





## Macro overview

Year-on-year GDP growth in 1Q 2019 was 4.5% in Estonia, 3.0% in Latvia and 4.0% in Lithuania, led by growth in trade activities and the construction, manufacturing and IT sectors, among others.

The unemployment rate among the potential workforce aged 15-74 remains low and ended at 4.7% in Estonia, 6.9% in Latvia and 6.5% in Lithuania.

The harmonised index of consumer prices in Estonia decreased to 2.3% in 1Q 2019, compared to 3.7% in the previous quarter, and in Lithuania it decreased to 2.1% from 2.3%. In Latvia, it remained stable, at 2.8% (2.9% in the previous quarter).

Key economic figures 1Q 2019	Estonia, %	Latvia, %	Lithuania, %
GDP growth	4.5	3.0	4.0
Unemployment	4.7	6.9	6.5
Inflation (HICP)	2.3	2.8	2.1

## Property market

Development in the Tallinn office market remains active, with 15 projects of 122,350 sqm in total area under construction in June 2019. Demand is largely driven by the relocation and expansion of existing tenants; mostly IT and high-tech companies, lawyers, retailers and healthcare providers. The trend of co-working is continuing, with IWC announcing the opening of the Spaces co-working premises at more than 3,100 sqm in Fahle Park. Rental rates remained largely stable in 2Q 2019, while vacancy continued to slightly decrease, to below 6%, in Class A and Class B1 buildings.

The Riga office market continues to deliver new projects to the market, although more slowly than expected due to a longer construction process. In Q2, 9,000 sqm of Class B1 office premises were opened in Akropole SC, and another 3,000 sqm in the reconstructed Telegraph office building in Old Town. Half of the latter is occupied by WorkLand's 160 co-working spaces. And additionally, Teikums Teodors opened a co-working space with 230 working places in Jaunā Teika. Kapitell announced plans to start construction of the BREEAM Excellent-certified Elemental Skanste office complex of GLA 20,500 sqm, while Eastnine announced plans to expand its Alojas office complex with a new WELL-certified office building - 'The Pine' - (GLA 15,800 sqm) made from wood. Due to relatively low demand, rental rates remained stable, while no significant changes in vacancy have been observed.

During 2Q 2019, the Live Square BC, with GLA of 6,370 sqm, was completed in Vilnius CBD, with Sorainen and the Spaces flexible workspace concept as anchor tenants. A pipeline of 13 office properties with total GLA of 161,700 sqm remained under construction at the end of the quarter. In the letting market, Danske Bank signed a pre-lease for 13,000 sqm for the whole 4th stage of S7 BC. New SSCs were opened by McKesson (2,300 sqm) at Business Stadium West BC, and Dana Incorporated (1,270 sqm) at Alfa BC. The co-working market continues to expand in Vilnius, with WorkLand signing for Quadrum BC (stage III) and Talent Garden for Vilnius Street. The vacancy level in the Class A segment slightly increased, while rental rates remained unchanged.

The extended Ülemiste Centre shopping centre was opened during 2Q 2019 in Tallinn, adding 13,200 sqm of leasable space, mostly covered by food & beverage or entertainment tenants. PEPCO, a Polish low-cost clothing and household chain, continues to expand aggressively, and opened a new store in Lasnamäe Centrum in May, while planning further new openings across Estonia. Deichmann's first store in Estonia is due to open in mid-August 2019, covering 380 sqm of GLA in Nautica Centre. In May 2019, Porto Franco announced that Peek & Cloppenburg will open its first department store in Estonia, at 3,600 sqm, in their centre in autumn 2020. Furthermore, pressure for decreased rental rates is expected in all types of shopping centre, as the opening of the T1 Mall of Tallinn and extension of Ülemiste Centre have sharply intensified industry rivalry.

