

# Management update December 2023

East Capital Baltic Property Investors AB (publ.)

# Baltic Property Fund

- Baltic Property Fund is a company that invests in commercial properties in the Baltic states
- The portfolio was built to focus on both the capital but also regional cities and all segments of the commercial real estate market
- The fund was launched in 2005 and originally the portfolio was made up of 17 properties across the three Baltic states of which 9 have been divested
- Currently there are 8 properties in the fund of which 7 are in Estonia and 1 in Latvia
- The current focus is to:
  - › invest in the existing properties when needed to protect or renew rental income and their future value
  - › pay out excess cash flow from operations
  - › exit properties, when possible, at attractive prices
- The term of the fund is up until July 2027



# Diversified portfolio across different sectors

Aiandi 13 Office



Sector	office
GLA, sqm	8,577
Share of gross portfolio value	23%

Tallinn Seaport Hotel



Sector	hotel
GLA, sqm	4,225
Share of gross portfolio value	12%

Tänassilma Industrial Park



Sector	industrial
GLA, sqm	13,349
Share of gross portfolio value	15%

Metal Industrial Facility



Sector	industrial
GLA, sqm	8,943
Share of gross portfolio value	9%

Kerese Commercial Centre



Sector	office
GLA, sqm	4,942
Share of gross portfolio value	7%

Jewe Retail Centre



Sector	retail
GLA, sqm	12,142
Share of gross portfolio value	18%

Jõhvi Tsentraal Commercial Centre



Sector	retail
GLA, sqm	8,031
Share of gross portfolio value	12%

Zemitana Office

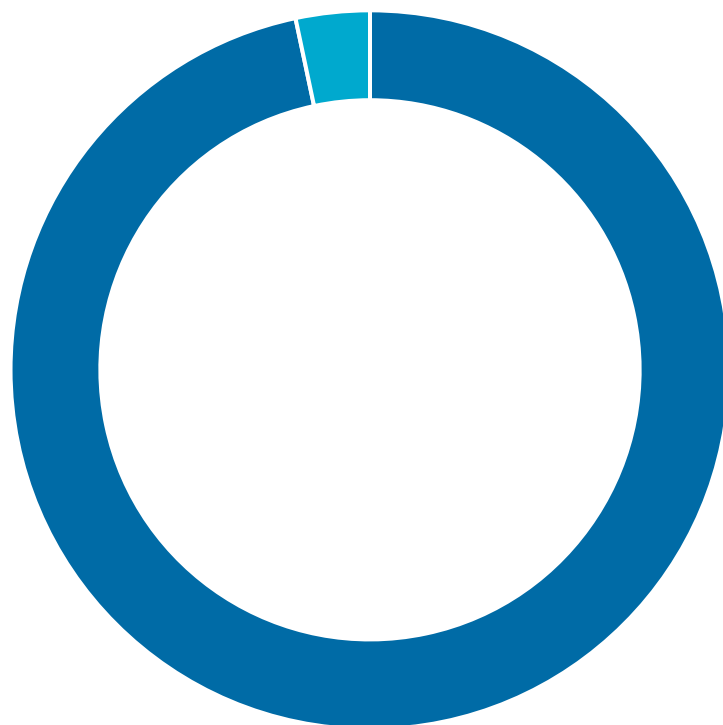


Sector	office
GLA, sqm	4,644
Share of gross portfolio value	3%



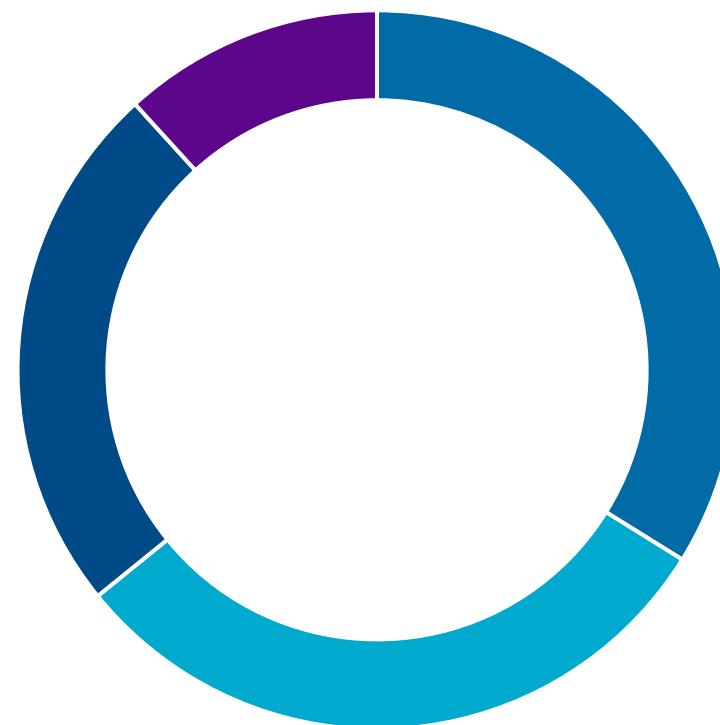
# Portfolio concentrated to Estonia

Country allocation, % of property gross value



