

Quarterly comment

The rental revenue for East Capital Baltic Property Fund for the period July - December 2022 amounted to EUR 2.34m and increased by 2% for the comparable portfolio versus the period July – December 2021 (adjusting for divested properties). The y-o-y rental income increased in Tallinn Seaport Hotel due to increased hotel turnover and in Tånassilma and Metal properties based to indexation. Rental income decreased slightly in Aiandi 13 office, Zemitana office, Kerese Centre, Jewe Centre and Jõhvi Tsentraal due to somewhat increased vacancy levels. The average rent across the portfolio at the quarter end in December 2022 was EUR 8.4/sqm/mo. The vacancy level for the fund portfolio stands at 10.6% at the quarter end in December 2022.

The occupancy and turnover of the Tallinn Seaport Hotel are showing a good growth after the Covid-related travel restrictions have been lifted. In the period July – December 2022 the total hotel turnover was 1.7 times higher compared to July – December 2021 and only ca 13% below the pre-Covid level in 2019. The hotel operator is paying the contractual rent and a semi-annual turnover rent component is added to the rent for 2HY 2022.

Tånassilma and Metal warehouse/industrial premises continue to operate as planned. Both Tånassilma and Metal properties however include some vacancy in office areas that are difficult to lease out separately.

In Tånassilma property, rental agreements with Makita and ELP Logistics have been prolonged until June 2023 and December 2023 accordingly. The new built-to-suit warehouse and office for Makita will be completed in summer 2023 and the management team is actively looking for a replacement to the Makita premises. ELP Logistics is currently known to extend the agreement in shorter cycles.

Jewe Centre in Jõhvi has stable operations at occupancy level of ca 90%. Vacancy in Kerese Centre in Narva increased from previous 10% level to 14% due to two tenants leaving at their lease term.

The fund is progressing with the Jõhvi Tsentraal upgrade project, during which the concept, the building and the surrounding areas are modernized. Construction works are financed by internally accumulated liquidity and construction will be completed in stages. In November 2022, the new Sinsay store was opened and construction works are ongoing to open a new gym in 1Q 2023. After the lease with previous grocery tenant Rimi has expired, the management team is in final stages to sign the agreement with a new grocery store tenant and preparing the premises for the conversion.

The Fund's Annual General Meeting was held in December 2022 where the management team presented the results of the 2021/22 financial year and the board's proposal to initiate a distribution of profits, whereas the fund is to distribute a total of EUR 4.97m to its investors in January 2023. In the investor consortium East Capital Baltic Property Investors (publ) the distribution was in most part in the form of a voluntary redemption of shares.

Sector Allocation

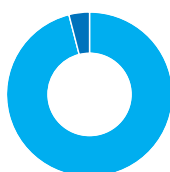
(% of gross property values)



• Office	34
• Retail	29
• Industrial/Logistics	25
• Hotel	12

Country Allocation

(% of gross property values)



• Estonia	96
• Latvia	4

Financial overview

The Net Asset Value of East Capital Baltic Property Investors AB was EUR 369.33 as of 31 December 2022, increasing by 1.66% during the quarter and 3.16% year-to-date for the financial year 2022/2023, from EUR 358.02 on 30 June 2022.

The fund's rental income for the period July – December 2022 was EUR 2.34m. The fund's net profit concluded at EUR 0.23m. The positive income tax of EUR 83th is a result of recalculation of payable taxes related to property exits in Lithuania.

The fund's loan portfolio stands at EUR 25.96m. Considering the portfolio value of EUR 57.41m, the corresponding loan-to-value ratio is 45% as of 31 December 2022.

