

Quarterly comment

The rental revenue for East Capital Baltic Property Fund for the period July - September 2022 amounted to EUR 1.10m and decreased by 3% for the comparable portfolio versus the period July - September 2021 (adjusting for divested properties). The y-o-y rental income increased in Tallinn Seaport Hotel, Metal, Jõhvi Tsentraal and Tännassilma properties based on indexations and improved tenancy, but decreased in Aiandi 13 office, Kerese Centre and Zemitana office due to slightly increased vacancy levels. The average rent across the portfolio at the quarter end in September 2022 was EUR 6.3/sqm/mo. The vacancy level for the fund portfolio stands at 10.8% at the quarter end in September 2022.

The occupancy and turnover at the Tallinn Seaport Hotel are showing a good growth after the Covid-related travel restrictions have been lifted. In the period July - September 2022 the total hotel turnover was 2.1 times higher compared to July - September 2021, however still ca 10-20% below the pre-Covid levels. The hotel operator is paying the contractual rent. Turnover-rent component is calculated semi-annually, in December and in June.

Tännassilma and Metal warehouse/industrial premises continue to operate as planned. Rental agreements with Makita and ELP Logistics in Tännassilma property were prolonged until June and December 2023 accordingly. Both Tännassilma and Metal properties however include some vacancy in office areas that are difficult to lease out separately.

Jewe Centre in Jõhvi and Kerese Centre in Narva both have stable operations at occupancy levels ca 90%. Construction works of a new café in Jewe centre have been completed in Q3 and it has now been opened.

The fund is progressing with the Jõhvi Tsentraal upgrade project, during which the concept, the building and the surrounding areas will be modernized. Construction works are financed by internally accumulated liquidity and construction will be completed in stages. In 3Q 2022, the construction works of the office hotel was completed. Construction works are ongoing to open Sinsay store during 4Q 2022 and new gym in 1Q 2023. The grocery store Rimi lease was maturing in December 2022, but the store has been closed slightly ahead of time at the end of September. The management team is however already negotiating terms with new grocery tenant.

The Fund's Annual General Meeting will take place in 4Q 2022 where the management team will present the results of the 2021/22 financial year and the board's proposal for the disposition of the Fund's earnings.

Sector Allocation

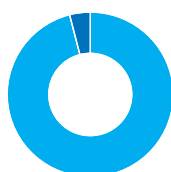
(% of gross property values)



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 363.31 as of 30 September 2022, increasing by 1.48% during the quarter, from EUR 358.02 on June 2022.

The fund's rental income for the period July - September 2022 was EUR 1.10m. The fund's net profit concluded at EUR 0.60m. The positive income tax of EUR 83th is a result of recalculation of payable taxes related to property exits in Lithuania.

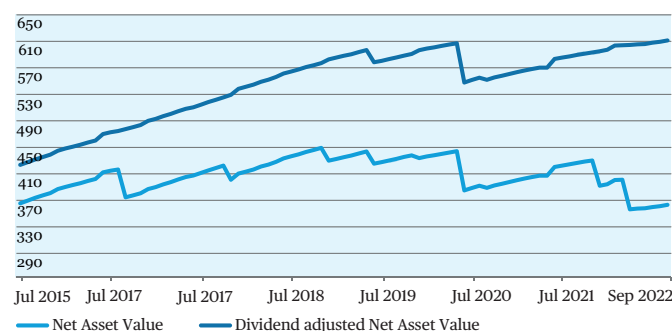
The fund's loan portfolio stands at EUR 26.4m. Considering the portfolio value of EUR 57.41m, the corresponding loan-to-value ratio is 46% as of 30 September 2022.

At the end of the quarter, the Fund has EUR 9.9m of cash and cash equivalents. The cash balance includes reserves for necessary investments, mainly 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
363.31	+1.48	+1.48	+22.26



Fund Summary

	30 Sep 2022	30 Sep 2021
	EUR '000	EUR '000
Fair value of portfolio	58,017	72,191
Other assets	10,616	9,871
Liabilities	-28,171	-34,705
TOTAL NET ASSET VALUE	40,462	47,357
Net Asset Value East Capital Baltic Property Investors AB	363.31	426.66