■ Estonia ■ Latvia

Sector allocation, % of property gross value



■ Office ■ Retail ■ Industrial ■ Hotels

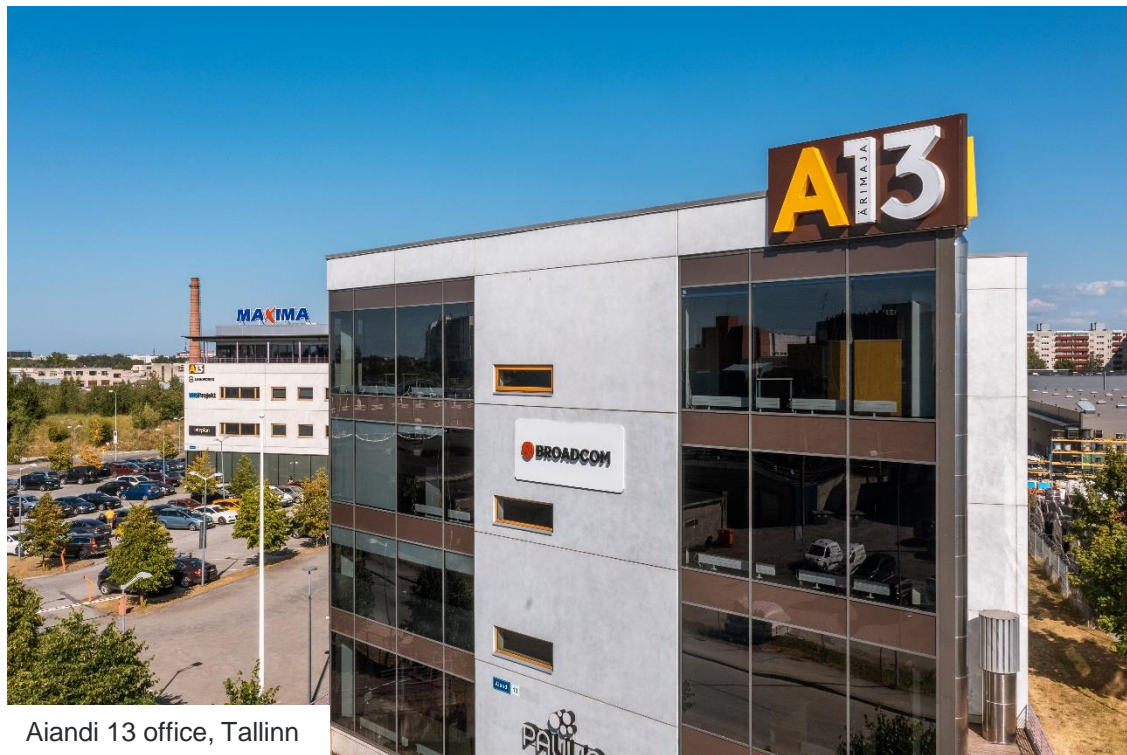
# Key events for financial year 2022/23

- The fund's rental income for the period July 2022 to June 2023 amounted to EUR 4.6m. For the comparable portfolio, rental income decreased by 1% but mostly due to impaired rents in Jõhvi Tsentraal during reconstruction and expected to pick up in 2023/24
- Jõhvi Tsentraal renovation and upgrade project nearly completed, with several strong tenants added during 2022/23 and general areas and facade renewed
- Due to the changed market conditions and consequently higher discount rates and exit yields applied, the revaluation at financial year end in June 2023 resulted in an EUR 1.1m decrease in the fair value of the fund portfolio in aggregate
- The value of the eight remaining properties now amounts to EUR 56.3m
- The management team continues the exit preparations across the property portfolio by securing long-term tenants and rents



Jõhvi Tsentraal renewed facade

# Key events for financial year 2022/23 (continued)



Aiandi 13 office, Tallinn

- Loan balance as of June 2023 was EUR 25.5m, equivalent to a reasonable loan-to-value of 45% based on the full portfolio and 47% as according to loan agreement (one property excluded as collateral)
- In May 2023, the bank loan of Zemitana office centre in Riga was refinanced from SEB Latvia to the syndicate of SEB Estonia and Swedbank Estonia. This change did not affect the overall LTV of the fund
- Cash and cash equivalent at financial year end was EUR 1.69m
- In January 2023, a total of EUR 4.97m was distributed from the fund, of which EUR 2.69m in the form of a voluntary share redemption in ECBPI (publ.) AB and the rest as dividends in ECBPF AB and ECBPI (publ.) AB