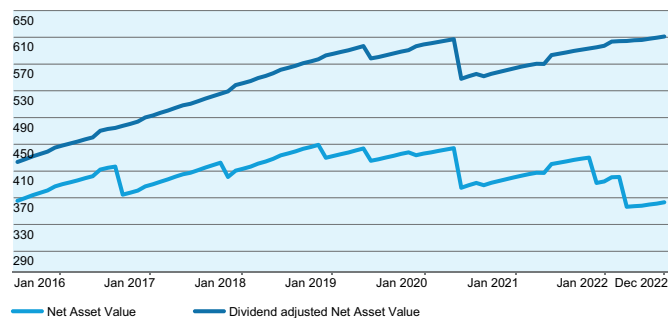
At the end of the quarter, the Fund had EUR 8.5m of cash and cash equivalents. In the Fund's Annual General Meeting, EUR 4.97m of this balance was proposed and approved to be distributed to investors in January 2023. The cash balance also includes reserves to complete the upgrade project in Jõhvi Tsentraal property, and a tax reserve for income tax on future distribution of profits.

Net Asset Value since inception

East Capital Baltic Property Investors AB SE0011788439

NAV (EUR)	% 3 months*	% YTD*	% Since inception*
369.33	+1.66	+3.16	+23.47

*including dividend payments



Fund Summary

	31 Dec 2022	31 Dec 2021
	EUR '000	EUR '000
Fair value of portfolio	57,414	61,898
Other assets	11,281	15,966
Liabilities	-27,561	-34,236
TOTAL NET ASSET VALUE	41,134	43,628

Net Asset Value East Capital Baltic Property

Investors AB	369.33	392.10
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Financials

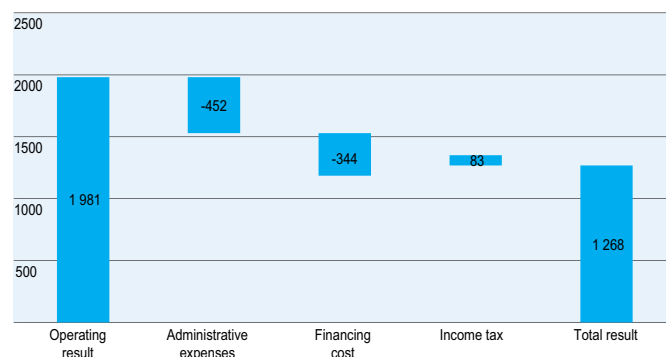
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2022 - Dec 2022	Jul 2021 - Dec 2021
Revenue	2,335	3,024
Direct expenses	-354	-477
Gross profit	1,981	2,547
Administrative expenses	-452	-602
Unrealised changes in value of investment properties	-	-125
Operating profit/loss	1,529	1,820
Interest expenses	-344	-438
Fair value adjustment of interest rate swap	-	41
Profit/loss before income tax	1,185	1,423
Income tax	83	-
NET PROFIT FOR THE YEAR	1,268	1,423
Earnings per share - Ordinary shares	230,26	258,34

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

	Jul 2022 - Dec 2022	Jul 2021 - Dec 2021
Earnings per share - Ordinary shares	11,31	11,65

Result contribution (YTD 2022/23, EUR'000)



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

	31 Dec 2022	31 Dec 2021
ASSETS		
<i>Non-current assets</i>		
Investments properties	59,279	61,898
Other long-term assets	5	9
Equipment	4	5
Total non-current assets	59,288	61,912
<i>Current assets</i>		
Assets held for sale	-	10,175
Account receivables - trade	501	524
Other receivables	412	246
Accrued income and prepaid expenses	20	42
Cash and cash equivalents	8,474	4,965
Total current assets	9,407	15,952
TOTAL ASSETS	68,695	77,864

EQUITY AND LIABILITIES

<i>Equity</i>		
Share capital	17	17
Other paid-in capital	28,828	33,798
Retained earnings	11,021	8,250
Profit/loss for the period	1,268	1,423
TOTAL EQUITY	41,134	43,488

Liabilities

<i>Non-current liabilities</i>		
Interest-bearing liabilities	22,994	-
Derivatives	-	130
Other liabilities	617	636
Deferred tax liabilities	-	304
Total non-current liabilities	23,611	1,070

