

Quarterly comment

The properties in East Capital Baltic Property Fund AB (the fund) continue their stable operations. The average rental rate for the ongoing financial year (July 2019 - June 2020) is expected to remain at EUR 6.8/sqm/mo, on par with the previous financial year. The average vacancy is expected to decrease from 9% to 8%, as the vacant areas in Tammsaare and Jin offices have been leased out.

Performance of hotel properties in the portfolio continues to be strong, in like manner with the trends in tourism sector in 2019. Gospa hotel in the resort destination Kuressaare has increased its sales by 8% in 2019, compared to year 2018; and Tallinn Seaport Hotel annual sales increased by 5% compared to the previous year. Semi-annual turnover rents were invoiced for the hotels in December 2019.

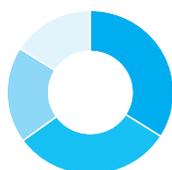
The Jewe shopping centre extension and upgrade project has been mainly completed, with minor remaining works to be completed during coming months. The renewed and expanded Selver grocery store alongside other ground floor retailers was opened in November 2019; and second floor stores during December 2019. The project included expanding the ground floor retail area, improving visibility and access within the centre, modernizing the storefronts and shops, enhancing the accessibility and attractiveness of the second floor by new escalators. The total project cost amounted to EUR 2.3m and included a slight cost overrun due to a delay in receiving the building permit and the landlord carrying more of store fit-out expenses due to tightened competition situation.

Despite the investment works in the properties, the fund maintains its regular dividend policy. A dividend of EUR 1.1m in the Fund, equal to EUR 10 per share in East Capital Baltic Property Investors AB, was approved at the Annual General Meeting held in November 2019 and distributed to the investors in December 2019. The dividend was reduced compared to the previous years but is expected to increase again post investments.

In January 2020, East Capital announced a third liquidity event, in which investors interested in buying or selling shares in East Capital Baltic Property Investors AB will be matched on a best effort basis at EUR 355 per share. Registrations were taken until 1 February 2020 and the subsequent matching will take place during February.

Sector Allocation

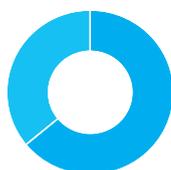
(% of gross property values)



• Retail	34
• Office	31
• Hotel	19
• Logistics	16

Country Allocation

(% of gross property values)



• Estonia	87
• Lithuania	10
• Latvia	3

Financial overview

The net asset value of East Capital Baltic Property Investors AB (publ.) was EUR 433.71 as of 31 December 2019.

The rental income for the period July – December 2019 was EUR 3.7m, ca 5% decrease compared to the same period a year ago (excluding divested properties and accounting principle changes). Rental income was lower at the A13 office (previous Tammsaare office), where the rental payments from the new anchor tenant commenced from December 2019. Similarly, lease payments for a new key tenant in Metal industrial property commenced only from September-October 2019. Rental income has also suffered at the Jewe shopping centre, due to store closures during reconstruction.

The fund's loan to value ratio is 50%, with a loan balance of EUR 45.4m and property value of EUR 90.4m as of 31 December 2019. Financing cost for the fund is stable at an average interest cost of 2.4%. Most of the fund's loan liabilities (the syndicated loan for Estonian properties) have a fixed interest rate through an interest rate swap matching the fund's maturity.

The fund's net profit concluded at EUR 2.2m for the first half-year of 2019/20 financial year.

Net Asset Value since inception

East Capital Baltic Property Investors AB SE0011788439

NAV (EUR)	% 3 months	% YTD	% Since inception
433.71	2.52	4.31	19.34

*performance adjusted with dividend payment



Fund Summary

	31 Dec, 2019 EUR '000	31 Dec, 2018 EUR '000
Fair value of portfolio	90,360	94,928
Other assets	5,677	5,437
Liabilities	-47,895	-52,668
TOTAL NET ASSET VALUE	48,142	47,697
Net Asset Value East Capital Baltic Property Investors AB	433.71	429.89

