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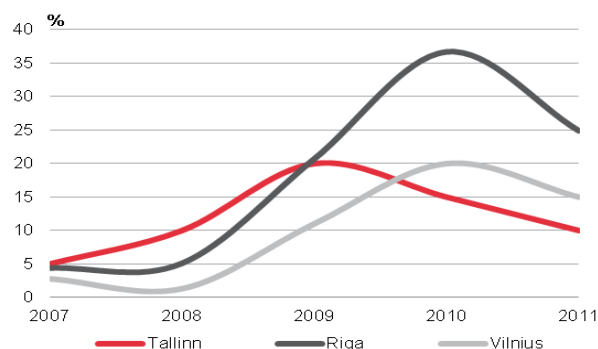
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- This year powerful growth of the Baltic States was observed, although future prospects of economy have become indeterminate due to the fact that uncertainty has risen at a global scale and it is forecasted that the pace of the growth will decline in all countries.
- 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 precautionous towards new developments.
- Due to decreasing vacancy rate, stable rental level and new development projects retail market is the most successful of all real estate sectors

Figure 1

### Vacancy rates in modern office buildings in Baltic States



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.

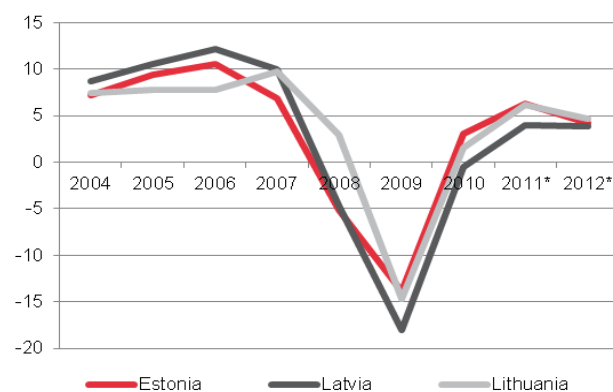
Based on the information from Statistics Estonia, GDP decreased by 13,9% in 2009, and was followed by 3,1% increase in 2010. Based on the prognoses of Estonian Bank (from June 2011) the growth of GDP will be 6,3% in 2011 and 4,2% in both 2012 and 2013. The growth of GDP was 8,4% in the Q2 Y2011 compared 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

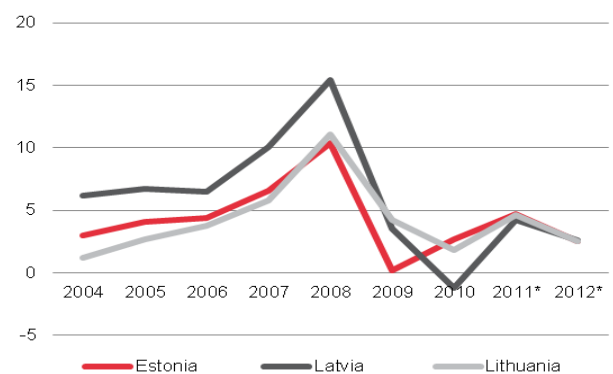
### Real growth rate of GDP in Estonia, Latvia, Lithuania



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

Figure 3

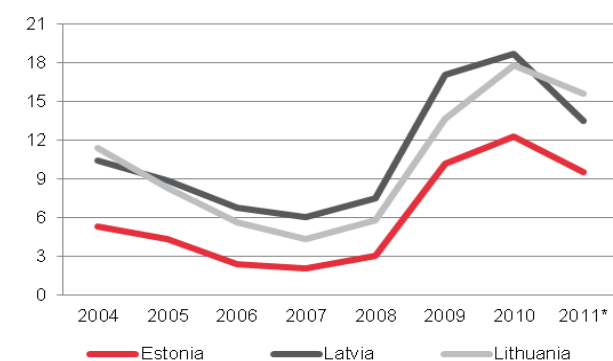
### Growth rate of CPI in Estonia, Latvia and Lithuania



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.

## 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.

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)	Cadastré	Cadastré	Cadastré
Buildings	Building Register	Cadastré	Cadastré
Mortgages	Title Book	Land Book	Mortgage Register
Ownership etc. rights	Title Book	Land Book	Cadastré

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 its 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.

