DTZ Research

Baltic Market Report
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- The overheating of the markets and regression afterwards were unpredictably sharp all over Europe, also in Baltic countries because of their opened economies. Property market is now facing again the uptrend, the increase is moderate.
- The biggest changes took place in residential market, where the recovering process will take years. Apartments, which were on offer during the regression period, have found the new owners and new development projects have been started.
- Office market is mainly active in the capitals. Rental levels are expected to increase in top level buildings, as the vacancy there is soon facing its critical level. Still, developers are very precautious towards new developments.
- Most attractive investment objects are in retail segment, the interest is also towards objects in smaller cities. Value can be added through expansion and also by increasing rental income, which are still rather low.
- Industrial and warehouse sector is also getting more active, although there are still vacant objects on the offer from the crises period. New objects are mostly developed for own use.
- The investment activity is clearly increasing. In the beginning of 2011 there have been two transactions in value over 100 million EUR in Estonia, the interest towards other Baltic countries increases also.

Table 1

	Estonia	Latvia	Lithuania
Population (in thousands)	1340	2248	3329
Urban population	69%	66%	67%
Area (thousand km²)	45	65	65
Population density (2008, per km²)	31	36	54
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	394	706	543
Currency	EUR	LVL	LTL
Exchange rate (EUR)	x	0,7028	3,4528
GDP at current prices (bn EUR, 2010)	14,5	18,1	27,4
GDP per capita, at current prices (EUR, 2010)	10821	8052	8231
Inflation rate (%, 2010)	3,0	2,5	1,2
Unemployment rate (%, 2010)	12,3	18,7	14,4

Macro Economic Trends

General Trends

Recession in Baltic countries is over and although the recovery has been uneven across different economic sectors, turnaround is evident. In 2010, the biggest contributor to growth was the recovering export sector. Stabilisation in household consumption, driven by stronger consumer confidence and more positive outlook towards future, supported the overall economic activity.

Estonia

The economical situation in Estonia has mainly improved by support of export. Joining the Euro zone in the beginning of 2011 has raised Estonian reliability in the eyes of foreign investors and in international scene as whole.

If in 2009 GDP decreased by 13,9%, then in 2010 it increased by 3,1%. Based on the prognoses of Estonian Bank (from the end of 2010) the growth of GDP will be 4,2% in 2011 and 3,8% in 2012. The prognoses of Ministry of Finance are in the same scale.

CPI was in 2009 –0,1%, in 2010 3,0%. The fast inflation is mainly caused by fast increase of prices in food and fuel sector. Because of opened economy, the Estonia is very opened towards changes in global market. Based on the prognoses of the Ministry of Finance the CPI will be 4,5% in 2011. The quick increase should stabilize in 2011 and cause lower inflation in 2012.

Based on the info from Estonian Unemployment Insurance Fund, the average unemployment in 2010 was 79 679 people, which is 12,3% of working-age population. In February 2011 the rate was 10,2%. The unemployment has decreased by 30,3% compared to the maximum rate in March 2010.

Latvia

Recovery in 2010 was stronger than expected both due to quick private sector adjustment and better growth in export markets.

GDP quarterly growth continued also in the fourth quarter of 2010. A stronger rebound is expected in 2011, with GDP growing by about 4,0%, supported by recovering domestic demand. Stronger export and restocking will stimulate investments and, thus, import in 2011. Activity gains are still weak, especially in the public sector, and adjustment should continue.

Unemployment reached its peak by the beginning of 2010 at 20,4% and started to diminish gradually afterwards, first due to emigration and rising inactivity, and in the beginning of 2011 also due to slow job creation. However, unemployment rate will remain high for years to come. Further developments will depend on productivity growth.

Lithuania

After the dramatic annual contraction of GDP by 14,7% in 2009, the year 2010 showed a somewhat more positive result. In 2010 GDP increased by 1,3%. The Lithuanian Ministry of Finance forecasts 1,6% and 2,8% economic growth in 2010 and 2011, respectively. Positive growth of economy in 2011 will be mostly driven by recovering export.

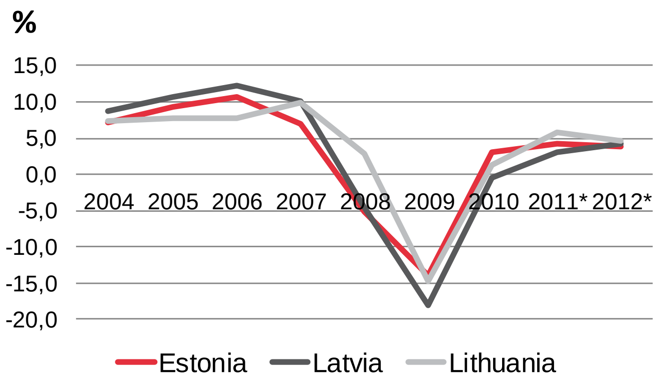
During the first two months of 2011, the inflation increased. According to the forecast by Ministry of Finance of Lithuania, the average annual harmonized index of consumer prices should be slightly positive (1,2%) in 2010 and climb to 3,3% in 2011. For comparison, Bank of Lithuania expects 1,2% and 2,8% CPI change in 2010 and 2011. In 2010, economic growth continued and inflation was low.

Despite the quite positive expectations in economic growth, the situation in the labour market remains tense. The Lithuanian Labour Exchange’s data shows that average annual unemployment rate of working-age population in 2010 was 14,4%. This is almost 2,5 times higher than average annual unemployment rate in 2008 (5,8 percent). Unemployment increased in all areas. On the 1st of March 2011, there were 306,4 thousand registered unemployed, which is 14,2 % of the country's working age population. The average annual unemployment level is assumed to stand at 14,9% in 2011, and should be followed by a mild drop to 11,5% in 2012. The more positive changes are expected in 2013-2014, when according to the forecast by Ministry of Finance of Lithuania, the unemployment level will fall to 9,3% and 7,8%, respectively.

Macro Economic Trends

Figure 1

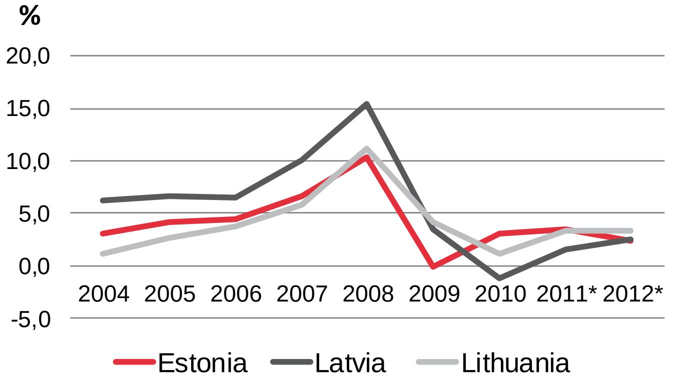
Real growth rate of GDP in Estonia, Latvia, Lithuania



Source: Statistics Estonia, Bank of Estonia, Statistics Latvia, Statistics Lithuania, Lithuanian Ministry of Finance

Figure 2

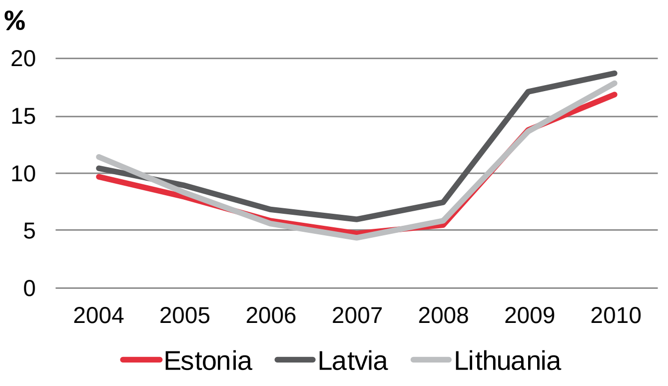
Growth rate of CPI in Estonia, Latvia and Lithuania



Source: Statistics Estonia, Bank of Estonia, Statistics Latvia, Statistics Lithuania, Lithuanian Ministry of Finance

Figure 3

Unemployment rate in Estonia, Latvia and Lithuania



Source: Eurostat

Legal Framework

Estonia

Land reform started in November 1991, with the objective to transform relations based on state ownership of land into relations primarily based on private ownership of land. The Western European style system of Land Register was introduced and enforced with a great success. During the years 1993- 1995, the main legislative acts regulating the real estate transactions were evolved: Law of Property Act, General Principles of the Civil Code Act and Commercial Code. Hardly had the national law been created, was Estonia in situation where it was necessary to bring the regulations into line with EU requirements. The transposition of the EU Aquis Communautaire started. Estonian Government started also developing the information society, where the priority was evolvement of digital state registers that could make different administrative procedures easier and more timesaving for private entities and public institutions. For transforming the economy more attractive for foreign investments, clear and advantageous tax-system was also established.

Legal Framework

In Estonia information related to all real estate is registered in a land register kept by County Court real estate registration departments. Land registers show for each property the owner, mortgages, servitudes and other information registered in the relevant portion of the registry. Land register data is public and any interested party may have the information.

Latvia

Transactions with real estate are regulated by Civil Code, which along with Land Register law dated from 1937, were approved by Latvian parliament in 1993.

In Latvia there is a trustworthy and effective real estate registration system that is comparable with systems in Western Europe (Land Book registry). Usually a purchase agreement is submitted to Land Book along with the corroboration request, a notarization by a notary and other information in addition to registering title or leasehold estates under the Land Book registry system. As a difference to many other countries, it is possible for land and buildings to be owned by different persons. The relationship between the different owners is regulated on the level of reform law.

Land registration is regulated with corresponding law. Real estate units are registered in Cadastral Register. It is possible to get information about all cadastral units, buildings and the value of land. Some properties are not registered in Land Book, but in Cadastral Register. Most of these are privatized apartments and land plots restored by their previous owners.

The Land Book forms one of the underlying preconditions for the transfer of title. It is the presumption of law that the person (natural person, legal entity, state or municipality) registered with the Land Book as the owner of real estate is considered it's lawful owner having full control of the property. In any transaction involving transfer of title, it is of utmost importance to have the property registered in the name of the purchaser as soon as possible to enable the purchaser to obtain all rights of the owner with respect to third parties.

Lithuania

In the beginning of 1990-ies shortly after becoming independent, land and ownership reforms was executed. Compared to Estonia and Latvia, the reform was less radical, combining all registers (no separate Land Book was formed).

Harmonisation of the legislative acts with those of the European Union and the reform of the administrative system in Lithuania has contributed to the protection of ownership, legal occupancy and investments.
The real estate market in Lithuania is regulated following the generally accepted principles of ownership immunity and protection of rights of a just acquirer (possessor). In addition, the principles of equal treatment and equal protection are the main principles of the investment law, meaning that both Lithuanian and foreign investors are subject to equal business conditions, and their rights and lawful interests are equally protected by law.

The Real Property Register contains all actual information of buildings and land plots, rights to real estate and encumbrances thereof. One can receive information from the Real Property Register on changes in real estate, mortgages on buildings or land plots including pledges of land lease rights, imposed attachments, civil cases brought to the court regarding real estate as well as registered agreements or decisions made regarding the legal status of real estate, such as concluded lease agreements and equivalent, regarding any particular piece of property.

In Lithuania commercial land is mainly state-owned, meaning rental relations are dominant. From the institutional point of view, Lithuania has a separate mortgage institution, while in Latvia and Estonia it is included in the Title Book system.

Table 2

Property registration systems

	Estonia	Latvia	Lithuania
Land plots (physical parameters)	Cadastre	Cadastre	Cadastre
Buildings	Building Register	Cadastre	Cadastre
Mortgages	Title Book	Title Book	Mortgage Register
Ownership etc. rights	Title Book	Title Book	Cadastre

Source: DTZ Research

Office Market

Estonia

In Estonian office sector Tallinn as capital of Estonia clearly dominates, described by largest stock of office space and highest market activity. A distinct office market is also developed in other larger cities Tartu and Pärnu. In smaller cities there are almost no separately standing office buildings, office premises are located on ground and upper floors of residential and commercial buildings.

Tallinn

Office market in Tallinn is historically mainly gathered to city centre. Due to poor parking possibilities, almost non-existing vacancy in past and, compared to other city districts, considerably high rental fee, more and more office buildings have in previous years been built in commercial areas next to larger roads and crossings outside of the city centre.

Figure 4

Office districts in Tallinn

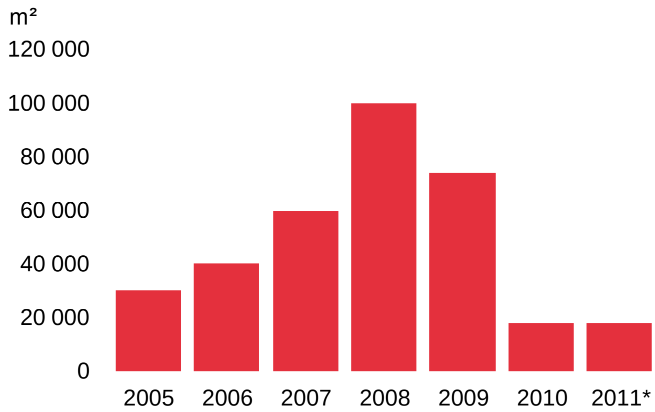
Source: Google Map, DTZ Research

In the beginning of 2011 there was all together approximately 540 000 m² office space in Tallinn. In 2010 the development activity was rather low; the only larger finished project was for public sector use - Estonian Forensic Science Institute building developed by State Real Estate Ltd (RKAS). 2011 will most probably not bring new developments, if, then mostly for own use (for example G4S office building) or for public sector. The amount of larger and smaller projects projected into future forms around fourth of the total existing office stock.

Development of the Ülemiste City Targa Äri Linn in Ülemiste City area is about to be continued. Development itself is an office and technological campus (Technopolis) that is planned to comprise 10% of the entire office market in Tallinn.

Figure 5

The amount of new office space in Tallinn



Source: DTZ Research

During last few years the rent levels have been decreased in most of the buildings. The new office premises located in Scala City in city heart, are on offer on the price level 8,3-10 €/m²/month, the price level in Metro Plaza by Viru Square is around 10 €/m²/month. Top level offers are around 12-14 €/m²/month in the top floors of Nordea Office building, Rävala 4 office building and in Foorum Centre by Narva road. The new premises outside the city centre are on offer on the price level 5,1-9,0 €/m²/month, premises on upper floors around 10,0-10,5 €/m²/month.

The rent levels decreased around 35-40% starting from the second half of 2008 until the end of 2009. The decreasing was fastest in 2009. Last year (2010) brought stabilization on the rental market, mostly affected by positive changes in the economical situation and more positive outlooks towards the future. 2011 will most probably bring modest increase in rental fees together with overall improvement of economical situation.

Table 3

Rent levels (€/m²/month) in Tallinn

Country	A+	A	B	C
Centre district	9,6-12,8	4,5-7,7	3,8- 5,1	-
Suburban	5,1-8,5	3,8-5,1	2,6-3,8	1,6- 2,6

Source: made up company

During 2008 and 2009 there was great amount of new office space added to the market. By the beginning of 2011 most of the new office space is occupied and the vacancy is around 10-15%, being lower in CBD and higher in fringe areas of the city. The vacancy level in older office buildings stays around 20-30%, in some parts even up to 40%.

2011 will bring slight increase in rent levels and stabilization of vacancy rates. Although the occupancy rates have improved, the development activity in office sector will not increase during coming years.

Features of most demanded office space in Tallinn:

- sized up to 150 m²
- central location
- A-class quality
- good parking possibilities

Other main cities in Estonia are Tartu and Pärnu, where compared to Tallinn, office market is considerably smaller.

