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Author

Kristina Kondratovica

Analyst

+371 28343858

kristina.kondratovica@dtz.lv

Contacts

Aivar Tomson

Head of Valuation & Research

DTZ Baltic

+372 62 64 250

aivar.tomson@dtz.ee

Magali Marton

Head of CEMEA Research

+33 1 49 64 49 54

magali.marton@dtz.com

Hans Vrensen

Global Head of Research

+44 (0)20 3296 2159

hans.vrensen@dtz.com

Economic development of the Baltic States was very successful during H1 2012 despite the financial instability in Europe. Overall activity indicators of the first two quarters were better than anticipated and gave reason for hope of continues annual growth in 2012.

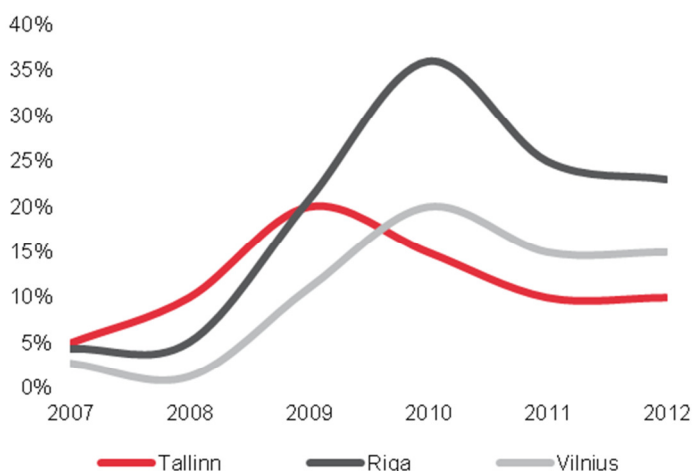
Office rental market in all three Baltic States has been active since the end of 2011. Rent rates, which increased in 2011, have been stable during H1 2012. Vacancy rates have slightly decreased in the first half of 2012.

Demand for high quality modern office premises has increased, especially in the CBD of capitals, continuously decreasing the overall vacancy level. At the same time the amount of new development projects will increase the vacancy levels in the coming years. Nevertheless, when on-going development projects will be finished, the number of projects on pipeline is still limited. New developments in 2012 reach only 20% of new constructions completed in 2008. A few new office buildings will be built in the next 2-3 years.

The rental level of new developments is slightly higher than overall prime rental level. Although there is a continuous pressure of rental increase due to the high construction costs, no rapid increase is expected in coming year. Due to improving the economic situation construction costs will also slightly rise together with inflation and growing wages in construction sector.

Figure 1

Vacancy rate in Baltic capitals



Source: DTZ Research

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Macro-economic trends

Estonia

As the export capacity has decreased since the end of Y2011, the domestic demand is playing the main role in Y2012's economic growth of Estonia. The consumer confidence has increased and the risks from European economy have not had that great impact to Estonian economy as firstly expected. Bank of Estonia has also increased the forecasted figures of economic growth for 2012 in their last report. Nevertheless, if the situation in Europe will turn more serious, then the economic decrease is expected also in Estonia, meaning that the risks are still there and considered with.

Based on the information presented by Bank of Estonia and Statistics Estonia, GDP increased by 7.6% in 2011. Before that GDP decreased by 14.3% in Y2009 and was followed by 2.3% increase in Y2010. Based on the prognoses of Estonian Bank (from June 2012) the growth of GDP will be 2.6% in Y2012, 3.6% in Y2013 and 4.1% in Y2014. The growth of GDP was 3.7% in the Q1 Y2012 compared to the same period in 2011. In the comparison with Q4 Y2011, the growth was 0.3%. So the tempo of the increase has clearly slowed down.

Based on the information from Bank of Estonia and Statistics Estonia, the CPI growth was 5.0% in Y2011, 2.7% in Y2010 and 0.2% in Y2009. Such fast inflation is mainly caused by price increase in food and fuel sector, but also because of increased household costs. Based on the prognoses of Bank of Estonia, the CPI change will be 3.9% in Y2012, 3.2% in Y2013 and 2.7% in Y2014.

The average registered unemployment rate was 12.3% in 2010. Same figure has continuously decreased, being averagely 8.4% in 2011 and 7.6% in Q1 Y2012.

