

Property Times

Baltic Industrial / Logistics H2 2012

Interest increases towards modern premises



15 February 2013

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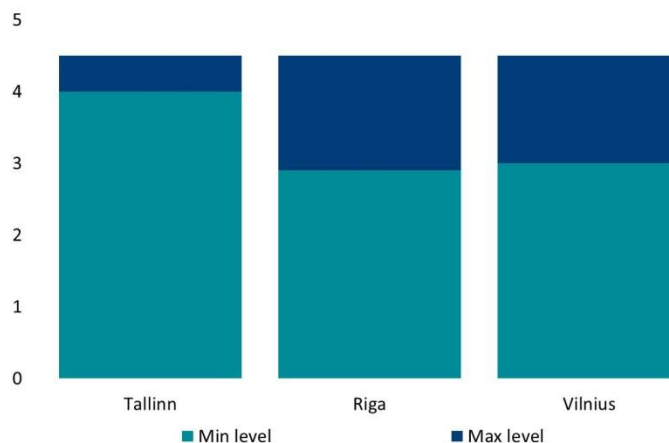
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- Certain positive changes were evident in all three Baltic States. Vacancy levels slightly decreased during 2012 and will continue to decrease in 2013. Rental rates were stable during H2 2012, and generally, are expected to remain so in 2013; in certain geographical sub-segments, modest increase can be anticipated.
- After the crisis no new speculative projects have been developed. Occupier demand increases for modern premises, but remains very modest towards the space with lower quality. Rapid increase in demand for newly built premises is not foreseen as the number of companies willing to pay the rent level in line with developers' expectations is still limited. New supply is mainly based on built-to-suit schemes.

Figure 1

Prime industrial / logistics rents in Capital Cities, €/sq m / month



Source: DTZ Research

Macroeconomic Trends in the Baltic States

Estonia

Estonian economy is in quite a good health, with strengthened domestic demand playing the major role in economic development. Nonetheless, despite promising GDP growth, the uncertainty towards surrounding environment is still evident.

Based on the information presented by the Bank of Estonia and Statistics Estonia, in Q3 2012, GDP increase was 3.5% on a year-on-year basis and 1.6% on a quarterly basis, with construction sector being the largest contributor to the economic growth. According to the Bank of Estonia forecasts (published in December 2012), GDP growth shall round up to 2.9% in 2012, is expected to reach 3.0% in 2013 and 4.0% in 2014.

The year-on-year CPI change meanwhile was 3.7% in Q3 2012. Inflation was mainly caused by the increase in food, housing and fuel prices. According to the Bank of Estonia forecasts, the annual CPI change in 2012 would round up to 4.3%, and is expected to slow down in the upcoming two years, with the forecasted change of 3.6% in 2013 and 2.4% in 2014. Such a deceleration however is only possible with no substantial upward changes in the global fuel prices; another underlying assumption is that global food prices that have heavily increased in 2012 will exhibit a decline within the upcoming two years.

Statistics Estonia informs that the unemployment rate within the population group aged 15-74 years dropped from 10.2% in Q2 2012 to 9.7% in Q3 2012. More than one third of these officially registered unemployed have been unoccupied for more than two years already. Most of the unemployed workforce finds occupancy in construction and industrial sectors, as well as in the sector of seasonal works.

Latvia

In 2012, Latvia, the country famous for its austerity measures, has managed to accomplish something unattained by any other country severely affected by the recent crisis, namely, to maintain its currency exchange rate fixed. On top of that, Latvia's economy, after shrivelling by more than 20% from its peak, remarkably outperformed the cautious government forecasts for 2012 of 1-2% growth and rose by more than 5% instead, making it the best performer in the 27-nation European Union.

The budget deficit is also down sharply (1.7% from GDP as compared to 4% at the end of 2011); both manufacturing (10.5% growth within a year, more than 35% growth from December 2009) and exports (22.6% growth within a year, as compared to 12.1% annual growth in import rate) are soaring, and already exceed pre-crisis levels.

Annual inflation meanwhile has reached its historical minimum ever since autumn 2010, and averaged at about 1.6% at the end of 2012, coming primarily from globally evident increase in fuel and food prices.

The problems that still persist are those of high unemployment rate (although it is almost twice as low as in Greece or Spain, the rate of 13.5% is still too large) and social inequality. It is worth mentioning that unemployment was relatively high in Latvia ever since the re-establishment of independence; yet during the last eight years (and thus also during the economic boom) it was also higher than that experienced by the closest neighbours, Lithuania and Estonia.

The commonly held opinion however is that the hardest times are behind. 2013 therefore is expected to be marked with slower, but still one of the highest GDP growth rates in Europe (3-3.8% per year). The average income level, which currently stands at about 60% of EU average (as compared to 30% in 1995), is expected to grow slowly and reach its pre-crisis level, about 711 EUR before taxes. As usual, the income in Riga will be about 15% higher than that in the rest of the country; heavily pronounced segmentation in employment sector will still persist.

The government meanwhile has set the target of meeting Maastricht criteria (inflation not exceeding 2.7%, budget deficit up to 3.0%, debt-to-GDP ratio up to 41.9%) and thus to receive an invitation to join Eurozone in 2013, with the subsequent Euro introduction in early 2014.

Lithuania

Statistics Lithuania informs that in Q3 2012, the real GDP growth was 4.4% on a year-on-year basis. At the same time, the GDP that was produced within the three quarters of 2012 outperformed the same period of 2011 by 3.5%. Central Bank of the Republic of Lithuania meanwhile goes more moderate in its forecasts, and predicts a 3.0% annual GDP growth by the end of 2012, along with the 3.1% increase forecast for 2013 (down from the previous forecast of 3.4%).

Average annual inflation meanwhile stood at 3.2% as of November 2012 (calculated on the basis of HICP, the harmonised index of consumer prices), and is 0.4% down as compared to the annual inflation figure a year ago. The year 2012 is expected to round up with the 3.1% annual inflation rate, as compared to 4.1% figure at the end of 2011. In 2013, the forecasted inflation rate is 2.8%.

The unemployment rate, which stood at 13.3% in Q2 2012, decreased by 1% within a single quarter (12.3% in Q3 2012). The forecasts for the upcoming year are more moderate; by the end of 2013 the unemployment is expected to reach 11.6% figure.

