, Multi-family PRS, and Data Centre sectors demonstrated resilience. The volume for these sectors increased compared to 2019.

ECONOMY

As in the most of the world, the pandemic outbreak hit the Baltic states' economies and led to the contraction of the main economic indicators throughout all three countries. In 2020, the average GDP in the Eurozone decreased by around 6.8%, while the GDP in Estonia shrunk by 2.5%, in Latvia by 4.5%, and in Lithuania by 0.9% in 2020 on a y/y basis. The contraction was mostly caused by a decline in leisure, business to business, transport, hospitality, and catering services, as it is difficult to avoid social interactions in the aforementioned activities. However, the negative growth trend is expected to reverse in 2021 with anticipated positive GDP growth metrics in all three countries which will bring the economies back to the pre-pandemic levels.

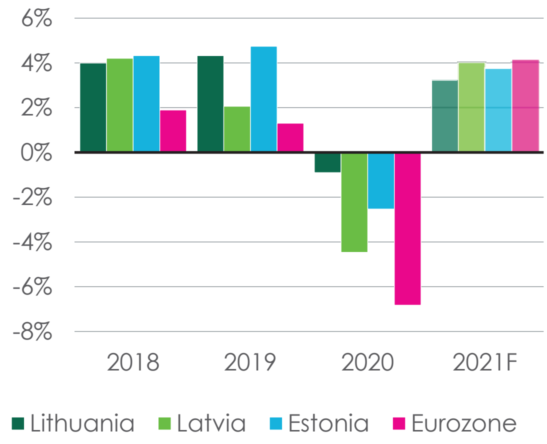
A partial or full closure of many business sectors during the second wave has led to massive layoffs and lower employment levels. The unemployment rate in Estonia increased from 4.4% to 6.8% at the year-end in 2020, from 6.3% to 8.2% in Latvia, while in Lithuania the unemployment rate saw an uplift to 8.7% by the end of 2020 from 6.3% in 2019. An increase in the unemployment rate was partially stabilized by governmental subsidies for companies in return for commitments not to lay off employees.

The growth of goods and services' prices has experienced a moderate pandemic impact and throughout the Baltics the CPI change stood in the range of -0.6 to 1.9%, compared with the Eurozone average of 0.3% on a y/y basis. The largest impact was mainly caused by decreased oil prices reflecting reduced fuel demand and a slower than usual increase in food prices.

INVESTMENT MARKET

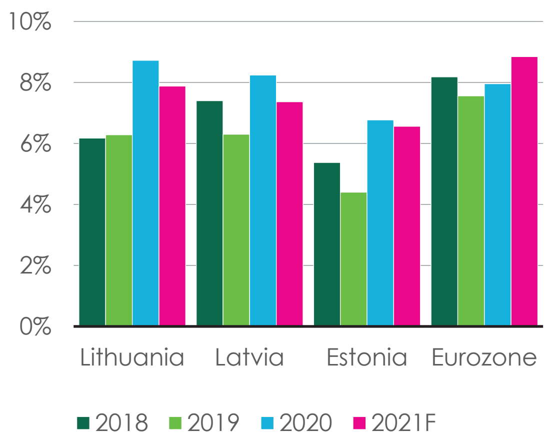
Even though the Baltic investment market has relatively stumbled after the record-high investment levels in the two previous consecutive years, it managed to maintain robustness and overperform the long-term average investment volumes during 2020. Total investment volume reached EUR 815 mln, which reflected a 33% contraction on a y/y basis compared to 2019. Traditionally, offices dominated and constituted 46% of the total investment transactions. Retail and industrial property transactions were also relatively stable.

Figure 2: GDP growth, y/y



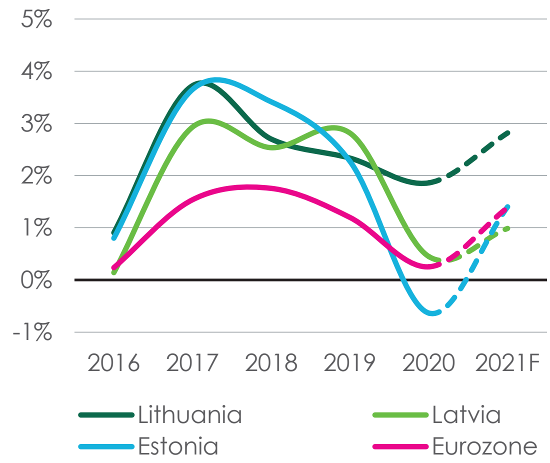
Source: Oxford Economics, CBRE Baltics, Q1 2021.

