

Quarterly comment

East Capital Baltic Property Fund's rental income in 3Q 2020 was EUR 1.9m, increasing by 30% compared to Q2, after a recovery of rental income in most properties in the portfolio, and including turnover rent paid in Gospa hotel property. The rent revenue for 4Q 2020 is expected to be around EUR 1.8m, approximately 5% higher compared to pre-crisis level of Q1. The total rental revenues for the turbulent calendar year 2020 are expected to be only 7% lower than in 2019.

Office properties in the portfolio continue their solid performance. In Aiandi 13 office, new leases have been signed for two last vacant units, leading to full occupancy of the office complex from November 2020. Jin office in Vilnius currently has about 10% of vacant units, with several lease negotiations ongoing. Smaller properties Laracija office in Klaipeda and Zemitana office in Riga have also not encountered any significant increase in vacancy during 2020 and continue their operations with a positive cash flow.

Similarly, the logistics and industrial properties have mostly not been affected by the economic turbulence in 2020. In Tånassilma logistics complex, one of the two tenants returned ca 1,000 sqm of office premises not required operationally anymore but continues operations in the logistics premises with a smaller office area. In Metal property, occupancy has increased to 85%, after a lease commenced for ca 2,500 sqm of industrial warehouse area from September 2020.

Gospa hotel in Saaremaa enjoys high interest from domestic tourists, visiting the spa hotel as an alternative to traveling abroad. The hotel turnover in 3Q 2020 was only 4% below 3Q 2019 results. When Covid-19 restrictions applied in March 2020, a lower fix rent and a higher monthly turnover based rent fee was agreed with the hotel operator until the end of 2020, which will result in nearly the same total rent if the hotel turnover remains similar on 2019 levels. Starting from Jan 2021, the original rent scheme will resume.

The turnover in Tallinn Seaport Hotel, located in Tallinn port area, has not recovered as quickly, as the hotel is mostly dependent mostly on foreign tourists. After hotel reopening in June, the operator paid contractual rent during the summer, however a further rent reduction has been agreed for September and October 2020. The rent payments for the rest of 2020 will be negotiated and agreed, based on the recovery of hotel sales.

The retail property Jõe Centre in Jõhvi is ca 95% leased after its full refurbishment in 2HY 2019. The rental income for the property has increased by 5% compared to rents prior to the reconstruction, even considering the current uncertain times. The adjacent small furniture store operates with a stable tenant mix over the last years, however, faces a somewhat higher vacancy as some stores have decreased their sales area. Vacancy has increased substantially in nearby Jõhvi Tsentraal commercial centre, due to heightened competition in the town after opening of the new Pargi retail centre in December 2019. The management team is drafting large scale restructuring plans to improve the layout of the lease areas in Jõhvi Tsentraal centre and focus more on big-box retailers and/or office tenants, where more demand is seen from the market.

Kerese office and retail centre in Narva continues its stable operations, with tenant mix mostly unchanged over the recent years and economic vacancy at around 10%.

Performance remains strong in Papiidü commercial centre in Pärnu, where Bauhof/DIY store, comprising ca 75% of the property's rental income, has enjoyed good sales growth in 2020.

The fund had an amortization holiday for the syndicated loan covering the Estonian properties and one Lithuanian property from April to September. As the portfolio rental income has mostly been restored, the fund started the contractual principal payments again from October 2020.

In line with the strategic target to optimize the portfolio and focus on properties primarily in Estonia, the management team continues the divestment processes for Latvian, Lithuanian and some Estonian properties. In September 2020, the management team signed a sale agreement for the sale of the Laracija office property in Klaipeda, Lithuania. The agreed sale price is EUR 3.65m, an EUR 0.7m adjustment compared to the property's latest book value of EUR 4.35m. This discount in sale price is explained by low liquidity in the Klaipeda real estate market, especially in the current market situation. The sale was completed in the beginning of November 2020.