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Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,340	2,033	3,008
Urban population	65%	68%	67%
Area (thousand km ²)	45	65	65
Population density (per km ²)	30	31	46
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	401	649	534
Currency	EUR	LVL	LTL
Exchange rate (€)	X	0.702804	3.4528
GDP at current prices (€Bn, 4Q 2011 - 3Q 2012)	16.8	21.6	32
GDP per capita, at current prices (€, 4Q 2011 - 3Q 2012)	12,503	10,618	10,701
GDP growth (% , 3Q 2012)	3.5	5.3	3.5
Inflation rate (% , 3Q 2012)	3.7	1.7	3.2
Unemployment rate (% , 3Q 2012)	9.7	13.8	12.3

Source: National Statistics, Oxford Economics

Industrial / Logistics Market in Estonia

According to Statistics Estonia, the total volume of industrial production in 2012 remained practically unchanged as compared to 2011. The balance of trade however was reconstituted, with exports increasing and sales in the domestic market decreasing on a year-on-year basis.

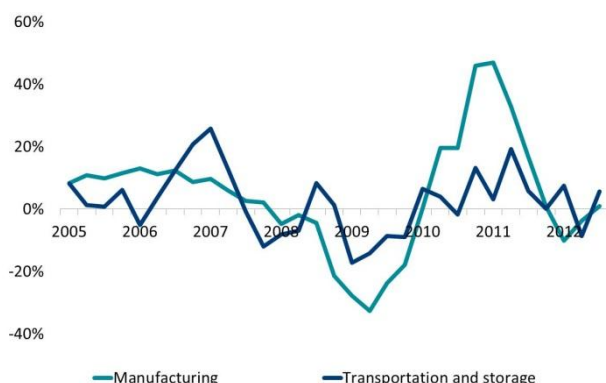
The manufacturing growth was positively influenced by its major constituting components, namely, manufacturing of electronic products (4% increase on a year-on-year basis), wood-working, and food products (1% increase each on a year-on-year basis). This positive development was offset by decreasing output in such segments as metal processing, chemicals, furniture, and motor vehicles.

December 2012 year-on-year figures nonetheless were more promising, showing 7% annual increase in industry production and 6% annual increase in manufacturing.

The net sales of transportation and storage services meanwhile increased by 8% on an annual basis as of Q3 2012.

Figure 2

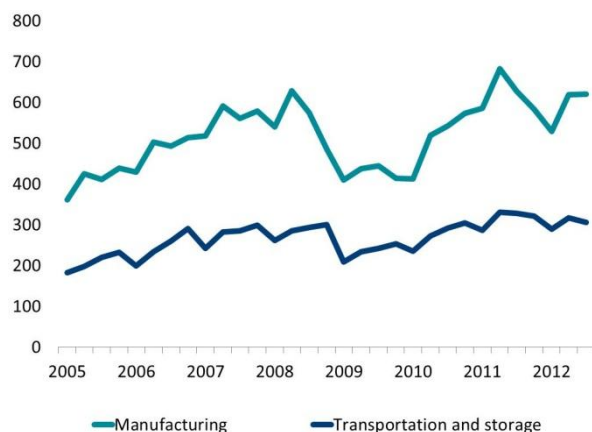
Chain-linked volume growth compared with the same period of previous year in Estonia



Source: National Statistics, DTZ Research

Figure 3

Value at current prices in Estonia, EUR M



Source: National Statistics, DTZ Research

The most important large-scale industrial areas in Estonia are mostly concentrated in the Northern part of the country, in and around the capital city Tallinn. Other large-scale industrial areas can also be found in Eastern Estonia, primarily in Ida-Virumaa County, whereas small-scale industrial buildings are scattered all over the country.

Logistic buildings are usually located inside larger cities, near major roads or on the city margins, as well as near intersections of major national roads in close proximity to cities/hamlets. Major industrial parks are located near larger cities, especially near Tallinn (such as *Tänassilma*, *Jüri*, *Mõigu*, and other parks).

Tallinn

By the end of 2012, the total stock of modern industrial/logistic space in Tallinn and its immediate vicinity amounted to 770,000 sq m.

The last two years were abundant in terms of new deliveries to the market; hence in 2011, 85,000 sq m of new space was introduced, whereas in 2012, 92,000 sq m of new space was delivered. 2013 is expected to follow the trend, with 100,000 sq m of new space in the pipeline, thus making the stability and reliability of Estonian economy in general and industrial/logistics sector in particular a very strong statement.

The lion share of already existing stock and recent new deliveries is attributed to the built-to-suit premises, whereas the availability of premises in speculative developments has only slightly increased within the last few years. The development pipeline however exhibits a growing confidence in undertaking speculative risks on the developers' side; hence *VGP Park Nehatu* (total project size around 50,000 sq m) on Peterburi Road in Lasnamäe city district is expected to bring approximately 21,000 sq m of speculatively developed premises into the market by the end of 2013.

2012 also saw an increasing interest from Nordic countries in logistics segment in Tallinn and its immediate vicinity. The interest was initially stirred by significantly lower rental fees in Estonia as compared to the Nordic countries, and strengthened by lower workforce costs, as well as reliability and stability of Estonian economy coupled with auspicious location of the country.

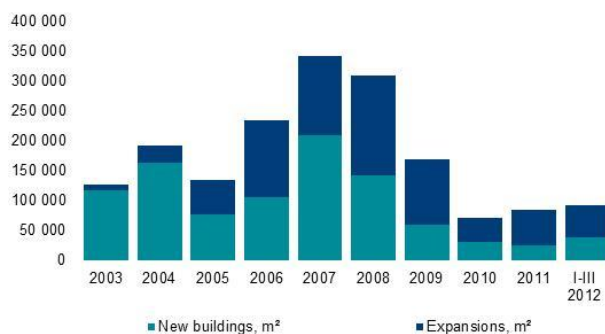
The appeal of the industrial / logistics segment in Estonia was further reinforced on the investment market, which over a long period of time finally witnessed two major transactions, thus neatly fitting into the European investment landscape, where the most demanded assets in 2012 were those coming from industrial / logistics or office segments.