Figure 3: Unemployment rate



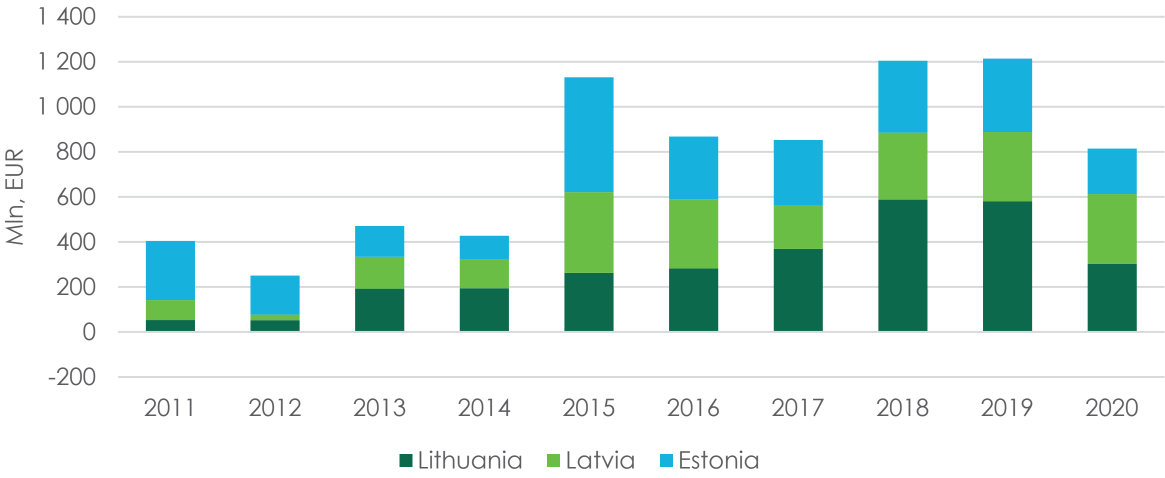
Source: Oxford Economics, CBRE Baltics, Q1 2021.

Figure 4: Inflation rate, y/y



Source: Oxford Economics, CBRE Baltics, Q1 2021.

Figure 5: Investment Volume by Country 2011 – 2020



Note: the end of the indicated year.
Source: CBRE Baltics, January 2021.

Investment levels for retail and industrial accounted to 25% and 18% of the total investment volume, respectively.

Uncertainty impacted on foreign investors, with market share of local investors increasing to 75% in 2020 from 44% in 2019. Foreign based investors mostly focused on less risky, better positioned, yet pricier and larger assets. Large numbers of infection cases, travel restrictions, and lack of clarity as to when the economy might get back to normality made investors more conservative. Furthermore, the pandemic accelerated some longer-term structural changes within the commercial real estate sectors, which will be apparent only with hindsight. For example, a downsizing trend and, in general, the changing purpose of the office concept as many employees found themselves working at home. Additionally, the exponential increase in the use of e-commerce is reflected in the significant investor appetite for the industrial sector, especially for those properties servicing the "last mile" of the supply chain.

OFFICES

In 2020, office investment volume decreased, yet maintained its market share, which reached 46% of all investment transactions or EUR 373 mln. Most of the transactions were executed in Vilnius, reflecting the recent vibrant growth of the office market in the city. However, all three capitals shared the first three largest transactions. The largest transaction was the SEB HQ office building of ca. 13,000 sq m in the CBD of Vilnius acquired by the Luxembourg based REInvest AM, which is a new entrant to the market. It was followed by the Citadele Bank HQ in Riga, which was acquired by a fund managed in Lithuania, Lords LB AM. The third largest transaction was the SEB HQ in Tallinn, which was acquired by the Swedish investor, East Capital. Not surprisingly, all three are the headquarters of the banks, which emphasizes that even during the uncertain times good properties with solid occupiers have a strong demand. Prime office yields in the Baltics have compressed and ranged from 5.5% to 6.15%.

RETAIL

The retail real estate market has been overcoming one of the most complex challenges recently. Governmental measures to curtail an increase in the second wave of infections are currently mainly impacting on consumer discretionary shopping. Whereas the timing and implementation of the preventive measures varies considerably from country to country, the restricted reopening of non-essential retail type businesses impacts on investor decisions and risk tolerance. Conversely, supermarkets and retail warehouses maintain a reputation of low-risk assets because typically these type of assets have longer lease and creditable anchor tenants. As a result, such schemes have maintained significant investor interest.

The total retail transactions across the Baltic states accounted for EUR 202 mln, which reflects a 24% slump from the volume of the retail transactions in 2019. Latvia was the driving country in terms of retail investment volume, constituting 68% of the total transactions. The most notable transaction across the Baltics was witnessed in Riga where Summus Capital acquired a 50,000 sq m shopping centre, Riga Plaza. Another noteworthy deal was also evident in Riga, where Singaporean based Grinvest acquired the 21,000 sq m Olimpia shopping centre. In Lithuania, the grocery chain Norfa repurchased 13 self-occupied supermarkets positioned across the country from Norvegian Baltic Sea Properties for EUR 13.2 mln.