Pärnu

The most important office areas in city of Pärnu are:

- city centre
- area at Papiniidu crossing

Other office premises locate in buildings that are used by its owners, in some cases located within industrial or storage buildings and on ground and upper floors in residential and commercial buildings.

There have been several new commercial buildings built in the city centre, but the vacancy of office premises is still very high, whereas most of the retail premises have been occupied. There is also great amount of new office space added to Papiniidu district.

During 2009, average rental prices in Pärnu decreased by approximately 20-30%. There were no significant changes in 2010. Average vacancy is still quite high – around 10-15% in the new buildings and 15-35% in older buildings.

Table 4

Rent levels (€/m²/month) in Pärnu

	A	B	C
Rent level	5,1 – 7,7	3,2 – 5,1	1,6 – 3,2

Source: DTZ Research

Most demanded office space has the following features:

- A- or B-quality premises
- sized up to 150 m²
- location in city centre
- good parking possibilities

Tartu

Office market in Tartu is focused mainly to city centre.

Features of most demanded office space in Tartu are the following:

- sized up to 60 m²
- located in city centre
- A-class quality
- good parking possibilities
- easy access

Top rent prices in Tartu is paid in Emajõe Business Centre and surrounding new buildings at the CBD. Locations with harder access, less visible and worse parking possibilities are considered less valued and usually at B-quality price level.

During 2009, overall rent price level decreased 20-30%. During 2010 and in the first months of 2011 there have been no significant changes in the rental price levels. The overall vacancy is around 10-20%.

Table 5

Rent levels (€/m²/month) in Tartu

	A+	A	B
Rent level	6,4 – 11,5	2,9 - 7,7	1,9 – 2,9

Source: DTZ Research

Forecast

- The offers will decrease in new-built office buildings and increase in older buildings;
- Pressure for lowering the rental fees have stopped, slight increase can be witnessed, especially in A-class buildings and in larger cities;
- The development will not be active in coming years, although the vacancy has decreased.

Office Market

Latvia

Within Latvia, the most important office area is Riga, as in Riga and in its region about 50% of total population lives and approximately 70% of GDP is generated. Most of the other cities are smaller and office use is clearly secondary there.

Riga

Offices are built mostly in city centre, but general tendency is to move outside. Typical locations of most recent office developments are East bank (Skanstes Street region, former VEF factory territory) and West bank (along Mukusalas Street, near airport).

Most of the office sauce is located in downtown areas, but also in old-style reconstructed industrial buildings and new buildings located outside the city centre. Significant share of modern office space in Riga has entered to the market through re-construction. In both, Old Town and city centre, many separately located office premises are in residential and mixed use buildings.

Figure 6

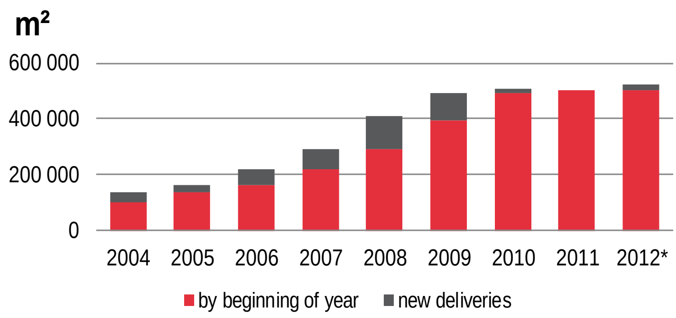
Office districts in Riga

Source: Google Map, DTZ Research

At the end of 2010, the total stock of modern office space in Riga was approximately 510 000 m² of which approximately 60 000 m² was completed in 2009 and 20 000 m² in 2010. There are two office building projects under construction – Jupiter Centre located at Skanstes street 7 with total area 16 000 m² and Z-Towers development with 26 000 m², which will offer A-class office space and approximately the same area will be occupied by Hotel Sheraton.

Figure 7

Amount of total stock and new office space in Riga during 2004-2012



Source: DTZ Research

Average decrease in rental fees was during second half of 2008 25% in B-class offices and 15% in A-class offices. Rental fees decreased also during 2009, after what sharp fall stopped. 2010 brought stabilisation and no bigger changes in the rent rates were observed.

Table 6

Rent levels in Riga, €/m²/month

	A+	A	B	C
City centre	10 - 16	8 - 12	5 - 10	2 - 7
Outside of the city centre	-	7- 10	4 - 8	2 - 4

Source: DTZ Research

Vacancy in A and A+ quality offices is approximately 10%, in B-class offices approximately 35-40%. Office buildings completed in second half of 2008 and in 2009 suffer from remarkable vacancy, reaching in some cases up to 50% or even 100% (like office building Dzimta Seta in Purvciems). However, the extreme cases are mostly because of problems (like insolvency) of the owner, less the properties of the particular developments.

Average vacancy rate decreased slightly during 2010. A-class and B-class office buildings are gradually being filled. The general trend is that many companies are moving to higher quality offices for the same rent, eventually leaving the lower standard buildings empty. As a successful case we can mention the Europa Business Centre office development by the Lithuanian company Hanner. From a total 15 400 m² office premises the vacancy was 90% in summer 2009, which they managed to reduce to only 10-15% by the end of 2010.

Office Market

International companies expanding their operations in Latvia formed the largest share of the new demand last year. Such companies were looking for 500-1000 m² large office space with high-quality finishing in buildings with good maintenance and service level. Availability of parking is also an important factor.

Most valued office spaces are with:

- high quality, modern
- advantageous location, preferably in the city centre or within short distance from CBD
- with good parking possibilities as a mandatory requirement
- size of ~ 100-300 m²

Forecast

- Office market is dependent from overall economic situation, so once the recession in economy lightens the situation in office market shall also improve;
- Rental fees will be stable until the beginning of the next year;
- The high vacancy level will probably remain;
- Some of the frozen projects will be continued, however most of the planned projects that have not yet been initiated will be postponed for an uncertain time of period.

Table 7

Major office buildings in Riga (sized more than 10 000 m²)

Office name	**Location**	**Quality**	**Total area, m²**
Barona Kvartals	Cesu Str 31	B	30 000
SWH Business Centre	Skanstes Str 13	B	30 000
Central Building of Swedbank	Balasta dambis 1	A+	23 663
Mukusala Business Centre	Mukusalas Str 41, 41b	B	22 000
Duntes Biroji	Duntes Str 6	B	19 600
RD Centrs	Maskavas Str 240	B	18 000
VEF Office Centre	Brivibas Str 214	B	18 000
Rietumu Capital Centre	Vesetas Str 7	A+	16 500
Office Centre MUKUSALAS IELA 41	Mukusalas Str 41	B	14 700
Ziemelu Varti	Brivibas Str 149/151	B	10 000
Duntes Nami	Duntes Str 11	B	12 425
Valdo Office Centre	Bauskas Str 58a	B	12 000
Ministry of Interior Administrative Complex	Gaujas Str 15	B	32 000
Unity Business Centre	Vienibas gatve 109	B	16 663
Upmalas Offices	Mukusalas Str. 101	B	15 500
Valdemara Business Centre	Valdemara Str. 21	A	12 000
LMT office building	Ropazu Str. 6	B	10 800
SEB banka office building	Unicentrs, Riga region, Kekava district	B	10 000
DnB Nord Bank HQ	Skanstes Str. 12	A	16 500
Europa Business Centre	Ropazu Str. 10	B	14 500
Central building of Parex Banka	Republikas laukums 2a	A+	20 000

Source: DTZ Research

Note: Total space includes also common use space.

Table 8

Most important office projects completed in 2009-2010			
Project name	**Developer**	**Quality**	**Total area, m²**
Alojas biznesa centrs	LNK Holding	A	8 500
Parex Office building	AS Parex Banka	A+	15 000
Europa Business Centre	Hanner	B	15 400
DnB Nord Bank biroju ēka	Skanstes 12 Ltd	A	15 000
O! Klases biroji	Lig Ltd	B	8 200
ASU Centrs	Patek Ltd	B	2 100
Berzins Investment	Berzins Investment Ltd	B	8 100
Muitas St.1	Jurmalas Celtnieciba Ltd	A	5 700
Riga Industrial Park	Riga Industrial park Ltd	B	7 300
Lubanas Centre	Delfis Nams Ltd	B	2 600
Upesgrivas office	UBN Ltd	B	2 100
Office Centre Kipsala stage III	FORA Development Ltd	B	1 600
Zala St.1	LarixProperty Ltd	B	4 800
Valdemara Pasaza	Valdemara pasaza Ltd	B	5 500
RSTA	Rigas Sanitara Transporta Autobaze Ltd	B	3 900
Total			**105 800**

Source: DTZ Research

Lithuania

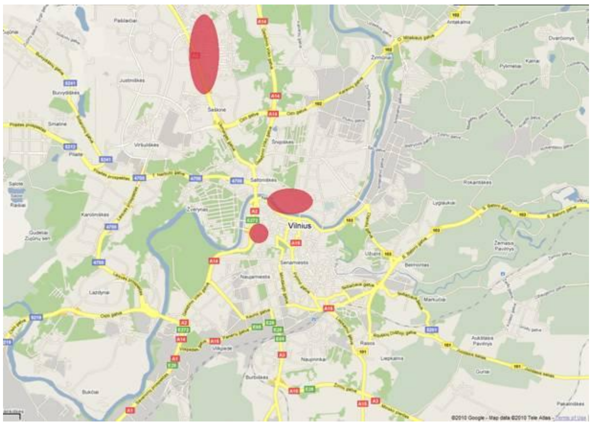
Lithuanian office market is active not only in the capital city, but also in second largest cities Kaunas and Klaipeda. However, the Vilnius office market represents the most active and largest part of total office market in Lithuania.

Vilnius

Most of the high class office space in Vilnius is located in newly developed central areas "Business Triangle" and in the New City Centre, both located on the banks of the river Neris. Large area of new developments is also located outside the city centre in direction to Riga (along Ukmerges Street). Another business cluster locates in Naujamiestis, further in the south, but mainly accommodates B-class office buildings (a mix of old soviet-style offices and modern glass-facade buildings). New office developments are also built in newer districts, namely, North Town (Siaures miestelis) and around Ukmerges St.

Figure 8

Office districts in Vilnius



Source: Google Map, DTZ Research

Currently, the total stock of modern office space in Vilnius is roughly 335 000 GLA m², out of which around 35% can be valued as A+ and A-class premises.

Table 9

Major office projects completed in Vilnius in 2010				
Project name	**Address**	**Total area, m²**	**GLA, m²**	**Quality**
Plaza 31/1	Islandijos St. 31	1 150	~1 000	A
Evita	Savanoriu Ave. 18*	2 750	2 500	B
BETA	Kalvarijų St. 204c	21 600	20 000	B
Total		**25 500**	**23 500**	

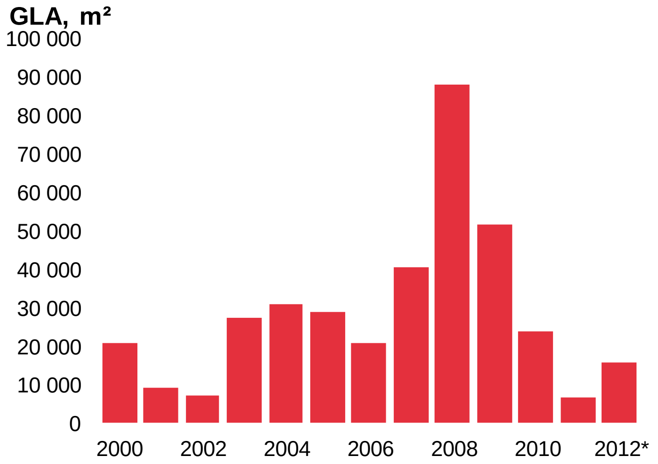
Source: DTZ Research

*project is completed, but not registered

In 2011/2012, there is all together 21 700 m² of GLA planned to be built.

Figure 9

New office space in Vilnius built in 2000-2012



Source: DTZ Research

A dramatic pressure on rental levels resulted in approximately 30% (in some cases even more drastic) fall of the office property rent prices during 2009. Nevertheless, during the 2010 rent levels remained rather stable. Some upward trends were noticed in those successfully working business centres, which managed to retain or achieve low vacancy rate.

Overall vacancy in modern office buildings has decreased to 5-10% during the 2010 and in the beginning of 2011 mainly because of the fact that there were no new deliveries in the market and the demand, despite being comparably small, was quite stable. Higher vacancy rates were in B-class buildings, reaching 10-20%. The vacancy rate in the prime office buildings showed a substantial drop to 0-8% during 2010. The vacancy in C-class office buildings is around 20-30%.

The key drivers behind better performance of A-class buildings were stronger tenants (mainly international companies), better management and clear concept of high quality buildings, as well as ability to offer more flexible lease conditions. Besides, the A-class buildings were chosen by some earlier B-class tenants as a result of substantial fall in rentals. At the same time, B-class offices faced tougher competition due to larger supply and, in many cases, more vulnerable tenants.

Table 10

Average rent level (€/m²/month) in Vilnius			
Quality	**A**	**B**	**C**
Vilnius city centre (CBD)	10-13	7-9	-
Outside the city centre of Vilnius	-	5-7	2-4

Source: DTZ Research

Valued office space has the following features:

- A- or newly built B-class premises
- sized 100 – 150 m²
- location in city centre near Konstitucijos Avenue, further from city centre but with convenient access by car or public transport (e.g. Kalvarijų Street)
- good parking possibilities.

Compared to Vilnius, the office market in the secondary Lithuanian cities is far less developed, which is mainly determined by lower business activity in these locations.

Kaunas

The Kaunas office market can be described as the one where prevailing trend is to own the office rather than rent it. The city is home to comparably small businesses, mostly demanding 20-50 m² premises. Usually branches of larger local and international enterprises tend to lease larger office premises.

Office Market

The total modern office stock in Kaunas is currently in amount of 35 400 GLA m². However, after 5 500 m² delivery in 2009, there were no new offices supplied in 2010. No new projects are realistic in 2011 either.

The rentals in Kaunas office centres vary from 4,3-10,0 €/m^2/month, demonstrating more or less the same level compared to 2009. However, vacancies remain rather high, standing at the level of 10-25%.

Klaipeda

The office market in the third largest Lithuanian city Klaipeda is somewhat similar to that of Kaunas. The total amount of modern office space in Klaipeda is 43 600 GLA m², out of which 16 000 m², or one third, were brought to the market in 2009. On the contrary, there were no deliveries during 2011, nor are expected any in 2011.

The rentals in Klaipeda high quality business centres range from 5,8-10,0 €/m^2/month, whereas office premises in economy class centres are leased for 2,9-5,8 €/m^2/month. Despite the marginal decrease during the 2010, comparatively high vacancy rate, reaching 10-20% remains one of the major problems.

Panevezys and Siauliai

The secondary cities Panevezys and Siauliai are characterized by the following features:

- there are no A-class office buildings as well as need for prime quality premises, the few existing tenants are satisfied with converted B-class premises on the first and second levels of existing buildings;
- the most demanded premises are in the size range of 30-50 m²;
- local companies, owning their premises, dominate in the market;
- the monthly rental fees for offices in Siauliai residential and industrial districts vary from 3,0-5,0 €/m^2/month, whereas those in the city centre are in the range of 6,0-8,0 €/m^2/month. The rentals in Panevezys are quite similar, ranging from 3,5-6,0 €/m^2/month.

Forecast

- Major relocations to cheaper premises and rent renegotiations is already in the past;
- Unclear pipeline as well as shelved and frozen new office projects is assumed to be the major contributor to gradually shrinking vacancy rates, while the demand is expected to remain rather stable; this will lead to more balanced market in 2011 in terms of supply and demand;
- Rental fees will increase as a result of recovering economy and small number of new constructions; the upward trend will be slight, not exceeding 3% in 2011 in Vilnius; rentals will remain stable in the secondary cities;
- The prospects for new office developments are rather vague, despite the considerable amount of projects, planned before the economic downturn, the number of new developments will remain limited in 2011/2012.