Latvia

Latvia's economic growth in Q1 2012 was the fastest in the EU year-on-year and the fastest quarter-on-quarter. Compared to the 1st quarter of 2011, GDP in the 1st quarter of 2012 has increased by 6.9%, according to seasonally non-adjusted data of the Central Statistical Bureau of Latvia. Whereas according to seasonally adjusted data, GDP in Q1 2012 has risen by 1.1%, as compared to the 4th quarter of 2011.

Historically, from 1996 until 2011, Latvia's average annual GDP growth was 4.54% reaching a historically high level of 13.90% in March of 1996 and a lowest level 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 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 development of global economy.

CPI increase in 2011 was 4.4%. In Q1 2012, the annual inflation continued to drop, with its drop within a month, 0.5pp to 2.8%. The rise in inflation was held down by a high unemployment rate and relatively low consumer purchasing power. Overall, it is anticipated that the CPI rise will stand at 2.4% in 2012; however, the risks to the forecast are on the upside. In 2013, inflation is projected close to 2%.

The labour market situation has continued to improve. In December 2011 11.5% of the active population of Latvia were unemployed. At the beginning of 2012, the registered unemployment rate was on a rise again 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.

Overall economic activity indicators are better than expected for the first months of 2012, this gives hope that the overall annual growth figures for the year could also turn out to be better than initially planned.

Lithuania

The economic growth during 2011 and H1 2012 has been higher compared to the expectations. However, the GDP growth in H1 2012 has slowed down compared to Q4 2011.

Statistics Lithuania informs that real GDP growth rate in 2011 was 5.9%, and was followed by 1.4% increase in 2010. In Q1 2012, GDP at current prices amounted to €7,3m and, against the same period in 2011, its growth (real) stood at 3.9 %, while against Q4 2011 it dropped by 7.3 %.

CPI was 4.1% in 2011 and it increased, compared with corresponding previous year, by 3,4 times. Annual inflation still remains quite high. In May 2012, annual

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inflation calculated by Statistics Lithuania based on the harmonised index of consumer prices (HICP) stood at 3.9%.

According to the information from Statistics Lithuania, the unemployment rate in the country in 2011 was 15.4%. Compared with 2010, it decreased averagely stood at 13%. According to the Labour Force Survey data, the unemployment rate in the country in Q1 2012 stood at 14.5%, which is by 0.6 percentage points more than in Q4 2011.

The Bank of Lithuania is projected that the real GDP of Lithuania will increase by 3.0% in 2012 and 3.5% in 2013. Annual inflation is expected 2.9% in 2012 and 2.7% in 2013. Also it is forecasted that unemployment will decrease quite slower in 2012 and 2013 – respectively by 1.2% and 1.3%.

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,318	2,075	3,245
Urban population	66%	68%	67%
Area (thousand km ²)	45	65	65
Population density (per km ²)	31	32	50
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	402	706	554
Currency	EUR	LVL	LTL
Exchange rate (€)	x	0,7028	3,4528
GDP at current prices (bn €, 2011)	15,97	20,15	31
GDP per capita, at current prices (€, 2011)	12,119	9,712	9,464
GDP growth (% , 2011)	7,6	5,5	5,9
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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Office Market

Estonia

Tallinn

There are four main office areas in Tallinn - City Centre, area next to Mustamäe Road, Järve-Tondi area and Ülemiste City near airport.

Supply and demand

In the beginning of 2012, total area of office space in Tallinn was approximately 540,000 sq m. In 2011 the development activity was rather low, but the 2nd half of Y2011 brought clear revival in the development market and news about several different projects were released. The total size of larger and smaller planned projects forms around fourth of the total existing office stock.

In year 2012 two different office buildings should be completed in Mustamäe district – Mehhatroonikum and Tehnomeedikum, both in Tehnopol Technological Park. Over 20,000 sq m in total should be completed with these two projects. The constructions of G4S office building by Paldiski Road is in process and is being developed for own use (approximately 6,000 sq m of office space). Construction works of Kentmanni commercial building (approximately 4,000 sq m of office space) have been also started and it is planned to be completed by the end of Y2013. Project called Navigator, a 5,500 sq m office building near port of Tallinn, is said to be finished by the same time. In 2013 the first phase of triple tower office buildings are expected to be completed in Ülemiste City area, where new 10-storey office building of 6,000 sq m rentable area is being developed. By 2014 development of sustainable office project in the edge of the city centre with office area over 5,000 sq m should be finished. One of the most ambitious projects is located in CBD between Swissotel and Radisson SAS at Maakri Street, where double tower project with overall building right of 40,400 sq m is planned. At the moment the exact start time of the construction works has not been set.

