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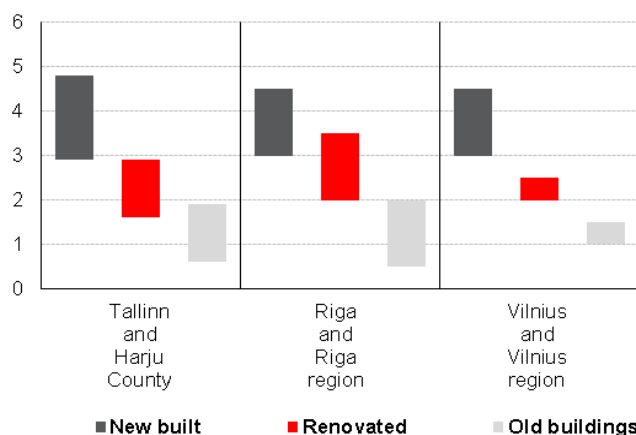
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- Recession in Baltic countries is over and although the recovery has been uneven across different economic sectors, turnaround is evident. In 2010-2011, the biggest contributor to growth was the recovering export sector.
- Industrial market is the slowest one in recovery in real estate market. No obvious changes have been experienced during the first three quarters in Baltic. However Lithuania is on a strong position due to their FEZ (Free Economic Zone) areas and strong lobby work made by government. In this area, Estonia and Latvia still have improvements to make.
- Nevertheless the rent rates are stable and vacancy rates have started to decrease.
- 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.

Figure 1

### Logistics rents in Baltic Capitals Q3 2011, €/ sq m/ month



Source: DTZ Research

# 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 2010-2011, 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. However, global uncertainty has risen, and global growth is now expected to slow down more sharply than previously forecast.

## ESTONIA

The economic situation in Estonia has mainly improved by support of export, but the domestic demand is playing continuously larger role in overall growth. After joining the Euro zone in the beginning of 2011, the Estonian reliability has increased in the eyes of foreign investors and in international scene as whole. The amount of investment transactions in real estate sector has increased throughout the year 2011.

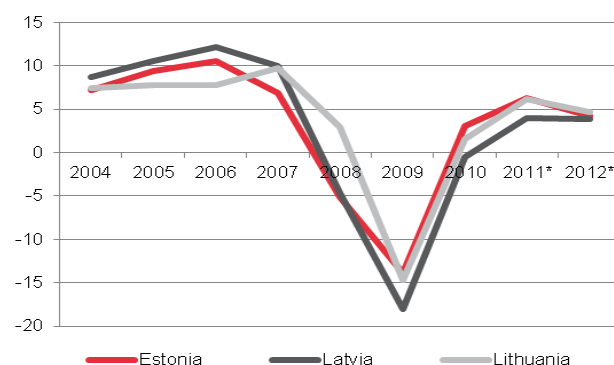
Based on the information from Statistics Estonia, GDP decreased by 13,9% in 2009, and was followed by 3,1% increase in 2010. Based on the prognoses of Estonian Bank (from June 2011) the growth of GDP will be 6,3% in 2011 and 4,2% in both 2012 and 2013. The growth of GDP was 8,4% in the Q2 Y2011 compared to the same period in 2010. In the comparison with 1<sup>st</sup> quarter of 2011, the growth was 1,8%.

Based on the information from Bank of Estonia and Statistics Estonia, the CPI was 0,2% in 2009 and 2,7% in 2010. Such fast inflation is mainly caused by price increase in food and fuel sector. Based on the prognoses of Estonian Bank, the CPI will be 4,7% in 2011 and after the inflation in food market has stabilized, 2,5% in 2012 and 2,9% in 2013.

There average registered unemployment rate was 12.3% in 2010. The same figure has continuously decreased, being averagely 7.4% in Q3 2011 and after three quarters of 2011 8.8% on annual base.