Comparison between Estonia, Latvia and Lithuania

During 2009 the unfinished projects of new office buildings were completed, starting from the year 2010 the development activity is in a low point in all three countries.

Average vacancy is high in all Baltic countries. Tougher situation in Latvia is most probably caused by more difficult situation in economy, whereas recovery has been time consuming.

Vacancies in Lithuanian new and prime office buildings are compared to Estonia somewhat lower. This, however, is explained by smaller amount of new office space from one side and large city with larger amount of tenants from the other side.

Rental fees have showed first signs of increase in Lithuania and Estonia, trend will most probably continue through 2011. Latvia, however, has by now reached the stabilization point and no significant changes are forecasted for the year 2011.

Retail Market

Estonia

First large retail centres were developed in 1998 in Tallinn. Since then the tendency of retail premises gathering to large shopping centres has continued. Never the less, many cities have preserved their central high street and separate private retail locations, but in continuously smaller scale, as people rather like large shopping centres where most retail and service needs can be satisfied with a single visit.

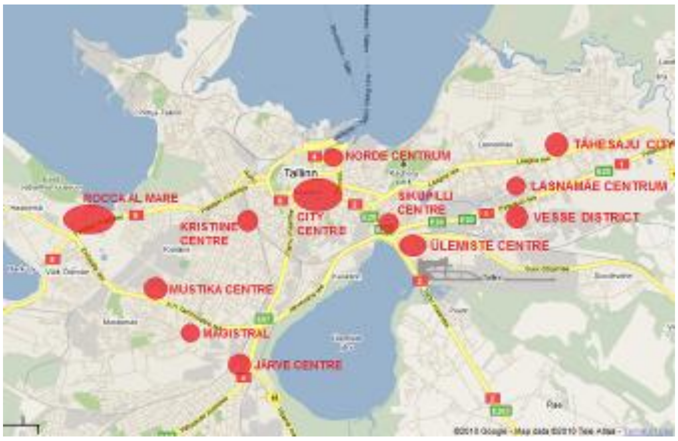
Largest amount of retail space is in Tallinn along with the highest number of retail centres. Large retail centres are also built in Tartu and Pärnu, in smaller scale also in smaller towns such as Viljandi, Narva, Jõhvi, Rakvere and Paide.

Tallinn

Retail in Tallinn is mainly gathered to eleven retail centres. The Old Town and city centre can be considered as a separate trading area, where the main business is on 1st floor shopping premises.

Figure 10

Major retail centres in Tallinn



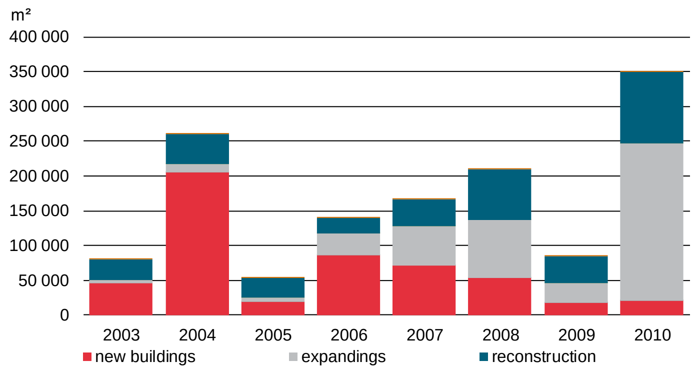
Source: DTZ Research

The most demanded centres are Viru Centre, Kristiine Centre, Ülemiste Centre and Rocca al Mare Centre.

During 2010, the largest expansion in retail sector was made in Kristiine Centre, where in the end of September 21 000 m² of new retail space was added. The anchor tenant of named shopping centre remained Prisma. Mustika Centre in Mustamäe took also through a renovation and added more service premises and clothes stores to the centre.

Figure 11

Area of added retail space in Tallinn



Source: Building Register

Table 11

Shopping centres in Tallinn

Shopping centre	Address	Total area*, m²	GLA, m²	Time of construction/ expansion
Rocca al Mare	102 Paldiski Rd	64 640	53 300	1998/2008/2009
Mustika Centre	116 A. H. Tammsaare Rd	20 300	16 970	1998/2001
Kristiine Centre	45 Endla Str	53 000	42 500	1999/2002/2010
Sikupilli Centre	87 Tartu Rd	27 300	15 100	2000
Magistral	201/203 Sõpruse Avenue	12 200	9 500	2000
Järve Centre	238 Pärnu Rd	62 100	41 800	2000/2008
Norde Centrum	7 Lootsi Str	14 200	10 600	2002
Lasnamäe Centrum	3 Mustakivi Str	23 600	19 600	2003
Ülemiste Centre	4 Suur-Sõjamäe Str	49 700	37 500	2004
Viru Centre	4/6 Viru Square	32 000	26 300	2004
Solaris	9 Estonia Avenue	42 900	12 800	2009

Source: Building Register, BPE

*In some cases also the area of parking houses is included

Last few months have brought news about new retail developments. For example Rimi will build their supermarket to the city border next to Laagri Maksimarket and ETK will open their hypermarket in Ameerikanurga retail park.

Table 12

Planned and postponed retail objects

Retail Object	Size of the building/ expansion, m²	Time
Ülemiste Centre	30 000	postponed
Tähesaju City (III phase)	30 000	postponed
Rimi Laagri shopping centre	5 000	December 2011
ETK hypermarket in Ameerikanurga retail and logistic park	13 000	2nd half of 2012

Source: DTZ Research

In the first phase of Ameerikanurga retail and logistic park there is planned 20 000 m² retail premises, of which the largest part will be occupied by ETK. Negotiations with other tenants are in the process.

Pro Kapital has announced that they will develop new shopping centre by Peterburi Road. At the moment they are in the process of gaining building permit and after that the project is planned to be finished in two years.

Gate Tallinn is retail and industrial park, which is planned next to Pärnu Road. There is all together 240 900 m² gross area planned to the 620 000 m² land lot. First phase is planned to spring 2012.

If during 2009 there were approximately 10-20% decrease in rental levels then in 2010 there were no remarkable changes and the year brought stabilization. The main reason of rent decrease were temporary discounts, which were actually lengthen and in some cases are still in force. Although the overall situation in retail has improved and trading circulation has increased, the rent levels have not risen. Vacancy in popular shopping centres is still very low, therefore, rental fees have decreased marginally there.

Table 13

Rent levels in Tallinn (size approximately 50-300 m²), €/m²/month

Location	Rent level
Old town and in city centre at the pedestrian flow	12-25
In shopping centres in city centre	12-45
Less popular places in city centre	3-10
In shopping centres outside the city centre	12-25
Suburban	2-3

Source: DTZ Research

Retail Market

Pärnu

The most important commercial areas in Pärnu are:

- area between Pikk Street and Riia Road
- area next to retail centres Port Artur, close to river Pärnu
- area at Papiniidu crossing

Other retail premises mainly locate on ground floors in residential buildings all over the city.

During 2009, the larger retail objects finished were Pärnu Centre (7 Aida Street) and second part of Port Artur shopping centre. In 2010, there weren't any larger projects added to the market.

During 2008, rental fees remained stable, but decreased approximately 20-30% during 2009. During 2010 there were no significant changes and price level has remained on the similar level.

Table 14

Rent (€/m²/month) and vacancy levels in Pärnu

	A	B	C
Rent level	6,9 - 12,8	2,6 - 5,8	-
Vacancy	10 – 15 %	15-25 %	15-35%

Source: DTZ Research

Tartu

Retail market in Tartu has also mainly focused to city centre and in shopping centres located outside from it. Besides retail centres, retail have mainly gathered to three areas:

- Retail area at Ringtee Street, where one of the largest retail centres in Tartu, the Lõunakeskus, locates. In addition, there locate the Stokker service centre, DIY-type stores K-Rautakesko, Decora, FEB, Ehitaja, Bauhof and also a building hardware store that locates in former building of Selver. On the opposite side locates Selver in its new building. Average rental fee is in wide range of 5,1-19,2 €/m²/month, vacancy is up to 5%. Vacancy is in older buildings considerably higher, approximately 15-20%, and average rental fees are in range of 3,8-6,4 €/m²/month.
- Retail area in Annelinn where Eedeni, Annelinna and Kivilinna retail centres are located. Also several discounters and hypermarkets are located in this area, among others Ehituse ABC DIY-type store and smaller retail and service premises on ground floors of the apartment buildings. Average rental fees in retail centres are in range of 5,1-19,2 €/m²/month. Among smaller premises that locate separately from larger centres the rental fees are approximately 3,2- 5,8 €/m²/month. Average vacancy in retail centres is approximately 5-10%, but in other locations up to 20-25%.
- Retail area in city centre:
  - Tartu Department Store, Kaubahall and Zeppelin, Tasku centre. Rental fees vary from 12,8 to 32,0 €/m²/month. In smaller retail buildings – like former Tartu Department Store, Hansa Centre, GMP-centre, Kapitali House – the rental fees are lower.
  - Old Town is mainly covered with different service and entertainment premises – restaurants, hotels etc. Although the number of retail premises has decreased, there are still approximately 50 stores operated in Old Town. Average rental fees are in range of 5,1-14,1 €/m²/month.

During 2009-2010, main changes in Tartu retail market were made in Lõunakeskus which was expanded by 25 000 m². In addition, also Konsum Retail Centre on Lembitu Street was finished and Sõbra centre was renovated. Approximately half of Tartu Furniture House was renovated for the first Prisma in Tartu (approximately 16 000-17 000 m²). In 2010 there was also Rimi supermarket opened in Tasku centre (1 500 m²).

Decrease in rental fees was approximately 20% during second half of 2009. There were no significant changes during 2010. In the beginning of 2011 there can be slight increase observed.

Forecast

- Together with improvements in the overall economical situation the retail sector will improve and have positive effect to rent and vacancy levels;
- The pressure towards lowering the rent levels will end, many of the temporary discounts will end;
- Vacancy in most valued retail centres will stay low, but is still remarkable on separately standing premises.

Latvia

Development of Latvian retail market began with privatisation of former department stores and premises located on first and second floors of buildings in downtown area of Riga and other cities. Until the first shopping centre, Dole, was opened in Riga in 1997, most retailers were located in downtown. Since that time, situation has changed significantly as consumers have enjoyed the convenience of "shopping under one roof" and the number of super/hypermarkets and well developed modern shopping centres has increased.

Latvian capital city Riga is the largest cultural and industrial centre as well as the major port in country. Riga and its surroundings forms almost half of Latvian population, making it the main retail market which is hard to compare with any other Latvian city.

Riga

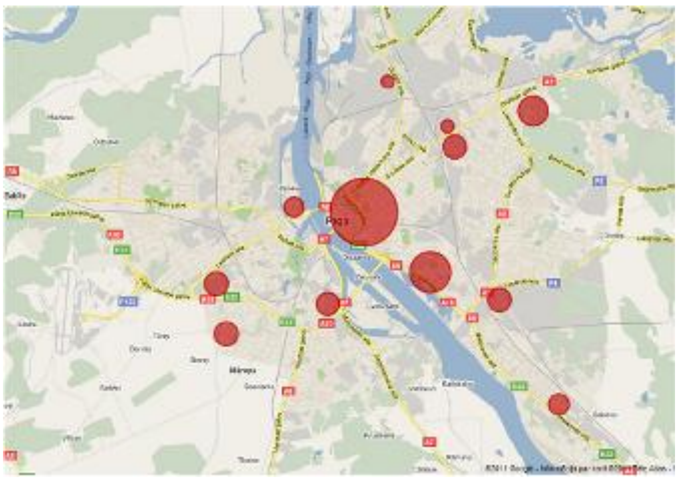
Outside the city centre, most of the largest retail objects are located alongside and near major streets: West bank – K.Ulmana Street and East bank – Krasta Street and Brivibas Street.

Old Town as a former important retail area has still many souvenir shops and boutiques, but the proportion of them has gradually decreased and conversed more into restaurants, pubs and other entertainment facilities.

By the end of 2010 the total amount of retail space in Riga was approximately 600 000 m².

Figure 12

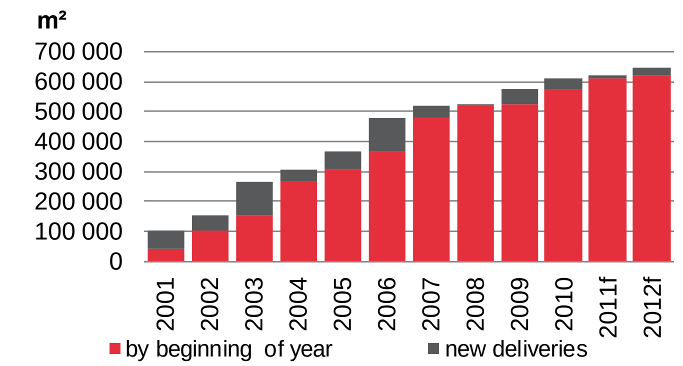
Major retail centres in Riga



Source: DTZ Research

Figure 13

Amount of retail space in Riga



Source: DTZ Research

In the first half of 2009 there was a significant decrease in rental fees. Rental fees dropped heavily in street retail segment due to previously very high rental level that could no longer be sustained with the falling retail turnover. The rental fees decreased in shopping centres around 10-20% per year and even 30-70% in street shopping premises during 2008-2009. However, in second half of 2009 the sharp decline stopped. At the beginning of 2010 slight decrease of rents was still observed, which gave place to stabilization in the second half of the year. Many of existing tenants have received lower rent level as a temporary solution (0,5-2 years) and in many cases rental fees are expected to increase again after a year. At the same time – taken into account continuous high vacancy in the market – a sharp increase of the rent rates is unlikely.

Table 15

Rental fees in Riga, €/m²/month

Location	Rent level
High street in city centre	6-30
High street in micro districts	5,5-12
Grocery space in supermarkets	5-9
Shopping centre	14-25, up to 35
Separately standing retail space	3-12

Source: DTZ Research

Average vacancy rate in shopping centres is around 4,5%. However one year ago average level reached to 10%. High vacancy remains in Sky&More shopping centre (ca 15%), Galerija Azur (up to 40%), Galleria Riga (recently opened though and therefore probably too early to make general conclusions). On the other hand positive changes were observed in Riga Plaza – vacancy rate was 25% in 2009, but dropped to 6% in

2010 as the cinema Multikino, five new shops and cafeteria Asia Express were opened. The lowest vacancy (less than 1%) is only in some shopping centres in Riga – Mols, Dole, Spice and Alfa.

The most valued retail space is:

- in good location (in a popular shopping centre or on the ground floor of the building located on a shopping street, with easy access)
- near intensive pedestrian flow
- sized 50-150 m²
- with sufficient parking possibility.

Forecast

- Two retail development projects are foreseen in the near future - Imantas Retail park and Shopping centre at 1a Kurzemes prospect and Prisma Hypermarket in Riga; there will be no major regional developments in the next coming years;
- Successful retail centres with good location will increase their occupancy level, whereas shopping centres with worse location or retail management will remain half empty;
- Overall vacancy will be stable with tendency to decrease during 2011.