The opening of the Akropole shopping centre in Riga in April 2019 attracted considerable interest, and the centre has already reached 1 million visits in the first 40 days since opening. However, no significant effect on the market overall has been observed, as few of the existing SCs experienced decreases in footfall, and overall vacancy remains below the 2% level. The opening of the first Apollo cinema and the first O'Learys restaurant in Akropole follow global trends in increasing the entertainment area in shopping centres. Akropole also houses a Lemon Gym, and in fact almost half of shopping centres in Riga comprise a gym in their tenant mix. A 3,500 sqm farmer's market has opened in Imanta Retail Park, occupying the former Prisma premises. Following the success of Maxima e-sales through Barbora, Rimi announced that they are planning to expand their e-commerce services.

The Vilnius retail market remained mostly calm in 2Q 2019. Estonian home and garden goods retailer, Hortes, announced the opening of a 13,600 sqm store at VNO Business & Retail Park. The first Jo Malone London boutique in the Baltic States opened at the Panorama shopping centre, while the first Apotheke pharmacy in Lithuania opened at the Ozas shopping centre. In Q2, the number of vacant premises in Vilnius' prime shopping centres remained tight, and rental rates remain unchanged.

The industrial segment remains reasonably active in Tallinn and its suburbs in terms of new developments, with a total area of approx. 86,000 sqm under construction in June 2019. Although demand for stock office space continues to decrease, several developers are initiating and/or planning new projects mostly within the city limits. Rental rates continue to fluctuate significantly, between 3.8-5.0 EUR/sqm, with vacancy at 4.0% at Q2 end.

Riga's industrial market was active, as stage II of the VGP project and stage I of Lidostas Parks were opened during 2Q 2019. The Orkla

Market tendencies 2Q 2019	Estonia Retail Office	Latvia Retail Office	Lithuania Retail Office
Construction	→ ↗ →	→ →	→ → ↗
Supply	→ ↗ → ↗	↗ → ↗	→ →
Demand	→ →	→ →	→ →
Rental rate	→ ↗ →	→ →	→ →
Vacancy	→ →	→ ↗ → ↗	→ → ↗
Yield	→ →	→ →	→ →
Total investment volume	→ ↗	→ ↗	↗

Latvija production facility and Sirin Logistics Park construction started during the quarter, the latter planning to develop around 80,000 sqm of industrial and warehouse space over the next two years. Due to tenants moving to newer complexes closer to Riga, there has been some increase in vacancy and a slight decrease in rental rates in some of the objects located on the Riga ring road. In Riga, where there is no vacancy, rental rates are increasing.

In Vilnius, the industrial stock remained unchanged during 2Q 2019, but three new properties, with total GBA of 71,700 sqm, were under construction at the end of the quarter. Ca 75% of that area is being developed on a speculative basis, although the space is expected to meet strong demand, as vacancy in existing properties shrank further below the 1% level. Rental rates have remained unchanged.

In 1HY 2019, total known investment volume in Estonia amounted to ca EUR 100m, with more than half driven by the industrial segment and smaller-scale deals, as average transaction size was EUR 2.8m. Foreign capital accounts for ca 55% of invested volume, although this is mostly due to one large deal closed by Corum at the beginning of the year. Prime yields remained rather stable in Q2, although tightening financing conditions are putting pressure on yields.

Investment volume in Latvia exceeded EUR 100m in 2Q 2019, driven by the sale of Galerija Centrs SC, with GLA of 20,000 sqm, for EUR 75m to Baltic Horizon Fund by Linstow. The development market also remains active, headed by office development projects. Prime yields remained stable, though a slight upward movement in the retail segment might be expected.

Following a buoyant investment market in 2018, which transferred into an active start to 2019, Q2 saw a slowdown in investment activity in Lithuania, with total investment volume of ca EUR 50m, compared to EUR 170m in Q1. Ongoing negotiations and an attractive supply of new commercial properties give grounds to expect that the lower investment activity is only temporary, and the rest of the year is likely to be more vibrant. As a result of a tranquil investment market, prime yields remained stable in Q2.

## Portfolio activities

The properties in East Capital Baltic Property Fund (the fund) continue their stable operations. The average rent across the portfolio for the financial year July 2018 – June 2019 was EUR 6.7/sqm/mo.

The two hotels in the property portfolio continue to show solid performance. In June 2019, turnover rent for the period January–June 2019 was invoiced at GOSPA and Tallinn Seaport Hotel, at +55% on top of the agreed base rent for both hotels.

