

Property Times

Baltic Industrial/logistic Q1 2012

Still lagging the trend

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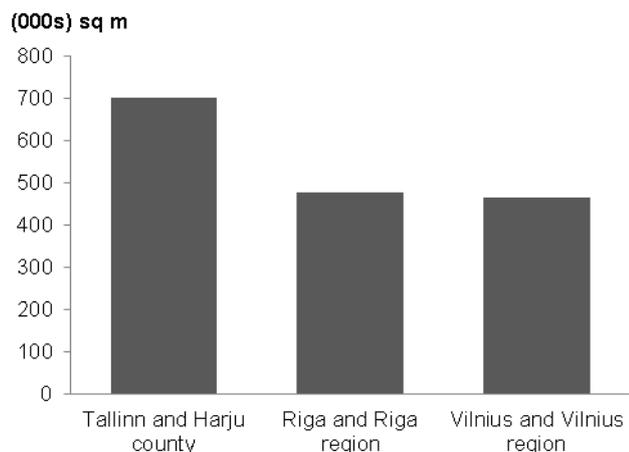
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- Since recession is over, export and retail trade turnover is growing; industrial market shows its first signs of improvements.
- Industrial market is recovering swiftly in all three Baltic countries. In Estonia the situation is more positive. Demand for high quality logistic premises is high and vacancy rates are decreasing day by day. The situation is different in Latvia and Lithuania. Oversupply and competitive rental levels have impacted the viability of new developments.
- The rental rates reached the bottom in 2010, since then a slight increase has been observed for the most demanded industrial/ logistic area in Q1 2012. Rent rates will most probably remain stable during 2012.
- Vacancy levels are expected to continue to fluctuate during the course of 2012 with insignificant possibility to decline.
- Further developments will depend on how much demand for exports will decrease. Developers and investors are cautious.
- We expect no significant changes in new developments or rental rates in 2012. Some kind of growing activity is foreseen in 2013, once the global economy will improve.

Figure 1
Modern industrial/ logistics stock in Baltics



Source: DTZ Research

Macro-economic trends

Estonia

The economic situation in Estonia has improved mainly by support of export, but also the domestic demand is playing continuously larger role in overall growth, especially as the main export partners are actively going to the saving and cost cutting period, which reflects already in the export results of Q4 Y2011. Estonia has one of the strongest economies in Euro zone, but the country will not remain unaffected in the overall crises and the economic growth forecasts are strongly decreased for coming couple of years. If the situation in Europe will be more serious than expected, then the economic decrease is expected also in Estonia.

Based on the information presented by Bank of Estonia and Statistics Estonia, GDP decreased by 14.3% in Y2009, and was followed by 2.3% increase in Y2010 and by 7.6% increase in Y2011. Based on the prognoses of Estonian Bank (from December 2011) the growth of GDP will be 1.9% in Y2012 and 3.6% in Y2013. The growth of GDP was 4.5% in the Q4 Y2011 compared to the same period in 2010. In the comparison with Q2 Y2011, there was decrease in amount of 0.2%.

Based on the information from Bank of Estonia and Statistics Estonia, the CPI growth was 0.2% in Y2009, 2.7% in Y2010 and 5.0% in Y2011. Such fast inflation is mainly caused by price increase in food and fuel sector. Based on the prognoses of Estonian Bank, the CPI change will be 2.8% in Y2012 and 2.9% in Y2013.

The average registered unemployment rate was 12.3% in 2010. Same figure has continuously decreased, being averagely 7.3% in Q4 Y2011 and averagely 8.4% on annual bases in Y2011.

Latvia

Since the start of 2010 the Latvian economy has returned to growth, backed by remarkable expansion in exports and gradually decreasing unemployment. GDP growth in 2011 reached 5.3% – significantly exceeding previous expectations. The growth tendency was stable throughout the year as Latvia continuously took leading positions in EU Member States survey of quarterly growth.

Historically, from 1996 until 2011, Latvia's average annual GDP growth was 4.54% reaching historically high level of 13.90% in March 1996 and lowest level of 17.7% in September 2009, according to the data of the Central Statistical Bureau of Latvia. Stronger export and restocking has stimulated investments and import in 2011. GDP prognosis for 2012 is at 2.5 -3% level. Latvia's GDP growth in 2012 will of course be dependent on the developments of global economy.