Current liabilities

Interest-bearing liabilities	2,970	32,633
Accounts payable - trade	748	286
Derivatives	-	9
Other liabilities	7	117
Accrued expenses and deferred income	225	261
Total current liabilities	3,950	33,306
TOTAL EQUITY AND LIABILITIES	68,695	77,864

Contact

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Economic overview

In 3Q 2022 GDP (in real terms) of Estonia fell by 2.4% y-o-y (biggest contributor was agriculture) and by 0.6% in Latvia y-o-y (driven by decrease in manufacturing, construction and trade). The GDP of Lithuania grew by 2.0% y-o-y in 3Q 2022, main drivers were information and communication, manufacturing and financial and insurance activities.

Average annual inflation in December 2022 remained high in all Baltic countries, 17.5% in Estonia, 20.7% in Latvia and 20.0% in Lithuania with increasing energy, food and housing costs as the main driver. The inflation has probably peaked in 2022 and is expected to go down by the end of 2023.

In 3Q 2022 the average monthly gross earnings grew by 8.1% y-o-y in Estonia, 6.3% in Latvia and 12.6% in Lithuania. In November 2022, the highest registered unemployment rate of the country's working age population was recorded in Lithuania (8.3%) and Estonia (8.3%), the lowest – in Latvia (5.9%).

Real estate market



Investment market

After a record breaking 2021, investment volumes both in Estonia and Latvia returned to a "normal" EUR 300m yearly level. Investment activity in Estonia in 2022 (EUR 335m in total) was largely driven by the industrial segment (36% of total volume) and several large size deals (top 10 deals were responsible for a half of total volume). Yields remained unchanged by the end of the year, but higher interest rates put considerable upward pressure on yields (that will expand in 2023) and suppress investment activity, turning buyers to adopt a wait and expect a better price attitude.

Investment activity in Latvia in 2022 was largely led by Baltic investors and smaller (EUR <5m) transactions. In 4Q, total investment volume reached EUR 95m, seeing the largest deal of the year the acquisition of Place Eleven (Class A office building in Skanste) for EUR 53m by East Capital from Hanner, a developer. Blackstone finished divestment of its retail properties in Latvia and sold SC Mols to Citra Development. In most European markets prime yields have already increased by 0.25 to 1.0 percentage points on average depending on the geography and segment, a trend already observed in Latvia with further inevitable yield corrections expected during 2023.

The end of the year was active in Lithuania with total investment volume exceeding EUR 170m in 4Q 2022. The retail sector accounted for most (around 70%) of total quarterly volume, mainly driven by the divestment (share deal) to NDX Group of a portfolio of 17 Maxima and Ermitazas stores in Lithuania with total GLA 45,000 sqm from the Norwegian investment company EECP (the largest transaction since 2019). Another large size transaction included the acquisition of a land plot with a building permit for construction of a business centre at Ukmergės str. in Vilnius to Diff Finance, an investment company. Compared to the previous quarter, prime yields remained stable with the potential to expand in the coming year.

Office segment

Development in the Tallinn office market remains continually active as 12 projects with leasable area of almost 134,000 sqm are under construction in January 2023. 4Q 2022 saw completion of 7 new office buildings with total GLA 47,250 sqm (incl. the Alma Tominga, Tehnopol 3, Kawe City and P21) and the start of construction work on a new large scale BtS redevelopment project in Põhja-Tallinn. The market observed several significant pre-leases, driven by relocations

and expansions in the ICT sector. Vacancy continues to fluctuate around 8%, seeing some upward movement in Class B 1 buildings. Staff reductions and freezing of relocation plans in the programming, blockchain and call centre segments in Estonia result in growing hidden vacancy that may further reshape to physical vacancy in the first half of 2023.

4Q 2022 has been relatively quiet in terms of office activity in Riga, pipeline remains filled with around 145,000 sqm of office GLA under construction. Rising side costs in older buildings, remote work and decreasing office space per employee ratio allow tenants to relocate to smaller but better located and higher quality premises within the same budget. Landlords in older developments are forced to cap indexation to remain competitive, meanwhile the rent rates for new agreements in existing developments are becoming highly dependent on required fit out contributions.

