

Property Times

Baltic Industrial / Logistics Q1 2014

Supply catching up with demand



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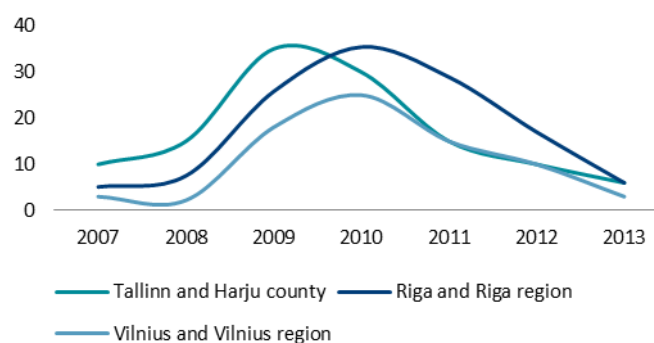
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- Although upsurge on industrial real estate market generally depends heavily on the pan-European recovery, positive changes in the segment were already observed in all three countries during 2013. This trend is expected to continue also in 2014.
- With vacancy rates down to single digits, the shortage of new high quality premises created opportunities for new developments and slight expansion of industrial market. Several projects are under construction in all three Baltic States, with expected commissioning in 2014 and 2015. Short-term vacancy rates will increase only marginally, because the majority of the premises are already pre-leased prior to commissioning.
- Slight increase in rental rates observed in 2013; however potential growth in 2014 is expected to be insignificant.
- In all three Baltic States, industrial / logistics properties are faced with growing demand also on the investment market. A number of small and large scale transactions were completed in all three countries.

Figure 1

Vacancy rates in Baltic Capital Cities, %



Source: DTZ Research

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Macroeconomic Trends in the Baltic States

Estonia

Economic growth continued to be based on domestic demand and this was primarily driven by higher household incomes and consumption. Annual GDP growth was 0.8% in 2013. The support for the Estonian economy from exports has been decreased, because growth in Estonia's main trading partners was weaker. Estonian economic growth is expected to accelerate as export markets recover, reaching 2.6% in 2014 and 3.9% in 2015.

The consumer price index (CPI) increased by 1.4% in 2013. According to Bank of Estonia (December, 2013) consumer price growth will remain moderate in Estonia in the coming years, reaching 2.1% in 2014 and 2.9% in 2015. Prices are expected to rise more slowly than in the previous years, partly because the impact of the sharp rise in electricity prices on the consumer basket will pass out from the comparison base at the start of 2014. Price pressures will also be reduced by a fall in the price of oil. The prices of imported goods will start to rise gradually as the euro area economy recovers. Core inflation will increase at the same time, driven by domestic factors, principally wage rises. The risks to prices are more on the upside, because recovery in the global economic growth that is faster than expected could lead demand for commodities, including oil, to push prices higher.

According to the Statistics Estonia, the annual average unemployment rate was 8.6% in 2013. According to the Bank of Estonia (December, 2013) employment increased rapidly in the first half of 2013, but the growth levelled off in the third quarter. A small but constant fall in employment is expected in the coming years. Employment is mainly falling due to the ageing of the population and emigration, and therefore unemployment will similarly fall in the next few years. Unemployment will fall slowly because the current workforce can be employed more intensively through increases to the working hours that were cut after the crisis.

Latvia

According to the Central Statistical Bureau of Latvia, in Q4 2013, country's GDP increased by 0.7% on a quarterly basis, which is a slowdown when compared to 1.3% quarterly growth in Q3 2013. When set against the corresponding quarter in 2012, the increase amounts to 3.5%, whereas the total aggregate GDP growth in 2013 was 4.0%, which is one of the strongest – if not the strongest, - growth rates in the Euro zone. Preliminary data suggests that positive contribution to GDP development came from the manufacturing sector, which experienced 2.0% output growth, and from 1.0% increase in retail trade turnover. The

rest of the industry negatively contributed to GDP development, with mining decreasing by 2.2% and energy sector slowing down by 3.6%.

