

Quarterly comment

The rental revenue for East Capital Baltic Property Fund for the financial year 2020/21 resulted in EUR 6.6m. The rental income for a comparable portfolio remained flat versus financial year 2019/20. During the year, the hotel and retail properties in the portfolio suffered rental income losses due to business restrictions, while the office and industrial properties remained mostly stable. Most Covid-related restrictions in the Baltic countries have been lifted during 2Q 2021, in conjunction with infection rate drop and vaccination rate increase.

The vacancy level for the fund portfolio stands at 8% at financial year end, stable and comparable with previous years. In the office properties, Aiandi 13 office remains fully occupied, but vacancy has increased slightly to 15% in Jin office in Vilnius, where the property management team is in negotiations with several tenants for the vacant units. In Tännassilma industrial property, one tenant has returned part of its office area in accordance with their lease agreement, and the complex now includes 12% of vacant areas. The other industrial property Metal remains rented at 84% occupancy.

Currently, there are no restrictions to hotel operations in Estonia. Gospa hotel in the island of Saaremaa enjoys the momentum of domestic tourism and has reported record strong sales in June 2021, the first month in 2021 when all restrictions have been lifted. Overall, the hotel sales in 1HY 2021 remained on the same level with 1HY 2020. During the financial year 2020/21, the rental income collected from the property increased by 6% compared to the financial year 2019/20 but remains ca 14% less than prior to the pandemic.

The occupancy and sales in Tallinn Seaport Hotel, located in the Tallinn passenger port, remained suppressed during 1HY 2021 and the hotel paid a discounted rent during that period. Passenger cruise traffic has now been restored with both Stockholm and Helsinki, and the sales are expected to pick up during the summer season. Contractual rent is in effect again starting from July 2021.

The retail centres are now fully reopened. Jewe Centre in Jõhvi and Kerese Centre in Narva both have resumed their operations, at strong occupancy levels well above 90%. In Jõhvi Tsentraal centre, a new lease with Jysk household store was signed during 2Q 2021, which will reduce the centre vacancy to 30%. Jysk will open a 1,000 sqm store, with an additional outside selling area, in the centre during 3Q 2021. This will significantly enhance the centre's tenant mix and is expected to attract new tenants. Currently the premises are being prepared for the tenant. The management team is also preparing to renovate the centre façade and sketching drawings to improve the centre layout.

The management team has negotiated the sale of the Papiniidu commercial centre in Pärnu, housing the Bauhof DIY store as an anchor tenant. The property was sold at EUR 11.2m, a price slightly higher than its book value from June 2020 as well as its most recent appraisal. As of 30 June 2021, the property was included in the fund's balance sheet as an asset held for sale in its net sales value of EUR 11.08m. The sale was completed at the beginning of July.

Sector Allocation

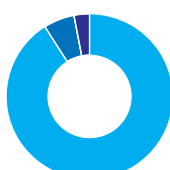
(% of gross property values)



● Retail	35
● Office	29
● Hotel	20
● Logistics	16

Country Allocation

(% of gross property values)



● Estonia	91
● Lithuania	6
● Latvia	3

Financial overview

The Net Asset Value of East Capital Baltic Property Investors AB was EUR 420.45 as of 30 June 2021. The Net Asset Value increased by 9.21% during the financial year 2020/21. The operational increase, excluding the year-end positive property revaluation as well as the loss incurred in Laracija property sale in September 2020, was ca 7.80% for the year.

At financial year end in June 2021, an external portfolio revaluation was carried out, resulting in increased portfolio value for the fund, compared to previous external revaluations, completed in June 2020. The property fair values increased by 1.6% y-o-y, mostly restoring their valuations as of June 2019, except for the Seaport hotel and Jõhvi Tsentraal, whereas operating income for these properties has not been restored. Based on the advanced sales process, Papiniidu property was classified as an asset held for sale at 30 June 2021. The sale was completed in July 2021.