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Hence in Q1 2012, Sweden-based *East Capital* acquired newly built logistics centre *VGP* (total area 40,000 sq m) in *Tänassilma Industrial Park* (located close to the border of Tallinn City), whereas in Q2, local-based *Capital Mill* acquired two neighbouring warehouse/industrial buildings on Saeveski Street (Nõmme city district). The total volume of the first transaction is €24 M with the yield slightly above 9.0%; the total volume of the second transaction is €2,2 M with the yield undisclosed.

Figure 4

Dynamics of industrial/ logistics space in Estonia, sq m



Source: DTZ Research

Rental levels in Tallinn

After peaking in 2007, the rental fees for industrial and logistics premises in Tallinn were readjusted downwards by as much as 40% in 2008-2009. The first positive signs nonetheless appeared already in the year to follow, with slight increase in rental fees for modern premises. This trend continued into the first half of 2011, followed by period of stability. By the mid-2012, given the increase in CPI and in relevant construction prices, the lower plank of rental fees increased by as much as 10-15%, followed once again by the period of stability in the second half of the year.

Table 2

Rental fees in Tallinn, €/ sq m / month

	New buildings	Renovated buildings	Old buildings	2013
Prime locations	4.0-4.5	2.5-3.2	-	↗
Secondary locations	3.0-4.0	2.0-2.5	1.0-2.0	→

Source: DTZ Research

Vacancy in Tallinn

Along with stabilization of economic situation and increase in industrial production, both vacancy rates and the number of active offers for lease have significantly decreased. The market however is polarized in terms of the quality of premises, with the highest demand coming for modern premises sized 200-500 sq m in prime locations. Demand for older, B- or C-class premises is rather small; the vacancy rates in this segment are therefore as high as 20-25%; in case of larger complexes, the whole building can be put on hold. Given that tenants tend to improve their state of affairs by relocating from older to newer premises, the vacancy rates in this sub-segment have no prospects to decrease in the upcoming year.

Map 1

Major industrial / logistics areas in Tallinn



Source: DTZ Research

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Table 3

Major Industrial areas and Industrial/Business Parks in Tallinn and its surroundings

No. on the map	Name	Description	Location	Territory (ha)
1. INDUSTRIAL AREAS				
R1	Area at Laki Str., Kadaka Str., Forelli Str. and Marja Str.	Industrial and logistics area including office buildings	Within Tallinn city's Mustamäe city district; 8.5 km to TLL airport, 7.5 km to Tallinn Port	2.4
R2	Paljassaare harbour area and it's closer surroundings	Industrial area	Within Tallinn city, harbour area (industrial use) in Kopli district of Northern Tallinn city district; 9 km to TLL airport, 4.5 km to Tallinn Port	11
R3	Liiva industrial area	Industrial area	Within Tallinn city's Nõmme city district, the area bears the address of Kalmistu Road; 8 km to TLL airport, 8.5 km to Tallinn Port	1.4
R4	Area at Männiku Road	Industrial area	Within Tallinn city's Nõmme city district; 8.5 km to TLL airport, 9 km to Tallinn Port	2.4
R5	Suur-Sõjamäe area	Industrial area including office buildings	Within Tallinn city's Lasnamäe city district; 0.1 km to TLL airport, 5 km to Tallinn Port	7.3
R6	Area at Betooni Str. and Paneeli Str.	Industrial area including office buildings	Within Tallinn city's Lasnamäe city district; 5 km to TLL airport, 7.5 km to Tallinn Port	6.3
R7	Area between Punane Str. and Peterburi Rd.	Industrial area including office buildings	Within Tallinn city's Lasnamäe city district; 4 km to TLL airport, 7.5 km to Tallinn Port	3
R8	Area at Vana-Narva Rd.	Industrial area	Approx. 0.5 km from Tallinn city's eastern border, location in Jõelähtme Parish; 12.5 km to TLL airport, 6.5 km from Muuga Port and 13.5 km to Tallinn Port	4
2. INDUSTRIAL AND BUSINESS PARKS				
1.	Tänassilma Technological Park	Industrial/business Park	From northern side, borders with Tallinn city's border, location in Saku Parish; 15 km to TLL airport and 18 km to Tallinn Port	1.6
2.	Mõigu Technological Park	Industrial/business Park	Approx. 0.3 km from Tallinn city's north-eastern border, location in Rae Parish; 1.5 km to TLL airport and 7.2 km to Tallinn Port	18.7
3.	Kroosi Technological Park	Industrial area	Approx. 2.3 km from Tallinn city's north-eastern border, location in Rae Parish; 3.8 km to TLL airport and 9 km to Tallinn Port	12
4.	Jüri Technological Park	Industrial/business Park	Approx. 6.5 km from Tallinn city's north-eastern border, location in Rae Parish next to Jüri Hamlet; 7.5 km to TLL airport and 15 km to Tallinn Port	37

Source: DTZ Research

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Pärnu

In Pärnu, the prime industrial / logistics locations are as follows:

- Rapidly developing and commercially diverse area between Papiniidu Street, Lao Street, and Riia Road, which hosts *Reldori Industrial Park*, as well as plenty of other industrial and warehouse premises, DIY stores, gas stations, and other commercial properties (including *Papiniidu* shopping centre);
- Tallinn Road at the intersection with Ehitajate Road (road A4/E67), and at the intersection with Janseni Street, which is closer to the city centre;
- *Mauri Technological Park*, located on the outskirts of Pärnu city.

In terms of supply and demand, Pärnu geographical sub-segment is steadily approaching equilibrium. As in the case of Tallinn, however, the market is polarized in terms of the quality of premises, with the most strongly pronounced demand for A-class, 200-500 sq m sized premises (including necessary office space), and a rather marginal interest in B- or C-class buildings. The vacancy rates for the premium group are therefore as low as 5%; the vacancy rates for B- and C-class stand at around 15-20%. Development activity is very modest, where older premises are usually slightly refurbished to meet standards of satisfactory quality. The majority of industrial / logistics premises in Pärnu are owner-occupied, whereas the share of speculative rental premises is very small. Rental fees remain stable ever since the end of 2011.