The Bank of Latvia predicts a 4.1% GDP growth rate in 2014. Similarly as in the previous years, economic growth will be tightly linked to the developments on the foreign markets. While in 2013, investment growth slowed down in the country, thus leading to a situation where some of the industry sub-sectors operate at a fully saturated production capacity, the next economic jump will certainly require additional investments, hence setting additional challenges for 2014.

In December 2013, the annual rate of inflation remained negative (-0.4%), which was mostly sustained by the drop in energy prices. Although price increase was observed in fuel prices and in many food groups, the overall effect was offset by declining prices for heating, clothing and footwear; a month-on-month inflation change was therefore 0.0%. Consequently, the average annual inflation rate in 2013 reached a record level under growth conditions and amounts to 0.0%, which by far and large is the result of supply-side factors, the influence of which within the upcoming few months is expected to shrink. The annual inflation rate in 2014 will therefore return to positive numbers; the Bank of Latvia predicts it to stand at around 2.0%.

The rate of unemployment has declined in Latvia to 11.8% in the Q3 2013 (slightly below the euro area average unemployment rate). Employment increased mostly in domestic sector, whereas export-oriented industries naturally enough are wary of hiring, not only due to shrinking growth figures, but also due to investments into machinery (although at a lower rates than in the previous years) with the anticipated increase in productivity and efficiency, and reduced dependency on labour market. And yet, unless the natural level of unemployment is reduced via structural reforms, wage pressures are likely to become more pronounced (similarly to the developments in Estonia within the last few years).

Lithuania

The growth of Lithuania's economy is rather stable. Real GDP grows slightly more than 3 per cent over the year. Nevertheless the development of different sectors is uneven. While the construction activity dropped in previous years, now it is increasing.

The gross fixed capital formation and household consumption remains the key drivers of the economy. Real GDP, which grew by 3.2% in 2013, is projected to increase by 3.6% in 2014 and 3.8% in 2015. Compared with 2012, exports of Lithuanian goods in 2013 increased by 6.5%.

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Despite the restrictions on the import, the growth was mainly determined by the export of the food industry which increased by 8.1%.

Consumer prices are rising slightly and less than expected. The average annual inflation in 2013 was 1.2%. The global prices of food, energy and other commodities will continue to decrease. If global price trends continue to be favourable, it can be expected that inflation will be as low as in 2013 or even lower.

According to Statistics Lithuania in December 2013, average annual inflation (2013, against 2012) calculated based on the harmonised index of consumer prices (HICP), which is methodologically harmonised with those of other EU member states, stood at 1.2%. Projected average annual inflation should stand at 1.5% in 2014.

According to the Statistics Lithuania, the unemployment rate decreased in 2013 to 11.9% from 13.2% at the end of 2012. Despite improvements in the labour market, structural unemployment remains high, with about half of the unemployed out of work for over a year.

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,340	2,033	2,971
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)	430	649	534
Currency	EUR	EUR	LTL
Exchange rate (€)	X	X	3,4528
GDP at current prices (€Bn, 2013)	18,40	23,31	34,60
GDP per capita (€, 2013)	13,73	11,75	11,69
GDP growth (% , 2013)	0.8	4.0	3.2
Inflation rate (% , 2013)	2.8	0.0	1.2
Unemployment rate (% , 2013)	8.7	11.3	11.9

Source: National Statistics, Eurostat, Oxford Economics

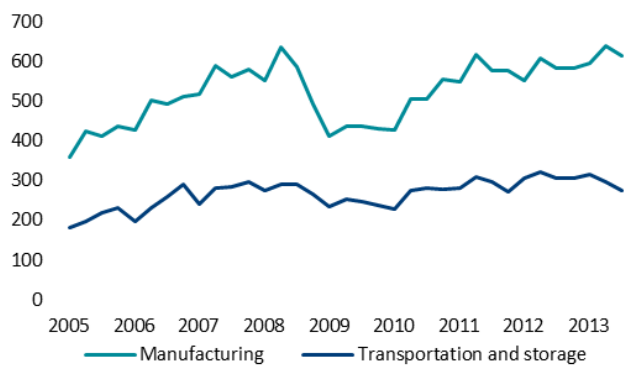
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Industrial / Logistics Market in Estonia

Logistics/warehouse buildings are located in larger cities near major roads and near city borders, but also near intersections of major roads in close proximity to cities/hamlets. Near largest cities industrial and warehouse buildings are mainly concentrated in relatively newly developed industrial parks (near Tallinn - Tännassilma, Jüri, Mõigu).

