EAST CAPITAL

# Baltic Property Fund Quarterly Report

July – September 2021

## Quarterly comment

The rental revenue for East Capital Baltic Property Fund for the period July - September 2021 resulted in EUR 1.4m. The rental income on a comparable basis increased by 5% compared to the same period in 2020 (eliminating for divested properties and hotel turnover rents, paid monthly in 2020, but in 2021 only to be calculated semi-annually in December 2021).

The vacancy level for the fund portfolio stands at 9% at quarter end in September 2021.

Aiandi 13 office in Tallinn remains fully occupied, and occupancy has also been restored in Jin office in Vilnius, where vacancy is now only 2%, after several new leases signed during 3Q 2021.

Tänassilma and Metal warehouse/industrial premises continue to operate as planned. Both properties include some vacancy in office areas.

The Gospa hotel in Saaremaa continues to deliver strong results - hotel sales in 3Q 2021 were 9% higher than in 2020, as well as 4% above 2019 level. The hotel has returned to pay rent according to its initial lease agreement, paying a base rent monthly, and turnover rent will be calculated in December 2021.

During the summer season, sales have also picked up in Tallinn Seaport Hotel, where turnovers during Q3 have increased by 26% y-o-y. The hotel sales are however still substantially below pre-Covid levels. During 3Q 2021, the hotel paid full rent according to its lease agreement.

Jewe Centre in Jõhvi and Kerese Centre in Narva both have stable operations at strong occupancy levels well above 90%.

In Jõhvi Tsentraal centre, a new Jysk store was opened in August 2021, achieving much attention from the public and posting strong sales results in the first months of operations. Jysk will pay a turnover-based rent monthly. Including Jysk, the centre vacancy rate has dropped to below 30%.

Investment works in Jõhvi Tsentraal continue to finalize the outdoor selling area of the Jysk store. The management team is also preparing to renovate the centre façade and sketching drawings to change and improve the centre layout and use of the premises.

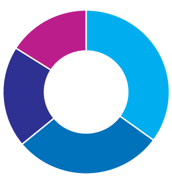
In the beginning of July 2021, the Fund completed the sale of the Papiniidu commercial centre in Pärnu. The property was sold at EUR 11.2m, a price slightly higher than its book value.

The management team continues or has started the sales process of certain properties in the Fund, preparing for the Fund exit in 2022.

The Fund's Annual General Meeting will take place in December 2021 where the management team will present the results of the 2020/21 financial year, the board's proposal for the disposition of the Fund's earnings (including the sale proceeds from Papiniidu exit) and elaborate on the Fund's exit strategy.

## Sector Allocation

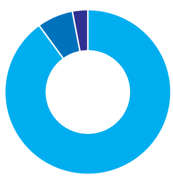
(% of gross property values)



| | |
|---|---|
| Office | 33 |
| Retail | 25 |
| Hotel | 23 |
| Logistics | 19 |

## Country Allocation

(% of gross property values)



| | |
|---|---|
| Estonia | 90 |
| Lithuania | 7 |
| Latvia | 3 |

## Financial overview

The Net Asset Value of East Capital Baltic Property Investors AB was EUR 426.66 as of 30 September 2021. The Net Asset Value increased by 1.48% during the quarter, from EUR 420.45 on 30 June 2021.

The fund's rental income for the period July - September 2021 was EUR 1.4m. The rental income of the portfolio, excluding divested properties, decreased by ca 9% compared to the period July - September 2020. The rental income in most properties has increased y-o-y, and the decline is only due to different rental arrangements in Gospa hotel. During summer 2020, they paid a monthly turnover rent, but in 2021 the turnover rent for these months will only be calculated and paid at year-end in December 2021. Eliminating this effect, the Fund's rental income in 3Q 2021 was 5% above that of 3Q 2020.

The fund's net profit concluded at EUR 0.66m.

