



Fund update sheet April 2014

# BALTIC OPPORTUNITY FUND (REIF)

Invest in a proven investment case in the fastest growing EU economies

## SUMMARY STATUS

- Highest EU growth region with 2-4% p.a.
- 4 cash flow producing assets across the Baltic capitals.
- Backing by Nordic and Baltic institutional investors
- Direct cash-on-cash yield at 8+%, before value adjustment.
- Serious pipeline in place with A/B+ location at or below replacement costs.
- Vehicle size close to EUR 50 million.
- 2013 dividend was 7 %, total net return 15 %.
- Euro in Estonia and Latvia, Lithuania from 2015.

Subways to execute their Baltic market entry strategies. Acquisition financing is provided by leading Nordic banks at attractive conditions (Euribor plus 250 - 300 bp) for a period of 3 - 5 years. Baltic Opportunity is a direct real estate fund with an aim to invest in strong cash-flow generating properties with prime characteristics and strong business concepts across the Baltic capitals. The focus is on retail and office properties which hold long-term tenants and opportunities for active asset management.

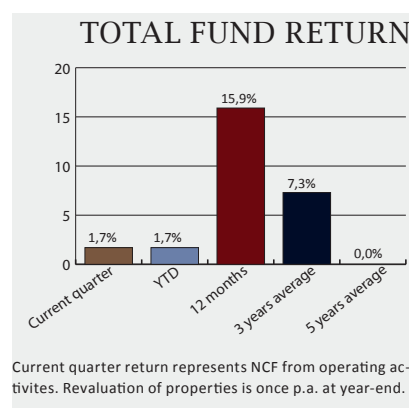
The Fund's objective going forward are:

- Increase portfolio's value through expansion rights.
- Raise additional €20-30m in equity.
- Acquire 2-3 assets in the coming 9 months.
- Exit by end of 2017 after all portfolio value options have been explored.

## LEADING BALTIC ASSET MANAGER

The Fund's portfolio and current pipeline demonstrate how an informed local buyer can acquire core assets close to replacement cost at prices between EUR 1,100-1,400 /m<sup>2</sup> at yields of 8-8,5%.

These cash-flow generating investments in an Estonian REIF structure are estimated to allow for 7-8% in dividends p.a. With CPI-based annual rent indexation, the Fund aims to deliver 15% in total return p.a. over the lifetime of the Fund\*. Tenants are typically leading Nordic



or national players representing solid cash-flows and due to their standing in the market permit the Fund to obtain attractive financing conditions. Lease lengths normally stand between 3-5 years (office) to 7-15 years (retail). Recent market activity, some also involving other NHC funds, has proven that there is sufficient market liquidity especially for well-located buildings in the capitals at attractive returns. Investment volume is expected to reach EUR 800m for 2014.

## GROWTH AHEAD IN BALTIC REAL ESTATE

Well-educated, IT savvy, multilingual work force has been attracting many Nordic companies to establish their finance, IT and R&D functions in the Baltic capitals, contributing to the growing office demand. Rental rates have been stable since 2009 but are now starting to show increases from the record low levels reached during the correction. After four years of private sector deleveraging and increases in savings, retail spending has been recovering remarkably, especially over the past 12 months. This has lowered shopping centre vacancies and attracted new international tenants such as IKEA, H&M, Debenhams and

## FUND MANAGEMENT

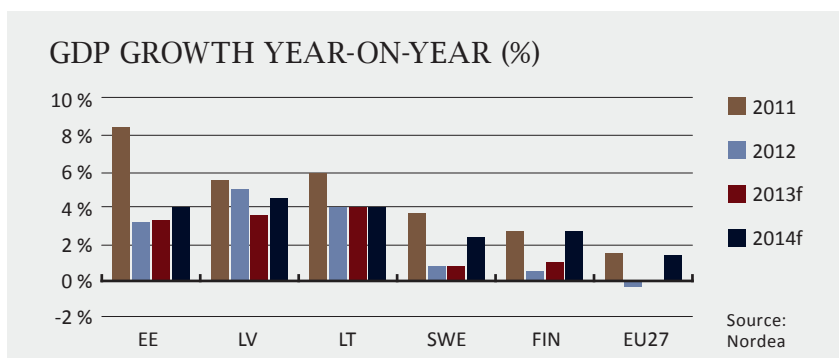


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For further information on the Baltic Opportunity Fund feel free to contact fund management.

\* after the fund has been fully invested.

The Fund is fully compliant with INREV investment principles and Estonian FSA. Fund's custodian is Swedbank, auditor is E&Y and independent valuations are performed by Colliers. The Investment committee consists of qualified members and welcomes also representatives of large investors.