Features of most demanded office space in Tallinn:

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

Map 1

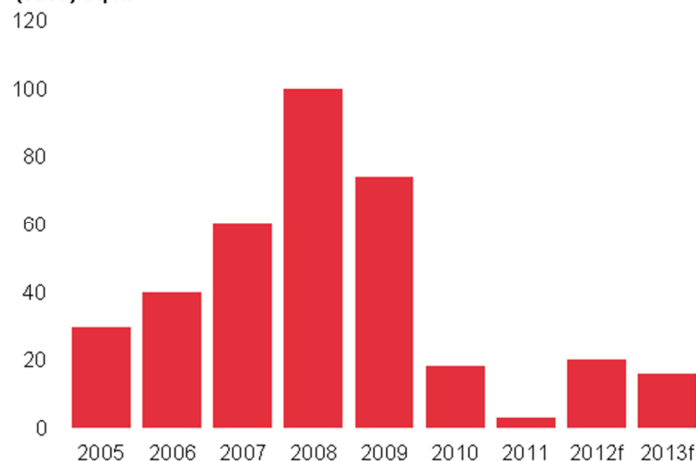
Office districts in Tallinn



Source: DTZ Research

Figure 2

New office space in Tallinn
(000s) sq m



Source: DTZ Research

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Rental levels

By the end of 2011 there was an increase in the rental levels of approximately 10-15% compared to the lowest point in 2009. In the first half of 2012 there have been no rapid changes and the top rental levels remain around 14 €/sq m/month. New developments planned to be completed in coming few years period are on offer on the price level up to 17 €/sq m/month.

Vacancy

The overall average vacancy rate in new office buildings is under 10% at the end of HY1 2012. The vacancy in most demanded areas is minimal; in CBD and in a few most popular office buildings on the edge of the city centre clearly lower than 5%.

Tartu and Pärnu

Office market in Tartu and Pärnu is focused mainly around city centre, but there are also office premises located in larger business districts outside city centre. Top rental levels are paid in the new office buildings developed in city centres and in near surroundings.

The rental levels in Tartu and Pärnu have remained quite stable over last couple of years. There is a slight increase expected in Y2012 among most attractive objects.

The overall vacancy in the middle of Y2012 is still quite high – around 10-15% amongst the most attractive objects and even up to 25-35% in among less valued projects. So the demand is clearly lower than the supply outside the capital of Estonia.

There are no significant on-going development projects in office sector either in Tartu or Pärnu.

Forecast

Vacancy level is estimated to remain on stable level, but can increase over couple of next years in light of new projects; nevertheless, demand should be high enough when the first projects are finished;

As the competition in office sector will increase over Y2012, quick increase in rental levels is not estimated;

Table 2

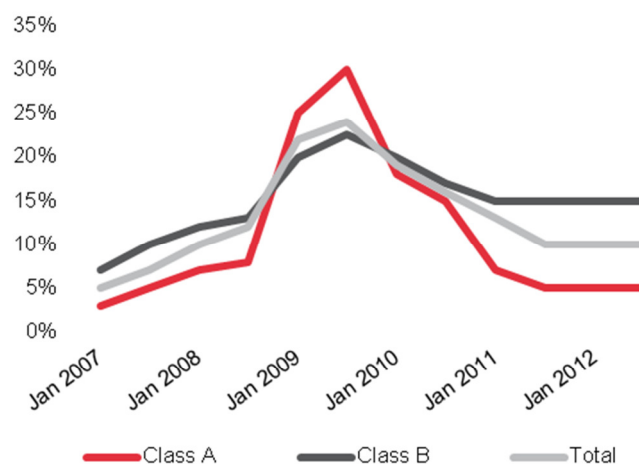
Rent levels in Tallinn

(€/ sq m/ month)	A+	A	B	C
Centre district	12-14	8-12	5-8	-
Suburban	-	5-7	4-6	3-4

Source: DTZ Research

Figure 3

Vacancy rates in Tallinn



Source: DTZ Research

Table 3

Rent levels in Tartu and Pärnu

(€/ sq m/ month)	A	B	C
Tartu	6.5-12	3-7.5	2-3
Pärnu	4.5-10	2.5-5	1.5-2.5

Source: DTZ Research

The yield levels have been dropped amongst most attractive projects, there is a continuous pressure towards further decrease;

The development activity will remain active during the next couple of years, unless there will be quick negative turns in macroeconomic scene.

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Latvia

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

Supply

Offices are mostly built in Riga 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).