Table 16

A list of existing shopping centres and future projects

Name of the shopping centre	Anchor tenant/ hypermarket	Location	Total space, m²*	Construction/expansion year
Existing centres				
Spice	ICA Baltic/Rimi	West bank; 5 km from CBD	110 000	2001/2007
Alfa	ICA Baltic/Rimi	East bank; 5 km from CBD	70 000	2001/2004
Domina	Prisma	East bank; 3 km from CBD	68 000	2003/2004
Origo	ICA Baltic/Rimi	CBD	35 000	2003/2004
Mols	ICA Baltic/Rimi	East bank; 2 km from CBD	33 000	1998
Galerija Centrs	ICA Baltic/Rimi	Old town	32 000	1997/2006
Galerija Azur	ICA Baltic/Rimi	East bank; 3 km from CBD	30 000	2006
Olimpia	ICA Baltic/Rimi	West bank; 1 km from CBD	25 010	2002
Sky & More	Sky	East bank; 2 km from CBD	17 000	2007
Dole	ICA Baltic/Rimi	East bank; 5 km from CBD	11 000	1997
Zoom	ICA Baltic/Rimi	East bank; 6 km from CBD	7 500	2006
Alfa expansion	Cinnamon Cinema	East bank; 5 km from CBD	7 300	2008
Riga Plaza	Prisma	West bank; 2 km from CBD	50 000	2009
Galerija Patollo	Rimi	CBD	38 000	2010
Damme	Rimi	West bank; 5 km from CBD	15 000	2011
Planned centres				
Imanta retail park Stage I	Prisma	West bank; 5 km from CBD	8 500	2012

Source: DTZ Research

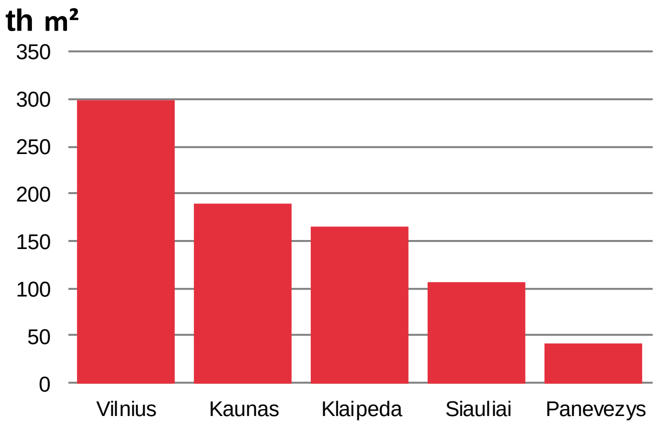
Retail Market

Lithuania

The Lithuanian retail property market is not limited to the capital of the country, but is also rather strong in secondary cities, i.e. Kaunas, Klaipeda, Siauliai and Panevezys. Similarly to other real estate sectors, development of retail property market was quite unbalanced, very often based on developers' exaggerated expectations.

Figure 14

Stock of Modern shopping centres in Lithuania



Source: DTZ Research

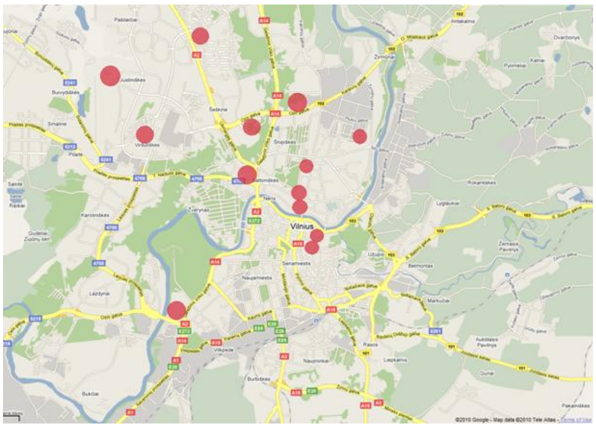
Vilnius

The Vilnius retail property market can be sub-segmented to retail streets, shopping centres and super- and hyper-markets. The city's prime retail street is Gedimino Avenue, stretching nearly 2 km alongside the Vilnius Old Town. Today, however, despite being central and recently reconstructed, the street is experiencing rather high vacancy level (around 20-25%).

The major losses in the retail property market during 2010 were also related to Gedimino Avenue, as the owner of Gedimino 9 shopping centre - Ajolas UAB - has announced its bankruptcy. Despite vacancies around 41%, the shopping centre is still functioning under its main creditor Swedbank control. Another problematic project, the boutique shopping gallery Fashion Gates was closed in the 2010.

Figure 15

Major retail centres in Vilnius



Source: DTZ Research

The other centrally located retail streets, namely Didzioji St., Pilies St. and Vokiecių St., are mainly accommodating boutiques, souvenir shops as well as cafes and restaurants and other Old Town walking areas oriented retailers, leaving less space for traditional apparel, footwear, etc. retailers.

In general, recent years can be described by expansion of fast food (national kitchens, to-go coffee shops, juice bars, etc.) and specialized food (e.g wine and gourmet shops, bakeries) retail concepts, the trend is not limited to the Old Town only. Besides, many retail units were occupied by fast credit companies, the expansion of which boomed in the face of economic crisis. Thanks to these new and flexible concepts, the Old Town retail area quite successfully managed to reduce vacancies until 2011. However, the said area meets rather strong competition from shopping centres, especially during the colder seasons.

The most important and popular retail destination in Vilnius remains Akropolis shopping centre, a way ahead of its younger competitors Ozas (which entered the market in August 2009 during the worst of economic downturn) and Panorama (which quite successfully took its piece of market share since 2008).

During 2010, one small shopping centre was opened. It was Link Moletu shopping centre (10 000 m^2). The anchor tenant is IKI and Pasidaryk pats. Property is situated close to border of Vilnius city.

Table 17

Main shopping centres in Vilnius

	Opening year	Total area, m²
Akropolis	2002-2004	109 000
Ozas	2009	93 000
Europa	2004	22 600
VCUP	2003	19 800
BIG	2006	18 800
Mada	2003	18 600
Gedimino 9	2007	16 600
Domus Galerija	2003	14 000
Mandarinas	2005	9 000
Flagman	2004	7 000
Panorama	2008	65 000
Pupa	2009	6 300

Source: DTZ Research

However, the reconstruction of the Parkas outlet centre was completed in April 2010, which added additional 5 300 m² to the existing 7 400 m^2. The centre currently accommodates about 40 outlets.

The pipeline still remains vague and the reasons of such uncertainty are lying in weak consumer demand and bank financing issues. The most realistic projects among those which were postponed are *Olinda* shopping centre (22 000 m^2 GLA, anchored by *Prisma* grocery), planned by a Finish developer *Vicus*, and specialized interior and home products centre *Domus Pro Retail Park* (13 600 m^2 total area), planned by Danish developer *TK Development*. Both centres will be located in the northern part of the city and could be delivered in 2012 or 2013, earliest.

The best performing shopping centres (Akropolis, Europa, Panorama and VCUP) enjoy 5% or even lower vacancy rate. The vacancies are higher in other Vilnius shopping centres, reaching up to 20%.

In general, rent prices have decreased by 5-10% during 2010, after a more dramatic drop by 30% in 2009. The trend was mainly determined by re-negotiated rentals and struggles to keep the vacancy rate as low as possible. However, rentals remained rather stable in the above mentioned best performing shopping centres in 2010.

Table 18

Rental fees in Vilnius

Type of tenants	Rent, €/m²/month
Anchor tenants	5 - 8
>100 m²	9 - 12
<100 m²	14 - 26
Street retail	9 - 26

Source: DTZ Research

The most valued retail space is with:

- good location in a popular shopping centre;
- area of 50-150 m²;
- sufficient parking possibility.

Kaunas

The Kaunas retail property market witnessed no major changes in 2010. The total stock of modern shopping centres currently stands at nearly 180 000 m². The most popular among other retail schemes is Akropolis (56 800 m² GLA), opened in 2007. Being located in rather central part of the city, Akropolis has “stolen” significant pedestrian flow from the main retail street Laisves Avenue, which is now suffering from high vacancies. The reconstruction of the street, initiated by Kaunas Municipality, is expected to start in 2011 of July.

New significant retail schemes were delivered in Kaunas during 2010 – Retail Park with Prisma and other small brand names.

Table 19

Rental fees in Kaunas

Type of tenants	Rent, €/m²/month
Anchor tenants	4 - 7
>100 m²	8 - 12
<100 m²	13 - 21
Street retail	6 – 20

Source: DTZ Research

Klaipeda

The total stock of retail space in Klaipeda is approximately 160 000 m². Since the last delivery of Herkaus Galerija (4 800 m²) shopping gallery in 2009, no new larger scale retail developments were introduced during 2010, but in the beginning of 2011 there was opened the shopping centre Liepa (6 200 m²), where anchor tenant is Norfa (format XXL). Rents are expected to be more stable in 2011.

Table 20

Rental fees in Klaipeda

Type of tenants	Rent, €/m²/month
Anchor tenants	4- 7
>100 m²	8-12
<100 m²	12- 21
Street retail	5 -15

Source: DTZ Research

Siauliai and Panevezys

The total stock of retail floor space in Siauliai is approximately 106 000 GLA m², of which 35 000 m², or one third, is contributed by Akropolis, opened in 2009. Due to active development of shopping centres in the city, central retail streets are suffering high vacancies in Siauliai. The formerly popular central retail street Vilniaus lost its appeal, and despite the recent struggles to bring some life by organizing various events, the street remains far less vibrant than it used to be before 2007.

The Siauliai retail property market is often exampled as one of the most saturated in Lithuania, but there are no promising significant developments in 1-2 years period of time.

The Panevezys modern retail property market is represented by the single project Babilonas Shopping Centre (42 100 GLA m² plus 18 000 m² modern retail area built for car business), which was developed in several stages in the course of 2005-2008. The rest of the existing supply is in the city's super/hypermarkets and ground floors of the central streets.

Despite Panevezys being far less oversaturated in comparison with the Siauliai retail property market, both cities saw significant rental reductions in 2009, which was followed by more modest downward corrections in 2010 and beginning of 2011. In general, vacancy level is in the range of 10-30% in these cities.

The tax from turnover in shopping centres is in range from 6% to 10%. It depends on rent level and brand name.

Forecast

- Growth in supply will remain very limited; most of the planned projects are postponed for an indefinite period of time in the secondary cities, however, the Vilnius retail property market is a little bit more optimistic with two retail projects expected in the near future (2012-2013);

- Consumer confidence recovery will be very slow, largely depending on unemployment level;

- Further vacancy growth can be expected in the weakest retail projects, especially in the secondary cities; however, the best performing centres have already passed the worst period and will be concentrating on retaining existing retailers rather than looking for the new ones;

- Rental fees will remain on the stable level in 2011; however, the negotiation power of landlords will remain comparably weak, especially in Siauliai and Panevezys and in the best shopping centres in big cities.

Comparison between Estonia, Latvia and Lithuania

Consumer confidence is in recovery process in all three Baltic countries. If in Estonia (Tallinn) and Lithuania (Vilnius) a number of extensions of shopping centres were opened already in 2010 then Latvia (Riga) needs time for development to justify itself.

Rental fees have reached their very bottom in all three countries. Lower rental levels in bigger shopping centres were meant as temporary solution, but the same levels have been in use for almost two years now. As recovery process has been faster in Estonia and Lithuania, the fees are expected to show slight increase in 2011. In Latvia, the fees might be subject to small decrease, but should still remain rather stable.

Average vacancy is mostly low in majority of shopping centres in Baltic countries, referring to main role of shopping centres in retail market. Even though total area of shopping centres is highest in Tallinn both per population and size of city, there is still room for new shopping centres in two-three years perspective. Vilnius, however, is based on the ratios with smallest amount of shopping centre space, with also some shopping centres in pipeline. Riga is by ratios between Tallinn and Vilnius, but has the largest number of less popular shopping centres and its retail market is the most saturated. Despite that, two new shopping centres are planned for the coming two years.

Industrial market

Estonia

Industrial buildings are mainly located in Tallinn and Harjumaa County, in smaller amount in Lääne- and Ida-Virumaa County, as well as all over Estonia.

Logistics/warehouse buildings are located in larger cities near major roads and near city borders, but also near intersections of major roads near cities/hamlets. Near largest cities industrial and warehouse buildings are gathering to relatively newly developed industrial parks (Tänassilma, Jüri, Mõigu).

Tallinn

Figure 16

Major industrial areas in Tallinn

Source: Google Map, DTZ Research

Total stock of modern industrial space in Tallinn and its vicinity is in the beginning of 2011 in magnitude of 700 000 m². During 2010, approximately 70 000 m² of new space was delivered, which was mostly for own use.

One of the largest developments planned is the first retail and industrial park in Estonia which has been in planning stage already for past couple of years. Development is called Ameerikanurga Retail and Logistics park and located in Rae hamlet beside Tallinn-Tartu highway. The amount of premises planned includes 110 000 m² of new retail and 185 000 m² of new logistic space. In the first phase there are mostly retail premises planned.

Large amount of new and older warehouse and industrial space is currently on offer. During 2010, market activity and interest towards different industrial premises grew, especially towards newer premises. Smaller 200-500 m² sized premises in attractive location are valued the highest. Still there is nearly none-existing demand for new developments as there is enough space on offer that has become vacant as a result of bankruptcies or raised efficiency of companies' economical activity. Almost no speculative new storage space is on offer, developers are only ready to construct build-to-suit projects under steady agreements with clients.

Major adjustment in industrial and warehouse premises prices was made during 2008 (peak year 2007) and 2009, total decrease being 45-50%. During 2010, rental fees remained stable with some slight increase among new premises. 2011 has brought first signs of more rapid increase and the trend is excepted to continue throughout the year.

Table 21

Rental levels in Tallinn, €/m²/month (premises sized over 300 m²)

	A	B	C
Most preferred districts	3,2-4,5	2,2-2,9	1,0-1,9
Less preferred districts	2,6-3,5	1,6-2,2	0,6-1,3

Source: DTZ Research

Most demanded rental premises in Tartu and Pärnu cities have the following features:

- sized in range of 200 – 300 m²
- in good quality and location
- with sufficient parking possibilities

Pärnu

Main industrial areas in Pärnu are located in Rääma city district in northern direction of Ehitajate Road, in smaller scale also in Papiniidu area.

Industrial and storage market in Pärnu is suffering from low demand even when price level of offers could be held attractive. There are still negotiations over rental price held, the overall decrease has been approximately 40-60% starting from 2007. In the end of 2010 there were first signs of stabilization in rental fees. Due to low demand and difficult financing opportunities, earlier planned industrial and logistic buildings and technological parks development have been stopped.

Table 22

Rent (€/m²/month) and vacancy levels in Pärnu			
	A	B	C
Rent level	2,6 – 4,5	1,9 - 2,6	0,6 - 1,9
Vacancy		10 - 25 %	20 - 30%

Source: DTZ Research

Tartu

Most demanded industrial and storage area in Tartu is Ropka Industrial Area, where until recently development was most active. In addition to Ropka area, following districts are important:

- Ravila area, that has during past years lost in its importance as industrial and storage area
- area next to Ringtee Street that borders with Tartu City, where several car centres are built, has mainly potential as industrial and storage area
- Tila Village, its popularity increased due to reconstruction of Vana-Narva Road
- new technological parks like Ülenurme Technological Park, Vähi Industrial Park, Ravila Industrial Park, Ropka Industrial Park and Reola Technological Park

Most of the industrial premises are in owners own use and rental market is almost non-existing. Compared to the beginning of 2008, rental fees have dropped up to 50%. Coming few years will most probably not bring bigger changes.

Overall vacancy has increased to around 15-25%. Second half of 2010 brought slight decrease in vacancies, but mainly because of the acquisition of vacant premises, not so much because of the activation of rental market.

Table 23

Rent (€/m²/month) and vacancy levels in Tartu			
	A	B	C
Rent level	1,9 – 3,5	1,3 – 2,3	1,0 – 1,5
Vacancy (as whole)		15-25%	

Source: DTZ Research

Forecast

- Industrial and warehouse sector has reached to stabilization and slight increase phase;
- The increase of rental levels is expected to continue especially in A-class segment and vacancies will decrease over coming year;
- Demand will increase mainly towards A-class objects; demand will remain weak towards B- and C-class objects.