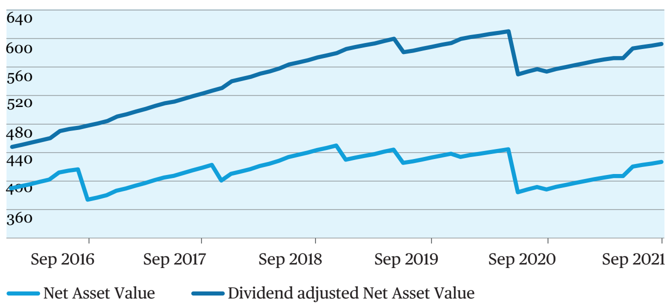
The portfolio gross asset value amounts to EUR 72.19m, according to the recent external revaluation in June 2021. The Fund's loan portfolio stands at EUR 33.1m and the corresponding loan-to-value ratio is 46% as of 30 September 2021.

## Net Asset Value since inception

**East Capital Baltic Property Investors AB SE0011788439**

| NAV (EUR) | % 3 months | % YTD | % Since inception* |
|---|---|---|---|
| 426.66 | +1.48 | +1.48 | 17.93 |

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




## Fund Summary

| | 30 Sep 2021 | 30 Sep 2020 |
|---|---|---|
| | EUR '000 | EUR '000 |
| Fair value of portfolio | 72,191 | 81,970 |
| Other assets | 9,871 | 8,771 |
| Liabilities | -34,705 | -47,531 |
| **TOTAL NET ASSET VALUE** | **47,357** | **43,210** |
| Net Asset Value East Capital Baltic Property Investors AB | 426.66 | 388.88 |

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# Financials

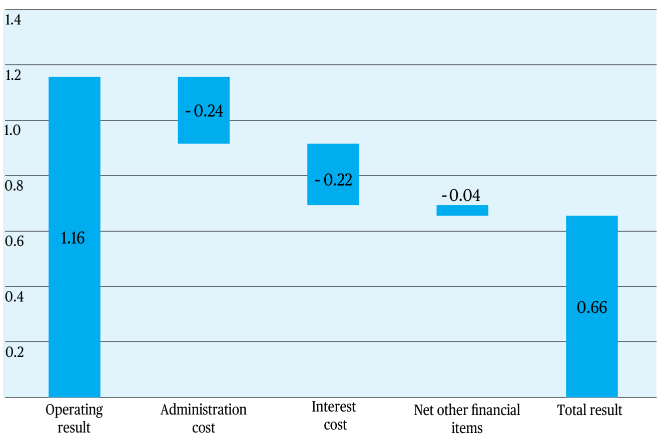
## Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

| | Jul 2021 - Sep 2021 | Jul 2020 - Sep 2020 |
|---|---|---|
| Revenue | 1,397 | 1,898 |
| Direct expenses | -240 | -258 |
| **Gross profit** | **1,157** | **1,640** |
| Administrative expenses | -242 | -225 |
| **Operating profit/loss** | **915** | **1,415** |
| Interest expenses | -221 | -274 |
| Fair value adjustment of interest rate swap | -39 | 5 |
| **Profit/loss before income tax** | **655** | **1,146** |
| Income tax | - | -9 |
| **NET PROFIT FOR THE YEAR** | **655** | **1,137** |
| **Earnings per share - Ordinary shares** | **118,98** | **206,21** |

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

| | Jul 2020 - Sep 2021 | Jul 2019 - Sep 2020 |
|---|---|---|
| Earnings per share - Ordinary shares | 6,21 | 10,76 |