The total stock of modern office space in Riga is approximately 540,000 sq m (GLA), including 380 000 sq m of rental and 157 000 sq m of owner-occupied space by the end of HY1 2012. There are three office building projects under construction – Jupiter Centre located at Skanstes street 7 with GBA of 16,000 sq m (commissioning HY2 2012), Z-Towers - two interconnected skyscrapers with total area of 100,000 sq m (commissioning 2014) and State Revenue Service administrative complex with 40 000 sq m (commissioning 2014). No new developments have been delivered during the HY1 2012.

Demand

While the economy recovers, demand for office space also improves. Leasing activity increased during the last two quarters. Several companies are expanding their premises.

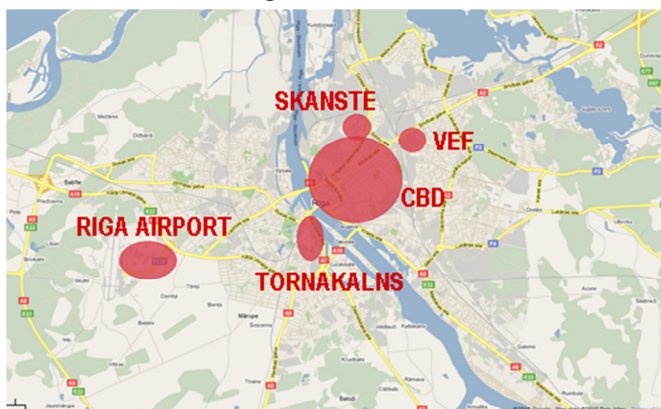
Major tenants are banks, which occupy an area in purpose built units, followed by state and municipal institutions, IT companies, consultants and financial institutions, etc. Couple of Medicine Centres are relocating to newly built office buildings.

Generally the demand side was mostly driven by companies expanding their businesses or leaving lower standard buildings for higher quality offices.

Considering current global financial situation demand for new office space will most probably slightly decline in H2 2012.

Map 2

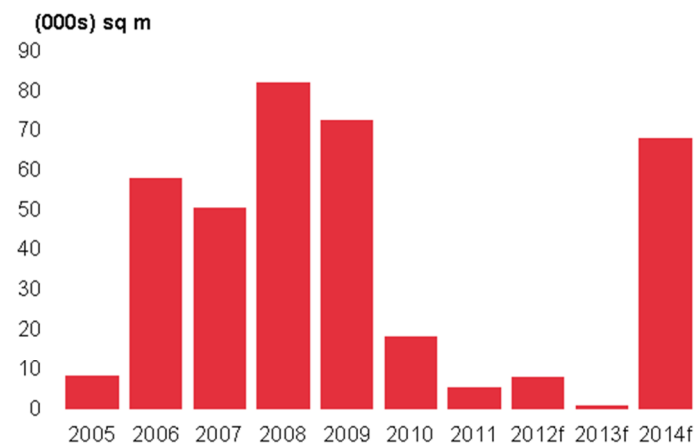
Office Districts in Riga



Source: Google Map, DTZ Research

Figure 4

New office space in Riga



Source: DTZ Research

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Rental levels

After marginal increase in lower rental levels, the prime and upper rent levels remained stable H1 2012. The lowest levels rose by €1-2/ sq m/ month in Q4 2011.

Vacancy

Vacancy rates have continued to decrease in Riga. A-class and B-class office buildings are gradually being filled. Vacancy rate in class A offices is approximately 6%, in B-class offices average rate is 25%. In some cases still vacancy is up to 50% or even 100%. Nevertheless lease activity is stable.

Forecast

Rental levels will be stable during Y2012;

The vacancy rate is expected to remain stable during H2 2012.

Several development projects started in crisis period will be putted into commission starting with H2 2012.

Table 4

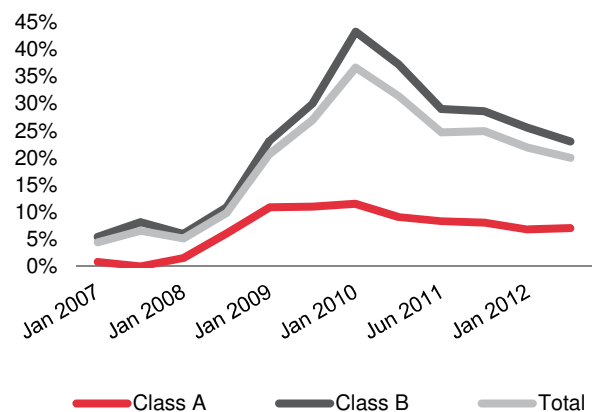
Rent levels in Riga

€/ sq m/ month	A+	A	B	C
CBD	10-15	8-12	6-10	3-7
Suburban	-	-	3-10	2-4

Source: DTZ Research

Figure 5

Vacancy rate in Riga



Source: DTZ Research

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Lithuania

Lithuanian office market is active in the capital city and in other larger cities Kaunas and Klaipeda also.