Latvia

Riga is the most significant industrial centre in Latvia, followed by Ventspils, Liepaja and Daugavpils. Warehouse and logistic sector has moved out from city centre or even outside of the city itself as a result of persistent traffic problems, considerably high land prices and general lack of land plots suitable for development.

Former industrial territories within city and surroundings (near Riga airport, Marupe, Olaine, Salaspils) are most concentrated to Riga.

Figure 17

Major industrial areas in Latvia

Source: Google Map, DTZ Research

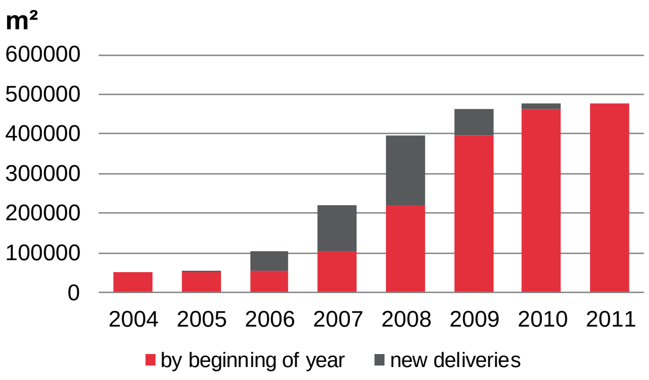
Riga

Total stock of industrial and logistical space in Riga is ca 420 000 m², of which 60 000 m² was completed in 2009. Approximately 15 000 m² of industrial and storage space have been completed in 2010, but no larger projects are planned for 2011.

Industrial Market

Figure 18

Amount of industrial space in Riga, 2004-2011



Source: DTZ Research

Some activity of industrial and logistic segment was observed during 2009 and 2010. A great deal of these was related to the restructuring – the businesses aiming to find the best offer on the market both in terms of quality and rent. Only some new logistic or warehouse developments entered the market, still these were built-to-suit projects for an actual tenant with specific needs and preferences, like Mykel Business Park.

There was a significant decrease in rental fees during 2009, since the beginning of 2010, rental fees have remained stable. There is still wide range in rental levels as vacancies are still high and lease agreements signed during 2009-2010 are on lower level than agreements signed before crisis.

Table 24

Rental fees of industrial and warehouse premises, €/m²/month

	New buildings	Renovated	Old buildings
Riga	2,5 – 4,5	2,0 - 4,5	1-3
In vicinity of Riga	1,5 – 4,5	1,5 – 3,5	0,5-2

Source: DTZ Research

Forecast

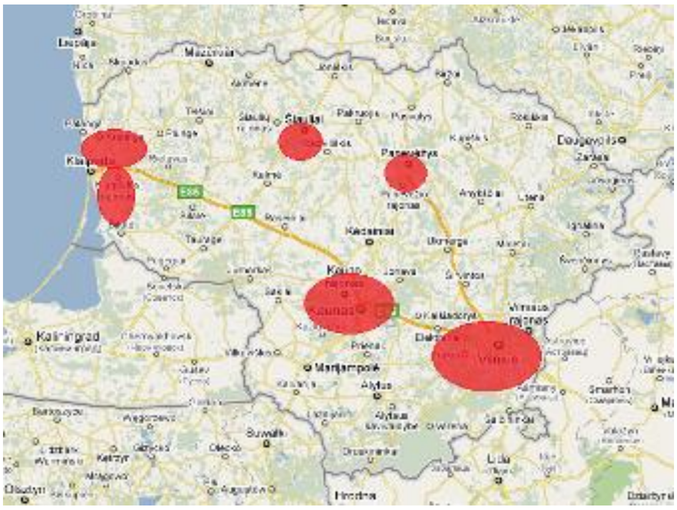
- The saturation phase in industrial market will continue for the next 1-3 years;
- No speculative developments will be undertaken, only build-to-suit properties;
- A large number of projects, which are not started, will remain frozen;
- During 2010 there were no changes in rental levels of logistic/ warehouse space – rent rates generally remained at the same level;
- Current phase in industrial market will continue over the year 2011 while the economical situation will recover and rental fees and vacancy rates will stabilize (with long term vacancy rate 5-10%).

Lithuania

The industrial/logistics market segment can be admitted as one of the most balanced in Lithuanian property market currently, as during the booming period the number of new developments was rather low.

Figure 19

Major industrial areas in Lithuania



Source: Google Map, DTZ Research

New constructions of warehouses/logistics centres have been developed step by step mostly in three main cities and surrounding areas:

- in Kaunas near Via Baltica road
- in Kaunas FEZ (free economic zone)
- in Klaipeda FEZ
- areas around Vilnius
- some areas around Panevežys (location is rather central for regional distribution).

Industrial Market

The most active industrial developments are being held near the main roads of international European transport corridors that cross Lithuania:

- highway Via Baltica (No. I) in the North-South direction and railway line Rail Baltica, on the route Tallinn-Riga-Panevežys-Kaunas-Warsaw;

- in the East-West direction: the road IXb (Kiev-Minsk-Vilnius-Klaipeda).

The total stock of modern warehouse projects makes up over 560 000 m^2 in Lithuania, more than half of the said space being located in/near Vilnius.

Vilnius

The Vilnius warehouse market consists of over 340 000 GLA m^2 modern warehouse, or more than half of all modern stock in Lithuania. Around 41 000 m^2 were added in 2009, however all planned projects for 2010 were postponed/cancelled.

There were several logistic parks launched around Vilnius city in 2005-2008. This helped many warehouse, trade and industrial companies to move out from the city borders and avoid inner-city traffic problems. Most of these hubs have anticipated potential expansion, however, new developments will be started only with pre-lease agreements, as the uncertain market situation instigates to avoid speculative development projects.

Decrease in rental fees from the end of 2007 is 50%. In 2010, only slight drop in amount of 5% was noticed.

Table 25

Rent levels in Vilnius, €/m²/month

	A	B	C
Most preferred districts	3-4	2-3	1,5-2
Less preferred districts	2,5-3	1,8-2,3	1,2-1,6

Source: DTZ Research

Kaunas

Kaunas has a favorable location in terms of major transport corridors crossing near the city, i.e. Klaipeda-Vilnius-Minsk and Warsaw-Riga-Tallinn routes. The city also has an international airport.

The most preferred location for warehouses in Kaunas is near the *Via Baltica* highway. Besides, there is a free economic zone – Kaunas FEZ – just a several minutes from the city centre. The major warehouse projects are being developed in these two areas.

There were no large-scale speculative projects delivered in Kaunas region neither in 2009, nor in 2010, and there are no projects announced for 2011.

Klaipeda

Being the only sea port in Lithuania Klaipeda is an attractive location for logistics purposes. Besides, the city has a good road connection as well as international airport, located in 25 km distance. The majority of modern warehouses are located in Klaipeda FEZ, the first free economic zone in Lithuania, functioning since 2002.

In Q2 2010 Klaipeda FEZ was ranked the 20th among the most attractive free economic zones in the world. This rating was provided by *Financial Times* group after analysis of 700 economic zones around the world. Currently the zone accommodates 16 international investors; another 4 companies are currently planning their investments. However, no new projects are planned so far in 2011.

Table 26

Rent levels in Kaunas and Klaipeda, €/m²/month

	New construction	Old construction
Kaunas	2,5-4,0	1,2-2,3
Klaipeda	2,0-4,0	0,9-2,0

Source: DTZ Research

Forecast

- Very few, close to zero speculative developments can be expected in the nearest future, thus keeping supply in the current level;

- The demand for warehouse premises is expected to remain at the same low level until more profound signs of recovering economy are witnessed;

Comparison between Estonia, Latvia and Lithuania

The development activity will remain low for a while in all three Baltic countries and is mainly focused on built-to-suit projects, as during the low point of the market these were the most unstable objects in the eyes of the investors.

Market is in recovery phase in all Baltic countries. Lithuania is on a strong position due to their FEZ-areas and strong lobby work made by government. In this area, Estonia and Latvia still have improvements to make.

Investment Market

In previous years the interest of international investors was involved with the Baltic region as a whole. After Estonia joined with the EURO-zone, the interest is little bit higher towards Estonia, but also towards Lithuania. Latvia seems to be with slightly higher risk in the eyes of the investors.

The most active investors in the Baltics have historically been the East Capital, Baltic Property Trust, Evli, Boultbee, Citycon, AVEC Baltic Property Fund, EEREIF, Catella Real Estate, Deka Immobilien, Verdispar, Triangle Group, EEREIT and Explorer Property Fund – Baltic States.

Estonia

General overview

Within Estonia, the most favourable region is still Tallinn and the areas around Tallinn. Pärnu, Tartu and also Jõhvi and Narva are also attractive, but clearly secondary. The rest of Estonia even in larger settlements is from investment point of view less valued, having among comparable locations yields of all sectors on lower level.

In general, the most active part of investment market is involved with retail as the more stable market sector in market slow down situation. In reality, all sectors, meaning retail, office and warehouses is active.

Transactions

Many companies have gone to bankruptcy, leaving the sale of collateral on banks shoulders. Collateral is sold on public auctions, resulting in low sales prices.

Driven from low sales prices, all the main banks in Estonia have formed investment companies that bid on public auctions to buy real estate with good perspective. If transactions through public auctions today are made with market level sales prices or not is a matter of discussion and depends on auction course.

Activity in investment market enlivened from second half of 2009, and even more from 2nd quarter of 2010. State Real Estate Ltd. (RKAS) sold all together around 20 properties during the last two and a half years. If in 2009 office properties were sold with the yield approximately 10% and higher, then properties sold during 2010 had yields around 9%. Deals with warehouses were made at yield around 10-11%.

The activity of different property funds has increased and many of them are searching for new investments, there are also signs of new funds to be created.

Eften Capital bought two office buildings in centre district of Tallinn in the end of the year 2010. Buildings were located at Lauteri Street and Narva Road, the transaction price was 3 960 000 EUR with estimated yield 8,5%.

Brave Capital bought two shopping centres, one of them located in Maardu (with 2,8 mil EUR) and the other in Mustamäe district (Sütiste shopping centre, with 1,8 mil EUR). The shopping centres were covered with long-term lease agreements.

One of the biggest transactions of last couple of years will be acquisition of 6 shopping centres in Tallinn and Pärnu by East Capital. Possible transaction price is around 100 mil EUR, with assumable yield 9,0-9,5%. At the moment there have been no news about approval of the transaction.

East Capital also bought Laulasmaa SPA, where known Scandinavian operator should start its activity.

Citycon is buying Kristiine shopping centre from Pro Kapital with 105 mil EUR, estimated yield of the transaction is 8%.

Yields

Compared to well-developed countries, market yields in Estonia have been relatively high for a long time. During the years 2006 and 2007, the yields fell dramatically, almost to the level of Northern and Western European countries and close to interest rates. During the years 2008 and 2009, yields rose again - during 2008, the increase was 150-250 basis points and during 2009, 50-100 basis points in addition. In 2010 the yields remained quite stable, the first signs of decrease are in retail sector.

The "low end" of yields in industrial and warehouse sector starts from 10,0% presuming good quality, a long term rental agreement (usually sale & lease-back deals), a trustworthy lessee and a guarantee from a bank or from mother company. Some negotiations are, however, already below 10% yield. The lowest yield for retail is 8,0% and for office properties 9,0%.

Yields in Pärnu and Tartu are 1-3% higher, depending on quality and perspective of the property. The rest of Estonia even in bigger settlements is not comparable, yields being significantly higher.

Latvia

General overview

Investment demand remains rather low in Latvia. Companies still need to deleverage before engaging in new investment projects.

Due to previous information and macroeconomic and real estate sector recession, investors tend to wait for stabilization. Economic slowdown affected the quality of investment products as vacancy rates rose, in the same time rental fees and property prices fell.

Transactions

2009 and 2010 are noted for no investment transactions. Nevertheless, Riga still remains attractive due to its geographical location.

On the 1st of July 2010, the amendments to the immigration law of Latvia came into effect, which allows foreign investors to obtain the residence permit in Latvia. This legislative change is expected to have serious impact on Latvian investment market.

Yields

Market yields in Latvia have historically been relatively high compared to well-developed countries. During the years 2006 and 2007 the yields fell sharply, however, during the years 2008-2010 yields quickly increased again. The first signs of commercial market stabilization in 2010 were noticed, rental rates have evened out and stopped falling, a positive effect on investors' confidence has resulted in lower yields.

The lowest level of yields in the industrial sector starts at 10,0% presuming good condition, a long term rental agreement (usually sale & lease-back deals), a strong tenant and a guarantee from a bank or from mother company. The lowest yields for retail and office objects are 8,5% and 9,0%, respectively. As there haven't been large transactions, then presented levels are rather assumable.

Lithuania

General overview

In Lithuania, the most favourable region for international investors is Vilnius, followed by Kaunas, Klaipeda, Panevezys, and Siauliai, the rest of Lithuania even in bigger settlements is from investment point of view less valued.

The most active part of investment market was involved with retail as the more stable market sector also in the market slow down situation. The last large investment transaction was recorded in 2008, when Akropolis shopping centre in Kaunas was acquired by German fund DEKA Immobilien. Few and much smaller investment transactions were made also in 2009 and 2010, but the activity is still rather low.

Yields

The commercial property prime yields were lowest in 2007 and followed the upward direction since 2008. As there were no evidence of significant investment transactions in 2009, and only one office property was acquired as investment in 2010, the yields are rather assumable and represent the overall expectations.

The expected yield level currently stands at 8,0-11,0% for prime office properties, whereas for those of the best quality located in the Vilnius CBD the yield level is estimated to be in the range of 8,0-8,5%. The yield of prime retail properties is 8,0-11,0%, while that of industrial real estate is estimated to be 10,0-12,0%.

Transactions

Despite the significantly increased supply of new investment opportunities during the economic downturn, there were no investment transactions of larger scale in 2009 and only one transaction in 2010. The office building (8 000 m²), developed by local developer Vilmesta, was acquired by Lords LB Baltic Fund I. The building is anchored by Danske Bank. This is the first acquisition of the Lithuania based property fund.

The main factor determining such low activity is a tremendous gap between buyer's and seller's property price expectations. Other reasons for low activity include upswing in borrowing cost and the price of capital as a result of the global financial turmoil in 2008; challenges caused by economic downturn in Lithuania; short-term risks related to commercial property market (high vacancies and dramatic decline in rentals); uncertainty of the further market development in the future.

Many local property owners and developers found it difficult to acknowledge the sharp drop in their property values, but those under financial pressure were forced to consider disposing some of their assets in order to strengthen their short-term financial liquidity position. Thus, a number of prime investment properties were offered for sale. However, a mismatch of the yield level expectations between sellers and buyers lead to only one investment transaction in 2010.

The market remained illiquid in 2010. Yet the lack of transactions made it more difficult to estimate the actual drop of property values. The more frequent expectations of potential investors to get double-digit yields have widened the gap between the sellers' and buyers' anticipation of the property price. Developers and property owners were not in a hurry to sell their properties, as the current market price often does not satisfy their previous investments.

Comparison between Estonia, Latvia and Lithuania

Overall situation in the Baltic countries is enlightening. From investment point of view, crisis in economy and real estate market have made all three countries attractive as prices of real estate have significantly decreased, yields increased and the variety of different properties on offer is wide. Serious obstacle to investment activity has been the weakness of economies which today is in slow recovery process.

First to exit the recession period are Estonia and Lithuania which are to investors also more attractive. Investors mainly come from Scandinavian countries, but also from Russia. Latvia is currently still less attractive, but the situation will improve along with stronger recovery in economy and in real estate market.

In Estonia, first national capital based investment fund called Eften Capital was founded. The fund is operating since 2008 and its portfolio contains seven commercial real estate properties in Tallinn and in other larger cities in Estonia. Eften Capital also operates the Baltic real estate portfolio which contains eleven commercial properties all over Estonia.