Tartu

Industrial / logistics premises in Tartu are primarily concentrated in the following areas:

- Ropka Street area, located in close proximity to the railroads and roundabout road;
- Ravila Street area, which benefits from being on the city border, yet in a very close proximity to the city centre;
- Commercially-diverse Rintee Street area, which is on the outskirts of Tartu city and hosts wide array of commercial properties (including shopping centres, car showrooms, etc.);
- Newly built *Ülenurme Industrial Park* (in close proximity to Tartu Airport) and *Vahi Industrial Park* (Tartu district, on the intersection of A3/E264 and 39 roads).

It should be duly noted that the absolute majority of industrial / logistics premises in Tartu are owner occupied; speculative premises are mostly available only in the new industrial parks. Neither in 2011 nor in 2012 any new developments were introduced to the market; none are also foreseen in the pipeline for the upcoming years.

The highest demand in Tartu comes for the premises sized 400-1,000 sq m, with sufficient electricity supply. The size of the land plot available for use is also quite often a decisive factor, with the most demanded being 2,000-5,000 sq m of land. Premises sized 100-300 sq m are also wanted, whereas demand for those that are over 1,500 sq m is very limited.

Rental fees remained stable throughout 2012; vacancy rates range from 5% for A-class premises up to 30% for C-class premises.

Table 4

Rental fees in Pärnu, €/ sq m / month

	New buildings	Renovated buildings	Old buildings	2013
Industrial premises	2.0-4.5	1.9-3.2	1.3-1.9	→
Warehouse premises	-	1.9-2.6	0.6-1.9	→

Source: DTZ Research

Table 5

Rental fees in Tartu, €/ sq m / month

	New buildings	Renovated buildings	Old buildings	2013
Prime locations	2.2-3.5	1.5-2.5	1.0-1.5	→

Source: DTZ Research

Baltic Industrial / Logistics H2 2012

Forecasts for 2013

- After the economic decline, industrial / logistics segment in Estonia is rapidly undergoing the absorption phase, which is evident from decreasing vacancy rates and increasing rentals. Improving export fundamentals positively influence stability of rental incomes. First signs of enlivened development activity are already evident, and will be further reinforced throughout 2013.
- Tenants are inclined towards the improvement of their state of affairs. Therefore, their interest will persist in the sub-segment of premium quality premises. Demand for B- and C-class premises is very modest and will hardly improve in 2013.
- All of the above stimulates an upward, although still marginal, pressure on the rental fees for good quality premises.
- Despite increased interest towards industrial / logistics properties, given the intrinsic risks of the segment, the yields will remain stable. The number of investment transactions will remain low due to the size of the market in the pan-European context.

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Industrial / Logistics Market in Latvia

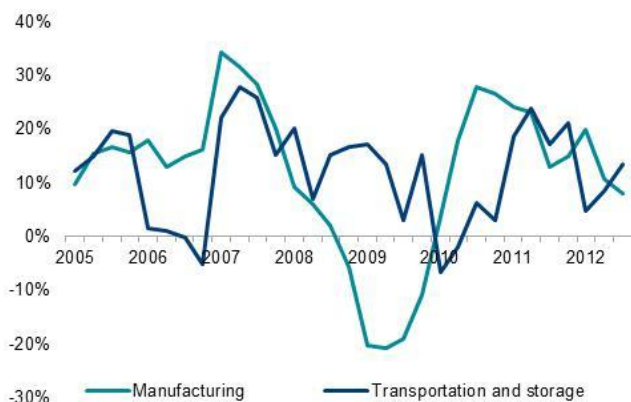
Ever since the recent crisis, the transportation segment in Latvia was among the leading ones in terms of investment. The second half of 2012 is no exception; a number of transport-related investment projects are being implemented, and are expected to provide a strong support for further development of the national economy.

Hence, several roads of national significance are being developed; railway tracks are being renewed, as well as parallel trays are being laid; railway marshalling yard in Riga is being reconstructed. The reconstruction of Riga international airport runway is already scheduled; so are a number of large investment projects in Latvian ports. And although it is a widely known fact that foreign trade balance of goods in Latvia has been negative for a long time, a less popular but not less significant fact is that in service segment, foreign trade balance is positive, and here, the largest contribution comes from the transportation segment (77.6% of the service's external trade balance in 2011, with the remaining 22.4% being subdivided between financial services, tourism and business travel, IT services, construction).

Transportation segment therefore currently amounts to 11.2% of the total GDP at current prices (for comparison, the average figure for Euro Zone is around 5%, whereas Latvian figure almost doubled from its lowest 6.9% point at the end of 2007, and showed a positive slight increase from 11% in 2011), whereas the second most important segment of the industrial cluster, manufacturing, adds up another 13.3% to the national GDP figure (picking up from the lowest point 9.7% in 2008, and showing positive development trends from 12.7% in 2011).

Figure 5

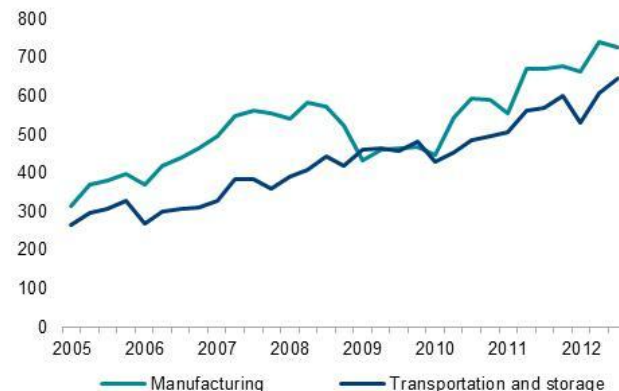
Chain-linked volume growth compared with the same period of previous year in Latvia



Source: National Statistics, DTZ Research

Figure 6

Value at current prices in Latvia, EUR M



Source: National Statistics, DTZ Research

Occupational markets

Given Latvia's geographical location, it was always considered as a country that could greatly benefit from being the place where the roads connecting East and West intersect. Within this context, on a global level, a few factors play a crucial role, the first being promotion of the public-private partnership in terms of infrastructure development and operation, whereas the second being development of such an infrastructure and mode of activities that would assist to complex service offerings characteristic to multimodal transportation solutions.

Within the recent years, however, centrally-organized development of international logistic centres in Latvia was rather sporadic, resulting in a situation where a lot of relatively small, functionally and geographically fragmented properties were developed. These can be referred to as regional logistics centres, built and operated by private investors or cargo forwarding companies. Part of these properties can be better characterized as warehouse facilities, built by real estate developers and being later leased out to various companies for storage purposes.