## Result contribution (year-to-date financial year 2021/22, EURm)




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

| | 30 Sep 2021 | 30 Sep 2020 |
|---|---|---|
| **ASSETS** | | |
| *Non-current assets* | | |
| Investments properties | 72,191 | 81,970 |
| Other long-term assets | 10 | 16 |
| Equipment | 5 | 9 |
| **Total non-current assets** | **72,206** | **81,995** |
| *Current assets* | | |
| Assets held for sale | - | 3,650 |
| Account receivables - trade | 177 | 304 |
| Other receivables | 253 | 369 |
| Accrued income and prepaid expenses | 50 | 50 |
| Cash and cash equivalents | 9,376 | 4,373 |
| **Total current assets** | **9,856** | **8,746** |
| **TOTAL ASSETS** | **82,062** | **90,741** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Share capital | 17 | 17 |
| Other paid-in capital | 38,217 | 38,217 |
| Retained earnings | 8,250 | 3,419 |
| Profit/loss for the period | 655 | 1,137 |
| **TOTAL EQUITY** | **47,139** | **42,790** |
| **Liabilities** | | |
| *Non-current liabilities* | | |
| Interest-bearing liabilities | - | 37,219 |
| Derivatives | - | 212 |
| Other liabilities | 645 | 707 |
| Deferred tax liabilities | 304 | 706 |
| **Total non-current liabilities** | **949** | **38,844** |
| *Current liabilities* | | |
| Interest-bearing liabilities | 33,139 | 7,470 |
| Accounts payable - trade | 132 | 1,028 |
| Derivatives | 219 | 208 |
| Other liabilities | 81 | 187 |
| Accrued expenses and deferred income | 403 | 214 |
| **Total current liabilities** | **33,974** | **9,107** |
| **TOTAL EQUITY AND LIABILITIES** | **82,062** | **90,741** |

## Contact

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

**funds@eastcapital.com**
**Tel: +46 8 505 88 505**

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## Baltic real estate market

**Investment market**
Possible closing of several large-size deals might bring record-high investment volumes in the Baltics in 2021, and Colliers International expects the total investment volume to exceed EUR 1.2 bn. Investors continue the hunt for industrial assets. Lack of attractive high-grade investment objects will also keep a significant part of investments directed into development projects.

During 3Q 2021, the total investment volume in Estonia amounted to ca EUR 75m. Alongside transactions in industrial and office segment, deals were also closed in the retail segment - Compakt Kinnisvara sold the Peetri community centre (including grocery store and sports club as key tenants) and East Capital Baltic Property Fund sold the Papiniidu business centre (key tenants - Bauhof, Masku, Home4you) in Pärnu to Bigbank. Industrial yields compressed to 6.9% and office prime yields to 5.8% and remain to be under downward pressure.

In Latvia, Q3 was the most active quarter so far in 2021, as Akropolis Group signed an agreement to acquire the Alfa shopping centre and EfTEN agreed to purchase Jauna Teika business centre for EUR 131m. Total investment volume will exceed EUR 600m in 2021 if both transactions are approved by the competition authorities before year-end. Interest in the rental residential segment remains high, which resulted in BTA and YIT entering a joint venture to build rental buildings in all three Baltic capitals. Prime office yield compressed to 5.6% and prime industrial yield to 6.75%; both segments might experience further yield compression. Prime shopping centre yield remained stable at 7.0%.

In Lithuania, the retail segment accounted for a significant part of the total EUR 100m investment volume in 3Q 2021, due to the sale of the Liepu 81 shopping centre in Klaipeda. In the industrial segment, Project Lilium acquired the Lelija production complex in Vilnius and Transmejos NT purchased the Yazaki Wiring Technologies industrial complex in Klaipeda Free Economic Zone. Investor activity led to downward pressure on industrial and office yields.

**Office segment**
Development in the Tallinn office market remains active as 16 projects with leasable area of almost 140,000 sqm are under construction in September 2021. In 3Q 2021, fully leased Skyon office building in Tallinn CBD was opened. Steady demand from ICT, the blockchain industry and healthcare sectors leads to strong pre-leasing activity and good absorption rate of new developments. Vacancy in A class experienced decline during Q3, and currently ranges between 7-8%.