This kind of a national investment fund is also created in Lithuania, however, slightly later. Both funds, in Estonia and in Lithuania, were created to invest in real estate with great perspective, steady rental flow and attractive price.

In short term, yields will have a slight tendency to decrease, especially in Estonia and Lithuania and mainly in retail sector or properties with very good perspective and strong rental agreements. Yields in Latvia will remain stable at least during current year

Baltic countries separately are small in size, but together make a considerable region for trade and investing. All three countries are effective in speed of decision making with country-wide importance, making them in long term more stable and trustworthy partners. Due to low wage level, the countries are attractive to international industries in order to increase the efficiency of their operation. In addition, the Baltic countries have strong growth potential in terms of real estate market and participating in global transit and industry.

Table 27

Prime yields

	Retail	Office	Industrial and warehouse
Baltic countries	8,0-8,5	9,0-9,5	10,0-11,0
Central and Eastern Europe	5,5-6,5	6,0-7,0	7,5-8,5
Western and Northern Europe	5,0-6,0	5,0-6,0	6,5-7,5

Source: DTZ Research

Hotel Market

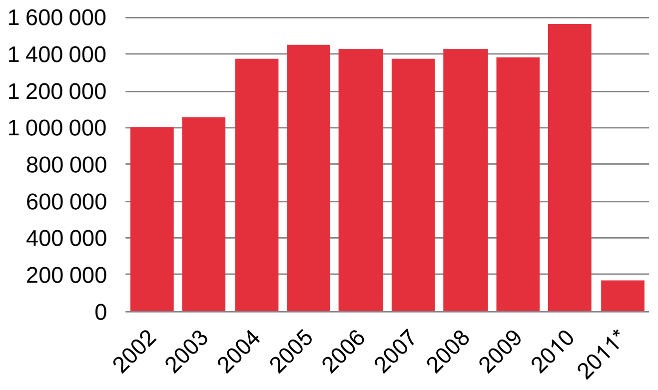
Hotel industry normally follows the trend of general economic climate in the country. During booming years in economy of Baltic countries also hotel industry had it's prosperous times. The number of clients increased and regardless of remarkable new construction, hotels' average occupancy rate increased. Along with the economic recession more difficult times arrived which today are clearly improving.

Estonia

According to Statistics Estonia, in 2010 the number of visitors in hotels and other collective accommodation establishments increased by 11% compared to 2009. During 2010, 35% of all visitors were Estonian residents and 65% foreign visitors. During 2010 compared to 2009, the number of foreign visitors increased by 12%.

Figure 20

Number of international visitors in Estonian hotels



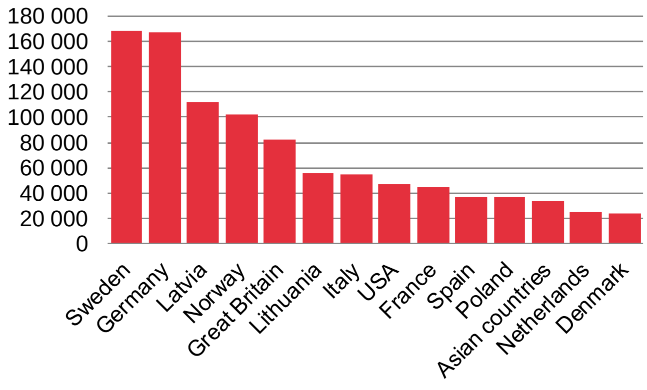
Source: Statistics Estonia

The highest share of foreign tourists stayed in Tallinn (1,3 million people). The other popular destination (over 220 000 visitors) has been Pärnu city as the summer capital of Estonia. The share of Tallinn has always been remarkable, especially among foreign tourist, and can be considered as the most popular destination.

The largest number of visitors came from Finland – there were 1 664 139 people spending the night in Estonian hotels. The second largest numbr of visitors have over the time come from Russia – in 2010 there were 330 276 people.

Figure 21

Number of visitors from different countries in 2010

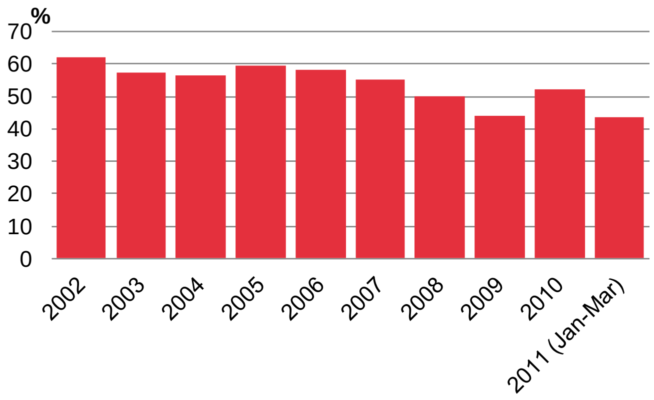


Source: Statistics Estonia

During 2002 to 2008, average hotel occupancy rate was in range of 50-60%. In 2009, occupancy decreased to disturbing 44%. In 2010 the average occupancy was again 52%.

Figure 22

Room occupancy in Tallinn hotels



Source: Statistics Estonia

The number of well-known international operators is relatively limited; Radisson Blu, Swissotel, Tallink, Scandic and Domina Hotels are examples of brand names which are presented in the market.

In summer 2009, VAT (value added tax) was increased from 18% to 20%.Among other areas, tax increase was set in catering and food services. The Estonian Hotel and Restaurant Association is planning to present the government an application with request to lower VAT in this segment. VAT regarding accommodation services was not raised, remaining on the level of 9%. Tax increase was covered by service providers' account as no serious price increase in food prices was visible.

Latvia

The hotel supply has increased during years 2009 and 2010. Only two hotels were commissioned in 2009-2010 (Botique Old Town hotel and Tallink Hotel Riga). There are 113 officially rated and certified hotels in Latvia with a total of more than 6000 rooms.

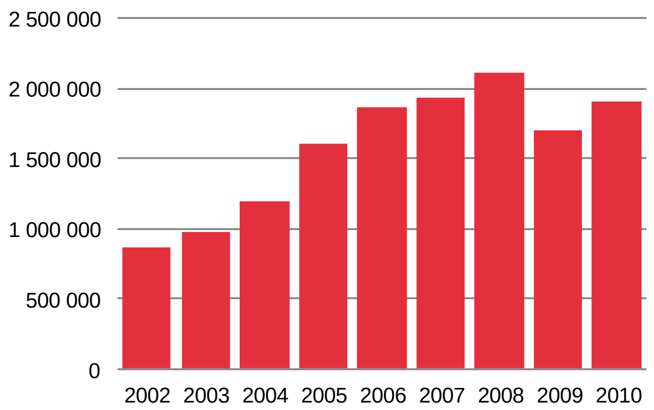
The main activities of the tourism business are concentrated in Riga. During the summer period large number of visitors is staying also in resort cities, i.e. Jurmala, Liepaja and Ventspils. 3-star hotels predominate among the others, i.e. 61 per cent in Latvia and almost 55 per cent in capital Riga.

Hotel industry in Latvia is mainly owner-operated. Operating agreements are rarely used and most of hotels do not belong to bigger hotel chains.

In comparison with the 2009, number of visitors in hotels increased by 13% in 2010, reaching the level of 2007 and comprised 1912 thousand people, thus showing positive signs in the market.

Figure 23

Number of visitors in Latvian hotels

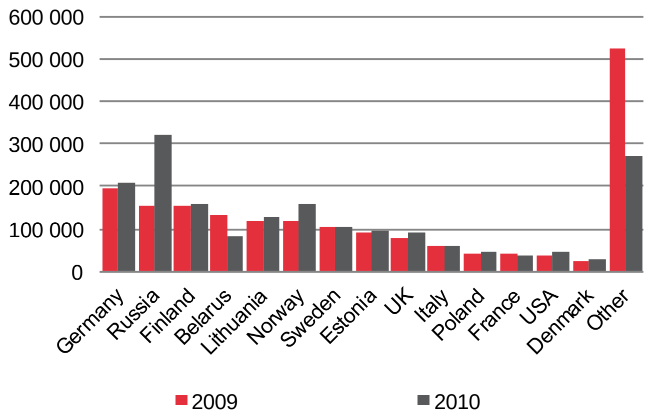


Source: Central Statistical Bureau of Latvia

Tourists from nearby Russia (320 thousand), Germany (210 thousand) and Finland (161 thousand) predominated among the visitors in 2010. The number of visitors from Scandinavian countries has decreased, in the same time number of visitors from Russian Federation has increased by 50%.

Figure 24

Number of visitors from different countries in 2009 and 2010



Source: Central Statistical Bureau of Latvia

The average occupancy rate in Riga has dropped from 47,4% in 2007 to 34,1% in 2010. During 2009 and Q1-3 2010 hotels occupancy rate continued its fall. Hotel stock still increased during 2009-2010 and demand increased slightly. The occupancy rate remained at the level of 2009, even slightly increased due to implementation of such tourist attraction programs, such as LIVE RIGA and efforts undertaken by the Riga municipality, AirBaltic airlines and Association of Latvian Hotels and Restaurants to increase popularity of Riga and Latvia.

The number of well-known international operators is relatively limited. Radisson Blu, Tallink and Best Western are examples of brand names which are presented in the market. Small hotels operated by inexperienced individuals faced difficulties in 2010 and some of them are being forced out of the market by hotels operated by international chains.

Many hotels had to raise prices at the beginning of 2009 due to a higher tax rate, as VAT was increased from 5% to 21%. Since May 1st 2010 VAT for hotel services was lowered to 10%, thus giving the opportunity for development. However, the VAT was increased again to 12% from January 2011. It is expected that it won't have a critical influence on the hotel industry, yet the tax increase will probably be compensated by the hotel owners. Together with rising number of tourists the net effect could be neutral.

Lithuania

Vilnius, as the capital of the country, is the most attractive tourism destination. Besides, this is the country's commercial/business centre, therefore attracting the bulk of business tourists. Almost 50% of all overnight stays in Vilnius can be attributed to business trips. Therefore, the majority of hotels, especially those belonging to the international hotel chains, are located in Vilnius.

The second most attractive Lithuania's tourism destination is the seaside area (Palanga, Neringa, Klaipeda). However, this market segment suffers from high seasonal influence (as the season for seaside recreation is rather short, only three summer months) and is dominated by local hotel and other accommodation establishments' owners.

Another specific tourism destination is spa resort Druskininkai, where the activity of new hotel and spa centre developments/reconstructions was probably the most intensive.

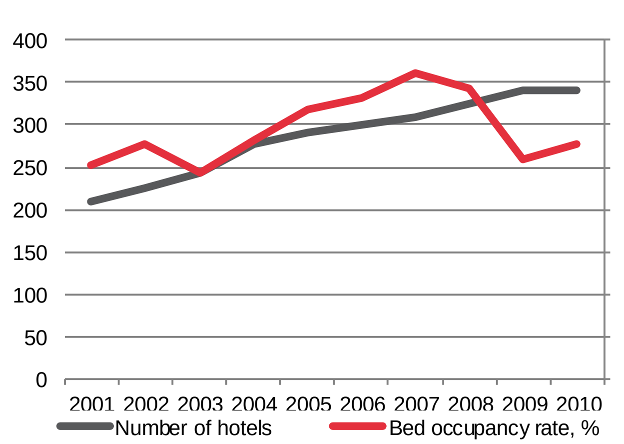
The hotel market in Lithuania comprises 335 hotels and guest houses. Over 43% of the said accommodation establishments are classified as 3-star ones. The share of hotels, classified as 4-star, is equal to 73%, while in these accommodation facilities the number of rooms makes one third of all rooms in the country.

The accommodation market in Lithuania is dominated by local players, mostly owning comparably small economy-class hotels. The business-class hotels are mostly run by international hotel chains.
The most of business-class hotels are expectedly located in Vilnius Old Town and the central areas. Many of these hotels belong to international hotel chains; a few names to be mentioned are Radisson Hotels & Resorts (Radisson Astorija, Radisson Blu), InterContinental Hotels Group (Holiday Inn, Crowne Plaza Vilnius), Accor (Novotel), Best Western International (Best Western), Scandic Hotels (Scandic Hotel Neringa). The business-class hotels are offering the bulk of conference venues in Lithuania. In fact, roughly 60% of hotels in Vilnius offer conference facilities.

The demand for hotel services has fallen significantly in 2008-2009. The overall bed occupancy rate in Lithuania has declined to 25.8% in 2009, compared to 36.1% and 34.4% in 2007 and 2008, respectively. At the same time, the number of hotels has increased.

Figure 25

Number of hotels and bed occupancy rate in Lithuania

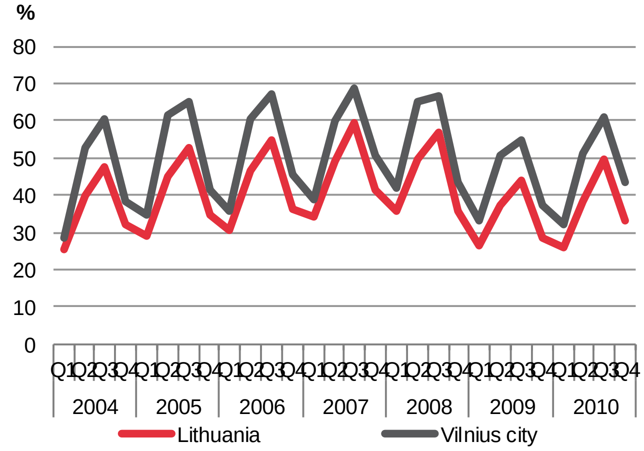


Source: Statistics Lithuania

The high season in Lithuania's hotels is May-August. The occupancy rates in Vilnius hotels are somewhat higher compared to the rest of the country, however the same high seasonal influence remains.

Figure 26

Room occupancy rate in Lithuania and in Vilnius

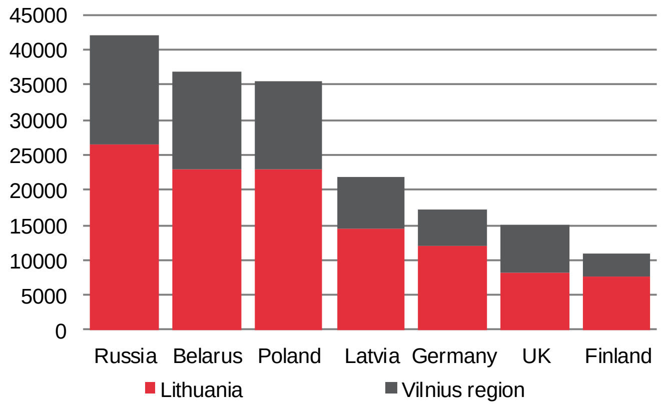


Source: Statistics Lithuania

The largest share of all accommodated guests in Lithuania in the end of 2010 was from Poland (16,8%), Germany (14%), Russia (11.8%), and Latvia (7.8%), i.e. mainly neighbouring and closely located countries. However, the major stake of all stays belonged to Lithuanians (45.3%). The choice of tourists, depending on what country they are from, differs. For Instance, the bulk of Polish tourists tend to stay in Vilnius, whereas those from Germany prefer other locations (mainly, the seaside area in Neringa).

Figure 27

Number of visitors from different countries



Source: Statistics Lithuania

Operating performance of hotels in Estonia, Latvia and Lithuania

In the spring 2010 The Rezidor Hotel Group announced a management agreement with the Norwegian real estate developer Linstow for 10 Reval Hotels in the Baltics (Latvia, Estonia & Lithuania) and Russia. The agreement between Rezidor and Linstow came into effect on June 1st, 2010 and included 3 hotels in Riga, 2 hotels in Tallinn, 2 hotels in Vilnius, and 1 hotel in Kaunas, Klaipeda and St. Petersburg each – adding a total of 2 367 rooms to Rezidor's portfolio. 6 hotels are rebranded as Radisson Blu and 4 as Park Inn.