# Delivery on the set strategy 2022/23

- Preparations for property exits continues:
  - › Jõhvi Tsentraal renovation project mostly completed. New openings of 24/7 Fitness sports club, Benu pharmacy, Maxima grocery store during 2022/23. After financial year-end, Swedbank back-office and branch lease signed to be opened by the end of 2023/24 financial year
  - › Tallinn Seaport Hotel continued strong performance and recovery of hotel turnover (+35% y-o-y, now only ca 10% less than in pre-Covid peak period of 2018/19)
  - › New regional hospital branch opened in Kerese Centre further strengthening the location as a public services hub
  - › Active work with properties where natural lease cycles and tenant business terminations have led to increased vacancies
- Strong distributions:
  - › 40 EUR dividend in December 2021 for the financial year 2020/2021
  - › 45 EUR dividend of proceeds from sale of Go Spa Hotel
  - › 45 EUR profit distribution for the financial year 2021/2022 and sale of Jin property
- Negotiations with potential investors for the sale of some smaller properties continue however processes not in advanced stages



# The conversion of Jõhvi Tsentraal centre is nearing completion

- The upgrade project aimed to create a modern and attractive property and secure as well as increase its net operating income by adding strong anchor tenants and converting the retail centre into a more multifunctional commercial centre
- The project is now near its completion, with the last stage of the renovation to be completed by summer 2024 after premises prepared for Swedbank

As a result of the project we have

- created a top of the class commercial centre in one of the liveliest cities in Eastern Estonia
- secured long-term rental income from strong tenants
- increased the average lease length in the centre to ca 4.5 years
- decreased vacancy in the centre to all-time low level below 5%
- achieved and expect further positive valuation gain after project fully complete

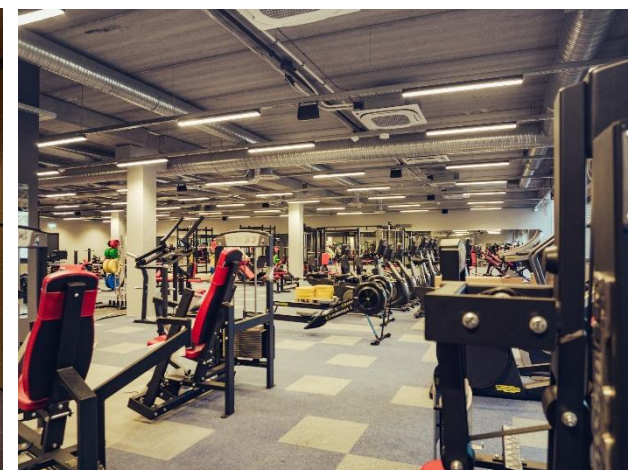
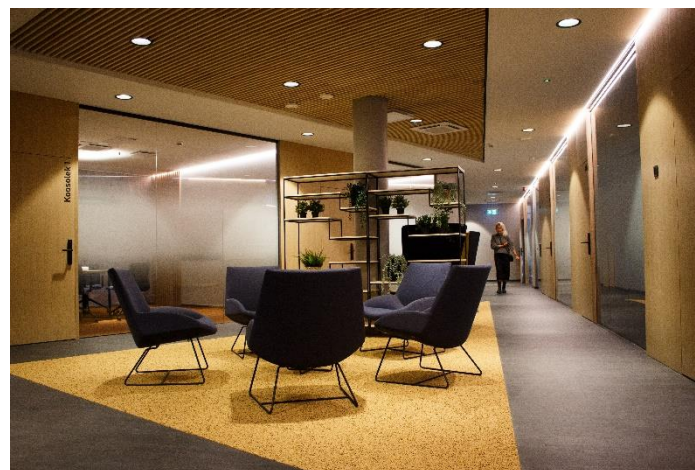




# The conversion of Jõhvi Tsentraal centre is nearing completion

## Main milestones of the renovation included

- New anchor tenants Maxima grocery, Jysk home goods store, Sinsay fashion store, 24/7 Fitness sports club open
- Swedbank lease signed for ca 1,000 sqm for their regional office. Lease areas prepared and opened by summer 2024
- Part of the retail areas converted to office and health & wellbeing use
- A first in the region serviced offices and co-working hub has proved extremely popular
- Full exterior update with a new facade, windows, logos
- Access to the centre as well as inside the centre improved
- Common areas, stairways and corridors refurbished
- Central square as well as the underground parking floor renovated
- Greenery added in and around the centre