#### Seed portfolio as of Q3 2013

Asset	Lincona Business Center	Sky Supermarket	Coca-Cola Plaza	Domus Pro
City	Tallinn, Estonia	Riga, Latvia	Tallinn, Estonia	Vilnius, Lithuania
Acquired	July 2011	December 2012	March 2013	March 2014 (deal signed)
Type	Office / Retail	Rtail (Bikernieku iela)	Retail / Cinema (CBD)	Retail
Gross area	13 109 m <sup>2</sup> + 10 524 m <sup>2</sup> parking	3 814 m <sup>2</sup>	9 930 m <sup>2</sup>	11 764 m <sup>2</sup>
Net area	11 336 m <sup>2</sup> + 9 257 m <sup>2</sup> parking	3 434 m <sup>2</sup>	8 664 m <sup>2</sup>	11 135 m <sup>2</sup>
Anchor	Swedbank	SKAI Baltija	Forum Cinemas (Finnkino Group)	Rimi (ICA Group)
Rent / m <sup>2</sup> p.m.	EUR 10.10	EUR 10.30	EUR 9.20	EUR 10.2
NOI p.a.	EUR 1.30m	EUR 0.38m	EUR 0.956 m	EUR 1.36 m
Price	EUR 15.45m	EUR 4.52m	EUR 11.95	EUR 16 m
<b>Yield</b>	<b>8.4 %</b>	<b>8.4 %</b>	<b>8 %</b>	<b>8.5 %</b>
<b>Price / m<sup>2</sup></b>	<b>EUR 1 171 (EUR 654 w/parking)</b>	<b>EUR 1 185</b>	<b>EUR 1 200</b>	<b>EUR 1 360</b>
Dev. potential	Tbd	Tbd	Up to 7 400 m <sup>2</sup>	n/a

#### Projected cash flow schedule at fund level of current portfolio

		2013	2014	2015	2016	2017	Averages
Gross rental income (GRI)	EUR	2.722.971	3.392.377	3.968.347	4.099.125	4.203.045	3.677.173
Property tax and insurance	EUR	-36.862	-37.968	-39.107	-40.280	-41.489	-39.141
Property management	EUR	-64.596	-90.527	-116.523	-120.019	-123.619	-103.057
Other owner's costs incl. sinking fund	EUR	-70.000	-72.100	-74.263	-76.491	-78.786	-74.328
Net operating income (NOI)	EUR	2.551.513	3.191.782	3.768.454	3.862.336	3.959.151	3.466.647
<b>Net yield (NOI/Total acquisition price)</b>		<b>8,02%</b>	<b>8,52%</b>	<b>8,69%</b>	<b>8,91%</b>	<b>9,13%</b>	<b>8,7%</b>
Fund expenses, AM fees	EUR	-374.805	-447.917	-447.917	-447.917	-447.917	-433.295
Interests (balloon)	EUR	-540.712	-638.484	-750.790	-742.785	-735.020	-681.558
Income tax (%**)	EUR	-29.325	-79.645	-141.876	-151.062	-160.513	-112.484
Result after tax	EUR	1.606.671	2.025.736	2.427.870	2.520.571	2.615.701	2.239.310
Loan repayment	EUR	-156.000	-326.667	-599.731	-592.658	-585.798	-452.171
<b>Net result</b>	<b>EUR</b>	<b>1.450.671</b>	<b>1.699.069</b>	<b>1.828.139</b>	<b>1.927.913</b>	<b>2.029.903</b>	<b>1.787.139</b>
<b>FCF TO INVESTOR*</b>	<b>EUR</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Net cash flow		-17.935.000	1.450.671	1.699.069	1.828.139	1.927.913	30.234.628
Exit yield							8,0%
ROE***		9,0%	10,5%	12,6%	13,0%	13,5%	11,7%
Levered IRR FUND		16,2%					

#### Portfolio capital structure

Equity value	EUR	17.935.000	19.841.000	19.841.292	19.841.292	19.841.292
Debt value	EUR	15.879.000	23.500.041	23.020.310	22.547.651	22.081.854
Debt/Total acquisition price		47%	54%	54%	53%	53%

\*\* Expected tax provision. The SPV tax effect will be optimized with tax planning tools, however the final tax burden may deviate (+/-) from the expected provision.  
 \*\*\* Equity invested by 2014 is EUR 19,35 m. Difference from Equity value is value which has been created in acquiring Domus PRO property through forward financing/commitment structure in 2014.