EAST CAPITAL

Baltic Property Fund Quarterly Report

January – March 2020

Quartely comment

The Net Asset Value of East Capital Baltic Property Investors AB was EUR 440.19 as of 31 March 2020, an increase of 1.49% compared to 31 December 2019. The Net Asset Value includes rent discounts of EUR 33th in the retail and hotel properties, which have been closed due to government restrictions. The impact of the global pandemic remains modest in Q1 fund results but will have a stronger negative effect in Q2 as a result of preventive restrictions applied in all Baltic countries from mid-March and expected to be in force until May - June. The effect on cash flow will however be mitigated by an amortization holiday of 6 months applied from April 2020 for the syndicated loan covering the Estonian properties and Jin office in Vilnius as well as for the loan of the Laracija property in Vilnius.

The two hotels in the fund portfolio – Tallinn Seaport Hotel and Gospa, are closed from mid-March as a result of government and movement restrictions. The island Saaremaa, where Gospa hotel is situated, has been isolated from the mainland to restrict the spread of the virus, with only transport of goods and single entry of local citizens allowed. The hotel can only be reopened once these restrictions lifted, as well as spa operations allowed again. Tallinn Seaport Hotel, located in the Tallinn Port area, has a strong focus on tourists arriving by ferries. Tourist ferry traffic with Finland and Sweden has been suspended at least until mid-May, and the re-opening of the Seaport Hotel is highly dependent on resumed tourist flows. Both hotels are currently estimated to be closed throughout April and May, with planned opening in June. Most likely, a lowered base rent for the closure period will be agreed with hotel operators, covering landlord operational and interest expenses. The recovery of hotels' turnovers, linked to landlord's rental income, is expected to take time, firstly based on domestic travellers only and gradually increasing as international travel builds up again.

In the shopping centres in the portfolio, only grocery retail, pharmacies and food take-away can remain open during the current lock-down period. Stand-alone retail units are still allowed to operate. The Jewe Keskus and Jõhvi Tsentraal shopping centres are most affected, with rental revenues decreased by ca 50% in April 2020. In Kerese centre, with ground floor dedicated to retail units, rental revenue decrease is ca 30% and in Papiniidu commercial centre, some retail units also are closed with an expected decrease of 10% in rental income. The recovery of retail centres, in comparison to hotels, will be faster once restrictions lifted, but as the retail centres include several local retailers as tenants, who might not survive the business disruption, some vacancy increase may occur.

Office and industrial properties are currently less affected. In the office properties in the fund, no discounts have yet been applied and all requests will be reviewed case by case. Postponement of rent payments will also be considered as a possible relief measure to tenants. In the Tänassilma industrial property, a temporary discount has been agreed with one of the two tenants, due to their direct dependence on retail sector.

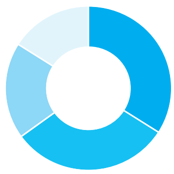
On an aggregated level, the fund's rental income could experience up to 30% drop in Q2, dependent on the duration of restriction measures. The recovery pace in Q3 and Q4 is difficult to estimate, and the loss of income may drag on due to the economic difficulties many tenants may face in 2020. All possible cost savings have been reviewed and applied; however, cost levels could even slightly increase on the account of potential higher vacancies.

The fund's cash flow is expected to remain positive, supported also by the amortization holidays applied on most of the fund's loans. Since amortizations account for a significant part of net cash flow, this will help significantly in maintaining a positive cash flow in Q2 even in case of further loss of rental revenue.

The Net Asset Value as of 31 March 2020 includes the property fair market values from the latest external valuation in June 2019. The need for reappraisal of the properties will be assessed on a continuous basis. In the short term a heightened valuation uncertainty should be noted.

Sector Allocation

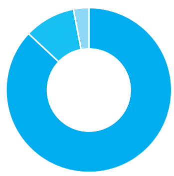
(% of gross property values)



Retail	34
Office	31
Hotel	19
Logistics	16

Country Allocation

(% of gross property values)



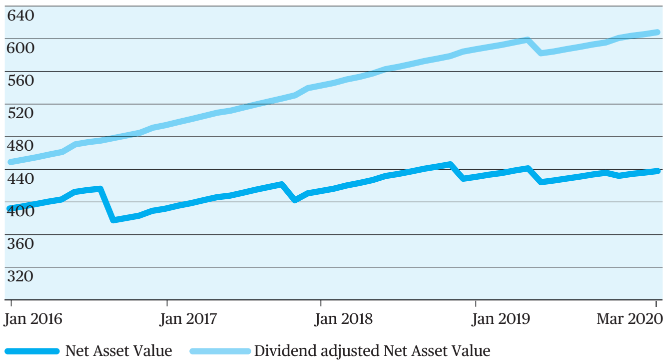
Estonia	87
Lithuania	10
Latvia	3

Net Asset Value since inception

East Capital Baltic Property Investors AB SE0011788439

NAV (EUR)	% 3 months	% YTD*	% Since inception*
440.19	1.49	5.83	20.64

*Performance adjusted with dividend payment.