Figure 2

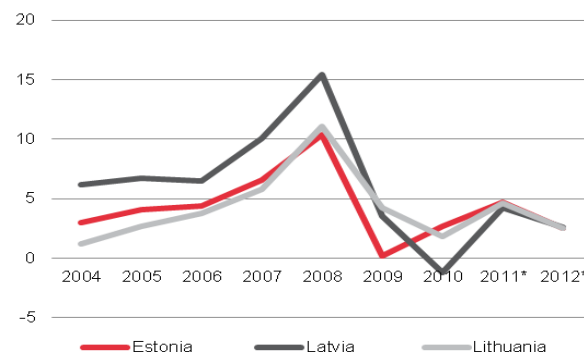
## Real growth rate of GDP in Estonia, Latvia, Lithuania



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

Figure 3

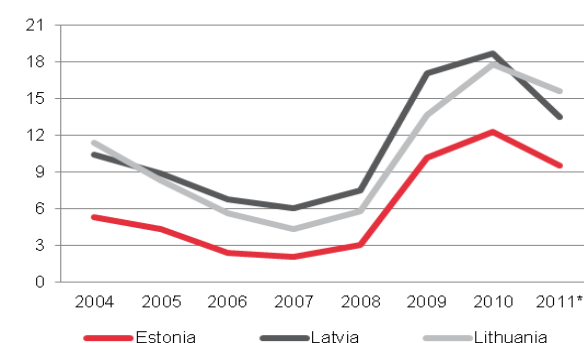
## Growth rate of CPI in Estonia, Latvia and Lithuania



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

Figure 4

## Unemployment rate in Estonia, Latvia and Lithuania



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

# Macro economic trends

## LATVIA

Economic growth picked up strongly in the first two quarters of 2011; however slowdown was experienced in the Q3 Y2011 because of growing import. In July 2011 the most significant share in Latvia's export had export to the countries of the European Union (74.5%), followed by export to the CIS countries – 14.1%. The main trading partners were Lithuania (18.0% of total export), Estonia (14.1%), Russia (9.7%), Germany (8.1%) and Poland (6.9%).

Compared to the second quarter of 2010, the GDP in the second quarter of 2011 has increased by 5.6%. Historically, from 1996 until 2011, Latvia's average annual GDP growth was 4.54 % reaching an historical high of 13.90 % in March of 1996 and a record low of -19.10 % in September of 2009 according to the data of the Central Statistical Bureau of Latvia. Stronger export and restocking has stimulated investments and, thus, import in 2011. Activity gains are still weak, especially in the public sector, and adjustment should continue.

The labour market situation continues to improve. In Q3 Y2011 there were 11.6% unemployed of the active population in Latvia. However, unemployment rate will remain high for years to come. Further developments will depend on productivity and wages growth.

## LITHUANIA

GDP as compared to corresponding period of previous year, seasonally adjusted, in the end of September 2009 was –decreased 14.5%, and in September 2010 GDP decreased by 1.6%. In the end of June 2011 compared with previous half-yearly GDP increased by 0.4 %. The Lithuanian Ministry of Finance forecasts 5.8% and 4.7% economic growth in 2011 and 2012, respectively. The recovery of Lithuanian economy is stimulated by the growth of domestic demand, whereas the influence of foreign demand ceased to increase.

Average annual inflation was at 3.4% in the end of August 2011 and increased by 4.2%, compared with the August 2010. According to the forecast by Ministry of Finance of Lithuania, the average annual harmonized index of consumer prices was positive in 2010 and climb to 3.3% in 2011.

According to the estimates of the Labor Force Survey conducted by Statistics Lithuania, the unemployment rate in the country in Q2 Y2011 stood at 15.6 %. Over the year, the unemployment rate decreased by 2.7 percentage points. On the July 2011, there were 255.6 thousand registered unemployed, which is 15.6 % 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.

# 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 evolution 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.

In Estonia information related to all real estate is registered in a Land Book kept by County Court real estate registration departments. Land Book shows for each property the owner, mortgages, servitudes and other information registered in the relevant portion of the registry. Land Book data is public and any interested party may have the information. Real estate units are registered in Cadastral Register which is publicly accessible via internet.