Figure 2

Turnover at current prices in Estonia, EUR M



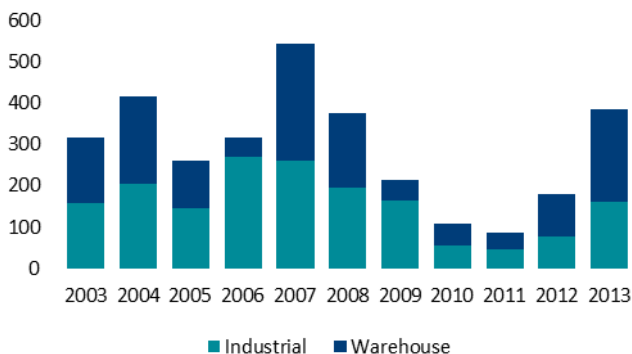
Source: National Statistics, DTZ Research

New premises are mostly constructed for own use. Market's development depends on how it is going in local industrial and logistical sector. In QI-III 2013, the capacity of building permits issued for new industrial and warehouse premises is more than 130,000 sq m.

The proportional distribution between newly developed warehouse and industrial buildings in Tallinn and Harju County is presented in the following graph. Generally, the trend is similar across the whole country.

Figure 3

Dynamics of industrial/ logistics building permits in Tallinn and Harju County, GBA, 000 sq m



Source: DTZ Research

Tallinn

Smaller rental premises sized 200-500 sq m in attractive locations are valued the highest. There is rather small demand for older, B- or C-class premises. The amount of new warehouse and industrial space on offer has rapidly decreased, indicating increasing demand. As the rental fees are still quite low and the 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.

Among industrial and warehouse premises the share of rental premises has increased slightly; built-to-suit premises and construction projects nonetheless clearly dominate the market. A few examples are:

- *Logistika Pluss* opened modern logistics centre named *Nurmevälja Logistikakeskus* in Iru Village in the immediate neighbourhood of Tallinn in January 2014. The gross area of the building is 23 000 sq m.
- The industrial campus of *ABB* named *One Campus* in Jüri Borough, where the enterprise will concentrate its entire manufacturing. In March 2013, the new building with closed net area 10 000 sq m was completed.
- The new building of *Tallegg* was completed in the end of 2013 in Tabasalu. The area of the new industrial building is 4 800 sq m, the total area with the renovated building is 6 500 sq m.

Some speculative development projects are in the process, thus indicating growing developers' confidence. The *VGP Park Nehatu* at Peterburi Road in Lasnamäe city district is a recent example; by the end of 2013, the project adds approx. 21 000 sq m of new space to the market. Project's total size is approx. 50 000 sq m. The warehouse of up to 20 000 sq m is planned in the logistic park *RRK Liiva Centre*, developed by *State Resources Centre Ltd*.

Interest from Nordic European countries towards warehouse premises in Tallinn and its vicinity has grown, caused by significantly higher rental fees in their home countries.

Rental levels in Tallinn

Major adjustment in rental levels of industrial and warehouse premises were made during 2008/09 (peak year 2007). Total decrease was all together approx. 45-50%. During 2010, rental fees remained stable with some slight increase for new premises. The beginning of 2011 brought slight increase in rents regarding mostly new premises, but the trend stopped as fast as it began. By the middle of 2012, considering the increase in CPI and construction prices, the lower level of rental fees increased by 10-15%. In 2013, approx. 5% increase for rental prices in A-class segment was observed.