Fund Summary

	31 Mar, 2020 EUR '000	31 Mar, 2019 EUR '000
Fair value of portfolio	90,360	94,928
Other assets	6,087	5,651
Liabilities	-47,588	-52,018
TOTAL NET ASSET VALUE	**48,859**	**48,561**
Net Asset Value East Capital Baltic Property Investors AB	440.19	437.61

Financial overview

The net asset value of East Capital Baltic Property Investors AB (publ.) was EUR 440.19 as of 31 March 2020.

The rental income for the period July 2019 - March 2020 was EUR 5.42m, ca 4% decrease compared to the same period a year ago (excluding divested properties and accounting principle changes). During the period July-December 2019, rental income suffered in A13 office, where ca 3,000 sqm of office was prepared for a new tenant (lease commenced from December) and in Jewe shopping centre during its reconstruction (renewed centre was opened in November-December). The fund's net profit concluded at EUR 2.92m for the three quarters of 2019/20 financial year.

The fund's loan to value ratio is 50%, with a loan balance of EUR 44.7m and property value of EUR 90.4m as of 31 March 2020.

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Financials

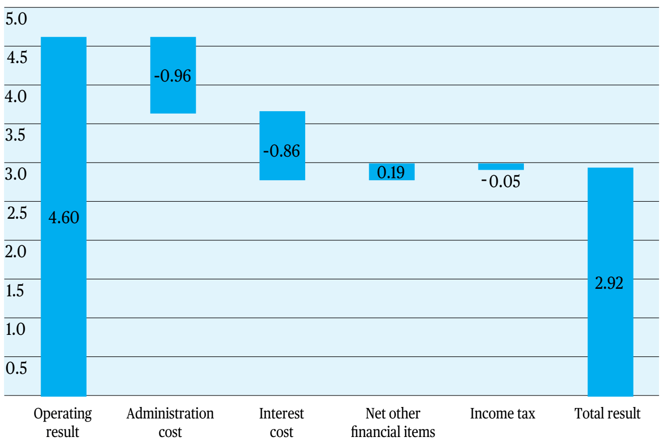
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2019 - Mar 2020	Jul 2018 - Mar 2019
Revenue	5,417	6,144
Direct expenses	-813	-1,171
Gross profit	**4,604**	**4,973**
Administrative expenses	-955	-842
Operating profit/loss	**3,649**	**4,131**
Interest income	-	1
Interest expenses	-860	-872
Fair value adjustment of interest rate swap	186	-404
Profit/loss before income tax	**2,975**	**2,856**
Income tax	-54	14
NET PROFIT FOR THE YEAR	**2,921**	**2,870**
Earnings per share - Ordinary shares	**530,17**	**520,69**

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

	Jul 2019 - Mar 2020	Jul 2018 - Mar 2019
Earnings per share - Ordinary shares	24,80	29,15

Result contribution (YTD financial year 2019/20, EURm)



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

	31 Mar 2020	31 Mar 2019
ASSETS		
Non-current assets		
Investments properties	90,360	94,928
Other long-term assets	2,816	-
Equipment	10	13
Total non-current assets	**93,186**	**94,941**
Current assets		
Account receivables - trade	307	563
Other receivables	369	187
Accrued income and prepaid expenses	150	83
Cash and cash equivalents	2,435	4,982
Total current assets	**3,261**	**5,815**
TOTAL ASSETS	**96,447**	**100,756**
EQUITY AND LIABILITIES		
Equity		
Share capital	17	17
Other paid-in capital	38,217	39,322
Retained earnings	7,242	5,902
Profit/loss for the period	2,921	2,870
TOTAL EQUITY	**48,397**	**48,111**
Liabilities		
Non-current liabilities		
Interest-bearing liabilities	37,283	37,108
Derivatives	267	314
Other liabilities	684	616
Deferred tax liabilities	776	692
Total non-current liabilities	**39,010**	**38,730**
Current liabilities		
Interest-bearing liabilities	7,456	12,920
Accounts payable - trade	859	582
Derivatives	175	137
Other liabilities	53	24
Accrued expenses and deferred income	497	252
Total current liabilities	**9,040**	**13,915**
TOTAL EQUITY AND LIABILITIES	**96,447**	**100,756**

Contact

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Baltic economies in the light of current crisis

All three Baltic states have implemented restrictive measures from mid-March as a preventive measure against the Covid-19 outbreak. The main restrictions, with minor differences between the countries, include temporary reintroduction of border controls, closure of all shopping centres except for grocery stores, pharmacies, closure of schools, closure of leisure facilities and ban on public events. These restrictions are expected to be eased step-by-step starting from May or even in June. The growth rate of new cases has slowed after restrictions have been applied.