# 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.

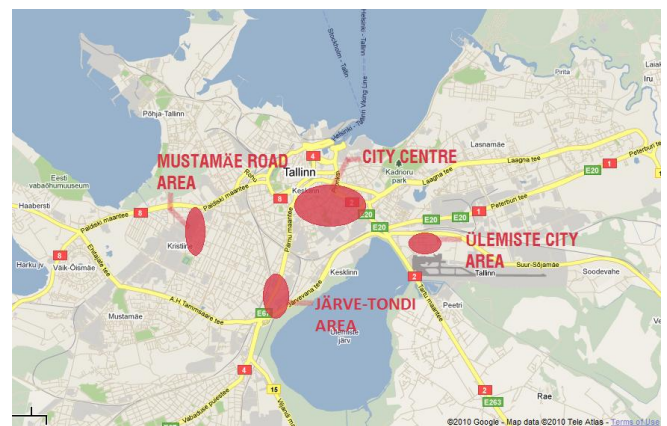
In the beginning of 2011 there was all together approximately 540,000 sq m office space in Tallinn. In 2010 the development activity was rather low; the only larger finished project was for public sector use. The building activity has not grown in 2011, but the end of Q3 2011 has brought news about different future development, especially in city centre and there is a clear activation on office development market. The total amount of larger and smaller projects projected into future forms around fourth of the total existing office stock.

The only finished project in 2011 will most probably be Tatari building, where on the first floors of residential building 3,000 m<sup>2</sup> of office and commercial premises were completed. There were also some projects developed for public sector use.

Development of the Ülemiste City Targa Äri Linn in Ülemiste City area is about to be continued and is the biggest project in proceeding. Building activity of new 10-storeyed office building with all together 6,000 sq m rentable area has been started. Development itself is an office and technological campus (Technopolis) that is planned to comprise 10% of the entire office market in Tallinn located near airport of Tallinn.

Figure 5

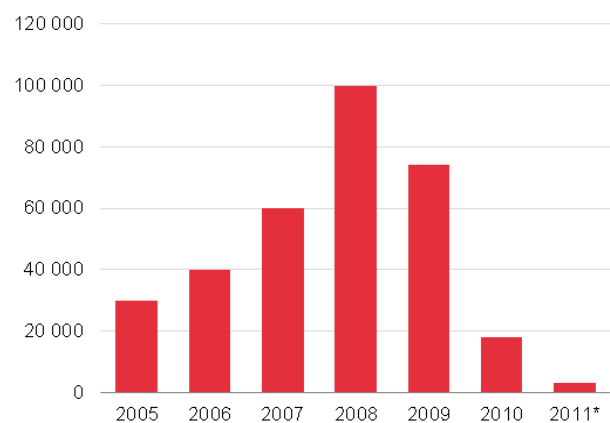
Office districts in Tallinn



Source: Google Map, DTZ Research

Figure 6

The amount of new office space in Tallinn, GLA



Source: DTZ Research

# Office market

The rent levels decreased around 35-40% starting from the second half of 2008 until the end of 2009. Decrease was fastest in 2009 (around 25-30% of total decrease). 2010 brought stabilization on the rental market, mostly affected by positive changes in the economic situation and more positive outlooks towards the future.

By the end of 3<sup>rd</sup> quarter of 2011 there has been increase in rental levels in amount of approximately 10-15% compared to the lowest point in 2009. For example the offer price level in Metro Plaza by Viru Square is around 11.0-12.0 €/sq m/month. Top level offers are around 12.0-14.0 €/sq m/month on the top floors of Nordea Office building, and in Foorum Centre by Narva road. The new premises outside the city centre are on offer on the price level 6.5-11.0 €/sq m/month.

During 2008 and 2009 there was large amount of new office space added to the market, of which approximately 25-30% was still vacant in the beginning of 2010. By the beginning of 2011 most of the new office space was occupied and the vacancy was around 10-15%, being lower in CBD and higher in fringe areas of the city. Throughout 2011 the vacancy level has decreased in newer buildings. The overall average vacancy level in new office buildings in the beginning of Q4 2011 is under 10%.

Features of most demanded office space in Tallinn:

- sized up to 150 sq m
- 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.

Table 2

<b>Rent levels (€/sq m/month) in Tallinn</b>				
	<b>A+</b>	<b>A</b>	<b>B</b>	<b>C</b>
Centre district	11-14	8-12	5-8	-
Suburban	-	4-6,5	2,5-4	1,5-2,5

Source: DTZ Research



# Office market

## Pärnu

The most important office areas in city of Pärnu are:

- city centre
- area at Papiniidu crossing
- Ülejõe area

Other office premises locate all over the city, in some cases located within industrial or storage buildings and on ground and upper floors of residential and commercial buildings.