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Table 2

Rental levels in Tallinn, €/sq m / month

	New buildings	Renovated buildings	Old buildings	2013
Prime locations	4.2-5	2.5-3.5	-	↗
Secondary locations	3.5-4.2	2-3	1-2	→

Source: DTZ Research

Vacancy in Tallinn

Together with stabilization of economic situation and increase of industrial production, the vacancy and the number of active offers of new premises has decreased significantly. Still, rather high vacancy is observed among older B and C class premises; vacancy rate is approx. 20-25% (reaching to whole buildings in some larger complexes). Given that the majority of the companies prefer to move to newer premises, the vacancies in older buildings can increase even further.

Table 3

Main logistic hubs in Estonia

No. on the map	Name	Description	Location	Territory (ha)
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 St. and Paneeli St.	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
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

Map 1

Major industrial / logistics areas in Tallinn



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 2013, demand for industrial and logistics premises has moderately increased. The rental level in recently signed rental agreements is mainly between 2.0 and 4.0 €/sq m / month.

There is a positive development in *Pärnu Industrial Park*, the total area of which is around 27 ha. Enterprise Estonia has decided to support the project in the amount of 1.0 M€. Seven new enterprises will be established, offering ca 300 new jobs in the area. However, this partly subsidized project has a negative influence on the market in general, as private developers with no subsidies are not able to be competitive.

The only remarkable development project in the pipeline is located in Pärnu Autobaas territory. There will be ca 2 000 sq m of lettable workshop and warehouse space, marketable in spring 2014.

Table 4

Rental levels in Pärnu, €/sq m / month

	New buildings	Renovated buildings	Old buildings	2014
Prime locations	1.8-5.0	1.9-3.5	0.8-2.2	→

Source: DTZ Research

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 Ringtee 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).

The absolute majority of industrial / logistics premises in Tartu are owner occupied; speculative premises are mostly available only in the new industrial parks. Since 2011, no 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 sought after, whereas demand for those that are over 1,500 sq m is very limited.

Rental fees remained stable throughout 2013; vacancy rates range from 5% for A-class premises up to 30% for C-class premises.

Table 5

Rental levels in Tartu, €/sq m / month

	New buildings	Renovated buildings	Old buildings	2014
Prime locations	3.5-4.0	2.5-3.0	1.7-2.2	→

Source: DTZ Research

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Forecasts for 2014

- Industrial and warehouse sector has stabilized. Improving export fundamentals supplies the segment with more stable rental income; positive developments have also led to vacancy compressions, and first signs of more active development are visible;
- Interest towards new and modern premises increases, but remains modest towards B and C class premises;
- An upwards pressure on rental fees in A-class buildings will continue into 2014;
- Although interest towards industrial and warehouse properties has increased, the number of investment transactions will remain still low and the yields are staying stable.

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Industrial / Logistics Market in Latvia

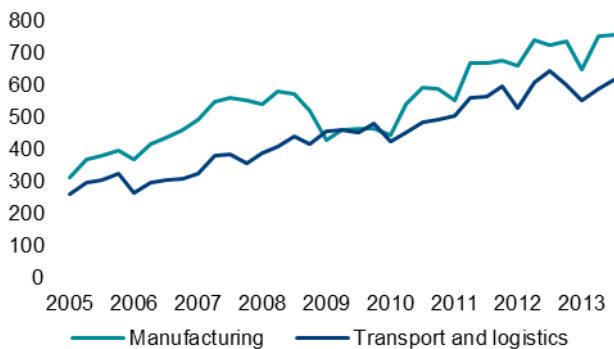
Given Latvia's geographical location, it was always considered as a country that could greatly benefit from being the place where the roads connecting East and West intersect. Within this context, on a global level, a few factors play a crucial role, the first being promotion of the public-private partnership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

In 2013, the external trade balance of Latvian goods improved, increasing export value by 1.5% on an annual basis. Latest data compiled by the Central Statistical Bureau of Latvia shows that in 2013, manufacturing turnover, according to seasonally adjusted data (at current prices), compared to 2012 grew by 1.9%.

Value at current prices of manufacturing sector was 756.6 M € in Q3 2013 (12% of GDP); transportation and storage sector added another 617.9 M € (10% of GDP).

Figure 4

Turnover at current prices in Latvia, EUR M



Source: National Statistics, DTZ Research

Occupational markets

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.