The fund's Annual General Meeting will take place in December 2020. The management team will present the 2019/20 financial year results and the goals for the next financial year.

Financial overview

The Net Asset Value (NAV) of East Capital Baltic Property Investors AB was EUR 388.88 as of 30 September 2020. The operational Net Asset Value growth of ca 0.8-1.0% per month has been restored, however the quarterly NAV increase was only 1.01%, compared to EUR 384.98 in 30 June 2020, including the EUR 0.7m negative adjustment of Laracija property value to its potential sale price as of 30 September 2020.

The fund's rental income for the first quarter of the financial year 2020/21 was EUR 1.9m. The fund's costs in 3Q 2020 have decreased by 7% y-o-y and the net profit for the period was EUR 1.1m.

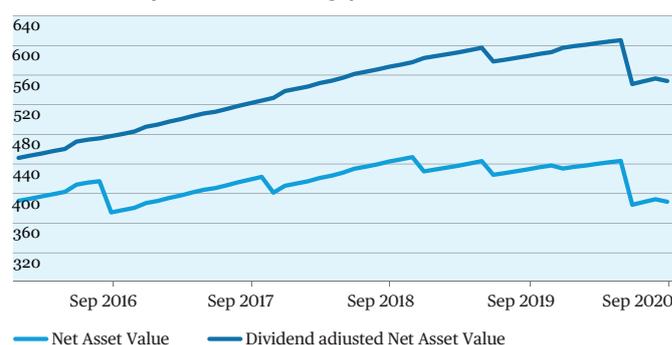
The property portfolio stands at EUR 85.6m as per external valuation as of 30 June 2020, except for Laracija property, which is included in the balance sheet as an asset held for sale at its transaction price. The aggregated loan to value is 52%.

Net Asset Value since inception

East Capital Baltic Property Investors AB SE0011788439

NAV (EUR)	% 3 months	% YTD*	% Since inception*
388.88	1.01	1.01	10.38

*Performance adjusted with dividend payments.



Fund Summary

	30 Sep, 2020	30 Sep, 2019
	EUR '000	EUR '000
Fair value of portfolio	81,970	90,360
Other assets	8,771	5,896
Liabilities	-47,531	-48,227
TOTAL NET ASSET VALUE	43,210	48,029
Net Asset Value East Capital Baltic Property Investors AB	388.88	432.78

Financials

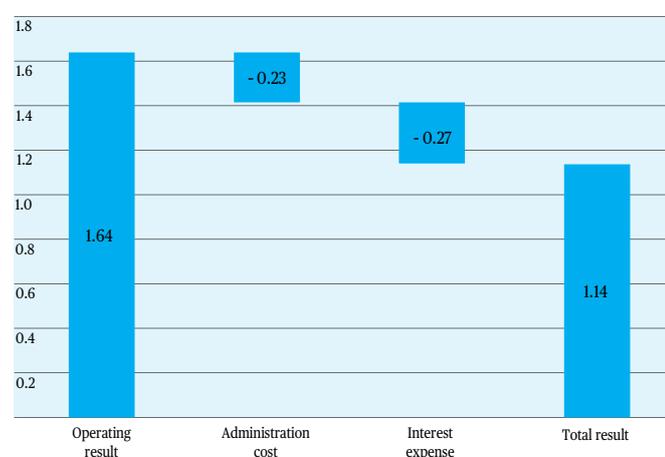
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul 2020 - Sep 2020	Jul 2019 - Sep 2019
Revenue	1,898	1,631
Direct expenses	-258	-202
Gross profit	1,640	1,429
Administrative expenses	-225	-345
Operating profit/loss	1,415	1,084
Interest expenses	-274	-265
Fair value adjustment of interest rate swap	5	-36
Profit/loss before income tax	1,146	783
Income tax	-9	-
NET PROFIT FOR THE YEAR	1,137	783
Earnings per share - Ordinary shares	206,21	142,10