Financials

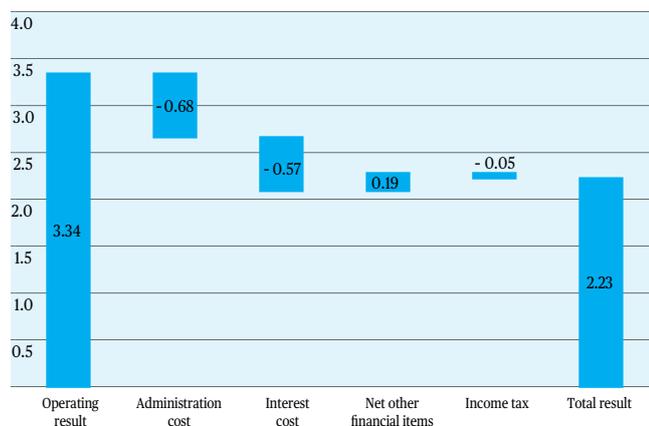
Statement of Comprehensive Income of East Capital Baltic Property Fund AB, unaudited for the period in EUR'000

	Jul - Dec 2018	Jul - Dec 2019
Revenue	3,725	4,239
Direct expenses	-382	-693
Gross profit	3,343	3,546
Administrative expenses	-680	-551
Operating profit/loss	2,663	2,995
Interest income	-	5
Interest expenses	-572	-604
Fair value adjustment of interest rate swap	188	-272
Profit/loss before income tax	2,279	2,124
Income tax	-54	14
NET PROFIT FOR THE YEAR	2,225	2,138
Earnings per share - Ordinary shares	403,67	388,19

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

	Jul - Dec 2018	Jul - Dec 2019
Earnings per share - Ordinary shares	18,31	21,43

Result contribution (2019, EURm)



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

	31 Dec 2019	31 Dec 2018
ASSETS		
<i>Non-current assets</i>		
Investments properties	90,360	94,928
Other long-term assets	2,498	-
Equipment	12	13
Total non-current assets	92,870	94,941
<i>Current assets</i>		
Account receivables - trade	855	1,010
Other receivables	226	236
Accrued income and prepaid expenses	116	68
Cash and cash equivalents	1,970	4,184
Total current assets	3,167	5,498
TOTAL ASSETS	96,037	100,439

EQUITY AND LIABILITIES

Equity		
Share capital	17	17
Other paid-in capital	38,217	39,322
Retained earnings	7,242	5,902
Profit/loss for the period	2,225	2,138
TOTAL EQUITY	47,701	47,379

Liabilities

<i>Non-current liabilities</i>		
Interest-bearing liabilities	37,833	37,616
Derivatives	266	228
Other liabilities	633	602
Deferred tax liabilities	776	692
Total non-current liabilities	39,508	39,138

Current liabilities

Interest-bearing liabilities	7,496	13,056
Accounts payable - trade	750	315
Derivatives	174	90
Other liabilities	25	189
Accrued expenses and deferred income	383	272
Total current liabilities	8,828	13,922
TOTAL EQUITY AND LIABILITIES	96,037	100,439

Contact

For additional information regarding the East Capital Baltic Property Fund, please contact:

funds@eastcapital.com
Tel: +46 8 505 88 505

Baltic real estate market overview



Investment market

In 2019, total investment volume in Estonia amounted to ca EUR 174m, the lowest since 2010. Prime yields remained rather stable in 4Q 2019 with some minor compression in the office segment.

The investment market in Latvia remains active with total investment volume of EUR 295m in 2019, whereas some transactions expected by the end of the year were finalized only in 2020. During Q4, VIG Fund acquired three historic office buildings in Riga city centre and East Capital purchased the Lidostas Parks industrial complex near Riga airport. Due to lack of prime assets on sale, investors are increasingly considering development projects, the logistics sector and value-added strategies. As an example, Eastnine acquired Kimmel Quarter, a mixed-use development property, for EUR 9.5m.

Lithuanian investment market saw a highly dynamic year end, mainly driven by a single larger deal in the office segment - German Deka Immobilien acquired Quadrum Business Centre for EUR 156.1m. French investor Corum, a new market player, completed its second transaction in 2019, acquiring a newly constructed Depo DIY store in Kaunas. Prime yields remained unchanged in all segments.

Office segment

Development in the Tallinn office market remains active with a total area of ca 119,060 sqm in 18 projects under construction in December 2019. Some delays in delivery of new projects is experienced due to a longer construction process. During Q4, built-to-suit Eesti Meedia HQ in Fahle Park was commissioned, and construction works were started on the second phase of the Bolt HQ in the Veerenni area. Demand is continually driven by companies from IT and high-tech, professional services and retail sector. Rent rates remained stable, while vacancy decreased below 6% in Class A and Class B1 buildings.