The annual average consumer price increase in 2011 was 4.4%. Inflation is likely to decrease but due to the rise in the price of fuel gas and heat in the beginning of 2012, there will still be some pressure on the inflation, reaching an average 2.5% in 2012.

The labour market situation has continued to improve. The average annual unemployment rate reached 15.4 % in 2011. In December 2011 11.5% and 11.8% in February 2012 of the active population of Latvia were unemployed. However, the decrease of the unemployment rate certainly will slow and the overall unemployment will still remain comparatively high for the next few years. Further developments will depend on the amount of new workplaces, productivity and wage growth.

Despite of general improvements in the economic situation in Latvia, sharp economic growth is still highly unlikely due to external factors. The recent growth has not yet compensated the sharp contraction of the economy over 2008-2009.

Lithuania

The domestic economy grew rapidly; however, there are increasing signs of less favourable prospects. Because of slowing global economic development, Lithuania will be affected as well.. Population growth falls from -0.5 to 1% every year. The prices of heating, gas and electricity are stable now. But we forecast for changes in the end of this year. Especially in taxes case, because this year in Lithuania is election to parliament year.

Seasonally adjusted GDP growth, compared with previous corresponding year was 5,87% in 2011. The Lithuanian Ministry of Finance forecasts 3,7% and 3,4% GDP growth in 2013 and 2014, respectively. According to this prognosis, the GDP growth will decrease by 0.3% in 2014 compared with 2013.

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The average annual inflation rate was 4.1% in the 2011 and 4.2% for the y-o-y change. According to the forecast by Finance Ministry of Lithuania, the annual index of the consumer prices will be 2.5% in 2012, and will increase to 3% in 2013.

Statistics Lithuania informs that, according to the Labour Force Survey data, the unemployment rate in country stood at 15.4% in 2011, which is by 2,4 percentage points less than in 2010. In 2011, there were 248 800 unemployed persons in the country, i.e. by 42 300 (14.5%) less than in 2010. The situation in labour market is still improving but slower than before.

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,318	2,208	3,199
Urban population	63%	68%	67%
Area (thousand km ²)	45	65	65
Population density (2011, per km ²)	29	35	50
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	416	706	543
Currency	EUR	LVL	LTL
Exchange rate (€)	x	0,7028	3,4528
GDP at current prices (bn €, 2011)	15,97	20,15	30,70
GDP per capita, at current prices (€, 2011)	12119	9127	9597
GDP growth (€, 2011)	7,6	5,3	3,3
Inflation rate (% , 2011)	5,0	4,4	4,1
Unemployment rate (% , 2011)	12,5	15,4	15,4

Source: National Statistics, Ministry of Finance of the Republic of Lithuania

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Occupational markets

Estonia

Most important industrial areas in Estonia are mainly located in Northern part of the country – in and around capital city Tallinn. There are also relevant industrial areas in Eastern Estonia, mainly in Ida-Virumaa County. Of course, in smaller scale there are various industrial areas all over Estonia.

Logistics/warehouse buildings are located in larger cities near major roads and near city borders, but also near intersections next to cities/hamlets. Several industrial parks have gathered close to largest cities (especially close to Tallinn - Tännassilma, Jüri, Mõigu and other parks).

Tallinn

At the end of 2011 the total stock of modern industrial/logistic space in Tallinn and its vicinity is in magnitude of 760,000 sq m. During 2010, approximately 70,000 sq m of new space was delivered. During 2011 approximately 85,000 sq m of the premises was built, mostly expansions of previously built buildings. New buildings are mostly constructed for own use, development in industrial sector is rather limited.

Over a long period of time one investment transaction was made in industrial sector in the Q1 2012, when East Capital bought for a price of €24mn 40 000 sq m newly built logistics centre VGP in Tännassilma industrial park on the border of Tallinn City. This transaction shows that the trust towards industrial sector is improving and the objects are not with that high risk as during the couple of previous years in this sector.