There is approximately 50,000 sq m of office premises in Pärnu. During 2009, average rental prices in Pärnu decreased by approximately 30% (since the second half of 2008). There were no significant changes in 2010, the rental levels stabilized. Year 2011 has not brought bigger changes, but most probably the rental levels will moderately grow if the overall situation in economy stays calm.

Average vacancy is still quite high – around 10-15% in the new buildings and 15-35% in older buildings. The main reason is that the new supply was at one point this large, that there was sort of over supply on the market and the office premises are still vacant.

## Tartu

Office market in Tartu is focused mainly to city centre.

Top rent prices in Tartu are 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 first half of 2011 there have been no significant changes in the rental price levels. The overall vacancy is around 10-20%.

## Forecast

- The amount of offers will continue to decrease in new-built office buildings and stays on the same level or even increases in older buildings;
- The rental levels will continue to increase in moderate amount if the economic outlook will remain stable, especially in A+ and A-class buildings;
- The rapid increase in development activity is not foreseen in coming years, although the vacancy has decreased.

Table 3

Rent levels (€/sq m/month) in Pärnu			
	A	B	C
City centre	6-10	3-5	-
Suburban	4.5-7	2.5-3	1.5-2.5

Source: DTZ Research

Table 4

Rent levels (€/sq m/month) in Tartu			
	A	B	C
Rent level	6.5 – 12	3 – 8	2 – 3

Source: DTZ Research



# 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).

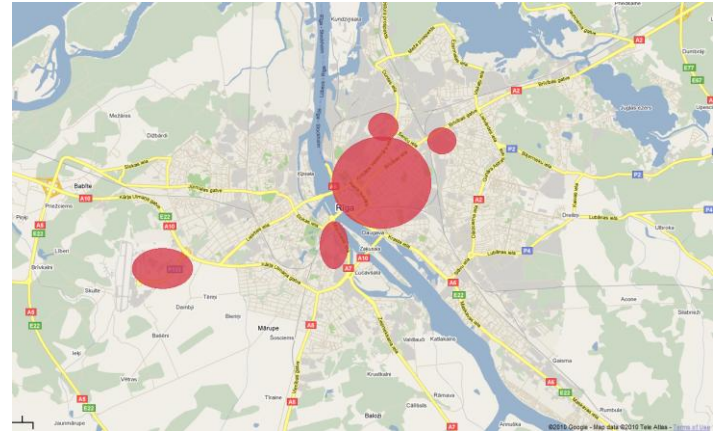
Most of the office buildings are located in downtown areas, but also in old-style reconstructed industrial buildings and new buildings located outside the city centre. Significant share of modern office space in Riga has entered to the market through re-construction. In both, Old Town and city centre.

The total stock of modern office space in Riga was approximately 525,000 sq m (GBA) in the middle of 2011, of which approximately 20,000 sq m was completed in 2010 and 6,000 sq m in 2011. There are two office building projects under construction – Jupiter Centre located at Skanstes street 7 with total area 16,000 sq m and Z-Towers development with 26,000 sq m, which will offer A-class office space and approximately the same area will be occupied by Hotel Sheraton. The new building of American Embassy was built in spring 2011.

The total drop of rental fees was 30% in A-class offices and 45% in B-class offices from the peak in 2007. 2010 brought stabilisation and no bigger changes in the rent rates were observed then. Starting from Q2 Y2011 minimum rental fee level has been increased. During the next quarter (Q4 2011) rent rates are going to experience slight increase due to decreasing vacancy in high quality buildings and lack of new developments.

Figure 7

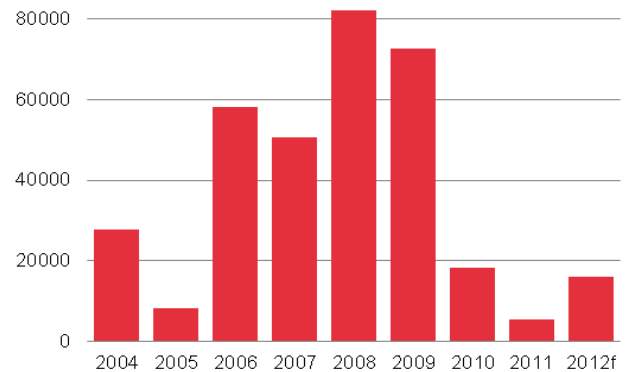
### Office districts in Riga



Source: Google Map, DTZ Research

Figure 8

### The amount of new office space in Riga, GLA



Source: DTZ Research

Table 5

	Rent levels in Riga, €/sq m/month			
	A+	A	B	C
City centre	10-17	7-13	5-10	2-7
Outside of the city centre	-	-	3-10	2-4