Financials

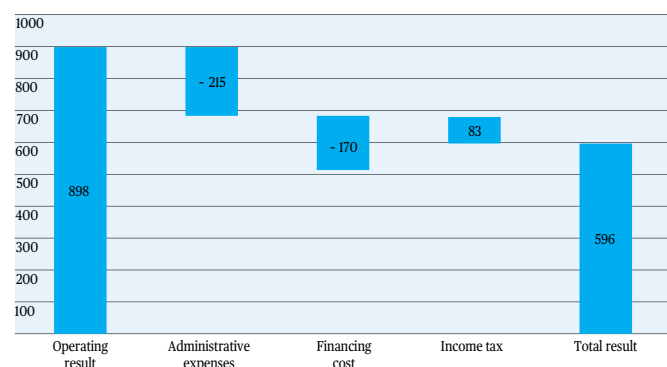
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2022 - Sep 2022	Jul 2021 - Sep 2021
Revenue	1,098	1,397
Direct expenses	-200	-240
Gross profit	898	1,157
Administrative expenses	-215	-242
Other operating income/expenses	-	-
Unrealised changes in value of investment properties	-	-
Operating profit/loss	683	915
Interest expenses	-170	-221
Fair value adjustment of interest rate swap	-	-39
Profit/loss before income tax	513	655
Income tax	83	-
NET PROFIT FOR THE YEAR	596	655
Earnings per share - Ordinary shares	108,05	118,98

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

	Jul 2022 - Sep 2022	Jul 2021 - Sep 2021
Earnings per share - Ordinary shares	5,29	6,21

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



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

	30 Sep 2022	30 Sep 2021
ASSETS		
<i>Non-current assets</i>		
Investments properties	58,017	72,191
Other long-term assets	5	10
Equipment	5	5
Total non-current assets	58,027	72,206
<i>Current assets</i>		
Account receivables - trade	341	177
Other receivables	336	253
Accrued income and prepaid expenses	27	50
Cash and cash equivalents	9,902	9,376
Total current assets	10,606	9,856
TOTAL ASSETS	68,633	82,062

EQUITY AND LIABILITIES

Equity		
Share capital	17	17
Other paid-in capital	28,828	38,217
Retained earnings	11,021	8,250
Profit/loss for the period	596	655
TOTAL EQUITY	40,462	47,139

Liabilities

<i>Non-current liabilities</i>		
Interest-bearing liabilities	23,241	-
Other liabilities	617	645
Deferred tax liabilities	-	304
Total non-current liabilities	23,858	949

Current liabilities

Interest-bearing liabilities	2,982	33,139
Accounts payable - trade	605	132
Derivatives	-	219
Other liabilities	367	81
Accrued expenses and deferred income	359	403
Total current liabilities	4,313	33,974
TOTAL EQUITY AND LIABILITIES	68,633	82,062

Contact

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Economic overview

In 2Q 2022 GDP of Estonia grew by 0.6% y-o-y (main driver was still information and communication), 3.0% in Latvia y-o-y (main drivers were manufacturing, commercial services and information and communication) and 1.8% y-o-y in Lithuania (main drivers were manufacturing, financial and insurance activities and information and communication).

Average annual inflation in August 2022 accelerated to 25.2% in Estonia, 21.4% in Latvia and 21.1% in Lithuania with increasing energy, food and housing costs as the main driver. The inflation is expected to remain high throughout 2022, while weaker local and global demand is expected to slow down the inflation close to normal levels in the second half of 2023.

In 2Q 2022 the average monthly gross earnings grew by 10.1% y-o-y in Estonia, 8.3% in Latvia and 13.7% in Lithuania. In August 2022, the highest registered unemployment rate of the country's working age population was recorded in Lithuania (8.6%), the lowest - in Latvia (5.8%), while in Estonia, it stood at 7.3%.

Real estate market



Investment market

Interest in investing in cash-flow objects during a high-inflation period remains strong. However, higher interest rates place an upward pressure on yields and suppress investment activity for the rest of the year.

The capital market in Estonia showed reasonable activity with total investment volume almost reaching to EUR 100m, mainly driven by two large deals. Titanium acquired Wendre production facility (43,000 sqm; sale-leaseback) in Pärnu with the price exceeding EUR 30m. US Real Estate acquired Foorum Business Centre (office/retail premises, total GLA 9,600 sqm) in Tallinn CBD. Yields currently remain still unchanged but higher interest rates start to suppress investment activity, turning (institutional) buyers to become more cautious and even postpone the decision-making till spring 2023.

In Latvia, total investment volume reached to EUR 45m, driven by smaller, below EUR 5m, transactions. The second largest deal included the first transaction with stock-office in Latvia - Capitalica acquired Marupe Smart Park. In large part of recent transactions, the vendor and/or investor is a private person indicating that some part of owners wants to sell as the maintenance costs of properties are significantly growing, while other part wants to secure themselves against the inflation by investing into real estate. Prime yields currently remain stable.

After a very active previous quarter, investment activity in Lithuania showed strong performance also in 3Q 2022, with total investment volume exceeding EUR 150m. Demand was dominated by the office segment. One of the biggest deal was acquisition of Lvovo office building (share deal) by Lords LB European Property Fund from the developer, Lords LB Management. The market has experienced increased uncertainty about the foreseeable future, forcing some investors to pause but not abandon their plans. On the other hand, investors are willing to do larger acquisitions, so the market sentiment is not uniform. Prime yields have remained stable.