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

	Jul 2020 - Sep 2020	Jul 2019 - Sep 2019
Earnings per share - Ordinary shares	3,90	7,39

Result contribution (YTD financial year 2020/21, EURm)



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

	30 Sep 2020	30 Sep 2019
ASSETS		
<i>Non-current assets</i>		
Investments properties	81,970	90,360
Other long-term assets	16	897
Equipment	9	11
Total non-current assets	81,995	91,268
<i>Current assets</i>		
Assets held for sale	3,650	-
Account receivables - trade	304	266
Other receivables	369	201
Accrued income and prepaid expenses	50	150
Cash and cash equivalents	4,373	4,371
Total current assets	8,746	4,988
TOTAL ASSETS	90,741	96,256

EQUITY AND LIABILITIES

	30 Sep 2020	30 Sep 2019
Equity		
Share capital	17	17
Other paid-in capital	38,217	39,322
Retained earnings	3,419	7,242
Profit/loss for the period	1,137	783
TOTAL EQUITY	42,790	47,364

Liabilities

	30 Sep 2020	30 Sep 2019
<i>Non-current liabilities</i>		
Interest-bearing liabilities	37,219	38,383
Derivatives	212	426
Other liabilities	707	776
Deferred tax liabilities	706	616
Total non-current liabilities	38,844	40,201
<i>Current liabilities</i>		
Interest-bearing liabilities	7,470	7,552
Accounts payable - trade	1,028	833
Derivatives	208	239
Other liabilities	187	15
Accrued expenses and deferred income	214	52
Total current liabilities	9,107	8,691
TOTAL EQUITY AND LIABILITIES	90,741	96,256

Contact

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Baltic economies in the light of current crisis

As the spread of the Covid-19 disease was restrained in the spring, most restrictions were lifted by summer and businesses were reopened. International travel was partially restored with testing and self-quarantine measures; nevertheless, service and tourism businesses remain mostly reliant on domestic demand. During autumn 2020, the infection rates have again increased in Europe, and governments are now reintroducing various restrictions. The infection rates in the Baltics are among the lowest in Europe, however the Baltic governments have started to apply restrictions, which so far are more focused on avoiding social gatherings, rather than general closing of businesses. Overall, current outlook with regards to future developments as well as social and economic situation remains unclear.

In 2Q 2020, GDP fell by 6.9% in Estonia, 8.9% in Latvia and 4.6% in Lithuania, y-o-y compared to 2Q 2019. The Central Banks have moderated their predictions to GDP decrease in 2020. Currently, the economy is expected to shrink by ca 5% in Estonia, by 4.7% in Latvia and by 2.0% in Lithuania. The economists have on the other hand also moderated their optimism regarding the recovery pace in 2021.

The downturn in Estonia has been modest in domestically oriented sectors and economy has also been supported by positive signals from major trade partners like Finland and Sweden. Latvian government response has been effective to avoid even further GDP decrease. Lithuanian economy has been unexpectedly resilient, especially due to a relatively share of tourism sector in GDP.

The current crisis is expected to influence the labour market in the Baltic countries with unemployment rate increase to up to 10% this year and limit the recent quick wage growth.

Baltic real estate market overview



Investment market

Investment activity has started to pick up in 3Q 2020, with total transaction volume of EUR 209m across the Baltic states. Roughly half of that activity took place in Lithuania, where the largest deal was the acquisition of Vilnius Gates Business Centre by Eastnine for EUR 20m. In Latvia, the most notable deal was the acquisition of the Citadele bank HQ by Lords LB Baltic Green Fund. Also, Eften Capital announced Bergi Logistics Centre (50,000 sqm) acquisition in October 2020.

Prime offices remain attractive to investors, with slight yield compression expected (or a yield premium paid on landmark properties). Logistics properties are increasingly popular as investment grade objects, indicating a potential for yield compression. Market sentiment denotes cautiousness towards retail properties and an increase in prime retail yields.