Source: DTZ Research

# Office market

Vacancy in A-class offices is approximately 9%, in B-class offices average rate is 28%. 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%. 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 Q1-Q3 2011. 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 sq m office premises the vacancy was 90% in summer 2009, which they managed to reduce to only 10% by the end of Q2 Y2011. International companies expanding their operations in Latvia formed the largest share of the new demand last year. Such companies were looking for 500-1,000 sq m 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 sq m

## Forecasts

- Rental fees will be stable until the beginning of the Y2012, slight increase is foreseen in high quality buildings;
- The vacancy rate is expected to decrease slightly due to overall market recovery and a limited increase in office stock during Y2012.
- Most of the planned projects that have not yet been initiated will not be started to build until 2HY Y2012.

# Office market

## LITHUANIA

Lithuanian office market is active not only in Vilnius, 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.

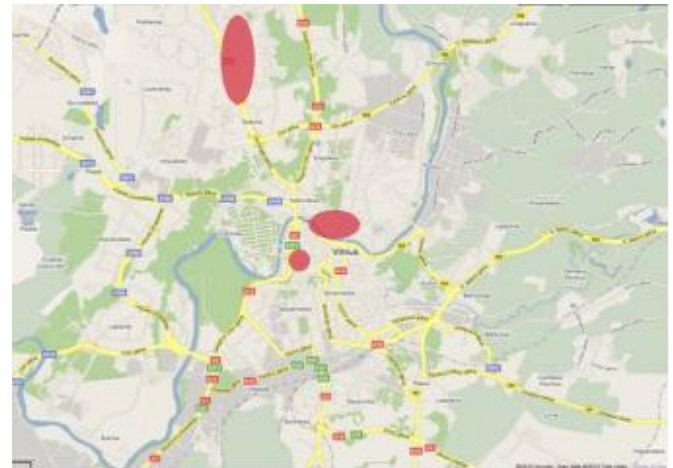
Currently, the total stock of modern office space in Vilnius is roughly 355,000 GLA sq m, out of which around 35% can be valued as A+ and A-class premises. In 2011-2012, there is all together 21,700 sq m of GLA planned to be built.

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 2010 and until September 2011 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 (A class) office buildings has decreased to 5-10% during the 2010 and until September 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 15-20%. Totally vacancy rate in A and B-class buildings on average reached 15% in Q3 2011. The vacancy in C-class office buildings was around 20-30%.

Figure 9

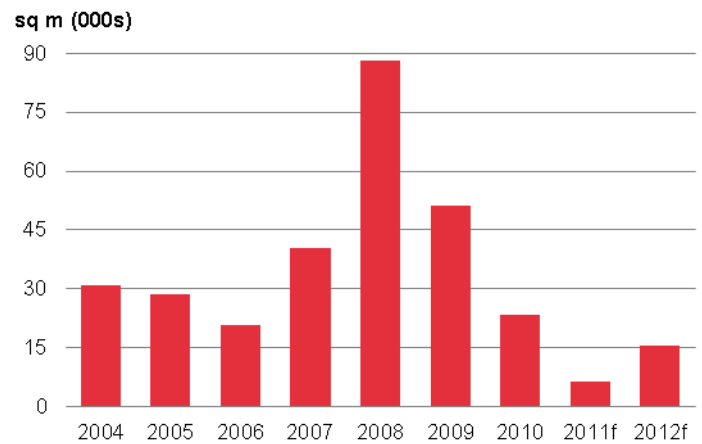
Office districts in Vilnius



Source: Google Map, DTZ Research

Figure 10

New office space, GLA in Vilnius built in 2000-2012



Source: DTZ Research

Table 6

<b>Major office projects completed in Vilnius in 2011/2012</b>				
<b>Project name</b>	<b>Address</b>	<b>Quality</b>	<b>GLA, 000s, sq m</b>	<b>Total area, 000s sq m</b>
GAMA	Kalvarijų St.	B	11.4	13
Office project (reconstruction)	Gedimino Ave. 35	A	6.3	10
Verkių projektai	Verkių St. 25C/J. Galvydžio St. 1, Vilnius	B	4	n.d
<b>Total</b>			<b>21.7</b>	<b>n.d.</b>

Source: DTZ Research

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.