Map 2

Major logistic centres, industrial and business parks in Latvia



Source: Google Map, 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. Major logistics centres and industrial and business parks in Latvia are presented in the table to follow.

Generally, 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. Therefore, on a pan-regional level, the largest companies usually choose in favour of built-to-suit premises.

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Supply

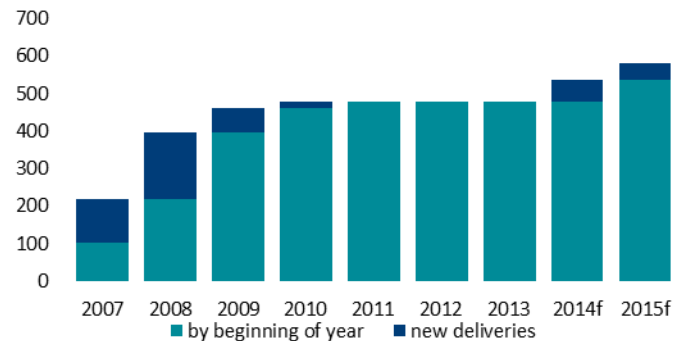
Between the years 2007-2009, industrial stock in Latvia has more than doubled from 300 000 sqm to 700 000 sqm, and therefore the after-crisis period has commenced with high vacancy rates and no new deliveries in 2010-2011. Out of these 700 000 sqm, around 1/3 are logistics centres, approximately ½ are industrial and business parks, and the rest are built-to-suit properties. The companies that throughout the years have chosen in favour of built-to-suit solutions are *Coca-Cola Baltics*, *Karsten*, *DHL*, *Office Day*, as well as grocery chains *Maxima*, *Rimi*, *Elvi*, and others.

In 2013, the new construction has commenced also in the speculative market segment; the industrial complex *Baltic Cargo Solutions* is under construction in Stopini district near Riga, with expected delivery of 24 000 sqm in March 2014. Other new constructions initiated in 2013 are built-to-suit properties, with the total area to be introduced amounting to around 80 000 sqm (both logistic and distribution companies).

In 2013, *Baltic Cargo Solutions* also accommodated the largest forward-lease deal of the year, with 14 000 sq m being pre-leased for local distribution and logistics company AS VIA 3L Latvia.

Figure 5

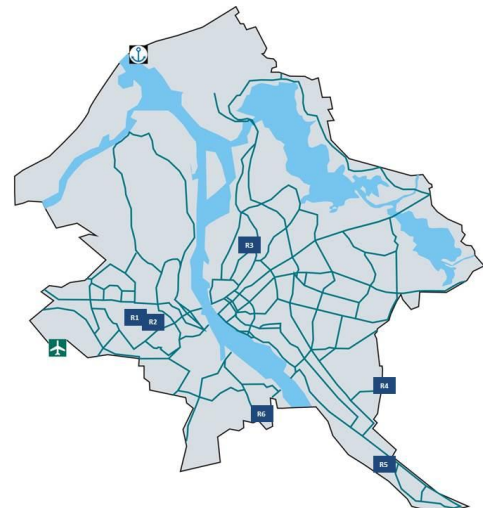
Dynamics of industrial/ logistics space in Riga and Riga region, GBA, 000 sq m



Source: DTZ Research

Map 3

Major industrial and business parks in Riga



Source: Google Map, DTZ Research

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Table 6

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 Baltica</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

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Table 7

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 Dunties 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

Industrial and Business Parks

The lion share of the Latvian market in the segment of industrial and business parks belongs to *NP Properties*, which 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 multimodal logistics centres. The total leasable space available in these parks amounts to almost 500 000 sq m. The average vacancy rate across these properties dropped to 5-10% in 2013.

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.

Demand

Historically, demand for other than built-to-suit properties was mainly generated from within the local market, with large pan-regional companies choosing in favour of built-to-suit solutions. Generally, vacant space absorption within the recent years came either from expansion of activities, or consolidation of activities to one location instead of multiple, as well as from relocation from old Soviet premises to better quality properties.