The fund's rental income for the financial year 2020/21 was EUR 6.6m. The rental income of the portfolio, excluding Laracija property, divested in autumn 2020, remained flat compared to 2019/20 financial year. The rental income from Aiandi 13 office increased by 20% during the year, benefiting from strong operations after reaching full occupancy in December 2019. The rental income in Jewe Retail Centre increased by a strong 25% y-o-y, after reconstruction project completed in December 2019. Rental income also increased in Metal property as occupancy has improved. The rental income from Gospa hotel increased slightly compared to the previous year. The rental income witnessed a decrease in Tallinn Seaport hotel and Jõhvi Tsentraal Centre and remained mostly stable for the rest of the portfolio.

The fund's net profit, including a EUR 1.3m revaluation gain, concluded at EUR 4.83m.

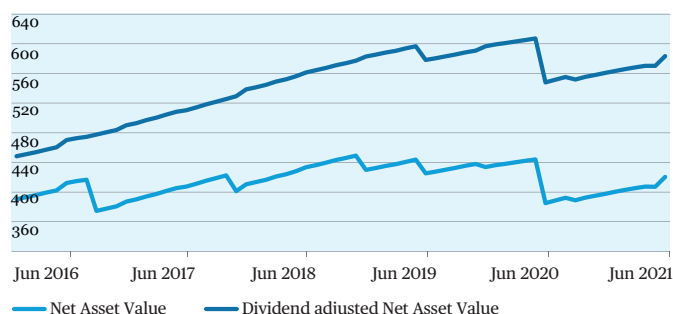
The loan-to-value ratio of the property portfolio is 48% as of 30 June 2021, considering the fair market values of the properties from the recent revaluation and Papiniidu property in its net sale value.

Net Asset Value since inception

East Capital Baltic Property Investors AB SE0011788439

NAV (EUR)	% 3 months	% YTD	% Since inception*
420.45	+3.73	+9.21	16.69

*Performance adjusted with dividend payments. Financial year July-June.



Fund Summary

	30 Jun 2021	30 Jun 2020
	EUR '000	EUR '000
Fair value of portfolio	72,191	86,320
Other assets	16,338	3,968
Liabilities	-41,796	-47,509
TOTAL NET ASSET VALUE	46,733	42,779
Net Asset Value East Capital Baltic Property Investors AB	420.45	384.98

Financials

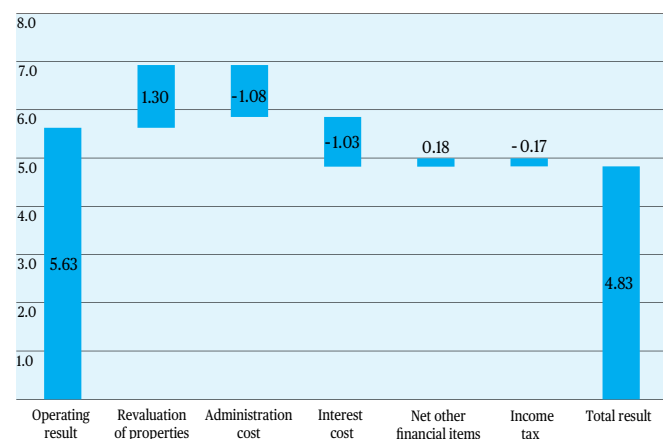
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2020 - Jun 2021	Jul 2019 - Jun 2020
Revenue	6,606	6,899
Direct expenses	-979	-3,866
Gross profit	5,627	3,033
Administrative expenses	-1,077	-1,125
Unrealised changes in value of investment properties	1,299	-4,040
Operating profit/loss	5,849	-2,132
Interest expenses	-1,028	-1,117
Fair value adjustment of interest rate swap	176	204
Profit/loss before income tax	4,997	-3,045
Income tax	-167	-77
NET PROFIT FOR THE YEAR	4,830	-3,122
Earnings per share - Ordinary shares	876,55	-566,64