Throughout this development activity, industrial properties in Latvia are as if subdivided into two groups based on their location that also influences the availability of services to be offered, namely, properties located near major sea ports and properties located inland.

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Table 6

Rental fees in Riga, €/sq m / month

	Rent	2013
A-class	2.9 – 4.5	→
B-class	1.5 – 4.0	→

Source: DTZ Research

Table 7

Vacancy rates for industrial properties in Riga

	Vacancy, %	2013
Riga and Riga District	~15%	↘

Source: DTZ Research

As far as the first group is concerned, there are three port-connected container terminals in Riga, one in Ventspils and one in Liepaja. Since at the given point of time, the operators of these container terminals cannot influence the timing and regularity of maritime transport, their main functions are loading/unloading of ships, storage of the cargo and its forwarding.

Within the second, inland located, group of industrial properties, only *Central Euro-Asia Gateway* that is located in Jekabpils, on the former military airfield, can be referred to as the multimodal logistics centre, offering access to both railroads and automotive roads. It mainly serves freight forwarding from China through Kazakhstan to the Western Europe, and currently offers only container handling services; however, in case of necessity, warehousing and production space can readily be developed.

The rest of the inland-located properties group is populated by the properties that mostly have access only to automotive roads, and can be further subdivided into the following: logistic centres and industrial and business parks.

Logistic Centres

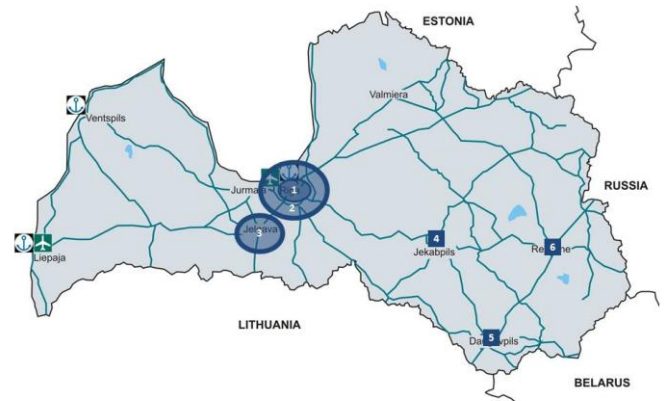
By the end of 2012, the total stock of logistics centres in Latvia (excluding built-to-suit properties) amounted to 230,000 sq m.

The biggest developments in this sub-segment are *Dominante Park*, *Wellmann*, *Dommo* and *Eirke* (see table 7). The latter two, however, position themselves as business parks, and therefore serve mainly warehousing needs of their clients.

As far as occupier demand is concerned, largest logistic centres in Latvia, if compared to their counterparts in Europe in terms of size and cargo handling services offered, can only be regarded as the regional re-distribution centres, being oriented towards serving either one particular transport type or one particular cargo type.

Map 2

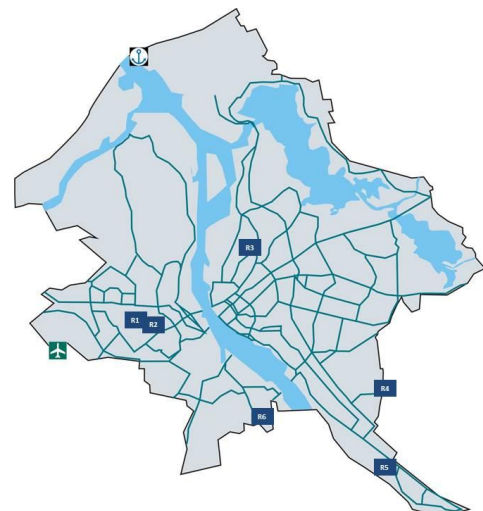
Major logistic centres, industrial and business parks in Latvia



Source: Google Map, DTZ Research

Map 3

Major industrial and business parks in Riga



Source: Google Map, DTZ Research

Therefore, on a pan-regional level, where the largest companies usually choose in favour of built-to-suit premises, these logistics centres still struggle with high vacancy rates (20% and above) and rents that fall below break-even point when measured against potential development costs of such a property.

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Table 8

Major logistic centres in Latvia (with the leasable area above 10,000 sq m, excluding fully built-to-suit properties)

No. on the map	Name	Description	Location	Territory (ha)	Freight forwarding directions
1. RIGA CITY AND RIGA DISTRICT WITHIN RIGA RING ROAD (A4/A5):					
	DOMMO	Logistics centre operating as business park	Stunisi, Olaine district, 6 km from Riga city border, 3 km from the intersection of the roads A5 (Riga ring road) and A8 (Riga-Jelgava-Lithuania)	58	Delivery within Baltic States. Freight forwarding to Europe
	Wellman	Logistics centre	Salaspils, 2 km from A4/E67/E77 road, not far from Riga and from major railroads	6.2	Freight forwarding to Estonia, Lithuania, in case of necessity to Russia. Freight coordination within Baltic States
	Elipse BLC	Logistics centre	On the territory of Riga International Airport	4.6	Delivery within Baltic States. Freight forwarding to Europe
	Maykel	Logistics centre, partially built-to-suit for Kuhne&Nagel	Sauriesi, not far from Riga, on regional P5 road, 2 km from A4 road	14	Europe
	Bergi Logistics Centre	Logistics centre, partially built-to-suit for Jysk	Immediate Riga district, Bergi, next to Vidzemes highway and Riga's bypass to <i>VIA Baltic</i> road	4.4	n/a
2. RIGA DISTRICT OUTSIDE RIGA RING ROAD (A4/A5):					
	Dominante Park	A-grade logistics park	Kekava (20 km from Riga), directly on the A7/E67 road (Riga-Bauska-Lithuania, part of <i>Via Baltica</i>)	65	Regular and specialized freight forwarding to Europe, delivery within Baltic States
	Olaine Logistic Park	A-grade logistics park	Olaine district, 7 km to Riga ring road (A5), 1.5 km from A8 (Riga-Jelgava) road	17.7	n/a
3. JELGAVA AND ITS DISTRICT:					
	Eirkel	Business Park	Jelgava, on the A8 road, which in itself is connected to the transnational European road network	49	Delivery within Baltic States. Freight forwarding to Europe
OTHER LOCATIONS:					
4.	Central Euro-Asia Gateway	Multimodal logistics centre	Jekabpils district, Krustpils, in close proximity of the Krustpils-Daugavpils and Krustpils-Rezekne railroads intersection	68	From Europe to USA and Russia, NVS, Central Asia through Baltic ports