# Portfolio revaluation

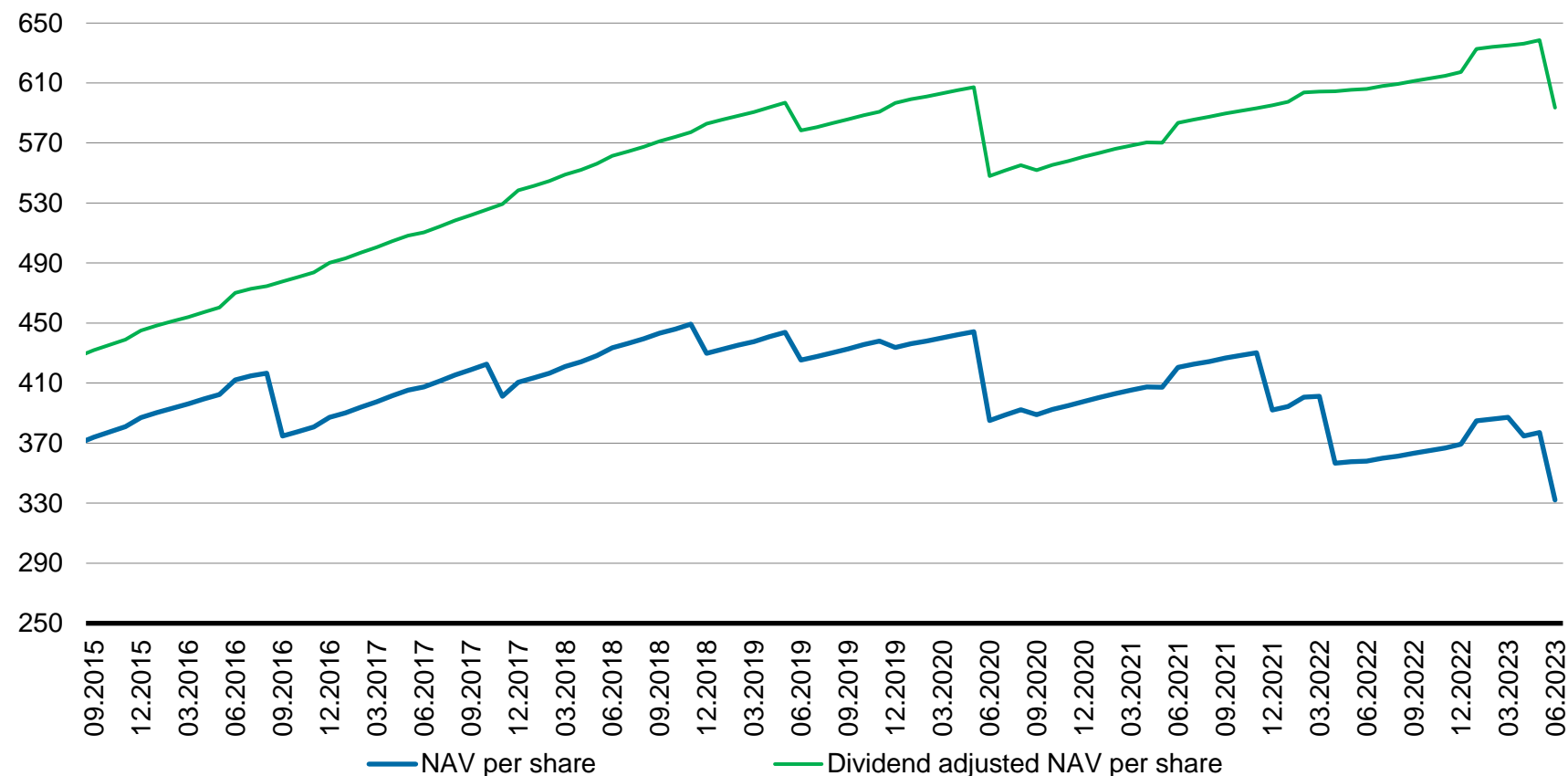
- External portfolio appraisal was carried out at financial year end in June 2023
- The valuations were affected by the higher interest rate environment leading to higher discount rates and exit yields. In several properties, operational expense assumption was increased due to higher energy costs and construction costs on the market. These negative effects were partly offset by rental income growth
- As a result of the changed valuation assumptions, the aggregated property fair values decreased by EUR 1.1m or -1.9% y-o-y compared to the previous external valuation in June 2022
- In some properties, valuation was also negatively affected by the short lease term for key tenants (e.g. Tännassilma industrial property)
- Valuation increased for Jõhvi Tsentraal property by 16% y-o-y, however the full extent of the upgrade project is yet to be reflected in the property value once all new premises are operational

## Continued positive NAV development from operations

The Net Asset Value as of 30 June 2023 was EUR 332.11

Net Asset Value in financial year 2022/23 decreased by 3.49% mostly due to negative revaluation and capital expenditures in Jõhvi Tsentraal