Statement of Comprehensive Income of East Capital Baltic Property Investors AB (publ), unaudited for the period in EUR'000

	Jul 2020 - Jun 2021	Jul 2019 - Jun 2020
Earnings per share - Ordinary shares	40,76	-30,46

Result contribution (financial year 2020/21, EURm)



Statement of Financial Position of East Capital Baltic Property Fund AB, unaudited in EUR'000

	30 Jun 2021	30 Jun 2020
ASSETS		
<i>Non-current assets</i>		
Investments properties	72,191	86,320
Other long-term assets	12	17
Equipment	6	9
Total non-current assets	72,209	86,346
<i>Current assets</i>		
Assets held for sale	11,078	-
Account receivables - trade	215	369
Other receivables	340	489
Accrued income and prepaid expenses	49	59
Cash and cash equivalents	4,638	3,025
Total current assets	16,320	3,942
TOTAL ASSETS	88,529	90,288

EQUITY AND LIABILITIES

Equity		
Share capital	17	17
Other paid-in capital	38,217	38,217
Retained earnings	3,419	7,242
Profit/loss for the period	4,830	-3,122
TOTAL EQUITY	46,483	42,354

Liabilities

Non-current liabilities		
Interest-bearing liabilities	-	37,805
Derivatives	2	215
Other liabilities	476	684
Deferred tax liabilities	304	699
Total non-current liabilities	782	39,403

Current liabilities		
Interest-bearing liabilities	39,885	6,922
Accounts payable - trade	282	955
Derivatives	247	210
Other liabilities	592	189
Accrued expenses and deferred income	258	255
Total current liabilities	41,264	8,531
TOTAL EQUITY AND LIABILITIES	88,529	90,288

Contact

For additional information regarding the East Capital Baltic Property Fund, please contact:

fund@eastcapital.com
Tel: +46 8 505 88 505

Baltic real estate market



Investment market

The total investment volume exceeded EUR 100m in 2Q 2021. East Capital Real Estate Fund IV acquired the 33,000 sqm Via 3L logistics centre in Rae parish in a sale-leaseback deal, securing its position as the largest owner of industrial assets in Estonia. Summus Capital finalized the acquisition of the Pharma Plaza medical centre, and EfTEN Capital sold the Kadaka tee 63 office building for EUR 8.25m to US Real Estate OÜ (owner-occupation). The retail segment has been very calm in 2021, although two landmark objects T1 Mall of Tallinn and Stockmann department store were put up for sale during the last quarter.

In 1HY 2021, investment volume in Latvia reached EUR 165m. In 2Q 2021, one-third of investment volume came from hotel transactions: Norvelita acquired the 4* Mercure Hotel (143 rooms) for EUR 17.9m, Kapitell acquired the 4* Europa Royale Riga (60 rooms) for EUR 4.8m, and Rigensis purchased the 3* Iriina Hotel (75 rooms). Vastint sold the Zala 1 office building for EUR 14.5m to Eastnine as part of a portfolio deal.

In 2Q 2021, the Lithuanian investment market resulted in total investment volume of over EUR 150m, with investors targeting industrial, office and residential assets. Among large-scale deals in the industrial segment was the acquisition of Titnago (Jankiskiu) Logistics Park by East Capital Real Estate Fund IV, Adax and AQ Wiring Systems industrial buildings in Panevezys by EfTEN Capital, and Klaipeda Business Park by Baltic Sea Properties. The biggest deal in the office segment was the acquisition of Uniq BC, closed by Eastnine.

Investors are expected to continue the hunt for industrial assets in all three Baltic States due to favourable market fundamentals. Industrial yields, already nearing 7%, have potential to compress further.

Office segment

Overall, companies are returning to the office, on the back of vaccination and an improving epidemiological situation. Take-up activity in the office segment is expected to increase closer to the year-end once the companies specify their workplace strategies. More and more companies are opting for hybrid work models, which is likely to impact workspace solutions and demand for office space. Most landlords are trying to maintain pre-covid asking rental rate levels, at the same time being flexible in terms of expansion and reduction of occupied space as well as providing higher fit-out contribution.