Source: DTZ Research

Baltic Industrial / Logistics H2 2012

Table 9

Major Industrial and Business Parks in Latvia (with the leasable area above 10,000 sq m, excluding fully built-to-suit properties)

No. on the map	Name	Description	Location	Territory (ha)	Area, sq m
1. RIGA CITY AND RIGA DISTRICT WITHIN RIGA RING ROAD (A4/A5):					
R1	Nordic Technology Park Riga	Business Park	Within Riga city, former electronics factory; 4 km to RIX airport, 5 km to Riga Port	7.5	Manufacturing and warehousing - 36,800 sq m; offices – 8,400 sq m
R2	NP Business Centre Riga	Business Park	Within Riga city, former research laboratory; 5 km to RIX airport, 6 km to Riga Port	8.5	34,300 sq m
R3	NP Dantes Business Park Riga	Business Park	Within Riga city; 13 km to RIX airport, 4 km to Riga Port	2.3	16,200 sq m
R4	NP Industrial Village Salaspils (under development)	Industrial Park	Riga district, not far from A4/E77/E67 road; 20 km to RIX airport, 12 km to Riga Port	60	15,000 sq m
R5	Maskavas 462 warehouse complex	Industrial Park	Within Riga city, 1 km from city border, on A6/E22 road	n/a	23,000 sq m
R6	Ritausmas 23	Industrial Park	Within Riga city, 2 km from city border, 0.5 km from A8 road	n/a	10,000 sq m
2. RIGA DISTRICT OUTSIDE RIGA RING ROAD (A4/A5):					
	NP Nordic Industrial Park	Industrial Park	Within Olaine town, 26 km from Riga, in close proximity to major country roads	14	Manufacturing and warehousing -75,500 sq m; offices – 4,800 sq m
3. JELGAVA AND ITS DISTRICT:					
	NP Jelgava Business Park	Business Park	Within Jelgava city, former RAF factory, not far from the railroads and from major automotive road connecting with Lithuania	23	107,700 sq m
OTHER LOCATIONS:					
5.	NP Daugavpils Business Park	Business Park	Within Daugavpils city, former factory of chemic components; railroads available on the territory; not far from the major roads leading to Russia and Belarus	17.6	194,000 sq m
6.	NP Rezekne Business Centre (under development)	Business Park	Rezekne town, Special Economic Zone, close to borders with Russia, Belarus, Lithuania; close to the railroads	8	10,000 sq m

Source: DTZ Research

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Industrial and Business Parks

The lion share of the Latvian market in the segment of industrial and business parks belongs to NP Properties, who currently owns 8 industrial and business parks in Latvia (a few of them are still under development), of which 3 are in Riga, and one in each of the following: Olaine, Jelgava, Daugavpils, Salaspils, and Rezekne (see table 8). The ones in Daugavpils and Rezekne have access to the railroads, and therefore, provided the offering of the necessary cargo handling and forwarding services, can successfully be employed as a multimodal logistics centres.

The total leasable space available in these parks amounts to almost 500,000 sq m. In 2012, the total amount of take up in these properties summed up to around 20,000 sq m. The highest demand is for the premises between 500 and 1,000 sq m, whereas the largest lease transaction was concluded with the Russian manufacturer of air conditioning equipment *Felzer*, who occupied 1,700 sq m of industrial space in *Nordic Technology Park Riga*. The average vacancy rate across these properties is still around 20%.

In the area of distribution and logistics properties, built-to-suit solutions is the most widely accepted option within the region, with the companies optimizing on their specific requirements in terms of land, building, and distribution network unique business needs.

Built-to-Suit Properties

By the end of 2012, the total stock of built-to-suit properties in Latvia amounted to around 160,000 sq m. The companies that throughout the years have chosen in favour of such solutions are *Coca-Cola Baltics*, *Karsten*, *DHL*, *Office Day*, as well as grocery chains *Maxima*, *Rimi*, *Elvi*, and others. In year 2012, built-to-suit segment was also the only segment that experienced new deliveries, with *Rimi Baltic* introducing its new central warehouse of 7,000 sq m in Riga district Kekava, thus moving out of the previous location in Riga Pardaugava district.

Forecasts for 2013

- Since the demand for the industrial premises is mainly generated from within the local market, in year 2013, the vacancy absorption rate will be still slow, whereas the rents are not expected to experience any major changes;
- Potential of new deliveries coming only from the built-to-suit schemes;
- Window of opportunities are open for Russian and Belarusian companies, looking either for premium standard warehousing/manufacturing premises at low rental rates, or for logistics solutions oriented towards both Western Europe and Central Asia;
- Window of opportunities are also open for investors ready to introduce higher risk assets into their portfolios.

Baltic Industrial / Logistics H2 2012

Industrial / Logistics Market in Lithuania

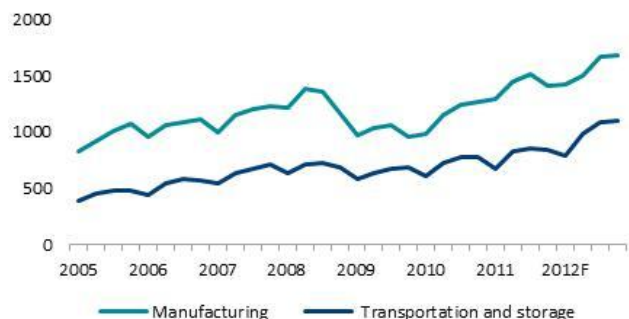
According to Statistics Lithuania, in 2012, similarly as in 2011, the volume of foreign trade was on the increase. Hence export expanded by 14.4% on a year-on-year basis, whereas import by 9.6%. The export growth of locally produced goods, which constitute 63.1% of the total export volume, was 8.8% on an annual basis.