Table 1

<b>Property registration systems</b>			
	<b>Estonia</b>	<b>Latvia</b>	<b>Lithuania</b>
Land plots (physical parameters)	Cadastre	Cadastre	Cadastre
Buildings	Building Register	Cadastre	Cadastre
Mortgages	Title Book	Land Book	Mortgage Register
Ownership etc. rights	Title Book	Land Book	Cadastre

Source: DTZ Research

# Legal Framework

## 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 registered only 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 1990s 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.

## ESTONIA

Industrial buildings are mainly located in Northern Estonia – in Tallinn and Harjumaa County, and in Eastern Estonia - 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 (near Tallinn - Tännassilma, Jüri, Mõigu).

### Tallinn

Total stock of modern industrial/ logistic space in Tallinn and its vicinity is in the beginning of Q3 2011 in magnitude of 760,000 sq m. During 2010, approximately 70,000 sq m of new space was delivered, which was mostly for own use. During 2011 almost 60,000 sq m of the premises has been added, mostly expansions of previously built buildings.

The amount of premises planned to American Corner retail and logistics park in Rae parish includes 110,000 sq m of new retail and 185,000 sq m of new logistic space. In the first phase there are mostly retail premises planned. The actual amount of logistic/warehouse premises will depend on the needs of the clients, at the moment no major contracts have been made in this sector.

Figure 5

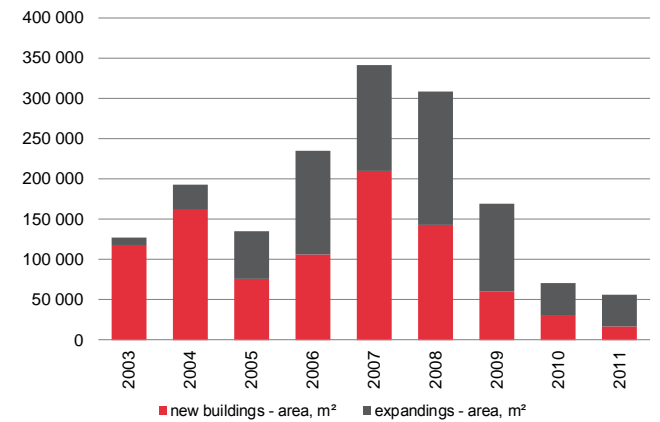
### Major industrial areas in Tallinn



Source: Google Map, DTZ Research

Figure 6

### Amount of modern industrial space in Tallinn and Harju County



Source: Google Map, DTZ Research

In the end of 2010 and in the beginning of 2011 there was activation on the industrial and warehouse market. The rental levels grew in small amount and companies were actively searching for new premises. After the macro-economic scene in the Europe took rather serious turn, market slowed down again. At the moment the sector is “on hold” and is waiting for stabilization in the macroeconomic scene.

Smaller 200-500 sq m sized premises in attractive location are valued the highest. Still there is nearly non-existing demand for older, B- or C-class premises. The amount of new warehouse and industrial space on offer has rapidly decreased during the year 2011. Although the vacancy has decreased, the development has not increased and no major transactions in the segment have been made. As the rental levels are still quite low and at the same time building costs quite high, the developers are not interested to build new premises and it is also quite expensive for companies to renovate their B-, or even more, C-class premises. The main part of space is still owner-occupied.

Major adjustment in rental levels of industrial and warehouse premises were made during 2008/09 (peak year 2007). Total decrease was all together ca 40%. During 2010, rental fees remained stable with some slight increase among new premises. The end of 2010 brought first signs of more rapid increase, but the trend stopped as fast as it began. Currently the rentals have stayed on the same level for several months and the new increase might come after international economy has improved.

## 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 and near Jannseni Street and Tallinna road.

Industrial and storage market in Pärnu is suffering from low activity even when price level of offers could be held attractive. There overall decrease in price levels was approximately 40-50% during 2008 and 2009. In the end of 2010 there were first signs of stabilization in rental fees and moderate increase in rental levels has taken place among A-class premises during 2011.