Development in the Tallinn office market remains active with a total GLA of over 140,000 sqm (16 projects) under construction in June 2021, including Kawe City, Liivalaia Quarter, Vektor, Maakri Hub and Voltal projects. The demand for newly built office space remains steady and vacancy fluctuates around 8-9% in Class A and B1 buildings.

Around 89,000 sqm of mostly Class A office space remains currently under construction in Riga, including large projects such as Verde, Preses Nams, Novira Plaza and Zeiss office building. Even though vacancy in Class A buildings is still quite high, the market continues to absorb office space, for example Origo One project is fully let one year after completion.

In Vilnius office market, the development pipeline increased up to 209,000 sqm and demand for office space picked up due to improving business sentiment and a gradual return to offices in conjunction with increasing vaccination rate. Office take-up in Q2 reached almost 20,000 sqm in total. Office rent rates remained stable, and the overall market vacancy rate stood roughly at the same level.

Retail segment

Following the opening of stores and malls after the lockdown, leasing activity was active in Tallinn in 2Q 2021. The grocery segment remains active with expansion of the existing market participants as well as new entrants - Lidl announced the opening of its first stores this year in Estonia. Development of a new 20,000 sqm retail park is planned on the neighbouring plot of the already under construction IKEA store on Tallinn ring road. The latest large-scale retail development in Tallinn - T1 Mall of Tallinn SC - filed for bankruptcy. The centre's largest creditor, Lintgen, is waiting for the centre to be put up for sale and is also interested in purchasing it.

In Riga, the long duration of restrictions on retail activity has led to increased vacancy in the shopping centres, exceeding 8% level as of 2Q 2021. Cinemas, gyms, and indoor dining in Latvia are currently open for vaccinated persons only. Nevertheless, MyFitness continues its expansion in Riga, taking over former People Fitness premises in city centre, opening its second Gym! concept in Riga and signing an agreement for a new MyFitness gym in SC Saga. Additionally, Sportland group has expanded in the reopened part of Olimpia SC. The fashion segment remains calm, most of the brands would prefer to have fewer locations but rather larger stores. Asking rent rates in the market are currently lower than 2-3 years ago with a continuous tendency of putting greater emphasis on turnover-based rent rates.

Shopping centre restrictions were lifted in Vilnius during 2Q 2021, leading to an improved market sentiment. However, not all stores reopened, which slightly increased the vacancy level in the retail segment. Europa shopping centre started its reconstruction works and plans to open an 800 sqm food hall in the last quarter of 2021. Italian fashion brand Pinko entered the Lithuanian market, opening its first stores at Panorama and Europa SCs.

Logistics segment

The industrial segment remains rather active in Tallinn area with approximately 140,000 sqm of area under construction in June 2021. Stock office premises continue to remain in demand and at least 11 new projects remain under construction. Overall industrial segment vacancy decreased to 3.8% during 2Q 2021.

In Riga, two new industrial objects were commissioned during 2Q 2021, including the first part of Rumbula Logistics Park stage II (15,000 sqm) and DHL Riga Airport LC. Nearly 90,000 sqm of additional space remains under construction. Increasing demand is expected to keep vacancy rates stable, however, rents in the new projects are under slight upward pressure due to rising construction costs.

In Vilnius, the development pipeline is active with seven new projects with a total area of 89,600 sqm under construction, and most of this space is being developed on a speculative basis. After a somewhat sluggish Q1, demand for warehouse space intensified in Q2, which was reflected in total take-up of over 30,000 sqm. Activity was driven by expansion and new lease agreements, predominantly from the wholesale and retail trade, light industry, and logistics companies. High demand translated into a decreasing vacancy rate, which fell to almost non-existent at the end of the quarter. Warehouse rent rates were under upward pressure due to rising construction costs.

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