In Riga, the fully leased Icon office building was put into operation during 3Q 2021 and ca 120,000 sqm of office space is currently under construction. Growing demand for office space forces tenants to either wait until the second half of 2022 for new projects to be delivered to the market, choose from current vacant stock, or adopt a hybrid workplace strategy. In Q3, SEB SSC signed a lease agreement for 11,000 sqm in the newly developed Gustavs BC, which is also among the largest take-up deals of recent years. Rent rates remained stable throughout the quarter, though headline rents for upcoming office premises are slightly increasing from current levels.

In Vilnius, the first stage of Business Garden BC was completed during 3Q 2021, adding 32,600 sqm leasable area to the office market. Another ca 36,000 sqm of the current total of 190,000 sqm office pipeline is expected to be commissioned during 2021. The vacancy level in Q3 increased due to large vacancy in the Business Garden BC, and the vacancy level is expected to increase further at the end of the year. The largest lease agreement was signed by the Girteka logistics company for occupying 14,000 sqm of premises at the Freedom 36 BC. Rent rates remained stable compared to the previous quarter, though rising construction costs are putting upward pressure on rents.

**Retail segment**
The retail sector remains active in the Tallinn region, driven by active expansion of the Prisma grocery chain (two new stores were opened and three remain under construction in 3Q 2021). Shopping centres are undergoing refurbishments - in Q3, Järve Centre renovation was completed, and works in Viru Keskus started, to give a new look and content (more catering options, healthcare cluster) to the centre. Tallinna Kaubamaja Group announced the closure of its ABC King and SHU physical stores during 2022, however market vacancy is not expected to increase remarkably, as shopping centre owners are already working on substitutions.

Riga retail market is undergoing several investments. Domina Shopping completed its expansion, and a 5th DEPO DIY store was opened in 3Q 2021. Spice retail complex is constructing a promenade to connect Spice Shopping Centre to Spice Home, Riga Plaza is investing EUR 7m in its new entertainment part occupied by Apollo Cinema and O'Learys, Rimi invested EUR 1.9m in renovation of its SC Alfa store and Stockmann invested EUR 2.5m in the renovation of its gourmet grocery department. Citro, a local grocery operator, opened its first two stores in Riga and the first 15 long-awaited LIDL stores have now been opened across Latvia. Additionally, Bolt Food opened its first dark store and Wolt announced plans to similarly open dark stores across the Baltics. Downward pressure on rent rates persists, while SC vacancy levels remain high, at around 7%.

Vilnius retail market did not observe any changes in supply during 3Q 2021, however, Panorama SC announced reconstruction plans and Ozas SC received a reconstruction permit. Rent rates remained stable, though shopping centre rental incomes have declined due to various concessions applied to tenants. Shopping centre vacancy slightly increased during the quarter.

The retail market is continually feeling adverse pressure and uncertainty about the future, preparing for the next possible lockdowns. Latvia declared a nation-wide emergency from October 11th, 2021, until January 11th in 2022, with restrictions to non-essential retail activities in force at least from October 21st to November 15th.

**Logistics segment**
The industrial development segment remains active in the Tallinn region, with a total of 162,500 sqm leasable area under construction in September 2021. Retailers continue to generate strong demand for new stock-office space, which constitutes ca 60,000 sqm of that new supply. Due to buoyant demand, vacancy in the industrial segment decreased to 3.4%.

In Riga region, in 3Q 2021 construction works started on VGP Park Riga and Ulmana Parks II with total GLA exceeding 60,000 sqm. Despite higher construction costs, major developers continue to proceed with developments, although launching new projects at a slower pace and more cautiously than previously. The vacancy rate in the industrial segment is 4.5% and rents are stable, however new developments are continually more expensive than currently existing properties available for lease.

Industrial stock remained unchanged in the Vilnius market in 3Q 2021, however development pipeline remained active with new space of ca 116,600 sqm under construction in September 2021. High volume of new warehouse space to be commissioned will however not affect vacancy levels due to high demand and active pre-lets. Occupier demand is driven by wholesale and retail trade companies and last-mile delivery logistics. Due to high demand and very low vacancy, industrial rent rates moved upwards during Q3.