The average vacancy across the property portfolio was 8% for the financial year 2018/19, with more than 5% vacancy only in properties in secondary locations (Jõhvi Tsentraal, Kerese commercial centre, Laracija offices, Zemitana offices) and temporarily in A13 offices (previously Tammsaare offices) in Tallinn and Jin offices in Vilnius.

In the newly-rebranded A13 office building (name derived from its changed address), ca 1,500 sqm of the premises were vacated by one of the key tenants after lease maturity in April 2019, increasing the overall vacancy in the building to nearly 30% together with

premises vacated last autumn. However, in July 2019, a 10-year unbreakable lease for ca 3,000 sqm was signed, covering almost all vacant areas and reducing the vacancy in the building to 5%. The required refurbishment works for the new tenant amount to EUR 670,000. At the Jin offices, occupancy reached 100% at the end of the financial year, as two new leases were signed for the remaining vacant areas during 2Q 2019.

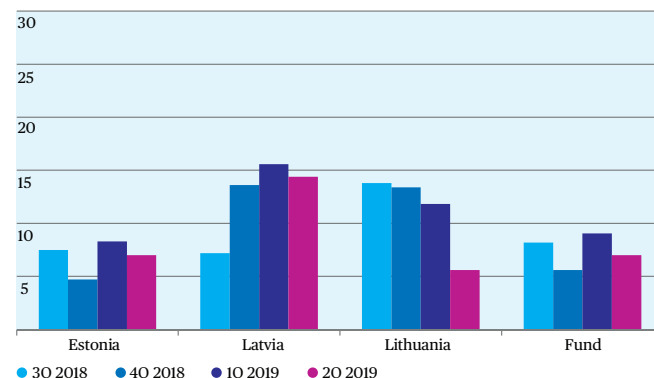
The management team continues the divestment preparations for Latvian, Lithuanian and some Estonian properties, in line with the strategic target to optimise the portfolio and focus on properties primarily in Estonia. In June 2019, the management team signed a sale agreement for the sale of the Deco retail property in Klaipeda, Lithuania, for EUR 2.49m. The sale was completed after financial year-end in July 2019.

For the Estonian portfolio, the focus is on investing where needed to add value and secure and maximise the future cash flow of existing properties. In line with this target, the Jewe shopping centre extension and upgrade project has been prepared and was started in July 2019. The Selver grocery store, under a long-term lease agreement, will be extended by ca 500 sqm and the management team is working to increase the lease length and rents of current tenants, as well as to sign new leases for the renewed centre. The budget for the reconstruction project amounts to ca EUR 2.0m and will be financed from the fund's accumulated liquidity. However, as also communicated earlier, this may impair the dividend capacity for the upcoming financial year.

During 2Q 2019, the management team negotiated and extended the three remaining short-term bank loans in the portfolio (the rest have maturity matching fund term). As a result, one more loan was extended until fund maturity in June 2022; the two others remain short-term as underlying properties are in the active sale phase.

At financial year-end, an external revaluation of the property portfolio was carried out. As a result of the valuation, the value of the property portfolio decreased by EUR 2.078m, or -2.2%, compared to the previous external revaluation in June 2018. The negative revaluation is due to a conservative approach to properties in secondary locations, explained by low tenant demand, low market liquidity and limited financing alternatives outside capital cities for potential buyers. Also, revaluation was negative for properties with temporarily high vacancy as a result of matured leases. However, the valuation is expected to be improved in the next external valuation, as new leases have been signed and occupancy restored.