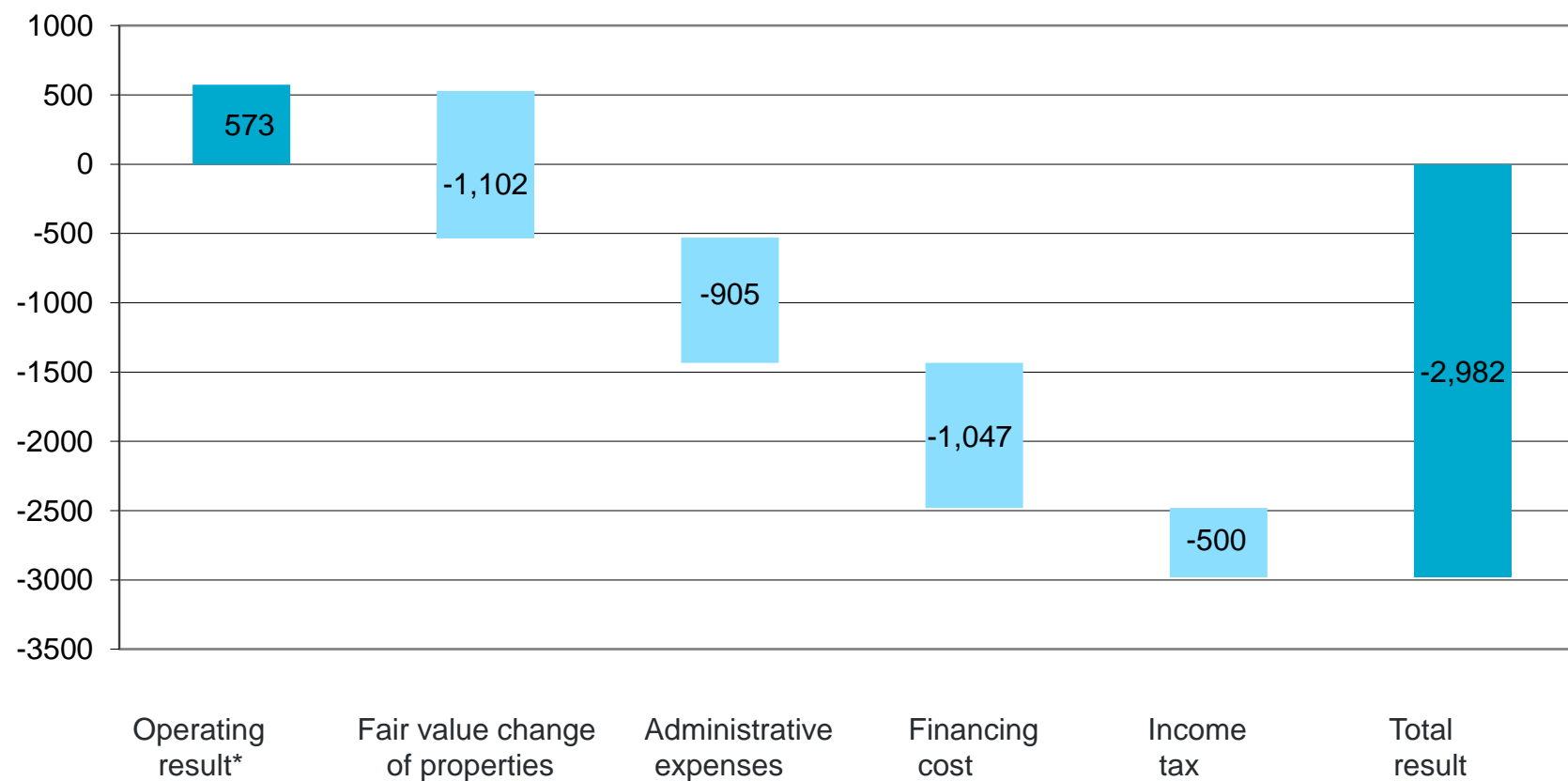
Excluding for these negative effects the operational Net Asset Value increase estimatedly amounts to ca 3.5% p.a.