Majority of hotels are smaller economy class hotels and operated by their owners, business hotels are in general operated by international operators based on operating agreements. There exist certain features, which are typical for most of hotel markets.

Based on information about known operating agreements (operating fee paid by operator to property owner and operating cost paid by operator and owner), based on information about hotel operating parameters (average occupancy, revenue per average room, seasonal fluctuations in hotel business revenue, operating cost, etc.) and the average operating fee that the operator is able to pay based on analysis of brought information, it is possible to point out following parameters:

- The yields in hotel industry are higher than in office and retail sector and more similar to industrial and storage sector; this is mainly due to operating (tenant) risks (seasonality, operating quality and brand, location and access, etc.);

- It is quite common, that rental payments are relatively comparable with office market rental fees, but as total areas are larger, square meter based rental fees are also lower; in general, rental payments for the property amount 25-40% of accommodation turnover and 10% of food and beverage segment.

Those figures are based on performance of an "average" operator in "average" circumstances, which means that both situation in market and position of operator have influence on those indicators.

Residential Market

Estonia

Secondary Apartment Market

The current situation in apartment market is characterized by a relatively stable number of transactions. The supply exceeds the demand and offer prices vary widely.

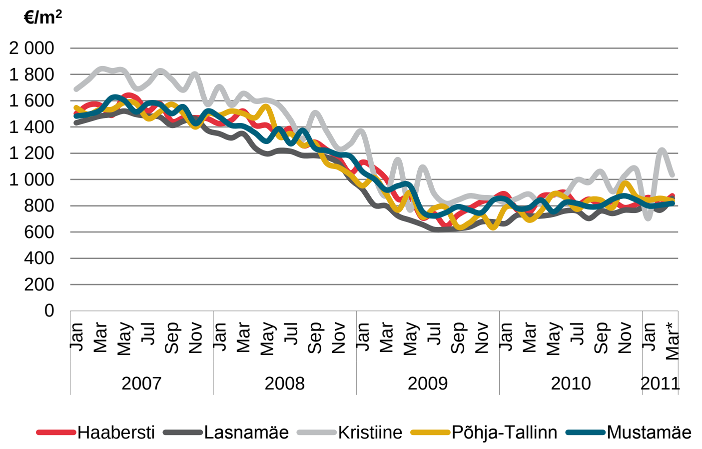
Secondary apartment market is more active compared to the primary apartment market - there are more items, price levels are lower and consequently, there are more potential buyers.

Secondary Apartment Market in Tallinn

Compared to the lowest point of the market in 3rd quarter of 2009, the average prices of used apartments have been risen 15-20%. Currently average transaction prices outside of the city center are 650-850 €/m^2.

Figure 28

Average apartment prices in Tallinn

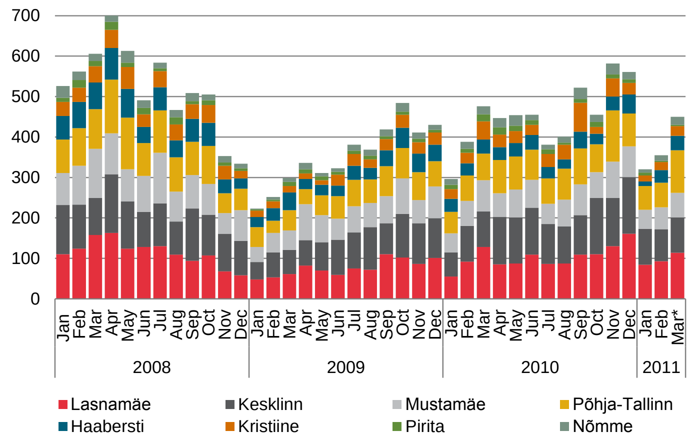


Source: DTZ Research, Estonian Land Board

There are averagely 450–580 transactions made monthly, which is half of the amount of the transactions made during booming period. The smaller number of transactions in January and February 2011 is explained by the seasonal low at the beginning of the year and also so-called euro-hangover. The increase in the number of transactions in 2009 compared to 2010 was 20%.

Figure 29

Amount of the transactions in Tallinn



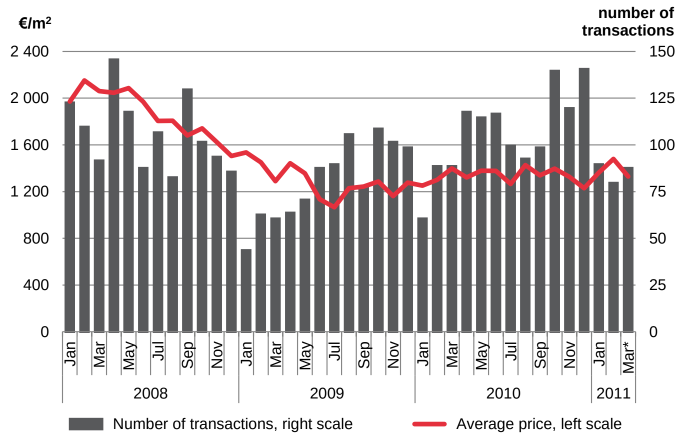
Source: DTZ Research, Estonian Land Board

The increase in the number of offers in March 2011 compared to March 2010 was 20%. The gap between offer prices and transaction prices is approximately 20-25% (actual transaction prices are lower).

In the city center the average price has fallen because of major price cuts and the transactions converging in regions with lower rating. Transactions with expensive apartments take place rarely even today, when the market is stabilizing. The median price of apartments in center district has risen to 1 300 €/m^2 by 1st quarter of 2011, which is approximately 25% higher than the lowest average prices in 2009.

Figure 30

Average apartment price and amount of transactions in the Centre District of Tallinn



Source: DTZ Research, Estonian Land Board

Table 28

Average transaction prices in Tallinn			
Region	**City district**	**Secondary market (older apartments) €/m²**	**Primary market (new apartments) €/m²**
Centre District	Old Town, city heart	1300 – 2200	1300 – 2200
	Bordering areas of city heart	950 – 1600	1300 – 2000
	Fringe area of central district	750 – 1200	1200 – 1600
Living districts	Haabersti	700 – 850	850 – 1500
	Lasnamäe, Mustamäe	600 – 850	650 – 1200
	Kristiine	700 – 1000	950 – 1600
	Põhja-Tallinn	580 – 950	950 – 1700
Elite suburb	Pirita, Nõmme	750 – 1300	1000 – 1600

Source: DTZ Research, Estonian Land Board

The most popular areas in the secondary apartment market in vicinity of Tallinn are Keila and Maardu cities. Average prices in above mentioned cities are 400-600 €/m^2.

Secondary Apartment Market in Tartu

The average prices of older apartments in Annelinn increased in 2010 nearly 10%.

During 2010 there were around 80-100 transactions made monthly. During the first months of 2011 there were made around 55-60 transactions monthly. The increase in the number of transactions in 2009 compared to 2010 was 30%. The increase in the number of offers in March 2011 compared to March 2010 was 20%.

The most preferred districts in Tartu are City Centre, Tähtvere and Karlova. Less preferred districts are Jaamamõisa and wooden houses in Raadi-Kruusamäe district.

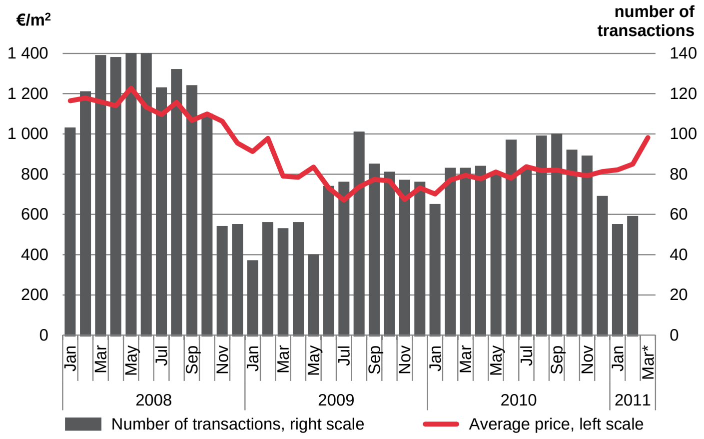
Table 29

Average transactions prices in Tartu, €/m²				
Quality of the apartment	**1-roomed**	**2-roomed**	**3-roomed**	**4-roomed**
Un-renovated	220 - 650	220 - 650	200 - 600	200 - 600
Renovated	500 - 700	500 - 750	500 - 750	500 - 650
New-built	800-1400	900-1300	900-1300	900-1300

Source: DTZ Research, Estonian Land Board

Figure 31

Average apartment price and amount of transactions in Tartu



Source: DTZ Research, Estonian Land Board

Secondary Apartment Market in Pärnu

The increase in the number of transactions in 2009 compared to 2010 was 45%. However, the increase in market activity has not led to a price increase, in some areas prices have even dropped.

The number of offers increased during 2010, especially in living districts. Offered prices are approximately 30 – 40% higher than actual transaction prices.

Average transaction prices in suburban districts are currently 500-640 €/m^2, in city center and beach district of Pärnu 770- 900 €/m^2. Most preferred areas among customers are city center and beach district, which are significantly influenced by the proximity of the sea and Pärnu River.

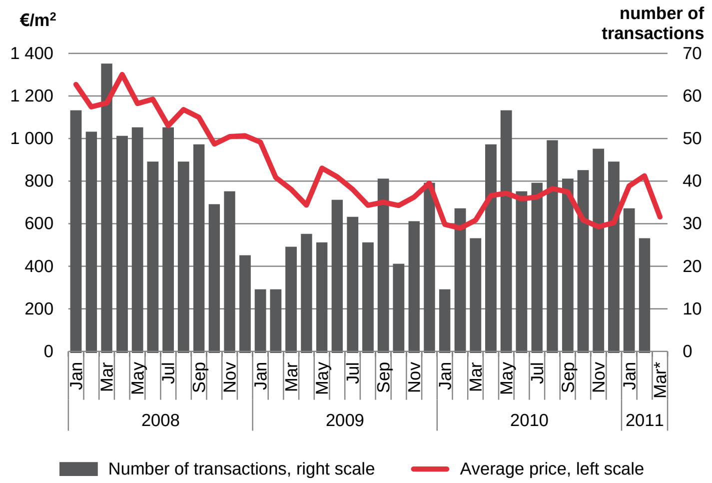
Table 30

Average transactions prices in Pärnu, €/m²				
Quality of the apartment	**1-roomed**	**2-roomed**	**3-roomed**	**4-roomed**
Un-renovated	600 - 650	600 - 650	500 - 600	500 - 600
Renovated	700 - 800	750 - 850	700 - 800	650 - 700
New-built	1000-1100	1100-1200	1100-1200	1100-1200

Source: DTZ Research, Estonian Land Board

Figure 32

Average apartment price and amount of transactions in Pärnu



Source: DTZ Research, Estonian Land Board

Primary Apartment Market

The proportion of new apartments in sales market is rather marginal. The main cause for this trend during last few years is stalled development in apartment market segment. Percentage of new apartments among all transactions in recent years has been about 15 - 20%.

Primary Apartment Market in Tallinn

At the current moment the average transaction prices of new apartments (finished not earlier than in 5-year period) in most expensive Centre District are 1300 – 2000 €/m^2 and between 1 200 – 1 600 €/m^2 at the fringe areas of City Centre. In living districts apartment prices vary between 800 – 1 500 €/m^2, in elite suburb areas mostly between 1 000 – 1 600 €/m^2.

Many new development projects are commenced by taking advantage of the discounted construction costs. In 2010 approximately 820 apartments in 28 houses were issued a building permit. This is nearly 1,3 times higher indicator compared to 2009.

The most popular areas in the primary apartment market in near vicinity of Tallinn are Laagri hamlet in Saue parish, Haabneeme hamlet in Viimsi parish and Rae parish. Compared to the lowest point of the market in summer of 2009, the average prices of used apartments have been risen 25% and vary between 800-1000 €/m^2.

Primary Apartment Market in Tartu

The average transaction prices of new apartments in suburb district and close vicinity of Tartu are 640 – 1000 €/m^2, in City Centre and surrounding areas between 1 150 – 1 600 €/m^2.

The number of apartments, which were issued a building permit in 2010 and in 2007, is similar. However, it does not characterize the general market trend. A significant proportion of the apartments form the dormitories of Defence College and apartment buildings which are planned for social housing. Therefore, at least during the next few years those apartments do not affect the sales market significantly.

Most of new apartment buildings in the close vicinity of Tartu are built in Luunja and Tartu municipality.

Primary Apartment Market in Pärnu

The transaction prices of the new apartments have fallen, especially in case of the larger apartments. The transaction prices are from 640 €/m^2 in close vicinities of Pärnu (for example Hirvepargi district in Sauga Hamlet) up to 1 470 €/m^2 (beach district of Pärnu). Prices of apartments with an exclusive planning and location in City Centre or the beach district have been up to 1 790 €/m^2

Development of new residential areas in close vicinity of Pärnu has been most extensive in Sauga hamlet, where Hirvepargi district has been built. At the current moment the average transaction prices in Hirvepargi district are 600 €/m^2

In the short term perspective there are no major projects coming into the market, and developers are focused on the realization of existing projects.

Single-Family Houses in Tallinn

The most popular areas of single-family houses in Harju County are Harku, Rae and Viimsi parishes. Most popular districts in Tallinn are Nõmme and Kristiine.

During 2010 the average transaction prices and market activity increased. By the beginning of 2011 the average prices are 10 – 30% higher, compared to the lowest point of the market in 2009. There are averagely 55 – 65 transactions made quarterly in Tallinn.

In relatively low-rated districts the offer prices are beginning from 120 000 €, in most preferred districts from 180 000 €. Most of the offers vary in range 190 000 – 380 000 €.

The transaction prices vary between 120 000 – 220 000 €. When the condition of the house is below average, prices usually start at 60 000 €.

Single-Family Houses in Tartu County

Most preferred areas of single-family houses in Tartu are Tähtvere, Tammelinn, Veeriku and Kvissentali. In the neighbouring parishes of Tartu most preferred houses are located in Võru-Otepää-Valga direction (in Ülenurme parish). The most preferred district near Tartu is Raadimõisa residential district.

There are averagely 20 – 30 transactions monthly in Tartu County. Due to the small amount of transactions and specific characteristics of objects, it is very difficult to accurately describe the price dynamics of housing market. The stabilization of average price can be observed since the summer 2009 and moderate price increase (up to 5%) during 2010.

Most of the single family houses in Tartu are built in 1960s (Tammelinna, Ropka, Veeriku and Raadi-Kruusamäe districts). Average transaction prices of those houses during past year are between 57 000 – 125 000 €.

The average transaction prices of new houses (finished not earlier than in 10-year period) are 90 000 – 160 000 €.

Single-Family Houses in Pärnu County

Most preferred areas in Pärnu are City Centre and beach district, where price levels are significantly higher compared to other districts. Rääma, Ülejõe and Raeküla districts are averagely rated districts. Least valued residential area is Vana-Pärnu, where many of the buildings need renovation.

The 1st and 2nd quarter of 2010, when the number of transactions started to increase, brought the first signs of market stabilization in Pärnu County. Transaction prices have fallen approximately 10 – 15% compared 2009.

The transaction prices vary between 38 000 – 160 000 €. Some transactions with exclusive villas in City Centre or beach district took place with prices up to 415 000 €. Average price of renovated houses with the modern interior vary between 95 000 - 128 000 €.

Most preferred districts in the close vicinity of Pärnu are Paikuse, Audru, Sauga and Tahkuranna parishes. Major part of development projects during last few years were converging in those regions. Transaction prices of new houses vary between 60 000 – 95 000 €.