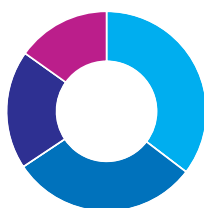
Portfolio vacancy rate by rental value (%)



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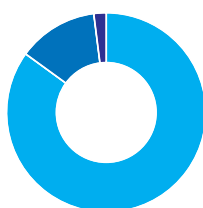
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**Sector Allocation**  
(% of property value)



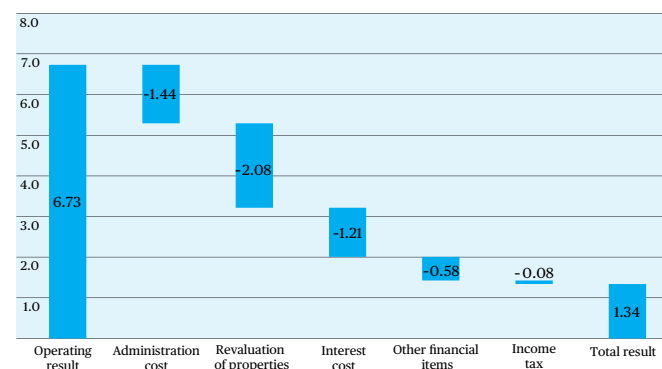
● Retail	35
● Office	30
● Hotel	19
● Logistics	15

**Country Allocation**  
(% of property value)



● Estonia	85
● Lithuania	13
● Latvia	2

**Result contribution Financial year 2018/19 (July 2018-June 2019)**



## Financial overview

The net asset value of East Capital Baltic Property Investors AB (publ.) was EUR 425.39 as of 30 June 2019, decreasing by 2.79% for the period April - June 2019 and increasing by 3.91% for the full financial year July 2018 - June 2019 (adjusted by the dividend payment in 4Q 2018). The net asset value includes an unrealised revaluation loss of EUR 2.078m as a result of the external revaluation completed in June 2019. Excluding the revaluation effect, the net asset value as of 30 June 2019 increased by 1.51% for the quarter, from 31 March 2019, or by 8.25% for the full financial year from June 2018.

The rental income for the period was EUR 7.67m, a slight decrease of 1% compared to the same period a year ago (excluding divested properties), mostly due to temporary vacancy in the A13 (Tammisaare) and Jin offices, where occupancy has now been restored.

Gross profit concluded at EUR 6.73m (EUR 7.29m in the previous year, excluding divested properties), and the operating profit, excluding fair value adjustments, concluded at EUR 5.29m (EUR 5.96m in the previous year, excluding divested properties). The interest expenses concluded at EUR 1.21m at an average portfolio interest rate of 2.36%. The interest cost for the syndicated loan of the Estonian property portfolio has been fixed by an interest rate swap until loan (and fund) maturity in 2022, increasing interest costs slightly in the short term, but eliminating interest rate risk in the longer term. The net profit of the fund concluded at EUR 1.34m for the 2018/19 financial year, including negative fair value adjustments of properties and negative revaluation of interest rate swaps in the total amount of EUR 2.66m.

The value of investment properties as of 30 June 2019 was EUR 92.85m, including the Deco property in Lithuania as asset for sale at the agreed sale price (the sale transaction was closed in July 2019). The loan-to-value ratio of the portfolio concluded at 53% given the bank loan balance of EUR 49.4m.

The fund had EUR 5.5m of cash and cash equivalents as of 30 June 2019.

## Properties in the portfolio

Property	Type	Location	GLA (m²)
<b>Estonia</b>			<b>84,830</b>
Jõhvi Tsentraal	Retail & office	Jõhvi	8,800
Jewe Retail & Furniture Centre	Retail	Jõhvi	11,887
Kerese Commercial Centre	Retail & office	Narva	4,953
Papiniidu Commercial Centre	Retail & office	Pärnu	17,280
A13 Office	Office	Tallinn	8,783
GOSPA Hotel	Hotel	Kuressaare	6,610
Tallinn Seaport Hotel	Hotel	Tallinn	4,225
Tanassilma Industrial Park	Logistics	Tallinn	13,349
Metal Industrial Facility	Industrial	Maardu	8,943
<b>Latvia</b>			<b>4,539</b>
Zemitana Centrs	Office	Riga	4,539
<b>Lithuania</b>			<b>14,930</b>
Laracija Office	Office & retail	Klaipeda	6,964
Deco Furniture and Interior Centre	Retail	Klaipeda	4,340
Jin Centre	Office	Vilnius	3,626
<b>All properties</b>			<b>104,299</b>