Within the last year, however, growing interest from Russian enterprises was observed, given the benefits of geographic location and possibility to optimize on costs through significant difference in rental rates in Latvia and Russia. At the same time, as the example of *Baltic Cargo Solutions* development project shows (the property is almost fully pre-leased already prior to completion), local manufacturing, transportation, and logistic companies are already struggling with the scarcity of supply for properties suitable for their activities.

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Rental rates

Generally, the rents for other than built-to-suit industrial and warehousing properties in Latvian market more often than not fall below break-even point when measured against potential development costs of such a property, which naturally enough negatively impacts potential for speculative developments on the market.

Within the year 2013, rents for A-class properties remained stable. However, the lower bounds of rental rates for well-located B-class premises increased by approximately 0.5 EUR/sqm/month within the year 2013 and currently range between 2.5-3.5 EUR/sq m/month.

Vacancy level

Vacancy levels in industrial properties in Latvia have peaked in 2009, and stood at around 20% and more. The absorption of vacant spaces was very slow throughout 2010-2011; by the mid of 2012, average vacancy rate was around 10% (although the polarization between well-located and secondary properties is very pronounced).

However, industrial production and export growth of 2012 has raised the demand for industrial properties; on top of that, given low rental levels, relocation from old-type industrial premises was quite pronounced. Therefore by the mid-2013, average vacancy rate decreased to around 5-6%. Further absorption nonetheless slowed down in relation to substantial change in growth drivers (from exports to private consumption) of Latvian economy, as well as due to strongly pronounced mismatch between available supply and demand for premises

Forecasts for 2014

- Given the changing GDP growth components in Latvia (from exports to private consumption), sudden upsurge in industrial real estate market is not expected, and generally, depends heavily on pan-European recovery.
- On the other hand, slowdown in Russian economy can open up new windows of opportunities for Latvian industrial market through potential cost optimization and increasing relocations from Russia.
- The only new speculative development, *Baltic Cargo Solutions*, is already almost fully pre-leased; Other new deliveries are mostly planned in built-to-suit segment;
- Rents are subject to upwards pressure, given the scarcity of necessary supply;

Investment activity is on the rise in the industrial segment. At the same time, the broadest windows of opportunity are open for those ready to undertake development risks

Table 8

Rental fees for industrial properties in Riga and Riga district, €/ sq m / month

	A	B	C	2014
Prime location	4 – 4.5	2.5-3.5	-	→
Secondary location	3.5-4.2	2-3	1-2	→

• asking rent rate, excluding service charges, taxes and tenant incentives

Source: DTZ Research

Table 9

Vacancy rates for industrial properties in Riga

	Vacancy, %	2014
Riga and Riga District	5-6%	→

Source: DTZ Research

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Industrial / Logistics Market in Lithuania

Throughout the whole 2013, the export development in Lithuania was slowing down, and in Q4 of the year, increased only by 0.4% on an annual basis (4.7% growth in Q3 2013 on a y-o-y basis). The total annual increase amounted to 10.8%.

The situation however is jeopardized by recent global political tensions, since according to the Bank of Lithuania analysis, in September 2013, the geographical distribution of Lithuanian exports was only marginally dominated by EU countries - the export to these comprised approximately 59% of the total export volume. The remaining 41% is exported to the third countries (mostly Russia, Belarus, Ukraine, and Kazakhstan). Such development in the trade balance also had a negative impact on the development in the manufacturing segment, where growth rates also slowed down.

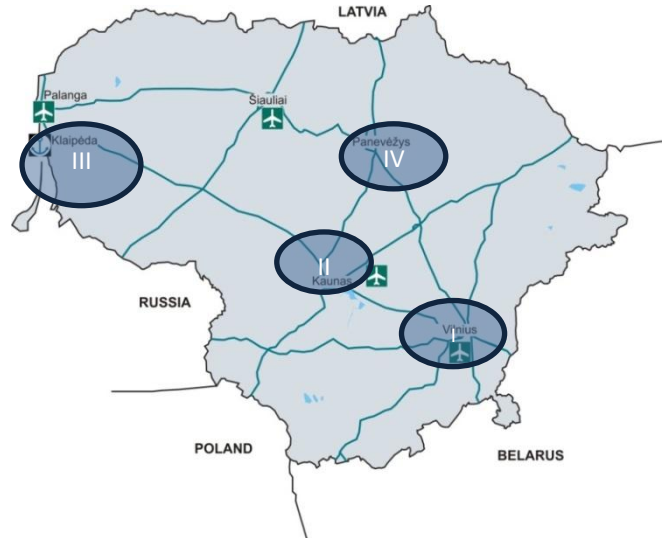
General overview

The major industrial / logistics developments in Lithuania are 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).