The remaining robust private consumption suggests positive prospects for the retail sector. The sector is rather diverse which reflects in terms of property performance. The supermarkets yielded at around 6.5%, while shopping centre yields have fluctuated at around 7.00-7.25% across the Baltics.

INDUSTRIAL

Industrial assets are of increasing interest and appeal in the commercial real estate investment field. With the rising volumes of e-commerce services, various warehouses, logistics centres, and similar properties capture investor attention. The increasing popularity of stock offices, combining warehousing and modern office space in a single unit, also brings the industrial stock back from the outskirts to the cities.

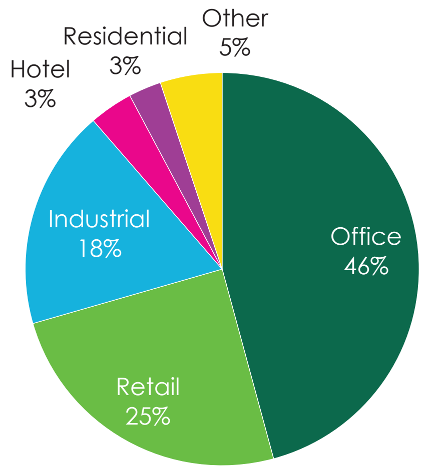
A decrease in the industrial transactions' volume does not reflect actual investor sentiment in the market and is more caused by a lack of available assets for sale. The combined logistics transactions added up to EUR 147 mln across the Baltics or 16% less in comparison to 2019. The largest share of industrial volume was transacted in Latvia (41%), followed by Lithuania (34%), and Estonia (25%). The most notable market transaction throughout 2020 was the acquisition of Bergi Logistics Center on the edge of Riga by Estonian Eften Capital. Another notable transaction was also recorded in Lithuania by Eften Capital, which acquired an SBA logistics and production site of ca 44,000 sq m in Klaipeda for EUR 28.6 mln in a sale-and-leaseback deal. Industrial yields remained resilient in the pandemic context at ca. 7.25% for prime logistics assets.

Figure 6: Prime yields in the Baltics

Property Type	Country	2020, %	2019, %	Change, p.p.
Shopping centres	Estonia	7.00	6.50	0.50
	Latvia	7.25	7.00	0.25
	Lithuania	7.00	6.50	0.5
Supermarkets	Estonia	6.50	6.50	0.00
	Latvia	6.50	6.50	0.00
	Lithuania	6.50	6.50	0.00
Offices	Estonia	6.15	6.25	-0.10
	Latvia	6.00	6.25	-0.25
	Lithuania	5.50	5.85	-0.35
Logistics	Estonia	7.25	7.25	0.00
	Latvia	7.25	7.25	0.00
	Lithuania	7.25	7.25	0.00
Multifamily	Estonia	5.50	-	-
	Latvia	5.50	-	-
	Lithuania	5.50	-	-

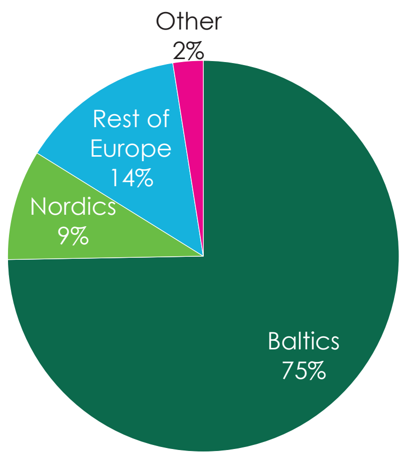
Source: CBRE Baltics, January 2021.

Figure 7: Investments by sector, 2020



Source: CBRE Baltics, January 2021.

Figure 8: Investments by purchaser's origin



Source: CBRE Baltics, January 2021.