The turnover of all types of freight (where transport by rail and road account for the largest share) increased by 1.5% on an annual basis, whereas freight carriage decreased by 1.4%. Storage services (which constitute around 7.3% of the total country's GDP) meanwhile saw 6.7% growth on a year-on-year basis as of 3Q 2012.

The industrial growth in Lithuania in 2012 was mostly determined by manufacturing, which constituted 87% of the total industrial production and grew correspondingly by 4.5% on an annual basis. The most significant growth was observed in such branches as other transport equipment, electrical equipment, and basic pharmaceutical products and pharmaceutical preparations; it was offset by negative development of such industries as manufacturing of computer, electronic and optical products, distribution of gaseous fuels through mains, beverage production, and production of refined petroleum products.

Figure 7

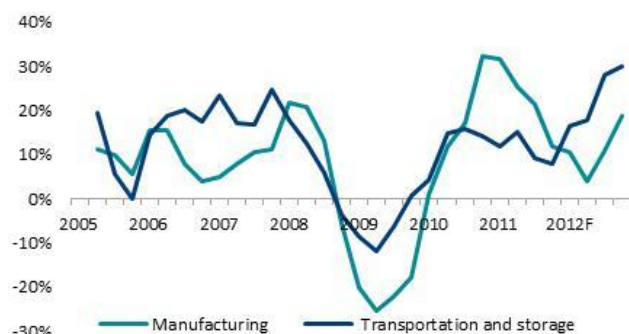
Value at current prices in Lithuania, EUR M



Source: National Statistics, DTZ Research

Figure 8

Chain-linked volume growth compared with the same period of previous year in Lithuania

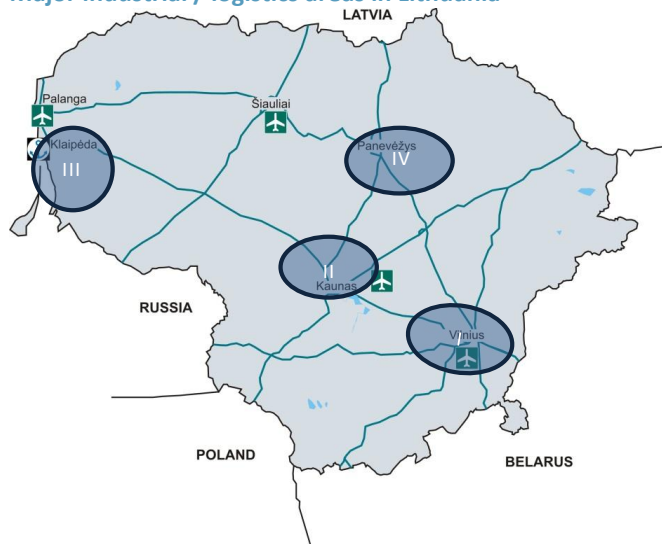


Source: National Statistics, DTZ Research

In terms of geographical location, Lithuania quite often is referred to as a corridor for international transport. The major industrial / logistics developments are therefore located near the most important international roads: on *Via Baltica* highway in North-South direction, on railway line *Rail Baltica* route Tallinn-Riga-Panevezys-Kaunas-Warsaw, and on East-West direction of the road IXb (Kiev-Minsk-Vilnius-Klaipeda).

Map 4

Major industrial / logistics areas in Lithuania



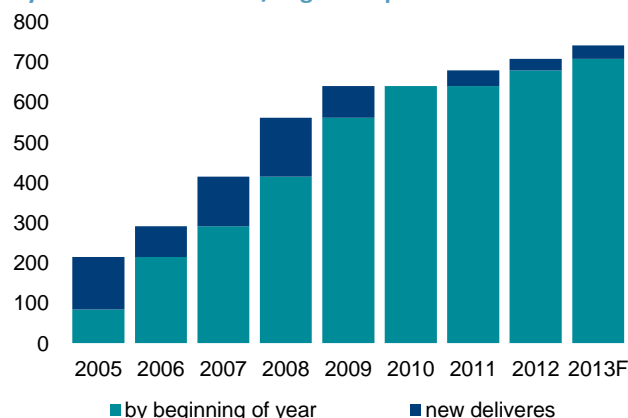
Source: DTZ Research

Ever since the Law on the Fundamentals of Free Economic Zones was adopted in 1995, followed by the establishment free economic zones in Siauliai, Klaipeda, and Kaunas (one per each), occupier demand in industrial / logistics segment is mainly focused on these areas that offer tax redemptions and other industry-specific benefits. Other locations of interest are areas around Vilnius and Panevezys.

By the end of 2012, the total stock of industrial / logistics premises in Lithuania have reached 700,000 sq m. After substantial market compression in 2010, the first signs of recovery were also evident in new development activity.

Figure 9

Dynamics of industrial / logistics space in Lithuania



Source: DTZ Research

Baltic Industrial / Logistics H2 2012

Vilnius

By the end of 2012, the total stock of industrial / logistics premises in Vilnius and Vilnius district was 385,000 sq m, which amounts to 55% of the total stock in Lithuania and implies a 3.6% increase as compared to the end of 2011. The 3.6% increase in Vilnius industrial / logistics stock came from two development projects commissioned in 2012, namely, 6,000 sq m built-to-suit *Transekspedicija* warehouse building in Vilnius district and completion of the 3rd stage of *Airport Business Park*, offering 8,000 sq m in Vilnius City and pre-leased to such companies as *ACE Logistics*, *VBH*, and *Worldwide Logistics*.

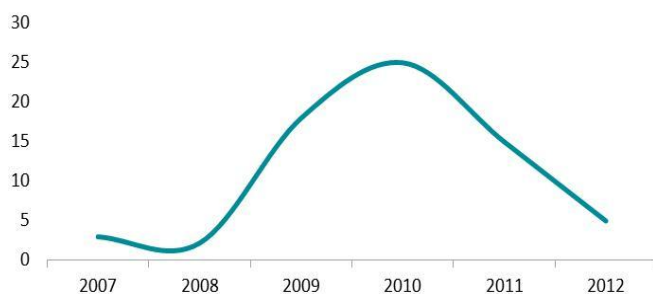
The pipeline for the upcoming years is also promising. Hence EU-financed *Visoriai Information Technology Park (VITP)* is already offering 7,000 sq m of space for companies engaged in technology services and solutions, and is planning already in the process of further development of some 20,000 sq m offices for the same industry segment.