# Result contribution 2022/23

in EUR th



\*after investment works

## Distributions to investors since inception

The fund (BPF) has during its lifetime distributed EUR 27.2m to investors, equivalent EUR 261 per share in ECBPI

Dividend	Date	Dividend EUR, ECBPF	% to committed capital	Dividend per share, ECBPI
Operational profits	Dec 2006	220 400	0,4%	8,8
Operational profits	Dec 2007	1 956 050	3,5%	22,0
Operational profits	Aug 2008	3 002 950	5,4%	27,2
Nurmenuku retail centre sale proceeds	Oct 2015	5 069 200	9,2%	45,0
Operational profits	Nov 2017	2 761 612	5,0%	25,0
Operational profits	Nov 2018	2 761 612	5,0%	25,0
Operational profits	Dec 2019	1 104 638	2,0%	10,0
Papiniidu retail centre sale proceeds	Dec 2021	4 418 553	8,0%	40,0
Gospa hotel sale proceeds	Apr 2022	4 970 846	9,0%	45,0
Jin sale proceeds and operational profits	1Q 2023	929 760	1,7%	13,4
<b>Total distributions</b>		<b>27 195 621</b>	<b>49,3%</b>	<b>261,42</b>

# ECBPI – summary of the share redemption program

- Baltic Property Fund (BPF) has 10 shareholders of which the largest is East Capital Baltic Property Investors (ECBPI) which owns 72.78%
- The Annual General Meeting of the ECBPF in December 2022 approved a profit distribution of EUR 4,970,846 in the fund to its shareholders, of which ECBPI as the largest shareholder received EUR 3,617,782
- In ECBPI, as approved at its Annual General Meeting on 22 December 2022, a voluntary share redemption program was initiated at a fixed price per share of EUR 240 (a discount of approximately 35% to NAV)
- Investors showed interest to redeem in total of 11,199 common shares (~14% of total) making the total redemption EUR 2,687,760. This was above the threshold of EUR 500th which was needed to launch the program and below the total available amount. This meant all investors who requested to redeem got full redemption for the shares they requested to be redeemed
- The share redemption program was executed in January 2023. The 31 January 2023 NAV of ECBPI increased as a result of cancelling the redeemed shares at a discount. After redemption there are a total of 69,193 shares in ECBPI remaining
- The rest amount distributed from the fund to ECBPI of EUR 927,186.20 or EUR 13.40 per share was paid out as dividend in April 2023 as per the decision of the Extra General Meeting of ECBPI held on 28 March 2023



# Outlook and focus 2023/2024

- We are now facing a new higher interest rate environment which has put pressures on property valuations and the transactional markets. The investment activity on the markets has slowed down significantly
- In some of our properties, we face temporary higher vacancies from lease terminations after natural lease cycles (e.g. Tännassilma, Aiandi 13) or due to tenants business termination (e.g. Metal, Aiandi 13)
- During 2023/24 we will work with these properties and add on smaller investments to restore the occupancy levels of these assets
- In Jõhvi Tsentraal, we are nearing the completion of the property upgrade. During 2023/24 we will further enhance the building by preparing premises for Swedbank's regional back office as well as a branch office. This is considered to be the final step of the Jõhvi Tsentraal transformation and modernization
- In Kerese Centre, we plan to complement the good office and public services hub on the upper floors of the centre with a low-cost gym concept on the ground floor with refreshment of the Rimi grocery store, expected investment range of up to EUR 300th
- Our focus remains to prepare the properties for exits by securing their rental income
- We will continue to focus on divesting at appropriate prices. The properties that have stabilized Net Operating Income and high occupancy are most attractive but successful divestments will also depend on the state of the transactional market
- Further distributions to investors will be conditioned upon cash flow released from the divestments

# Appendices

# Portfolio activities 2022/23 financial year

- The rental revenue for East Capital Baltic Property Fund for the financial year 2022/23 resulted in EUR 4.56m and remained very close (-1%) to the rental revenue in the financial year 2021/22 for a comparable portfolio (eliminating for divested properties)
- The vacancy level for the fund portfolio stands at 10% at the financial year end in June 2023. During the year, occupancy improved in Jõhvi Tsentraal property as new leases for the redeveloped centre were signed and commenced. Vacancy has increased slightly in the smallest properties Kerese commercial centre and Zemitana office in Riga. Occupancy for the rest of the properties remained stable during the financial year
- As per the decision of the Annual General Meeting in December 2022 the fund initiated a distribution a total of EUR 4.97m in January 2023 of which EUR 3.62m was allocated to largest shareholder ECBPI and EUR 1.35m to the investors of ECBPF. The distribution in ECBPI was executed partly by a share redemption program in January 2023 and the rest paid out as dividend in April 2023
- The fund invested ca EUR 3.41m during the year, mostly in the Jõhvi Tsentraal upgrade project
- The upgrade project of Jõhvi Tsentraal to modernize the commercial centre is now mostly completed. The general areas, facade, parking areas as well as most of the lease units in the centre have now been renovated
- Sinsay fashion store on 1,180 sqm was opened in Jõhvi Tsentraal centre in November 2022 and 24/7 Fitness sports club covering 564 sqm was opened in February 2023. The relevant leases were signed in 1HY 2022. A lease with Maxima grocery was signed in February 2023 and the new grocery was opened in May 2023 after investment works from the landlord and the tenant. With several other smaller tenants new leases or lease prolongations were signed and premises prepared / units opened during the year
- After financial year end in October 2023 Jõhvi Tsentraal signed another lease with Swedbank Estonia who will relocate their regional office as well as the branch office to Jõhvi Tsentraal by summer 2024. The premises will be prepared during spring 2024 as the last milestone of the renovation project. The occupancy in the centre after signing this lease is exceeding 95%