OTHER

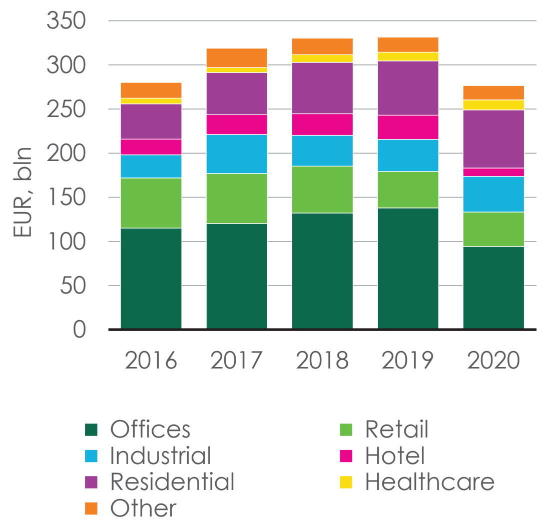
More and more investors in the Baltics are taking a broader view of the market in search for possibilities to secure stable cashflows. The multi-family private rental housing sector is one of the market spheres which has attracted exceptional investor attention. The sector is still strongly under-developed compared to the European environment. There are relatively few clear examples of those buildings that fall neatly under the definition of multi-family PRS properties in the Baltics. 2020 demonstrated several sizeable investment transactions of such assets. Eften Residential Fund has declared the acquisition of the Kadaka Metsapark multi-family building in Tallinn with 112 apartments that will be completed by the third quarter of 2021. A few significant local market participants have announced their plans to become involved in this market. The yield of prime multi-family assets stands at 5.5%.

The hotels' sector has noticed perhaps the most drastic demand change since the previous financial crisis. The main issue remains mobility disruptions, which intuitively implies that hotel cash flows may not attract much investment interest. However, investors with a longer time horizon may spot the market opportunity to acquire discounted hotel assets with the high likelihood of soaring demand once the travelling restrictions are lifted. Although business trips will probably be replaced by online meetings for some time now, tourism is expected to perform strongly, judging from the summer of 2020 and mounting post-quarantine demand.

EUROPEAN INVESTMENT ACTIVITY

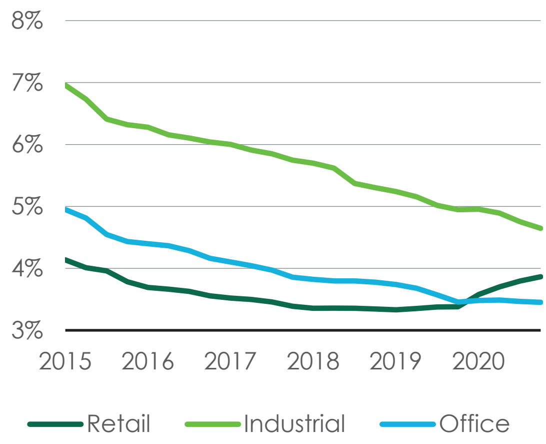
European investment volumes declined ca. 17%, compared to the record year of 2019. However, there were sectors that gained increased exposure among investors. The Healthcare, Industrial, Multi-family PRS, and Data Centre sectors demonstrated resilience throughout the pandemic, and it is expected that these trends will maintain a growth path in 2021. Additionally, core assets across all the sectors remained under significant interest throughout Europe. This level of interest should remain even considering the structural changes apparent in some sectors which may result in a widening gap between prime and secondary assets.

Figure 9: Investment volumes in Europe



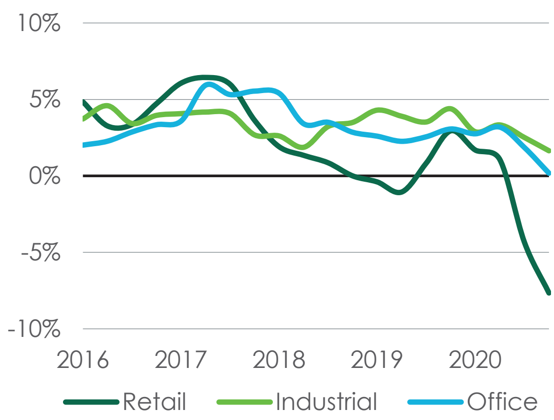
Source: CBRE Research, Q1 2021.

Figure 10: Investment yields in Euro Area



Source: CBRE Research, Q1 2021.

Figure 11: Prime rent changes in Euro Area



Source: CBRE Research, Q1 2021.

RESEARCH DEFINITIONS

Investment Volume – the total amount in value of investment transactions that have completed during the period reported. A property is deemed to be sold only when contracts are signed or a binding agreement exists.

Yield – represents the income return on an investment after operational costs have been deducted. Yield is determined by first subtracting the property's annual operational costs from its gross operating income and then dividing this by a sum of the purchase price (PP), not including additional acquisition costs.

Prime Yield – the yield which an investor would receive when acquiring a grade/class A building in a prime location (CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one one-off deals. If there are no relevant transactions during the survey period a hypothetical yield is quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

Sale and leaseback – a transaction in which the owner of a property sells an asset and then leases it back from the buyer.

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- Part of the **CBRE** Affiliate Network
- Providing services in:
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  - **Consulting,**
  - **Valuation,**
  - **Property Sales,**
  - **Property & Asset Management,**
  - **Tenant Representation,**
  - **Agency Services – Retail, Offices, Industrial & Logistics,**
  - **Financial Services, Accountancy**
  - **Landlord/Investor Representation,**
  - **Transaction Management**

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