Table 2

<b>Rental levels in Tallinn, €/sq m/month (premises sized over 300 sq m)</b>			
	<b>A</b>	<b>B</b>	<b>C</b>
Most preferred districts	3.5-4.5	2-3	1-2
Less preferred districts	3.0-3.5	2.0-2.5	0.5-1.5

Source: DTZ Research

Table 3

<b>Rent (€/sq m/month) and vacancy levels in Pärnu</b>			
	<b>A</b>	<b>B</b>	<b>C</b>
Rent level	2.5 – 4.5	2 – 3.2	0.5 – 2
Vacancy	-	10 - 25 %	20 - 30%

Source: DTZ Research



# Industrial- logistics

## Tartu

Most demanded industrial and storage area in Tartu is Ropka Industrial Area, in addition following districts are important:

- Raviila area, that has during past years lost its importance as industrial and storage area though
- area next to Ringtee Street that borders with Tartu City, where several car centres are built
- Tila Village, which popularity increased due to reconstruction of Vana-Narva Road
- new industrial parks like Ülenurme Industrial Park, Vahi Industrial Park, Raviila Industrial Park, Ropka Industrial Park and Reola Industrial 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 all together up to 50%. During 2011, there have been no bigger changes in rentals; the market sector is in the stabilization phase.

Overall vacancy has increased to around 15-20%. 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. No bigger changes have been witnessed in 2011.

## Forecast

Industrial and warehouse sector has reached to stabilization and slight increase phase;

The increase of rental levels is expected to continue after macro economic situation has calmed, especially in A-class segment and vacancies will decrease over coming year;

Demand will continue to increase mainly towards A-class objects; demand will remain weak towards B- and C-class objects.

Table 4

<b>Rent (€/sq m/month) and vacancy levels in Tartu</b>			
	<b>A</b>	<b>B</b>	<b>C</b>
Rent level	2 – 3	1.5 – 2	1 – 1.5
Vacancy (as whole)		15-20%	

Source: DTZ Research



# Industrial- logistics

## 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.

## Riga

Total stock of industrial and logistical space in Riga and Riga region is ca 420,000 sq m. Approximately 15,000 sq m of industrial and storage space have been completed in 2010, but no larger projects are planned for 2011.

Industrial sector is the less active in real estate market in Latvia. Some activity of industrial and logistic segment was observed during 2009/10. 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. Over last two years 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. While the vacancy rate remains at current level no new speculative project developments will be started.

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 2009/10 are on lower level than agreements signed before crisis.

## Forecast

Current phase in industrial market will probably continue over the year 2012 while the economic situation will be steady and rental fees and vacancy rates will stabilize

No speculative developments will be undertaken, only build-to-suit properties

A large number of projects, which are not started, will remain frozen; considering the high vacancy rate, no speculative new developments are forecasted

During Q4 2011 rent rates generally will remain at the same level

Figure 5

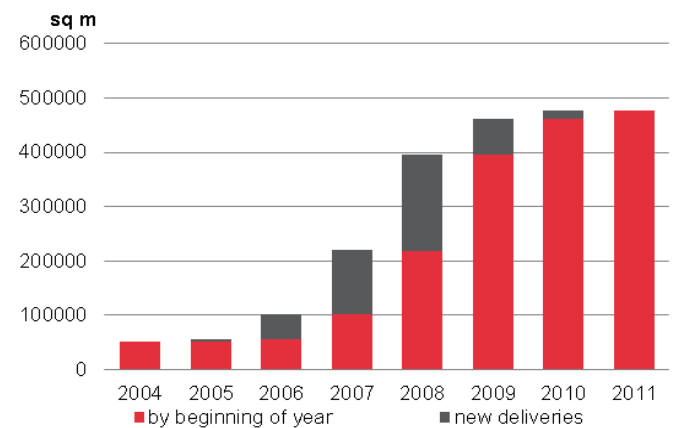
### Major industrial areas in Latvia



Source: Google Map, DTZ Research

Figure 6

### Amount of modern industrial/ logistic space in Riga, 2004-2011



Source: DTZ Research

Table 5

### Rental fees of industrial and warehouse premises, €/sq m/month

	New buildings	Renovated	Old buildings
Riga	2.5 – 4.5	2 – 4	1 – 3
In vicinity of Riga	1.5 – 4.5	1.5 – 3.5	0.5 – 2

Source: DTZ Research

## LITHUANIA

The industrial 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.