# Portfolio activities 2022/23 financial year (continued)

- The occupancy rate and hotel turnover of the Tallinn Seaport Hotel are continuously showing a growth. In the financial year 2022/23 the total hotel turnover was 1.4 times higher compared to a year ago and on a comparable level with the pre-Covid financial year 2018/19. The average hotel occupancy in financial year 2022/23 was 71% compared to 58% a year ago
- During the financial year, Aiandi 13 office was ca 90% leased. In summer 2023 we signed and prepared premises for a new tenant decreasing vacancy to 6%. However, in September 2023 we had to agree on lease termination with another tenant after they ceased their business operations increasing current vacancy to 11%. Vacancy is foreseen to also increase from April 2024 as a long-term tenant covering 9% of the leased office area notified of lease termination. We are actively working to lease out the vacated areas
- In Tännassilma industrial property, the complex was leased by its two long-term tenants Makita and ELP Logistics during financial year 2022/23, contributing 47% and 53% of rents accordingly. In summer 2023, Makita completed the construction of long-planned built-to-suit office, showroom and warehouse complex and moved out of Tännassilma property by the end of September 2023. The property management team together with brokers are working on leads to lease out the two buildings previously occupied by Makita with totally ca 5,000 sqm of leasable area. ELP Logistics, the second tenant in the complex, has announced to prolong its lease at least until October 2024
- A tenant representing 25% of rental revenue in Metal industrial property declared bankruptcy in August 2023 and vacated the premises. The management team is also actively working to lease out these premises
- Jewe Centre had stable operations during the financial year at good occupancy levels around 90%. The centre was fully renovated in 2019. Selver grocery store remains the anchor tenant of the centre and the regional bus station operates in the complex, generating footfall for the centre
- In Kerese commercial centre, the key tenants Rimi grocery and Estonian Unemployment Fund remain in place. Vacancy increased slightly from 10% to 13% during the financial year, but is now again stable at 10% after new lease commenced with the Eastern Estonian Central Hospital in July 2023. The management team is negotiating a lease with a low-cost gym concept for the ground floor of the centre to maintain and increase the attractiveness of the centre
- In Zemitana office centre in Riga the vacancy has increased to ca 25%

# Fund cash flow forecast from operations of current portfolio

Portfolio divestments excluded, except for Zemitana centre expected to be sold by the end of 2023/24

<i>Actual</i>	2022/23 actual	2023/24 plan	2024/25 plan	2025/26 plan	2026/27 plan
<b>Net rental income</b>	<b>4 520 892</b>	<b>4 711 883</b>	<b>4 782 734</b>	<b>4 935 598</b>	<b>5 035 847</b>
EUR/sqm/m	6,6	7,4	8,0	7,8	8,0
Economic vacancy rate %	12%	14%	12%	9%	9%
Total operating expenses and bad debt reserve	-835 894	-839 025	-766 846	-683 058	-694 529
<b>Net Operating Income</b>	<b>3 684 998</b>	<b>3 872 857</b>	<b>4 015 888</b>	<b>4 252 541</b>	<b>4 341 318</b>
Interest expense	-1 012 510	-1 588 188	-1 477 752	-1 297 568	-1 128 073
<b>Net profit</b>	<b>2 672 488</b>	<b>2 284 669</b>	<b>2 538 136</b>	<b>2 954 972</b>	<b>3 213 245</b>
Loan principal payment	-1 082 313	-1 068 828	-1 068 828	-1 068 828	-1 068 828
<b>Free cash flow before management fee and investments</b>	<b>1 590 175</b>	<b>1 215 841</b>	<b>1 469 308</b>	<b>1 886 144</b>	<b>2 144 417</b>
<b>Loan balance at year-end</b>	<b>25 476 835</b>	<b>24 408 007</b>	<b>23 339 179</b>	<b>22 270 351</b>	<b>21 201 523</b>
Annual amortization (excluding property sale)	4,1%	4,2%	4,4%	4,6%	4,8%
Total interest cost	3,9%	6,4%	6,2%	5,7%	5,2%
<b>Property fair value at year-end</b>	<b>56 312 000</b>	<b>56 312 000</b>	<b>54 440 000</b>	<b>54 440 000</b>	<b>54 440 000</b>
Yield ratio %*	6,5%	6,9%	7,4%	7,8%	8,0%
<b>Loan covenants</b>					
Loan-to-value	45%	43%	43%	41%	39%
DSCR	1,8	1,5	1,6	1,8	2,0
ISCR	3,6	2,4	2,7	3,3	3,8