Investors are also looking into expanding into new real estate segments. EFTEN Capital announced the establishment of a new fund that will invest in rental apartment buildings in the Baltic States. The first planned and committed investment of the fund will be a residential building with 112 apartments at the Kadaka Metsapark development in Tallinn, to be completed by autumn 2021.

Office segment

Office remains relatively less impacted real estate segment. Development of new office projects remains active in Tallinn, with 10 projects of ca 74,000 sqm of leasable area under development, and even more so in Vilnius, with over 220,000 sqm of lettable office area under construction.

Riga office market is more tranquil, with only a few office developments projects in process.

Office vacancy has increased to ca 8-9% in Tallinn and ca 15% in Riga and remains still around 5.5% in Vilnius. The new office buildings completed in Tallinn in 2020 face higher vacancy and short-term rent incentives to tenants are common; and similarly, vacancy is high in newly completed Z-Towers office building in Riga. Rent rates currently remain stable, though increasing supply puts downward pressure on rents and gives tenants more negotiating power. Sub-lease of office premises is getting more active, indicating some hidden vacancy in the market.

Retail segment

Retail trade turnover and footfall showed recovery in the summer period, and even exceeded last year's levels in certain locations. Neighbourhood shopping centres, located within residential areas, have been more resilient, while city centre and Old Town locations have suffered more due to considerable fall in tourist numbers. Vacancy has increased in shopping centres in Riga, while remaining mostly stable in Tallinn and Lithuania. As only a few companies are ready to open new locations, leasing of vacant units will be challenging and time-consuming. Demand is largely driven by catering providers, and food halls continue gaining popularity.

In Tallinn, development activity in retail segment is driven by mid-size grocery-led projects such as Linnamäe tee 95 with 4,700 sqm and Liiva tee 61 in Tiskre with 4,000 sqm. In Riga, Sāga home & lifestyle shopping centre next to IKEA is due to open on November 10th. This is going to be a non-fashion centre with a kindergarten, office premises, modern food court and new brands such as Decathlon, Hortes and Jahipaun. Lidl opened its new logistics centre and announced over 1,000 new jobs all over Latvia, indicating that the opening of the first Lidl stores in Latvia might be expected in 4Q 2020. Vilnius retail market saw expansion of the DIY segment, after a completion of a new Moki-vezi store and Senukai announcing to construct a store next to Vilnius Outlet. Additionally, Dakus is reviving the Olinda SC project and started ground works, with planned completion in 3Q 2021. The four-storey centre will offer 31,700 sqm of retail premises for tenants including Ermitazas, Maxima, and a gym.

Considering the acceleration of the stay-at-home economy, home improvement and DIY activities gain popularity, building resilience for the corresponding sub-segment. Similarly, neighbourhood / grocery-led type retail properties show good turnover and footfall figures, resulting in increasing interest from investors. E-commerce will continue to grow at a fast pace, making an impact on both the retail and warehouse markets.

Industrial segment

The logistics segment remains quite resilient in the current environment, as very few tenants were directly affected by the crisis and government restrictions. Similarly, the sector remains active in terms of development and investor interest.

In Tallinn, 9 projects were completed in 3Q 2020 with a total of GLA 40,000 sqm and new developments with a total area of approx. 81,500 sqm are under construction / high pipeline. Despite high new supply in stock-office sub-segment, these premises continue to show a good absorption ratio. The industrial segment in Riga saw the completion of the Lidl Logistics Centre and Dienvidu Vārti, a Stock Office project in Q3. Even though many projects are in planning stage, construction works were started only on one project during the quarter - New Hanza Capital's A6 speculative Class A project with GLA of 20,000 sqm. In Vilnius, 28,700 sqm of GBA was delivered to the market in Q3 and another 29,400 sqm remains under construction, however no new projects were started during the last quarter. Rent rates and vacancies across all countries remain stable.

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