In the end of 2010 and in the beginning of 2011 growing activity was observed on the industrial and warehouse market. The rental levels grew in small amounts and companies were actively searching for new premises. After the macro-economic scene in the Europe took rather serious turn, market slowed down again. Currently the average occupancy is quite high, but at the same time there aren't many companies searching for new industrial premises.

Map 1

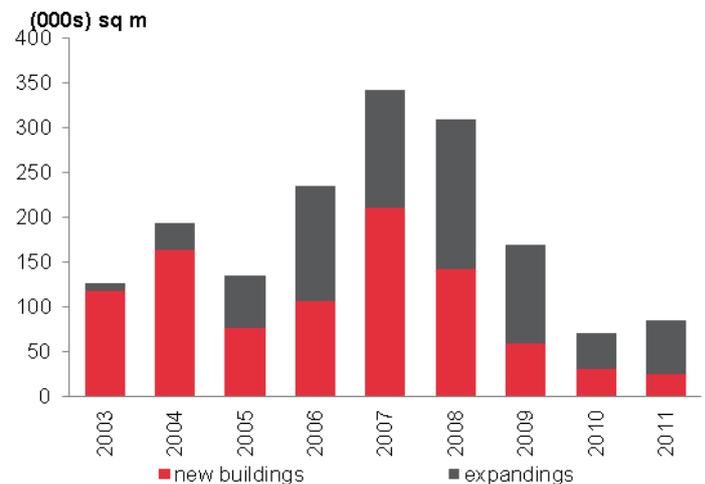
Major industrial/ logistics areas in Latvia



Source: DTZ Research

Figure 2

Added Industrial/ logistics Space in Tallinn and Harju county



Source: DTZ Research

Table 2

Rental levels in Tallinn, €/sq m/ month (area sized over 300 sq m)	A	B	C
Most preferred districts	4.0-4.5	2.5-3.0	-
Less preferred districts	3.0-4.0	2-2.5	1.0-2.0

Source: DTZ Research

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Smaller 200-500 sq m sized premises in attractive locations are valued the highest, as the amount of smaller companies is much higher. Still there is nearly none-existing demand for older, B- or C-class premises, average vacancy rates in that segment reach up to 20-25%. High vacancy rates are largely affected by the fact that many occupiers have moved from older premises to newer ones. The amount of new warehouse and industrial space on offer decreased rapidly during the year 2011, average vacancy rates among A-class premises in good locations are at 5-10%. As the rental levels are still quite low and at the same time construction 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 adjustments in rental levels of industrial and warehouse premises occurred during 2008/09 (peak year 2007). Total decrease was altogether approximately 40%. During 2010, rental rates 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. There has been a moderate correction in price levels, especially in lower end levels. Due to a low vacancy among A-class premises, there is also slight increase expected through 2012. However, faster and more rapid developments are not foreseen before 2013.

Tartu and Pärnu

Most demanded industrial and storage areas in Tartu are Ropka Industrial area, Ravila area, area next to Ringtee Street that borders with Tartu City, where several car centres are built and new industrial parks like Ülenurme Industrial Park and Vahi Industrial Park.

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.

Most of the industrial premises are in owners own use and rental market is almost non-existing. The market is suffering from low activity even when price level of

offers could be held attractive. Rental fees dropped 50% in total during 2008-2010. During 2011, there were no bigger changes in rental levels; the market sector is in the stabilization phase. Overall vacancy rates in industrial market are currently up to 15-20%, among modern premises in most demanded areas lower – around 5%.

Table 3

Rental levels in Tartu and Pärnu, €/sq m/month (area sized over 300 sq m)	A	B	C
Tartu	2-3.5	1.5-2.5	1-1.5
Pärnu	2-3	1.5-2	1-1.5

Source: DTZ Research

Forecast

- Industrial and warehouse sector has reached to slight increase phase, nevertheless, rapid increase in demand towards newly built premises is not foreseen, as the number of companies willing to pay the rent level meeting the developers' expectations is limited;
- Moderate increase of rental levels is expected to continue throughout 2012, as overall vacancy rates among new premises remain low;
- There will be continuous demand mainly towards A-class objects; demand will remain weak towards B- and C-class objects.
- There are many developers waiting for the clients, but until the macro economic situation has improved, larger activation in industrial development market is not forecasted; developers are not willing to start construction works without confirmed agreements.