In Riga office market, two Class B1 projects were added to the market during 4Q 2019 the last office building of Hanner's Jauna Teika complex and an office building in Mezaparks developed by Domuss. Despite the 65,000 sqm of office premises added to the market in 2019 and higher than 10% vacancy in Class B1 sector, the city centre still lacks large office premises. Linstow will match this demand after completion of its Origo One project in the beginning of 2020. Good quality projects in easily accessible locations and with reasonable rent conditions manage to achieve 40-50% occupancy prior to completion, while other projects might have a low occupancy level even a year after commissioning.

In Vilnius, stage three of both S7 and Quadrum Business Centres was completed during 4Q 2019, adding 24,500 sqm to the office market. At the end of the year, another 252,000 sqm of leasable area remains under construction with high demand for new high-quality office space from tenants. Average rent rate in the market increased, connected to completion of new and higher quality projects.

Retail segment

Competition in the grocery and home goods segments in Tallinn is constantly growing - during 4Q 2019, Maxima opened four new local stores in Tallinn, while Rimi and COOP both opened one new supermarket. A Hortes gardening centre, developed and financed by EfTEN Capital, was opened in Tähesaju City in November 2019. Fully renovated Kristiine SC with a brand-new dining area was opened in October 2019. Estonia's first KFC was opened in Ülemiste Centre in October, followed by another restaurant in Kristiine Centre opened in December. In 2020, Burger King is expected to enter the market.

Recent openings and expansions of shopping centres in Riga continue to affect shopping centres that have not yet adjusted their concepts shopping centre vacancy is currently around 3%. 4Q 2019 saw H&M group's brand "&Other stories" enter the market with the opening of its first store in Galleria Riga. Former Galerija Azur shopping centre was reopened as Ozols SC during Q4 with two strong tenants: K-Senukai and Rimi. LIDL continues to acquire more land plots for future development, approaching the opening of its first stores in 2020. At the same time, Maxima and Rimi continue to expand in the street retail convenience segment.

Vilnius retail stock remained unchanged in 2019. Two new developments with combined GLA of 45,000 sqm remained under construction at the end of the year. During Q4, former Prisma store was opened as Moonplay leisure and entertainment centre, while the former Berry furniture store was replaced by Lidl and GymPlus. American fast food restaurant chain Burger King is expected to open its first restaurants in the first half of 2020. Strong consumption and limited availability of retail premises in prime shopping centres led to their rent rate growth.

Industrial segment

The industrial segment remains reasonably active in Tallinn and its suburbs with a total area of approx. 114,000 sqm of new developments under construction in December 2019, driven mostly by built-to-suit projects. During the quarter, a built-to-suit Module Tech production facility of 7,800 sqm was completed in Jõelähtme parish. Tenant demand is stronger for premises around 1,000 sqm, while the demand for larger units of ca 3,000 sqm remains subdued. Rent rates continued to fluctuate between 3.8-5.0 EUR/sqm, while vacancy stood at around 4.0% by end of 2019.

In 2019, more than 70,000 sqm of new warehouse and industrial space were added to the Riga industrial market, with the largest projects completed including phase II of VGP logistics park, Lidostas Park by Piche and phase I of Sirin Industrial Park. Due to existing tenants relocating to newer premises closer to the city, total vacancy has slightly increased as the number of new tenants entering the market remains low. High development volume is expected in 2020, with more than 210,000 sqm already under construction. Many companies still prefer built-to-suit solutions; however, the number of speculative projects is also increasing.

In 4Q 2019, Vilnius warehouse market was supplemented by ca 30,000 sqm of speculative stock in Liepkalnis Industrial Park (stage III). Projects with total gross building area of 79,900 sqm were under construction at the end of the year. The new speculative supply is challenging the asking rents of the landlord and vacancy rate also grew slightly as a result of new supply, although balanced by demand for higher quality space.

Key macro indicators

Q3 2019	Estonia	Latvia	Lithuania
GDP Growth	4.2%	2.9%	3.7%
Unemployment	3.9%	6.0%	6.1%
Inflation	2.8%	2.8%	2.3%
Retail trade	4.1%	1.0%	4.3%

Important notice

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