Office segment

Development in the Tallinn office market remains continually active as 17 projects with leasable area of almost 157,600 sqm are under construction in September 2022. Total costs related to premises in addition to actual rent are currently a big question mark for both, owners and tenants. Tenants carefully (re)evaluate workspace needs and solutions. Hidden vacancy may start to reshape to physical vacancy (especially in the beginning of 2023), while the number of debtors in the segment will grow.

In 3Q 2022, Verde office complex I stage has entered the Riga market with 78% of premises being pre-leased. More than 140,000 sqm of GLA remain under construction. Demand is back after a relatively quiet summer; however decision-making process has become longer due to overall situation with construction costs (tenant contribution vs landlord contribution) and increasing and unclear energy costs. The gap between the rental level in newly constructed offices and older stock continues to widen even further.

Vilnius office market expanded by three new projects, adding 56,200 sqm of leasable area to the office market in 3Q 2022. Development has remained buoyant, with a total of 134,800 sqm of new office space under construction. The lease market was likewise active, observing take-up of office space in both new and older properties, but concerns about rising energy prices are driving tenants towards newer and more energy-efficient premises. Rent rates stood unchanged compared to 2Q 2022.

Retail segment

Rising energy costs remain one of the key concerns for retail tenants in all three Baltic States. As the winter season is approaching, landlords are starting to implement various countermeasures to keep utility costs at reasonable levels, such as lowering the temperatures, ending working hours earlier and turning off escalators.

In 3Q 2022, Tallinn retail sector saw the opening of the highly anticipated IKEA concept store in Tallinn region (28,000 sqm) and the opening of Roo Prisma next to Tallinn city border. Summer saw the start of construction of Kurna Retail Park (18,600 sqm) next to IKEA. During IHY 2022, shopping centres' sales and footfall considerably improved by ca one-third compared to IHY 2021, growing even by up to 70% in several locations. At the same time, inflation, declining purchasing power, highly growing utility costs, availability / cost of labour force and hidden vacancy are currently the critical issues in the segment, affecting further profitability and thus, ability to pay rent.

In Latvia, tenants in the grocery segment continue to remain active. Lidl are proceeding with construction work on multiple new stores, while SPAR opened its first stores in Liepaja and Saldus, along with plans to open up to 200 stores in the next 5-years. Vacancy level showed a slight increase, while rent rates remained stable. Nevertheless, a decrease in rents in winter season is possible due to high levels of additional costs.

In 3Q 2022, Vilnius retail market saw the completion of the second stage of the SC Europa refurbishment project. Trends in shopping centres show a slower recovery in footfall, but a faster recovery in sales and turnover per sqm, which have already reached the pre-COVID levels, affected by the increase in the size of the shopper's basket and high inflation. However, the Consumer Confidence Index is currently at its lowest level since the COVID lockdown in April 2020, and customers are more likely expected to choose discount stores.

Logistics segment

The industrial development segment remains active in the Tallinn region, with a total of 133,600 sqm leasable area under construction in September 2022. Due to increased construction costs, growing utility costs and overall market uncertainty, the number and volume of new projects started during the quarter continued to ease. 3Q saw completion of 11 stock-office projects with total GLA 41,300 sqm and at least 50,700 sqm is under construction. Vacancy continues to trend downwards, decreasing to historically low 2.5% level by the end of the quarter.

In 3Q 2022, two major industrial objects - Ulmaņa Parks II and the second part of Rumbula Logistics Park Stage 2 were completed in Riga region, adding over 33,000 sqm of new warehouse space. Even though construction process remains stable, developers are hesitant to initiate large-scale developments. Industrial properties are impacted by rising energy costs, however, opportunities to reduce energy consumption are limited. Leasing activity remains stable, although some tenants are delaying relocation plans till spring. Low supply of new premises has led to a notable decrease in the total vacancy level from 1.6% to 0.8%. Low vacancy has resulted in hike in prime rent rates to the all-time high level from 5.0 to 5.2 EUR per sqm.

Vilnius market saw an increase in supply in 3Q 2022, recording completion of the Vilpra Logistics LC (stage II). The construction pipeline increased to 110,000 sqm at the end of the quarter with started construction work on Lidl LC (GBA 62,300 sqm). Demand has slightly slowed down, but there is still an imbalance between supply and demand, driven by lack of vacant space. The vacancy rate stays low at 0.6%, while rent rates remain stable. Although construction prices are stabilising, they remain still high, affecting the further developments.

Important notice

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