Ever since the Law on the Fundamentals of Free (Special) Economic Zones was adopted in 1995, followed by the establishment of free economic zones in Siauliai, Klaipeda, and Kaunas, as well as in other small cities (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.

Map 4

Major industrial / logistics areas in Lithuania



Source: DTZ Research

By the end of Q4 2013, the total stock of industrial / logistics premises in Lithuania have reached 760 000 sq m. After substantial market compression in 2010, the first signs of recovery were also evident in new development activity.

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Table 10

Lithuania's seven Special Economic Zones

No.	Special Economic Zone	Area in 2013	Planned total area	Distance to nearest international airport	Distance to Klaipėda State Seaport
1	Kaunas SEZ	294 ha	534 ha	4 km to Kaunas Airport	228 km
2	Klaipėda SEZ	260 ha	412 ha	25 km to Palanga Airport	7 km
3	Šiauliai SEZ	218 ha	218 ha	4 km to Zokniai Airport 214 km to Vilnius Airport 142 km to Kaunas Airport 165 km to Palanga Airport	161 km
4	Kėdainiai SEZ	131 ha	131 ha	51 km to Kaunas Airport 96 km to Zokniai Airport 130 km to Vilnius Airport 208 km to Palanga Airport	205 km
5	Panevėžys SEZ	47 ha	47 ha	82 km to Zokniai Airport 135 km to Vilnius Airport 115 km to Kaunas Airport 240 km to Palanga Airport	240 km
6	Akmenė SEZ	99 ha	99 ha	240 km to Vilnius Airport 230 km to Kaunas Airport 135 km to Palanga Airport	105 km
7	Marijampolė SEZ	78 ha	78 ha	56 km to Kaunas Airport 139 km to Vilnius Airport 231 km to Palanga Airport	275 km

Source: VšĮ "Invest Lithuania"

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Vilnius

By the end of 2013, the total stock of industrial / logistics premises in Vilnius and Vilnius district reached 430 000 sq m, which comprises 57% of the total stock in Lithuania and implies a 16% increase as compared to the end of 2011. The major completions in 2013 include built-to-suit *Hormann Lietuva* warehouses of around 5 000 sq m.

As far as future developments in Vilnius district are concerned, the development of the 1st stage of a transmodal public freight village *Vilnius Logistics Centre* (VLC) is in the pipeline. The project is initiated by Lithuanian Railways and Vilnius City municipality, whereas the construction process is expected to be completed by the end of 2014. The total territory of the project is 53.5 ha.

The construction of 17 000 sq m logistic centre *Transekspedicija II* in Vilnius is also in process, and is expected to be completed by the end of Q1 2014. The second project in the speculative segment is a 8 500 sq m logistic center to be developed by *Arvydo paslaugos* on the road Vilnius-Panevezys (12 km from Vilnius). Construction works for this project are expected to commence in 2014.

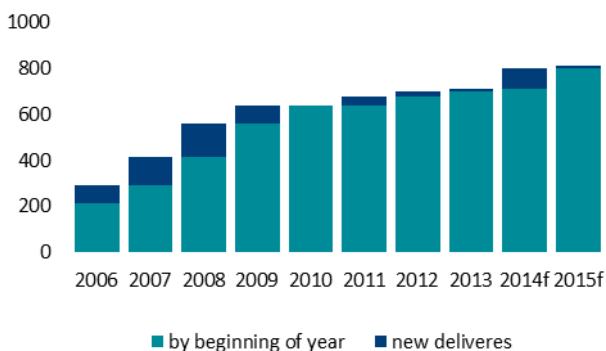
The major projects in the built-to-suit pipeline include *Wurth Lietuva* warehouses, to be completed on the 16 ha territory in Vilnius district by the end of Q2 2014.