Development of the 1st stage of a public freight village *Vilnius Logistics Centre (VLC)* is also in the pipeline. The project is initiated by *Lithuanian Railways* and Vilnius City, whereas construction process is expected to be completed by 2014. The total territory of the project is 53.5 ha.

In general, demand for industrial / logistics premises in Vilnius and Vilnius region was growing throughout 2012. This growing demand pushed the vacancies downwards (from 10% in the beginning of the year to 5% by the end of the year), however, it did not yet affect the rental fees.

Figure 10

Dynamics of vacancy rate in Vilnius and Vilnius region



Source: DTZ Research

Table 10

Rental fees in Vilnius, €/ sq m / month

	New buildings	Renovated buildings	Old buildings	2013
Prime locations	3.0-4.5	2.0-3.5	1.0-2.0	→
Secondary locations	2.5-4.0	1.5-2.5	0.5-1.5	→

Source: DTZ Research

Kaunas

By the end of 2012, the total stock of industrial / logistics premises in Kaunas and Kaunas district was 173,000 sq m, which amounts to one forth of the total stock in Lithuania and implies a 4.2% as compared to the end of 2011. The increase came from the completion of 7,300 sq m logistics park in Kampiskiu village, Kaunas district, as well as from several built-to-suit properties commissioned in 2012. The last investment transaction in this geographical sub-segment took place in 2011, when *Sanitex* acquired *BLS* logistics centre.

Historically an industrial city, Kaunas benefits greatly from being located on the major transport corridors: Klaipeda-Vilnius-Minsk and Warsaw-Riga-Tallinn routes. The city also has an international airport, as well as Free Economic Zone. While the strongest occupier demand is expressed for the properties located on *Via Baltica* highway, other prime locations too enjoy full occupancy rates. The rental rates for a time being remain stable.

Table 11

Rental fees in Kaunas, €/ sq m / month

	New buildings	Old buildings	2013
Prime locations	2.5-4.0	1.0-2.5	→

Source: DTZ Research

Klaipeda

The total stock of industrial / logistics space in Klaipeda amounts to 87,000 sq m, the absolute majority of which is located in Klaipeda Free Economic Zone. With the increasing occupier demand new supply is still limited; there are no new projects in the pipeline for 2013 either.

Table 12

Rental fees in Klaipeda, €/ sq m / month

	New buildings	Old buildings	2013
Prime locations	2.0-4.0	1.0-2.0	→

Source: DTZ Research

Baltic Industrial / Logistics H2 2012

Table 13

Major logistics centres and warehouses in Lithuania

No on the map	Name	Description	Location	Territory (ha)	Area, sq.m
I VILNIUS CITY AND VILNIUS REGION					
1	Tromina	Logistics center	V. A. Graiciuno str. 38, Vilnius	5.8 hectares	Gross area 29,923 sq m
2	Dobrovolė Logistics Center	Warehouse	Meteliu str. 4, Vilnius	4,6 hectares	Gross area 17,070 sq m
3	AD REM Logistics Center	Logistics Center	Metalo str. 2A/7, Vilnius	6,5 hectares	Gross area 37,000 sq m
4	Kirtimai Logistics Center	Logistics Center	Kirtimu str. 47, Vilnius	9 hectares	The total area is 26,500 sq m with offices of 8,000 sq m
5	Zariju BPT Logistics Centre	Logistics Center	Žarijų str. 2A, Vilnius	3,4 hectares	Gross area 21,910 sq m, rentable space 20,643 sq m
6	GLC Logistics Center	Logistics Center	Kuprioniškių villange, Vilnius district	4 hectares	Gross area 17,200 sq m, offices 5,000 sq m
7	Vingės transsphere logistika	Logistics centre	Vilnius-Kaunas road, 22 km	n/d	Gross area 18,130 sq m. Warehousing area 16,755 sq m, office area 1,375 sq m
8	Vilijos Business Park	Warehouse	Vilijos str., Vilnius	6 hectares	Gross area 21,000 sq m. Warehousing area 18,000 sq m, office area 3,000 sq m
II KAUNAS CITY AND KAUNAS REGION					
1	Senukai Logistics Park	Logistics Center	Zemaitkiemis village, Kaunas district	n.d.	Gross area 73,000 sq m, GLA 60,000 sq m
2	Kaunas Terminal	Logistics Center	Biruliskes village, Kaunas district (Kaunas LEZ)	~10 hectares	31,000 sq m
3	Baltic Logistic City I (VBL)	Warehouse	Kampiskiu village, Kaunas	12.77 hectares	GLA 25,838 sq m, parking spaces 300
III KLAIPEDA CITY AND KLAIPEDA REGION					
1	Vingės logistika	Logistics Center	Klaipeda LEZ	4 hectares	Gross area 18,365 sq m, offices 1000 sq m, warehouses 16,000 sq m, common use 1300 sq m
2	Klaipeda Business Park	Warehouse	Pramonės street 8a, Klaipėda	n.d.	Leaseable area 23,895 sq m, office 6,305 sq m, warehouse 17,590 sq m, parking spaces 340
3	Laistai International Trade Center	Office, Warehouse, Light Manufacturing	Laistai village, Klaipeda district	260 hectares	30,000 sq m
IV PANEVEZYS REGION					
1	Business Park E67	Industrial Park	Panevezys	7,2 hectares	Gross area 27,969 sq m, GLA 27,000 sq m

Source: DTZ Research

Baltic Industrial / Logistics H2 2012

Forecasts for 2013

- The market is polarized in terms of location of industrial / logistics properties, with prime locations enjoying close to full occupancy rates, whereas secondary locations struggling with vacancies; the trend is expected to continue also in 2013;
- The rental fees are expected to remain stable in 2013;
- The pipeline of new developments for 2013 is rather scarce, therefore no remarkable increase in supply expected;
- The overall development of the market over the longer period of time is expected to be positively influenced by active involvement of the Government of Lithuania, which currently is establishing public freight village in Vilnius, and is planning to initiate the same activities in Kaunas, Klaipeda, and Siauliai. Forecasted completion dates extend up to five years period.

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