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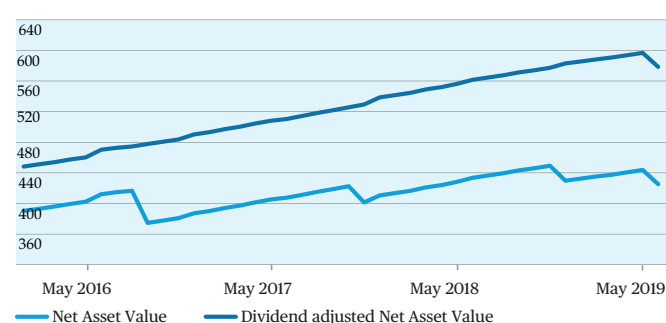
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## Net Asset Value 12m rolling (EUR)

### East Capital Baltic Property Fund Investors AB (30.06.2019)

NAV (EUR)	% 3 month	% YTD*	% Since start*
425.39	-2.79	3.91	15.68

\* All dividend-adjusted performance, financial year July 1 - June 30



### NAV

Indicative NAV is published on East Capital's website on the 15th day of every month. For more information please refer to [www.eastcapital.com](http://www.eastcapital.com)

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## Fund overview

<b>Investment profile</b>	Value added/opportunistic
<b>Manager</b>	East Capital Baltics AS, a company fully owned by East Capital (Domicile: Estonia)
<b>Auditor</b>	KPMG
<b>Fund size</b>	EUR 55.1m. The fund is closed for further subscriptions
<b>Launch date</b>	July 7, 2005
<b>ISIN</b>	SE0001467572
<b>Management fee</b>	1.25% on net asset value from July 1st 2017
<b>Structure</b>	Closed-end fund structured as a Swedish limited liability company. The fund is prolonged until July 2022.
<b>Redemption</b>	No
<b>Liquidity</b>	Limited. An investment in the fund shall be regarded as a long-term investment. OTC trading of the shares of Investor Consortium is facilitated by Pareto Securities AB.

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

	Jul 2018 - Jun 2019	Jul 2017 - Jun 2018
Revenue	7,806	9,295
Direct expenses	-1,072	-1,762
Gross profit	6,734	7,533
Administrative expenses	-1,442	-1,509
Other operating income/expenses	-	348
Unrealised changes in value of investment properties	-2,078	736
Operating profit/loss	3,214	7,108
Interest income	-	-
Other financial income	-	2,799 <sup>1)</sup>
Interest expenses	-1,210	-1,100
Fair value adjustment of interest rate swap	-582	-47
Profit/loss before income tax	1,422	8,760
Income tax	-82	157
NET PROFIT/LOSS FOR THE YEAR/ TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,340	8,917
Earnings per share - Ordinary shares	242,91	1 618,43

<sup>1)</sup> extraordinary non-monetary financial income related to the sale of Dantes property

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

	Jul 2018 - Jun 2019	Jul 2017 - Jun 2018
Earnings per share - Ordinary shares	16,98	51,01

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

	30 Jun 2019	30 Jun 2018
<b>ASSETS</b>		
<i>Non-current assets</i>		
Investments properties	90,360	94,928
Equipment	52	12
<b>Total non-current assets</b>	<b>90,412</b>	<b>94,940</b>
<i>Current assets</i>		
Assets held for sale	2,490	-
Account receivables - trade	578	679
Other receivables	177	283
Accrued income and prepaid expenses	131	75
Cash and cash equivalents	5,498	5,900
<b>Total current assets</b>	<b>8,874</b>	<b>6,937</b>
<b>TOTAL ASSETS</b>	<b>99,286</b>	<b>101,877</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	17	17
Other paid-in capital	39,322	42,084
Retained earnings	5,902	-3,015
Profit/loss for the period	1,340	8,917
<b>TOTAL EQUITY</b>	<b>46,581</b>	<b>48,003</b>
<b>Liabilities</b>		
<i>Non-current liabilities</i>		
Interest-bearing liabilities	36,599	38,524
Derivatives	422	47
Other liabilities	634	583
Deferred tax liabilities	776	701
<b>Total non-current liabilities</b>	<b>38,431</b>	<b>39,855</b>
<i>Current liabilities</i>		
Interest-bearing liabilities	12,807	13,438
Accounts payable - trade	913	123
Derivatives	207	-
Other liabilities	36	36
Current tax liabilities	37	143
Accrued expenses and deferred income	274	279
<b>Total current liabilities</b>	<b>14,274</b>	<b>14,019</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>99,286</b>	<b>101,877</b>