Vilnius

Vilnius is considered the country's economic, financial and commercial centre. The city with its metropolitan zone accounts about 40% of the country's gross domestic product (GDP).

Supply

Most of the high class office space in Vilnius is located in newly developed central areas "Business Triangle" (11% of total stock) and in the New City Centre (17% of total stock).

Large area of new developments is located outside the city centre (along Ukmerges Street). Another business cluster locates in Naujamiestis, further in the south, which mainly accommodates B-class office buildings.

Currently, the total stock of modern office space in Vilnius is roughly 360,000 GLA sq m, of which around 31% can be valued as A+ and A-class premises.

Demand

Strong demand for modern (A class) premises may see some occupiers forced to consider better B class premises and it has given an impetus for developers to build new modern offices during 2012 - 2015.

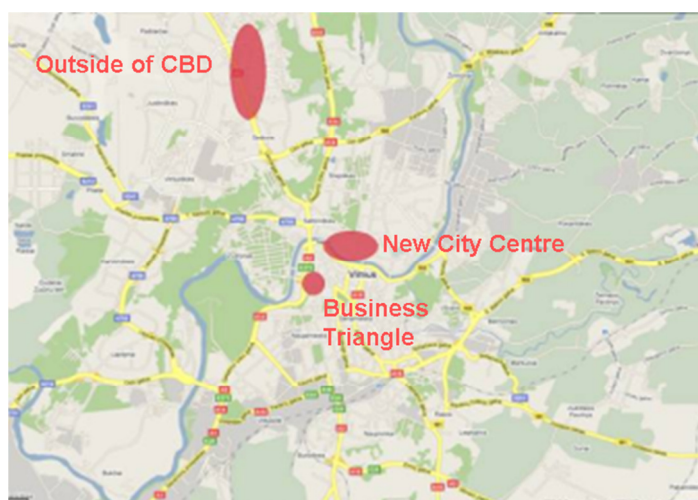
Two office buildings were opened in HY1 2012. There is Pirkliu klubas located in city centre and administrative building in Jasinskio str. New development pipeline with amount of 64,000 sq m of GLA is planned to be built during the second half of 2012, 2013 and 2015. There will be quite big sizes A class premises in capital of country.

Rental levels

During H1 2012 rent levels in modern office buildings were stable. The prime rents remained stable in capital city during the first half of 2012 reaching €14 per sq m per month. Furthermore, the length of time it takes to finish new larger scale constructions is also impacting the market.

Map 3

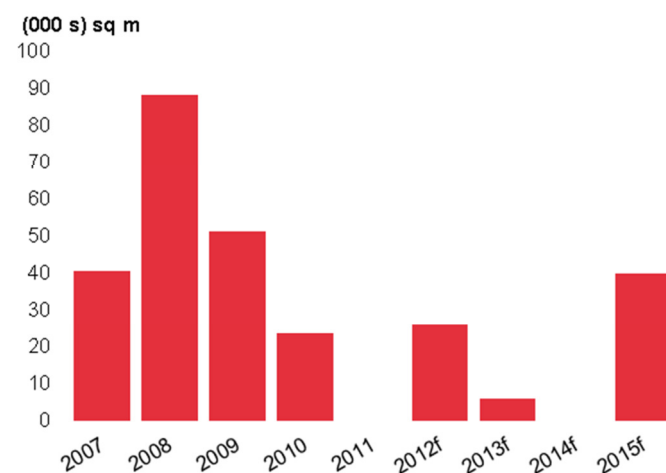
Office Districts in Vilnius



Source: Google Map, DTZ Research

Figure 6

New office space in Vilnius



Source: DTZ Research

Table 5

Average rent level in Vilnius

€/ sq m/ month	A	B	C
Vilnius city centre (CBD)	11-14	7-9	-
Suburb	-	5-7	2-4

Source: DTZ Research

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Table 6

New office developments in Vilnius

Projects	Address	Total area, sq m	GLA, sq m	Date	Quality
GAMA	Kalvarijų St., Vilnius	13,000	11,400	2012	B
Trapecija	Pilaites Ave.16, Vilnius	2,675	2,500	2012	B
Vytenio 46	Vytemio St., Vilnius	2,200	2,000	2012	B
Ulonu business centre	Verkiu St. 25C, Vilnius	4,000	4,000	2012	B
Baltic Hearts	Ukmerges St. 120, Vilnius	10,000	9,000	2012-2013	A
Quadrum	Konstitucijos Ave. 21, Vilnius	70,000	40,000	2015	A
Total		102.875	68.900	-	-