In Vilnius, 4Q 2022 was not active in terms of commissioning new office space as just one building with GLA 8,000 sqm was commissioned. The pipeline for 2023 new office space remains at 116,000 sqm. Nevertheless, 4Q was comparatively active in terms of new leases, including quite big ones like Visma, Modus Mobility and GetJet Airlines. New business centres planned for commissioning in CBD in 2023 showed sustainable demand. Rent rates remained stable with upward pressure on Class A premises (up to EUR 18/sqm) Total vacancy decreased to 7.7% while vacancy in Class A buildings remained stable at 7.3%.

Retail segment

In 4Q 2022 inflation stood at the centre of attention both for landlords and retail tenants in all three Baltic States. In Latvia, first indications show that landlords will apply a full indexation approach. However, similarly as was the case with rent discounts during the pandemic, they are ready to discuss other options for some tenants individually. In Estonia, landlords admit choosing various approaches depending on retailers, turnover figures and other factors.

The retail development market continues to remain active mainly outside Tallinn city borders, seeing the opening of the multifunctional Tabasalu Centre 8,000 sqm. Tallinn shopping centres continue diversification of their tenant mix. T1 Centre opened a new entrance facing the rail line and opened four new outlets with total GLA exceeding 3,600 sqm in the centre, positively affecting the total vacancy level in Tallinn. Various outlets and discount chains that offer apparel and household goods at the lowest prices continued gaining a major share of take up.

In Latvia, following a lengthy refurbishment period, former Prisma Deglava reopened as a new retail concept named "Augusts". Medical offer continued to expand within retail premises a 1,000 sqm VCA health clinic opened in SC Dole. Can Can pizza and Caif Café plan to exit the market by the end of January 2023 closing a total of 10 locations in Latvia after a challenging post pandemic period. At the same time, Domino's Pizza entered the market, opening their first location in Riga.

In 4Q 2022, Vilnius retail stock remained unchanged in Vilnius, but the market is showing additional interest in the concept of retail parks with the Una retail park (GBA 16,640 sqm) currently under construction. Some international discounter chains such as Pepco, Sinsay and Lidl have lately achieved rapid expansion in the market. However, due to the war and the uncertainty surrounding it, plans for the entry of new brands are temporarily suspended. If the situation in the region does not worsen in 2023, Lithuania and the other Baltic States are expected to see the emergence of new brands. Rents in prime SCs have been rising, while vacancy remains low and stable.

Logistics segment

The industrial development segment remains active in the Tallinn region, with a total of 121,000 sqm leasable area under construction in January 2023. Although 4Q 22 saw easing of growth and even some decline in construction prices, the number and volume of new projects started during the quarter continued to ease and most "under construction" volume is generated by several large scale BtS projects. 18 new stock offices with total GLA 63,350 sqm were added to the market in 2022. Despite recent challenges, vacancy remains low at 2.7%.

In 4Q 2022, Green Park III 1 st building developed by Piche was put into operation in the Airport area in Riga. 4Q saw the completion of the year's third stock office project Kengaraga Centrs (GLA 4,423 sqm). Some developments that were planned for commissioning by the end of 2022 have been postponed to 1 HY 2023. Currently, 128,370 sqm of leasable industrial space remains under construction. Vacancy in the market remains low at 0.8% due to a lack of new speculative projects put into operation, while those approaching completion are fully leased.

Vilnius industrial stock remained stable in 4Q 2022. However, the development pipeline was active with under construction volume increasing by 35% to a total GBA of 148,500 sqm at the end of the quarter, of which almost 50% consists of speculative projects. Demand remained modest as some expansion plans were cancelled or suspended due to various uncertainties, as well as an increase in rent rates by more than 10%. Despite a challenging year, vacancy remained at an all time low level throughout the year, decreasing to 0.4% by year end.

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