The economic impact is expected to be severe as all global economies are predicted to go into recession in 2020. The Baltic economies are forecasted to experience a sharp GDP drop of 5-6% in 2020, with hardest hit sectors being accommodation, food, transport and entertainment. The gradual recovery can only start after restrictions lifted.

The Baltic governments have announced measures to ease the impact on businesses, people and economy, with the most focus to avoid massive lay-offs and support companies to continue to pay salaries at reduced levels during the lockdown period. The supportive measures will add on public debt; however, the Baltic economies so far have had low public debt levels.

The main commercial banks have announced they are willing to provide up to 6 months amortization holidays for corporate loans and up to a year for mortgage loans of private persons.

Baltic real estate market overview

Colliers International

Investment market

In 1Q 2020, total known investment volume in Estonia amounted to ca EUR 180m, already exceeding the total level achieved in 2019, however most of the volume resulted from a single EUR 140m portfolio deal of municipal rental apartments. The investment sector in Latvia showed a promising start to the year, with EUR 60m in total investment volume in 1Q 2020, of which the acquisition of AirBaltic office building and Dominante and Piepilsētas logistics centres by EfTEN comprised more than EUR 32 m. The Lithuanian investment market exceeded EUR 80m benchmark in 1Q 2020, with office segment continuing to be the main activity driver. Lords LB acquired a centrally located IBC business centre for EUR 33m and Laurus sold SEB Bank office buildings in Vilnius, Kaunas and Siauliai.

As a result of the Covid-19 outbreak, deals have been put on hold starting from March and 2020 will most likely see a lower investment volume in all three Baltic States compared to previous years. The downward pressure from prime yields is expected to be lifted. However, some capital-wealthy investors are looking forward to benefit from decreased competition and possible new investment opportunities.

Office segment

The development of office projects remained active in 1Q 2020 in all Baltic countries. In Tallinn, 17 projects of 112,500 sqm were under construction and a strong pipeline is ready to start construction. In Riga, the long-awaited multi-functional Z-Towers project was put into operations in 1Q 2020, adding 25,000 sqm of leasable space to the market. In Vilnius, GLA of 280,500 sqm, equal to roughly 40% of existing office stock was under construction in 1Q 2020, with ca 70% of this construction volume located outside the CBD.

While tenant demand was still strong in Q1, several companies have now postponed their plans to move or expand. Lease processes already underway are continued, but tenants are applying a more conservative approach to expansion and relocation. Renegotiations are very likely in 2Q 2020, with as balance between supply and demand is changing. Short-term lease incentives in the office segment are expected both for new deals and from landlords who want to hold on to existing tenants. Immediate effect is most visible for small occupiers and office hotel sector, where flexible agreements are more widely used.

Retail segment

The retail sector, experiencing strong sales growth, started off actively in 2020. Shopping centres continued to diversify their tenant mix and increase the share of leisure and entertainment offering. However, in the current recession, shopping centres, entertainment providers and businesses related to travel and outdoors are hit the hardest. Shopping centres, except for grocery stores and pharmacies are temporarily closed in Estonia and Lithuania can only be opened during weekdays in Latvia. All gyms, cinemas and casinos need to be closed. Retail stores with separate entrance from the street can remain open with sanitary and visitor amount regulations.

Tenants are eligible or asking for rent-free periods and rent reductions due to being closed or due to drastic decrease in footfall and sales figures. Even larger brands are withholding their new market entries and expansion plans. In mid- and long-term, the weaker retailers might not survive, and increased vacancy is expected in all types of shopping centres. Decrease in rents and increase of vacancy is significantly affecting profitability of the landlords of the shopping centres.

Grocery stores, especially those that operate online stores and deliveries, are showing stable or even growing sales numbers.Food deliveries from stores and restaurants are spiking. Gyms, theatres, dining venues, and stores are now being forced to switch to online. E-commerce solutions will remain vital for all retailers during the stay-at-home economy; and may change the consumer behaviour towards using more online services also in long-term.

Industrial segment

Logistics segment is currently among the least affected as logistics centres continue working and even face higher demand and pressure on supply chains. Perspectives are the most promising for grocery, e-commerce, pharmacy, distribution, and needs-based sectors.

The industrial market has been stable and healthy; however, occupiers may start to postpone investment decision-making. Low levels of leasing activity will force developers to re-evaluate their speculative development plans and negotiations of lease conditions are turning in favour of tenants.