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 and FEZ (free economic zone)
- in Klaipeda FEZ
- areas around Vilnius
- some areas around Panevežys (location is rather central for regional distribution).

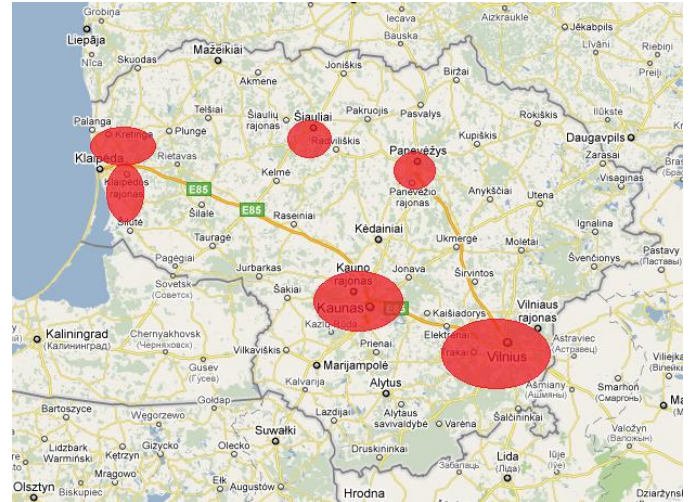
The most active industrial developments are being held near the main roads of international European transport corridors that cross Lithuania:

- highway Via Baltica (No. 1) 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 industrial facilities in September 2011 accounted for approx. 700,000 sq m in Lithuania, half of the said space being located in/near Vilnius

Figure 7

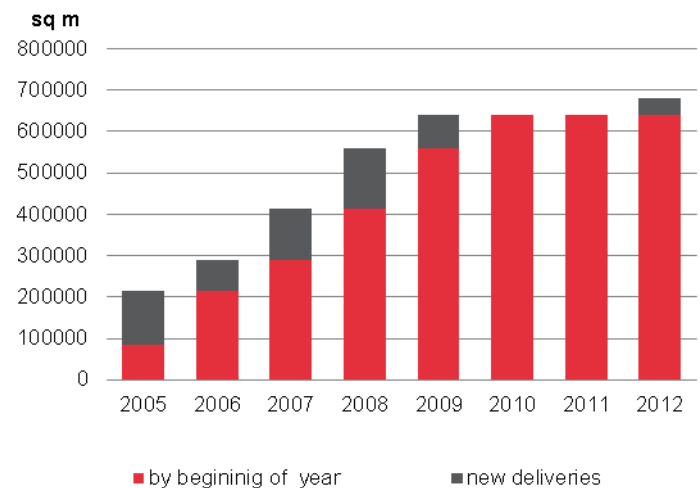
### Major industrial areas in Lithuania



Source: Google Map, DTZ Research

Figure 8

### Amount of modern industrial/ logistics space in Lithuania, 2005-2012



Source: DTZ Research

## Vilnius

Vilnius industrial/ logistics market consists of over 340,000 GLA sq m modern buildings, or more than half of all modern stock in Lithuania. Around 41,000 sq m 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 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. In Vilnius is erecting the new technology park. Visoriai Information Technology Park (VITP) signed the investment agreements with BIOTECHPHARMA Ltd., BOD GROUP Ltd and VILTECHMEDA Ltd. VITP 10,000 sq m silicon photovoltaic cells development and solar element module manufacturing centre will be erected by end of 2011. BIOTECHPHARMA plans to develop 3,500 sq m Research and Development (R&D) centre by the end of 2012.