In general, demand for industrial / logistics premises in Vilnius and Vilnius region was steadily growing from the end of 2011 to Q4 2013. This growing demand substantially pushed the vacancies downwards - from 10% in the beginning of 2012 to only 1,5% by the end of Q4 2013, which in absolute numbers comprise 6 450 sq m. At the same time, growing demand did not yet affect substantially the rental fees in the segment.

There was one noticeable investment transaction in industrial segment in 2013. *Baltic Property Trust Secur* sold 20 600 sq m *Zariju* logistic center in Vilnius to Estonian Real Estate fund *Capital Mill*.

Figure 6

Dynamics of industrial / logistics space in Lithuania, GBA, 000 sq m



Source: DTZ Research

Table 11

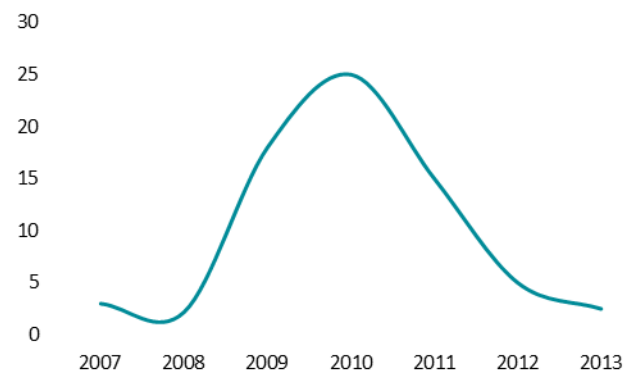
Rental fees of industrial / logistics space in Vilnius

	New buildings	Renovated buildings	Old buildings	2014
Prime locations	3-4.5	2-3.5	1-2	↗
Secondary locations	2.5-4	1.5-2.5	0.5-1.5	→

Source: DTZ Research

Figure 7

Dynamics of vacancy rate of industrial / logistics space in Vilnius and Vilnius region, %



Source: DTZ Research

Kaunas

Kaunas city has an international airport, as well as Free Economic Zone. In 2013, the total stock of industrial / logistics premises in this region did not change, and amounted to 173 000 sq m.

The pipeline for 2014 includes construction of built-to-suit production facilities for *Raguvos baldai* (furniture manufacturer) in Kaunas FEZ. The company invests 2.3 M EUR into the construction of 4 000 sq m facility, which will enable improvement of sales and customer service for strategically important markets in the Baltic and Nordic countries; expected commissioning is in Q2 2014.

The rental rates in Kaunas district remain constant for quite a prolonged period of time already. Given the constant vacancy decrease, the upward pressure on the rents is expected in 2014.

Table 12

Rental fees of industrial / logistics space in Kaunas

	New buildings	Old buildings	2014
Most preferred districts	2.5-4	1-2.5	↗

Source: DTZ Research

Baltic Industrial / Logistics Q1 2014

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. Pipeline for 2014 includes one new project, 8 200 sq m logistics center developed by *Ad Rem Lez*.

Table 13

Rental fees of industrial / logistics space in Klaipeda

	New buildings	Old buildings	2014
Most preferred districts	2-4	1-2	→

Source: DTZ Research

Baltic Industrial / Logistics Q1 2014

Table 14

Major logistics centres and warehouses in Lithuania

No.	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 sqm with offices of 8,000 sqm.
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 Q1 2014

Forecasts for 2014

- Export growth is expected to be moderate in 2014, and will depend heavily on the stability of Euro zone and ability to re-orientate from Russian to Euro markets.
- Overall, supply-demand balance has reached a certain stable equilibrium, where existing properties already enjoy low vacancy rates, whereas other than built-to-suit new developments are readily absorbed by the market.
- The rental fees are generally expected to remain stable in 2014, except for good quality logistics centers, where the upward pressure is strongly expressed.
- 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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