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## Consolidated Statement of Change in Equity of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Share capital	Other paid in capital	Retained earnings incl. profit/loss for the period	Total equity
Balance at 30 June 2017	17	44,846	-3,015	41,848
Repayment of shareholders contribution		-2,762	-	-2,762
Total comprehensive income			4,254	4,254
<b>BALANCE AT 30 JUNE 2018</b>	<b>17</b>	<b>42,084</b>	<b>1,239</b>	<b>43,340</b>
Balance at 30 June 2018	17	42,084	5,902	48,003
Repayment of shareholders contribution		-2,762	-	-2,762
Total Comprehensive Income			1,340	1,340
<b>BALANCE AT 30 JUNE 2019</b>	<b>17</b>	<b>39,322</b>	<b>7,242</b>	<b>46,581</b>
Reconciliation to Net Asset value				
Consolidated Equity above				46,581
Interest rate swap adjustment				629
<b>NET ASSET VALUE AT 30 JUNE 2019</b>				<b>47,210</b>

## Disclosure for segments - July 2018 - June 2019 - geographical areas in EUR'000

	Estonia	Latvia	Lithuania	Unallocated	Group
Total gross income	6,565	222	1,019	-	7,806
Income from sales	6,565	222	1,019	-	7,806
Depreciation of tangible fixed assets	-	-	-3	-	-3
Operating profit/loss	3,456	-230	628	-640	3,214
Net financial income/expenses					-1,792
Profit/loss before tax					1,422
Income tax					-82
<b>PROFIT/LOSS FOR THE PERIOD</b>					<b>1,340</b>
Assets	82,745	3,062	13,070	409	99,286
- where of Investment properties	78,710	2,290	9,360	-	90,360
Liabilities	40,211	2,459	10,027	363	53,060



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## Consolidated Cash Flow Statement of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2018 - Jun 2019	Jul 2017 - Jun 2018
<i>Cash flows from operating activities</i>		
Operating profit/loss for the period	3,214	7,108
Depreciation	3	5
Other non-cash items	2,078	667
Interest received	-	-
Interest paid	-1,210	-1,100
Cash flows from current operations before changes in working capital	4,085	6,611
Increase (-)/decrease (+) in accounts receivables	101	-84
Increase (-)/decrease (+) in other current receivables	50	192
Increase (+)/decrease (-) in accounts payable	790	-77
Increase (+)/decrease (-) in other current op. liabilities	-67	14
Cash flows from operating activities	4,959	6,656
<i>Cash flows from investing activities</i>		
Investment on fixed assets	-43	-
Cash flows from investment activities	-43	-
<i>Cash flows from financing activities</i>		
Repayments of borrowings	-2,556	-44,647
Received loans	-	41
Repayment of shareholders contribution	-2,762	-2,762
Cash flows from financing activities	-5,318	6,743
Cash flow for the year	-402	-87
Cash and cash equivalents at beginning of the year	5,900	5,987
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	5,498	5,900

## Fund Summary

	30 Jun, 2019 EUR '000	30 Jun, 2019 % Committed Capital	30 Jun, 2018 EUR '000	30 Jun, 2018 % Committed Capital
<b>CAPITAL COMMITTED</b>	<b>55,094</b>	<b>100</b>	<b>55,094</b>	<b>100</b>
Capital contributed	55,094	100	55,094	100
Total remaining available for drawdown	0	0	0	0
Potential draw downs for next reporting period	-	0	-	0
Fair value of portfolio	90,360		94,928	
Other assets	8,926		6,950	
Liabilities	-52,076		-53,828	
<b>TOTAL NET ASSET VALUE</b>	<b>47,210</b>		<b>48,050</b>	

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## Important Notice

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