Valued office space has the following features:

- A - or newly built B-class premises
- sized 100 – 150 sq m
- location in city centre near Konstitucijos Avenue, further from city centre but with convenient access by car or public transport (eg: 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

Table 7

<b>Average rent level (€/sq m/month) in Vilnius</b>			
<b>Quality</b>	<b>A</b>	<b>B</b>	<b>C</b>
Vilnius city centre (CBD)	11-14	7-9	-
Outside the city centre of Vilnius	-	5-7	2-4

Source: DTZ Research

# Office market

## 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 sq m premises. Usually branches of larger local and international enterprises tend to lease larger office premises.

The total modern office stock in Kaunas is currently in amount of 35,400 GLA sq m. There were no new offices supplied in 2010. And no new projects are realistic in 2011 either.

September 2011 the rentals in Kaunas office centres vary from 4.3-10.0 €/sq m/month, demonstrating more or less the same level compared to 2010. 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 45,200 GLA sq m. On the contrary, there were no deliveries during 2010, nor are expected any in 2011.

The rentals in Klaipeda high quality business centres range from 5.8-10.0 €/sq m/month, whereas office premises in economy class centres are leased for 2.9-5.8 €/sq m/month. Despite the marginal decrease during the 2010, comparatively high vacancy rate, reaching 10-20% remains one of the major problems in 2011 too.

## 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 sq m;
- 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 €/sq m/month, whereas those in the city centre are in the range of 6.0-8.0 €/sq m/month. The rentals in Panevezys are quite similar, ranging from 3.5-6.0 €/sq m/month.

## Forecats

- 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;
- 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;
- 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 2011/12.

# Office market

## Comparison between ESTONIA, LATVIA and LITHUANIA

During 2008-2009 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.

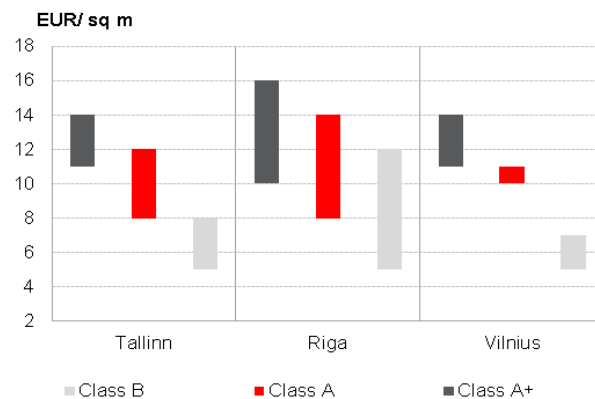
Average vacancy is still higher compared to “normal” level in all Baltic countries. Tougher situation in Latvia is most probably caused by more difficult situation in economy, whereas recovery has been time consuming. Now the situation is more positive than a year ago.

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. Moderate rent rate growth is foreseen in 2012 and 2013.

Figure 11

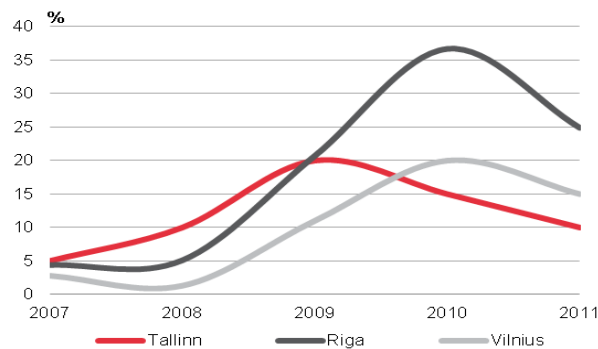
### Average office rent level (€/sq m/month) in Baltic States



Source: DTZ Research

Figure 12

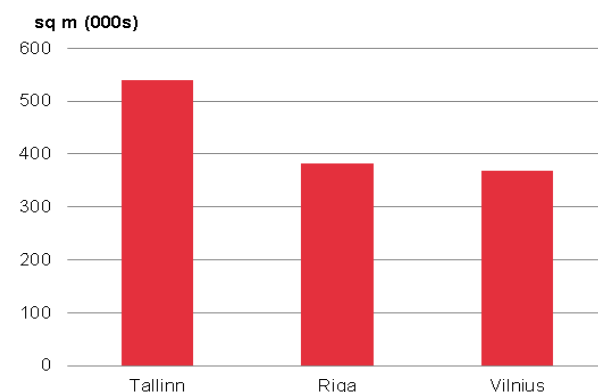
### Vacancy rates in modern office buildings in Baltic States



Source: DTZ Research

Figure 13

### Office stock in Baltic States, GLA



Source: DTZ Research

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