CBRE Baltics
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Ongoing Deceleration in the Baltics

€206M ▼	6.25-6.50% ▲	7.50-7.75% ▲	7.00% ▲	6.00-6.25% ▲
Investment Volume	Prime Office Yield	Prime S/C Retail Yield	Prime Logistics Yield	Prime Residential Yield

Note: Arrows indicate change from the previous year

Total Volumes. The total investment volume in the Baltics reached €206 million in Q4 2023, exhibiting a notable growth of over 90% from the previous quarter. However, this surge represented a 40% decrease compared to the same quarter in the previous year (y/y). The largest share, comprising 59% or €122 million, originated in Latvia, which also experienced the smallest annual decline of 36%. Lithuania transacted 37% or €76.4 million, mirroring a 39% annual decrease, while Estonia recorded just €7 million or 4%, indicating a substantial 70% decline, when comparing 2023 to 2022.

Examining 2023 overall, the total investment volume amounted to €624 million, reflecting a significant 47% decline from 2022 and marking the lowest investment activity over the past 9 years. A similar trend is observed across foreign markets, with CEE investment volumes dropping by 45% y/y, while looking at the whole of Europe, the total decline in investment values was even higher, reported at 57% y/y.

Asset Classes & Transactions. In Q4, industrial assets dominated the Baltic market, constituting 62% of the total transaction volume. A notable sale significantly influenced this dominance in Riga—the Rimi Baltic Distribution Center—which also stood as the largest investment transaction of the year. Retail assets were the second most popular at 24%, with €50 million transacted during the quarter. Noteworthy transactions included a portfolio deal in Latvia, where Indexo Real Estate Fund acquired two Rimi supermarkets, and DEPO DIY in Siauliai was purchased by a private investor from Latvia. While the office sector contributed 28% annually to the investment, in the last quarter, it accounted for just 6%. In Q4 2023, two large deals were initiated, which are about to be concluded in Q1 2024, namely Technopolis office campus in Vilnius and Viru Keskus shopping center in Tallinn. These large ticket size transactions will excel the beginning 2024 investments in the Baltics.

Trends. Yields have started to stabilize after rising slightly at the beginning of 2023, remaining unchanged in the Baltics for the second part of the year. Anticipated changes, such as lowering rates, are expected when the European Central Bank initiates a reduction in their refinancing rates.

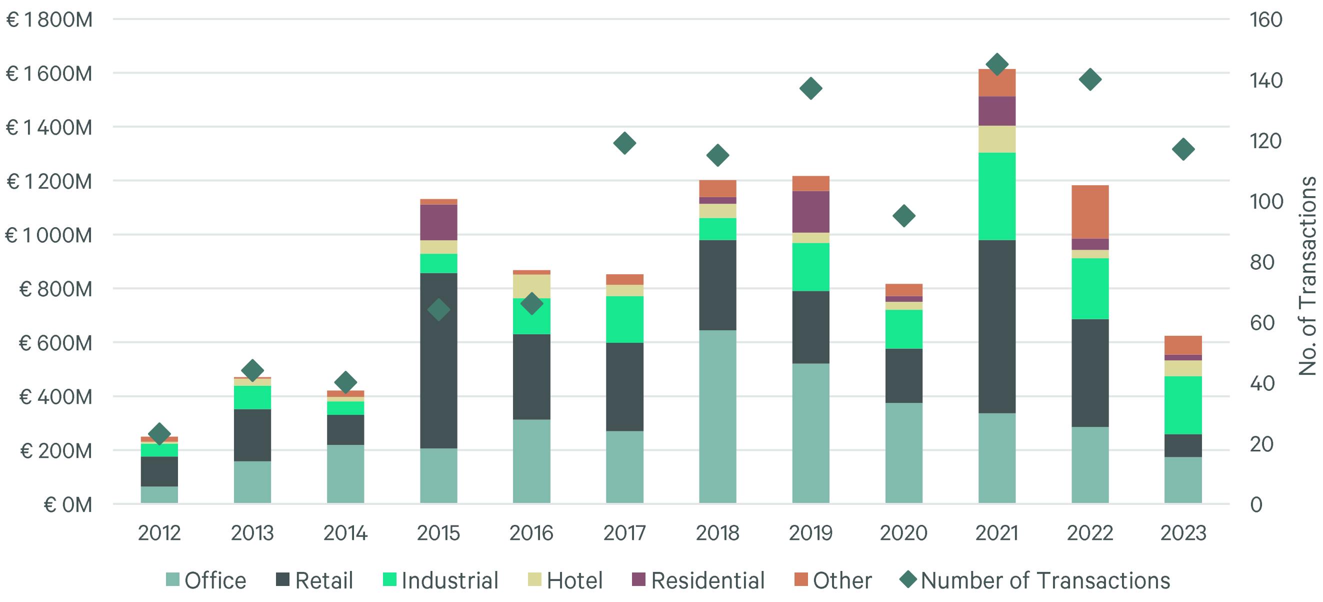
A soft decline of up to 10% in values was observed across the market during the year, driven by increasing costs of financing and rising country risk premiums. As the value decline seen in the Baltics occurred later in the year and was less sharp than seen in central or Northern Europe, and with ECB base rates not expected to decrease in the short term, there could be potential value corrections in upcoming periods.

Figure 1. Investments in the Baltics by Sector, 2023

			Y-o-Y Change
INDUSTRIAL	34%	▼	-10M
OFFICE	28%	▼	-111 M
RETAIL	14%	▼	-315M
HOTEL	9%	▲	27 M
RESIDENTIAL	3%	▼	-22 M
OTHER	11%	▼	-126M

Source: CBRE Baltics Research

Figure 2. Investment Volumes and Number of Transactions in the Baltics, 2016-2023



Source: CBRE Baltics Research

Definitions

Investment Volume – the total amount of the value of commercial real estate investment transactions with income-producing assets, a value over 1 million EUR, that have been completed during the period reported. A property is deemed to be sold only when contracts are signed or a binding agreement exists. Pure land deals (empty sites) and owner-occupation transactions in our investment volumes are not included.

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, not including additional acquisition costs.

Prime Yield – the yield that 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-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 an expert opinion formed in the light of market conditions. The same criteria on building locations and specifications still apply.

Country Risk Premium - the additional return or premium demanded by investors to compensate them for the higher risk associated with investing in a foreign country than in the U.S. market.

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