\* Net operating income relative to year end valuations

# Property portfolio – only one property left outside Estonia

## **Tallinn**

Tänassilma Industrial Park  
Tallinn Seaport Hotel  
A13 Office

## **Riga**

Zemitana Centre Offices



## **Maardu**

Metal Industrial Facility

## **Narva**

Kere Commercial Centre

## **Jõhvi**

Jewe Retail & Furniture Centre  
Jõhvi Tsentraal Centre

### Recently exited properties:

- Jin office, Vilnius, Lithuania (February 2022)
- GoSpa hotel, Saaremaa, Estonia (January 2022)
- Papiniidu Commercial Centre, Pärnu, Estonia (July 2021)
- Laracija office, Klaipeda, Lithuania (November 2020)
- Deco Interior and Furniture store, Klaipeda, Lithuania (July 2019)
- Duntės Nami office, Riga, Latvia (June 2018)



# Investment management team



**Madis Raidma**  
CEO  
15 years at East Capital



**Martin Otsa**  
CIO, Country Manager Estonia  
15 years at East Capital



**Maris Smiltenieks**  
Country Manager Latvia  
16 years at East Capital



**Ulf Sigfridsson**  
Senior Advisor  
15 years at East Capital



**Indrek Tool**  
Property Manager Estonia  
15 years at East Capital



**Dinu Tanasjevs**  
Property Manager Latvia  
3 years at East Capital



**Pille Rand**  
Head of Sustainability and Research  
10 years at East Capital



**Anneli Mänd**  
Property Manager Jõhvi Tsentraal, Jewe  
Centre, Keresse Centre  
15 years at East Capital



**Karin Olesk**  
Analyst  
2 years at East Capital



**Aare Hommik**  
Construction Manager  
14 years at East Capital

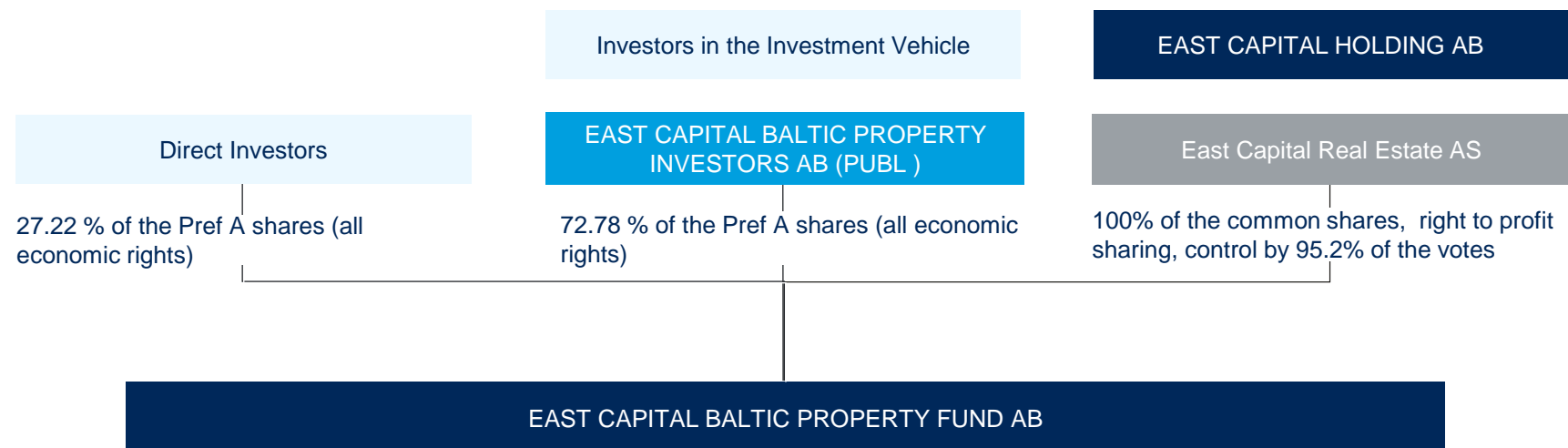
# Fund Board

The Board of Directors of East Capital Baltic Property Fund consists of

- Peter Elam Håkansson  
Chief Investment Officer, East Capital Group
- Albin Rosengren  
Partner, Head of Real Estate, East Capital Group
- Magnus Sonnorp  
Managing director of Alucrom (a Granitor group company), Board member of Cebon Group and Viking Supply Ships
- Pami Pihlström  
Chief Investment Officer, OP Real Estate Asset Management



# Fund structure



*A company operating under the laws of Sweden*

*A company operating under the laws of Estonia*

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# Thank you!



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