Source: DTZ Research

Vacancy

The vacancy rate in A- and B-class buildings reached 14% in H1 2012. The vacancy rate in C-class office buildings was stable from 20% to 30%.

On average vacancy rate in modern (A class) office buildings was 5.5% during H1 2012. Two office buildings delivered in the market have lower vacancy rates according to preliminary information and the demand, despite being comparably small, was quite stable. Vacancy rates stood up from 7 to 30% in B-class buildings.

Kaunas

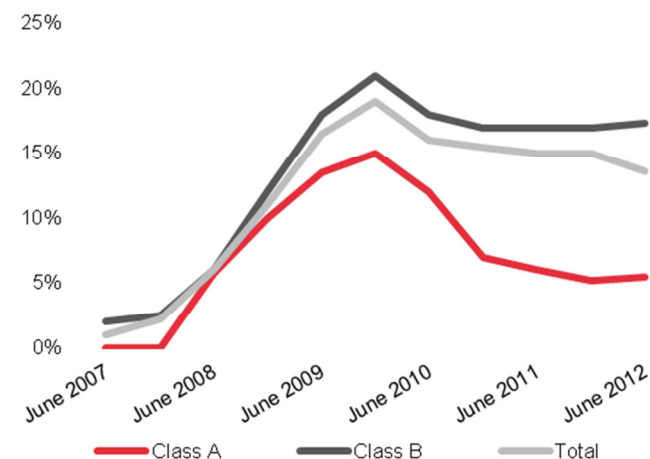
In Kaunas is quite hard to find 20-50 sq m premises. It is mostly demanded size in this city. Usually branches of larger local and international enterprises tend to lease larger office premises.

There were no new offices supplied from 2011 until the end of HY1 2012. The total modern office stock in Kaunas is currently in amount of 35,400 GLA sq m. The new office building is constructing for company known as Senukai in Lithuania

In the first half of 2012 the rents in Kaunas office centres were demonstrating more or less the same level compared to 2011. The prices vary from €4.3-10 €/sq m/month. Vacancy rates are between 10 and 25%.

Figure 7

Vacancy rate in Vilnius



Source: DTZ Research

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Klaipeda

The total amount of modern office space in Klaipeda is 45,200 GLA sq m. Development activities in the Klaipeda office market has ceased with no space currently under construction. On the contrary, there were no deliveries during the first half of 2012, nor are expected till the end of 2012.

The rentals in Klaipeda high quality business centres range from €5.8-10 €/sq m/month, whereas office premises in economy class centres are leased for €2.9-5.8 /sq m/month. Vacancies were standing at the level of 10-20% in H1 2012.

Panevezys and Siauliai

The volume of space under construction fell to zero during 2009-2011. Since then, no new space has commenced construction and with no new developments scheduled at present, development activity is expected to be limited during 2012 in 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 demanded prime quality premises, a few existing tenants are satisfied with converted B-class premises on the first and second floors 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 levels 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.

Forecast

Rental levels will be stable during 2012 as a result in Vilnius;

Rentals will remain stable in the secondary cities in 2012;

New office projects will be a major contributor to increasing vacancy rates, which will lead to more unbalanced market in 2012 and 2013 in terms of supply and demand.

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Contacts

Estonia

Tambet Tiits +372 62 64 250 tambet.tiits@dtz.ee	Aivar Tomson +372 62 64 250 aivar.tomson@dtz.ee
Merilin Piik +372 62 64 250 merilin.piik@dtz.ee	

Latvia

Andris Jursans +371 6724 4811 andris.jursans@dtz.lv	Kristina Kondratovica +371 6724 4811 kristina.kondratovica@dtz.lv
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Lithuania

Valdemaras Ivasko +370 5210 0252 valdemaras.ivasko@dtz.lt	Jurgita Banyte +370 5210 0252 jurgita.banyte@dtz.lt
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