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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

The total quantity of available modern industrial / logistics / warehouse premises in Riga and Riga region stood at around 475,000 sq m at the beginning of 2012. Over last two years some new logistic and warehouse developments entered the market, but these were almost exclusively built-to-suit projects for an actual tenant with specific needs and preferences, e.g. the Mykel Business Park near Riga Airport. For 2012 the increase of the stock is forecasted to be marginal, mainly backed by relatively small built-to-suit projects. While the vacancy rate remains high and rents low no new speculative project developments are likely to be started.

Industrial sector is the least active sector of the 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 restructuring – the businesses aiming to find the best offer on the market both in terms of quality and rent. With the strong pick-up in performance of the exporting industries the manufacturing businesses have also needed premises for expansion. However mostly this meant utilization of unused production capacities within the existing vacant premises.

There was a significant decrease in rental levels during 2009 (drop of 30-60%), but since the beginning of 2010, rental levels have in general remained stable. The rental prices vary in different areas; this is due to high vacancies and agreements, which were signed during the economic downturn in 2009/10

Map 2

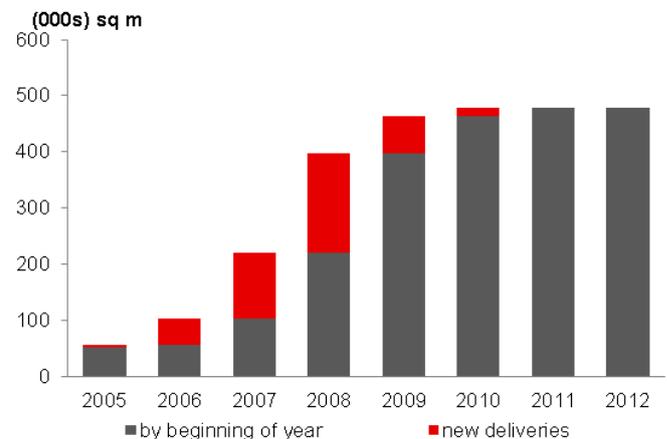
Major industrial/ logistics areas in Latvia



Source: DTZ Research

Figure 3

Dynamics of Logistics Space in Riga



Source: DTZ Research

Table 4

Rent levels in Riga, €/sq m/month	New buildings	Renovated buildings	Old buildings
Riga	2.5 - 4.5	2.0-4.0	1.0-3.0
In vicinity of Riga	1.5-4.0	1.0-3.5	0.4-2.0

Source: DTZ Research

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Forecast

- Current phase in industrial market will probably continue over the year 2012 while the economic situation will be steady and rental levels 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
- Rent rates generally will remain at the same level during 2012.

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Lithuania

Economic recovery in Lithuania still continues but not as rapidly as on previous year 2011. Exports continued to increase, however the growth was less floating. The largest points of risk in the industrial/logistics sector are the problems in euro zone, possible changes in taxation and populist solutions related to parliament elections. Taking the above reasons into consideration, the industrial/logistics market segment could become one of the most unpredictable property sectors in Lithuanian in 2012.

In the Lithuanian market, occupier demand is mainly focused on the Free Economic Zones in Kaunas and Klaipeda, areas around Vilnius and Panevezys, which allow the distribution of products in the whole country. In many ways, Lithuania is the geographical corridor for international transport. This has dictated the structure of main roads between East and West.

Total stock of industrial/ logistics premises in Lithuania reaches 680 000 sq m. The most active industrial/logistics developments are near the main roads of international 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-Panevezys-Kaunas-Warsaw;
- in the East-West direction: the road IXb (Kiev-Minsk-Vilnius-Klaipeda).