VITP will install 7,000 sq m technology centre for businesses engaged in software and services development by end of 2012. Further development of some 20,000 sq m offices for businesses engaged in software and services development is planned from 2012.

Table 6

<b>Rent levels in Vilnius, €/sq m/month</b>			
	<b>A</b>	<b>B</b>	<b>C</b>
Most preferred districts	3 – 4.5	2 – 3	1.5 – 2
Less preferred districts	2.5 – 3	2 – 2.5	1 – 1.5

Source: DTZ Research

# Industrial- logistics

## Kaunas

Kaunas has a favourable 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 June 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 four companies are currently planning their investments. However, no new projects are planned so far in 2011.

## Forecasts

The Government of country aims to establish public logistics centres in Vilnius, Kaunas, Klaipeda and Siauliai within next five years.

Very few 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.

Table 7

	New construction	Old construction
Kaunas	2.5 – 4	1 – 2.5
Klaipeda	2.5 – 4	1 – 2.5

Source: DTZ Research

# Industrial- logistics

## Comparison between Estonia, Latvia and Lithuania

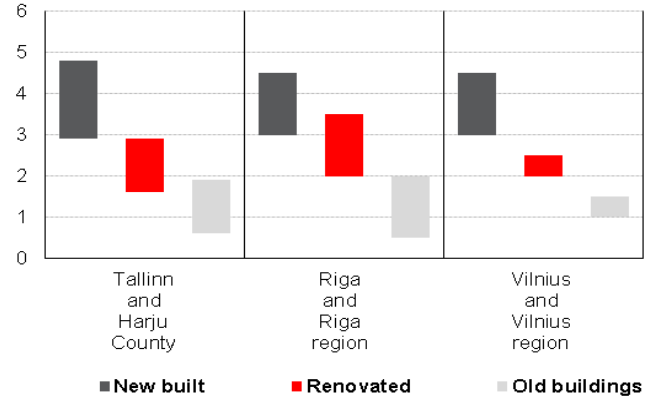
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Nevertheless the rent rates are stable and vacancy rates have started to decrease.

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.

Figure 9

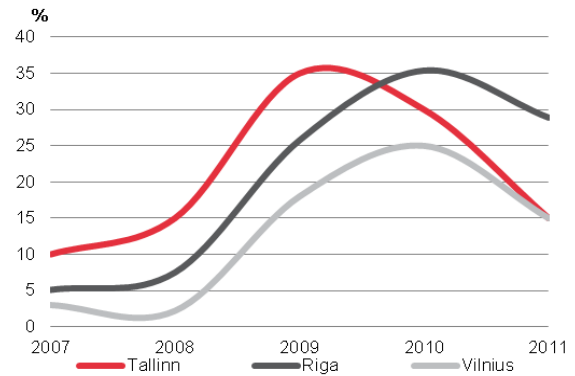
**Logistics rents in Baltic Capitals Q3 2011, €/sq m/ month**



Source: DTZ Research

Figure 10

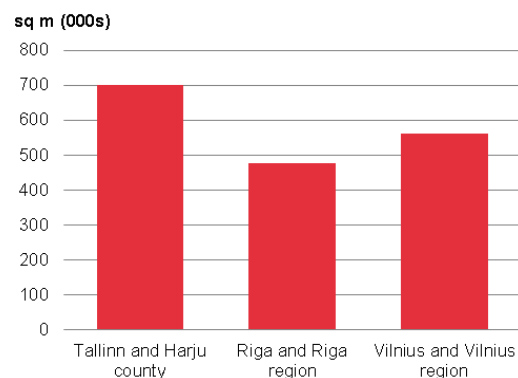
**Vacancy rates in Baltic States Q3 2011**



Source: DTZ Research

Figure 11

**Total stock of modern industrial/ logistic area in Baltic States Q3 2011**



Source: DTZ Research

# Industrial- logistics

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