Forecast

- The number of transactions will remain stable and is comparable with market activity of the 2nd half of 2010;
- The price levels will stabilize in smaller cities and will increase moderately in larger cities like Tallinn, Pärnu and Tartu;
- The offer prices will even, clearer differentiation based on the quality of the different objects;

Latvia

From location point of view, market is divided to Riga and surrounding territories within 70 km distance from Riga (Riga district), which compose main part of the market, and other larger regional towns and their surroundings. The main part of existing stock is covered by the block house segment from Soviet time, relatively small segments of older houses and new stock built in 2000's cover the rest of residential stock. In addition, there is a single-family houses segment, which has relatively small capacity.

Residential market is concentrated to larger cities, especially to Riga and its vicinity. 67,8% of inhabitants live in urban areas, Riga together with Riga district constitutes ca 39% of total population. Population density is the highest in Riga City (2 353,2 inhabitants per km²) and the lowest in Vidzeme region (15,5 inhabitants per km²). Single-family houses are rather untypical, only 14 thousand families live in single-family houses within the boundaries of Riga City. Outside the city boundaries, the number of single-family houses is relatively higher.

Due to historical reasons (privatization of apartments in 1990's and favourable loan conditions in the middle of current decade), rental relations in residential market have been nearly non-existent. Rental market is concentrated to relatively limited central locations by demand among foreign people staying in Riga for a longer period. Supply is chaotic, there is a small number of rental houses owned by institutional investors or developers, most of rental apartments are located separately and are owned by individuals.

Residential Market

Apartment market

General trends:

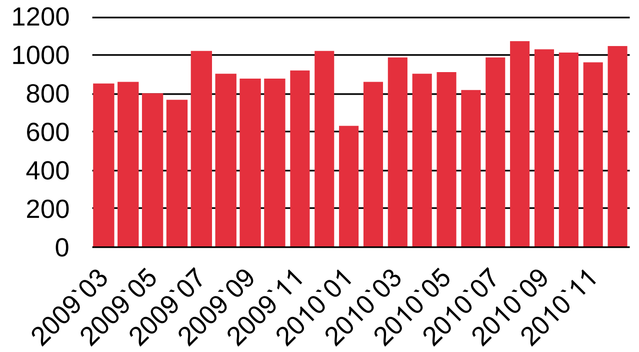
- Oversupply of apartments for sale and rent, oversupply of single-family houses and land units for sale
- Low, but growing market activity
- Price (rentals) steadiness and marginal positive changes in all segments
- Prolonged selling (renting out) periods
- Big number of forced sales (having influence to price dynamics), although the exact amount of these sales are not officially accounted
- Keeping big number of frozen projects in different stages of development and many in different stages of overtaking by banks
- New residential projects were announced

Block house apartment price maximum was recorded in May 2007 when price was ca 1 700 €/m², in the end of 2008 – 900 €/m², end of year 2009 average price was ca 500 €/m², total price decrease in first half of 2009 was ca 40%, decrease from peak time ca 70%, but last half of 2009 prices were steady with slight trend to rise. Current price level is back to the middle of 2007. Over 2010 prices have stabilized and a slight increase is observed. Prices in smaller cities in Riga District (Jurmala (Kauguri), Ogre, Salaspils, Jelgava) are ca 20-25% lower compared to Riga City. The average apartment price in January 2010 was 571 €/m² and 583 €/m² in December 2010 which equals an 8% increase.

Number of transactions of apartments in Latvia is stable with slight increase at the end of 2010. No sharp increase in sales with apartments is foreseen.

Figure 33

Number of transactions in Latvia



Source: DTZ Research

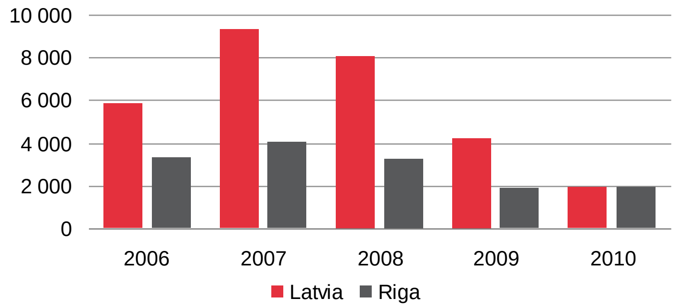
Sharp price decrease took place also in new apartment segment. Activity in the segment was stable during 2010. Potential buyers were most interested in apartments in the price range from 40 000 - 65 000 EUR. The most demanded apartments were two to three room apartments (65-80 m²) with full finishing and preferably as close to centre as possible. Prices in exclusive centre in renovated buildings or in new developments maintained stability and were on average between 2000 and 3000 €/m², yet in some cases reaching 3600 €/m². Prices for new project apartments in active centre as well as in the periphery of centre were between 1200 and 2000 €/m^2. The prices for apartments located outside of Riga centre were 800-1300 €/m2. Most of apartments have still only "white" or "grey" finishing – meaning that additional investment are needed for buyer. It means lower liquidity in current market situation. Unsold stock is still enormous – close to 8 thousand apartments, though not all of them are listed for sale due to different problems (most are in some stage of takeover by the bank subsidiaries).

The sales amount is expected to grow starting from 2011-2012, but during 2 years period liquidity is still expected to be on a rather low level. During 2010 approximately 700 apartments in new residential projects were bought, i.e. average 50-60 transactions per month.

Unlike a year ago, in 2010 private investors started a few new developments. Construction of new projects Riverstone (next to hotel Islande in Kipsala) and Ebelmuiza (in Ziepniekkalns) was started in 2010, three more new residential developments at Gulbja Street (four 5-storey houses with 152 apartments), at Akaciju Street (one 9-storey house with 63 apartments) and Talivalza Street (in Teika two 5-storey houses with 80 apartments) were announced at the end of 2010.

Figure 34

Number of apartments completed



Source: DTZ Research

Single-family Houses

Single-family houses are more concentrated to locations like Darzciems, Purvciems, Jugla, Mezciems, Mezaparks, Jaunciems, Vecaki, Imanta, Pleskodale, Marupe and Ziepniekkalns, but mainly it is outside of City boundaries and Jurmala can be mentioned as typical location of premium class single-family houses. Single-family houses market has the same tendencies with apartments market. However, the prices in this segment have been more stable compared to apartments. Average price with full finishing is ca 800 - 2000 €/m². The biggest demand is for small private houses around 100-150 m², in 35-40 km radius around Riga and in the price range up to 200 000 EUR.

As supply is rather large, we do not expect price increase in nearest year, moreover there will be continuous pressure on the prices by the forced sales. At the same time a significant price decrease is also unlikely because of improving sentiment in the market. Most of properties that now are on sale are only with white/grey finishing and with very average location – typically in green field projects, very average access road, lack of social infrastructure and communications what leaves important negative effect on prices.

Table 31

Housing market in secondary towns

Region	City	Location	Quality	Price level, €/m²
Vidzeme	Valmiera	Within city	Need of renovation	200-300
			Satisfactory	300-600
			Very good	500-1000
Zemgale	Jelgava	Within city	Need of renovation	300-500
			Satisfactory	500-700
			Very good	700-1200
Kurzeme	Ventspils	Within city	Need of renovation	200-300
			Satisfactory	400-600
			Very good	650-1800
Latgale	Daugavpils	Within city	Need of renovation	200-300
			Satisfactory	300-700
			Very good	500-1000

Source: DTZ Research

Forecast

- Market prices will increase slowly and steadily; however, much will depend on the behaviour of banks and their subsidiaries;
- The diversity in price levels between different segments of apartment market will grow;
- Properties in better location and with higher quality are likely to gain in value more rapidly compared to less attractive properties.

Lithuania

The dramatic fall of residential property market activity and prices, which started in 2008, has brought many changes to the housing market. In 2010, though, situation has more or less stabilized, bringing some brighter moods to the market.

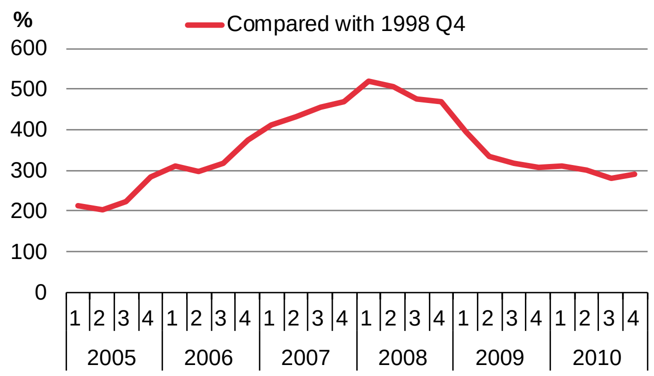
The largest number of apartments during the boom of 2004-2008 was delivered in the economy-class segment, which can be described not only by lower prices of housing (compared to higher-class and prestigious apartments), but also by more remote locations (from city centre), higher construction intensity and number of floors.

Residential Market

The Lithuanian housing market is dominated by local developers, whereas only in Vilnius some international and regional developers are more active. However, a number of local development and construction companies have not avoided bankruptcy.

Figure 35

Price changes in residential market in Lithuania



Source: DTZ Research

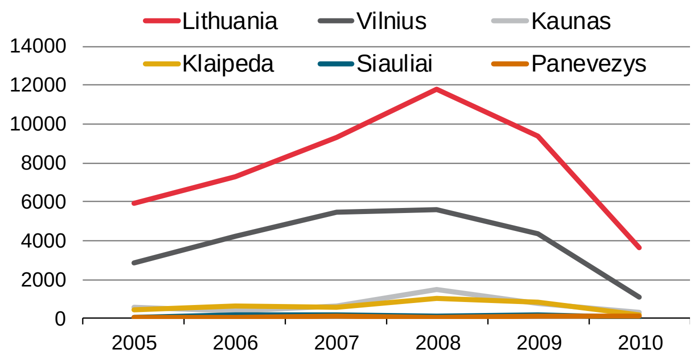
The main features, describing the current market situation are the following:

- The residential market, as it could be expected, is the first property market segment to show more activity. The housing market activity is currently the highest compared to commercial property market segments;
- The most active housing segment is that of economy-class 1-2 room apartments in the residential districts of Vilnius, both newly constructed and older;
- The “wait-and-see” strategy, which was prevailing in 2008-2009 with the expectations of further price level drop, is now changed by more active interest in potential acquisitions, but the price bottom do not be reached; the prices of residential property decreased by -13% as compared 2010 with 2009 period (Registry Center’s data).
- The supply of newly built residential properties is drying-out, the perspectives of new supply in the nearest future are very limited as the number of projects under construction is modest.

The supply of newly developed residential properties has significantly decreased in 2010, the trend being driven by several factors. Firstly, many developers, facing serious financial problems were forced to suspend/freeze their residential projects already in 2008-2009, thus only those developments commenced in 2008 were delivered to the market in 2009-2010, and the new supply in beginning 2011 nearly dried out. Secondly, no new developments were started in 2009-2010 due to fallen demand and strict bank financing policy. Nevertheless, in 2010 first announcements in the market appeared, noting about renewal of some suspended residential projects (e.g. Ozo parkas by Realco, Bajoru kalvos by Hanner).

Figure 36

Number of apartments constructed



Source: DTZ Research

During the 2010, 3 667 apartments were completed in Lithuania, which is 3,2 and 2,6 times less than in the 2008 and 2009, respectively. Compared to other Lithuania’s cities, Vilnius remained the leader in terms of the number of apartments constructed, i.e. over 29% of all constructed apartments were those in Vilnius during that period. However, the share of the country’s capital in total delivered stock has significantly decreased. For comparison, 47% and 46% of all completed apartments were in Vilnius in 2008 and 2009, respectively. In 2010, only 1 062 apartments were built in Vilnius; this is more than 4 times less compared to the same period in 2009, when there were 4 344 apartments constructed. Similar situation was recorded in the other Lithuania’s cities. The number of constructed apartments in Kaunas in 2010 equalled to 301 flats (2,5 times less than in last year), while that in Klaipeda was 152 (5,5 times less than the same period in last year).

In 2008, apartment prices in the major cities fell by 15% and in 2009 the rate of the prices slump was nearly double at the level of 27%. However, since 2nd quarter of 2009 the drop of prices became flatter, stabilizing in the first half of 2010, and some marginal upward trends were noticed in 4th quarter of 2010 in Vilnius residential property market.

Residential Market

Prices

In the Vilnius city centre and the Old Town apartment prices vary from 1 000-1 800 €/m² for un-renovated apartments, and from 1 500-3 200 €/m² for renovated apartments. Prices for newly constructed apartments are in the range of 1 600-3 200 €/m².

In prestigious districts (Antakalnis, Zverynas, Valakampiai) the price of the apartments in the old construction buildings vary from 900-2 200 €/m², while that in the new ones is in the range of 1 500-2 700 €/m² (including internal finishing).

Most of the newly constructed apartments are being sold without final finishing, which costs on average 140 €/m^2 (up to 250 €/m^2 for higher quality), however, today some developers are also offering newly built apartments with final finishing.

An apartment situated in the Vilnius residential districts in the old construction building (built in Soviet time, some 25-40 years ago) can be acquired for 800-1 000 €/m^2. The apartments in the brick houses are valued with 10-15% higher prices. Prices for newly-built apartments in the residential districts range from 900 to 1 200 €/m^2, depending on the project and especially on the district/location.

Single-family houses

Individual houses' market segment was among the most affected by the economic downturn. In Vilnius prices for larger-area/luxury houses (detached houses) with a price exceeding 600 000 EUR have dropped the most. However, negative changes in prices have also occurred on the cheaper house market. In the course from 2008 to 2010, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings have gone down more than 50%. From the beginning of 2010 till end of 1st quarter of 2011 the prices of individual houses have gone down by 14% (data from registry center).

New individual houses (about 200 m² on land plots of 500-1 000 m²) located in a new housing area with full infrastructure in Vilnius district (typically 10-20 km from the city centre) are mostly sold as shell (i.e without interior fit-out).The prices of such housing is in the range of 80 000-130 000 EUR. Full final fit out generally costs 70-170 €/m^2 more. However, more and more apartments are offered with fully done interior finishing by the developers themselves.

The average price for an individual house within Vilnius city limits (suburbs or city residential districts) is between 110 000-190 000 EUR, and 280 000-465 000 EUR in the city's more prestigious neighborhoods where a considerable share of the house price is represented by the higher price of land. Prices of individual houses were decreasing all over Lithuania during 2009-2010, demonstrating some 40-50% drop. Downward trends, however much more flatter, remained in 2010. This resulted in lack of sufficient supply of detached houses in the Vilnius suburbs and city neighborhood. Currently, the majority of existing supply is the semi-detached houses with very small land plots (300-600 m^2).

In terms of the new supply, no new significant projects of new housing areas were commenced in Vilnius. The new supply mostly comes from rather small and in many cases not professional, developers, able to offer 1-2 houses. The highest supply of newly constructed individual houses is located in the directions of main city transport arteries, i.e. along Ukmerges, Moletai, Trakai, Nemencine roads, also in Pilaite, Pavilnys districts.

Forecast

- With a recovered activity, the residential property market is expected to be even livelier in 2011 because of stabilizing economy, lightening borrowing conditions and decreasing interest rates.

- The main trigger for the market recovery will be more positive expectations about the future and belief that the residential prices will no longer go down. The market waits for the prices to reach the bottom. However, with vast unemployment the recovery in the housing market will keep slow pace.

- The supply of new residential developments will be limited in the nearest future due to very small number of projects currently under construction. Some future developments are already announced, however, it will take time until they will be completed. Besides, only those developers having quite large proportion of equity will be able to enter new development projects.

- In the long term the residential developments have many opportunities, as the average residential stock per capita is yet much smaller compared to the average of the developed EU countries.

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