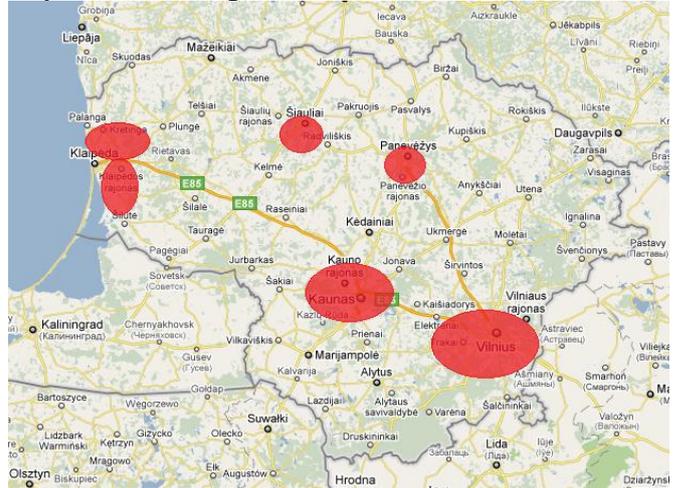
Different amounts of new industrial/logistics spaces have been built from 2005 to 2012. After strong compression in 2010, spaces of the new areas in the Lithuania have increased slightly.

Vilnius

Vilnius industrial/ logistics market consists of over 360,000 GLA sq m modern buildings, or more than half of all modern stock in Lithuania. From the December of 2011 full 3PL services has been successfully started to provide in the new terminal by TRANSIMEKSA and new logistics centre ENTAFARMA has been built. Also, the new logistic centre is erecting at 22 km from Vilnius, close to Lentvaris small city, magnitude of approximate 7,000 sq m.

Map 3

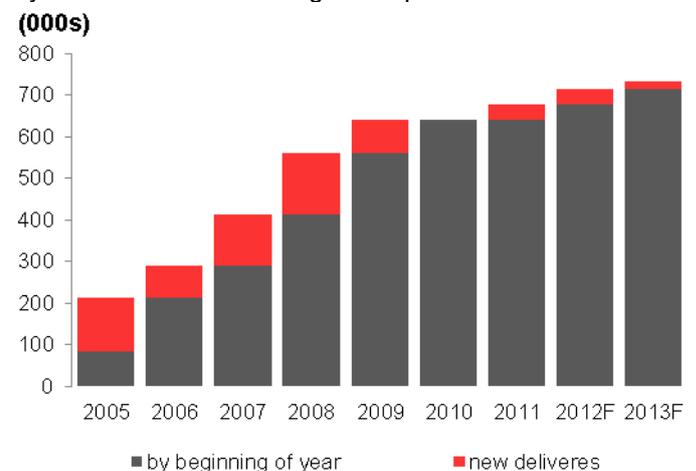
Major industrial/ logistics areas in Lithuania



Source: DTZ Research

Figure 4

Dynamics of Industrial/ logistics space in Lithuania



Source: DTZ Research

Table 5

Rent levels in Vilnius, €/sq m/month	New buildings	Renovated buildings	Old buildings
Most preferred districts	3.0 - 4.5	2.0 - 3.5	1 - 2
Less preferred districts	2.5 - 4.0	1.5 - 2.5	0.5 - 1.5

Source: DTZ Research

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New technology park Visoriai Information Technology Park (VITP) is erecting in Vilnius and developers are planning two projects. The first project involves building an area for companies engaged in IT software and service business. The second project is to provide conditions for investments in engineering infrastructure. The project is financed by sources of European Union.

New developments will be started only with pre-lease agreements, or as built-to-suit projects as the uncertain market situation instigates to avoid speculative development projects.

In 2011 the rent rates were stable as well as during Q1 2012. No rental growth is expected for the rest of the year.

Kaunas

As previously was mentioned, 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.

In Q1 2012 building work of a new logistic center in Alšėnų St. 8, Kampiškių village was started, Kaunas County, which magnitude is of 7,000 sq m. We do not expect any major changes in the development market in Q1 2012, as there are no new projects, seen since the beginning of the year. The demand exists however, due to low rental levels the construction activity of new industrial/logistics units is mainly frozen

Klaipeda

The majority of modern warehouses are located in Klaipeda FEZ.

In Klaipeda industrial/logistics new supply is still limited while the demand of retailers and manufacturing companies has remained dynamic.

There is one new built-to-suit project in 2011. It is VLANTANA logistic centre. No new projects are planned so far in 2012.

Forecast

- The rental levels will be stable;
- The vacancy situation in logistics property is very heterogeneous with a divider between prime and more secondary buildings. The vacancy of newly built prime logistics premises in good locations will be stable;
- The Government of Lithuania 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.

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