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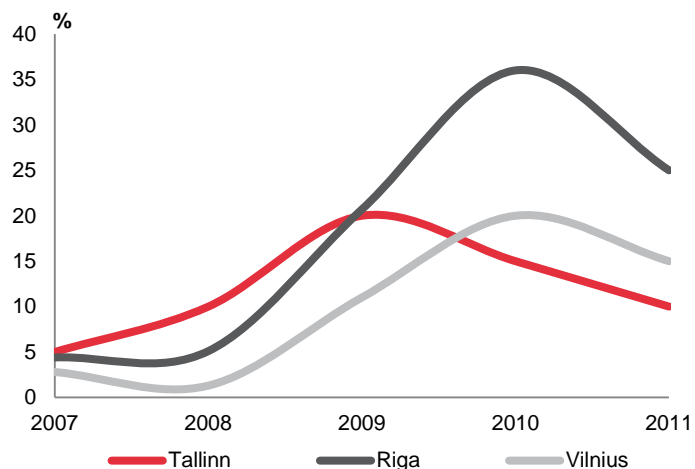
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- Baltic States were leading the economic growth in the European Union; mainly explained by powerful growth in export sector, which has led to increase domestic demand in 2011. However, the general stagnation of the EU economy will also slow down the economic growth in Baltic States. The state banks are forecasting moderate GDP growth for year 2012 in the amount of 1.9-3.0%, at the same time not excluding worse outcome, should the negative scenarios take place in the Eurozone.
- Office sector is one of the most active sectors, especially in the capitals. Some of the largest investment transactions were made and new development projects have been started. The rents have increased and vacancy rates have decreased during Y2011. Most temporary discounts and short-term agreements with lowered rents implemented during the downturn of 2009 are going to end.
- The current minimum level of office prime rents has increased; there is not much space for higher end rental levels to increase from tenants' side, although there is a continuous pressure because of the high construction costs.
- Demand for high quality modern office premises has increased, especially in CBD of capitals, continuously decreasing the overall vacancy level. Nevertheless, if on-going development projects will be finished, there is no larger construction boom forecasted in office sector.

Figure 1

Vacancy rate in Baltic capitals



Source: DTZ Research

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Macro-economic trends

Estonia

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

Based on the information presented by Bank of Estonia and Statistics Estonia, GDP decreased by 14.3% in Y2009, and was followed by 2.3% increase in Y2010. Based on the prognoses of Estonian Bank (from December 2011) the growth of GDP will be 7.9% in Y2011, 1.9% in Y2012 and 3.6% in Y2013. The growth of GDP was 7.9% in the Q3 Y2011 compared to the same period in 2010. In the comparison with Q2 Y2011, the growth was 0.8%.

Based on the information from Bank of Estonia and Statistics Estonia, the CPI growth was 0.2% in Y2009 and 2.7% in Y2010. Such fast inflation is mainly caused by price increase in food and fuel sector. Based on the prognoses of Estonian Bank, the CPI change will be 5.1% in Y2011 and after the inflation in food market has stabilized, 2.8% in Y2012 and 2.9% in Y2013.

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

Latvia

Since the beginning of 2010 Latvia's economic downturn trend has been reversed. During 2011 most of key economic indicators showed positive signs. The GDP in Q3 of 2011 increased by 1.2% compared to the Q2 of 2011 and is forecasted to reach 4, 8% on an annual basis. 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.

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

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

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

Lithuania

Lithuanian Government took over Bankas Snoras AB in November 2011, after the central bank discovered that assets reported on the lender's balance sheet were missing. Lithuania may have to raise the level of public debt to repay depositors of Bankas Snoras AB, exacerbating an increase in financing costs caused by Europe's sovereign-debt crisis.

Seasonally adjusted GDP, compared with previous corresponding year was 2.7% in November 2010 and 4.4% in November 2011. The Lithuanian Ministry of Finance forecasts 2.5% and 3.7% GDP growth in 2012 and 2013, respectively. According to this prognosis, the GDP growth will decrease by 0.3% in 2014 compared with 2013.

Average annual inflation rate was 4.1% in the end of November 2011 and the change, as compared with corresponding November month of previous year, was 4.4%. According to the forecast by Finance Ministry of

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Lithuania, the annual index of the consumer prices will be 4.1% in 2011, and will decrease to 2.5% in 2012.

According to the information from Statistics Lithuania, the unemployment rate in the country in December reached 14.4%.

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,340	2,213	3,199
Urban population	65%	68%	67%
Area (thousand km ²)	43	65	65
Population density (2011, per km ²)	31	35	50
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	414	706	543
Currency	EUR	LVL	LTL
Exchange rate (€)	X	1	3
GDP at current prices (Bn €, 2011f)	14	18.7	30
GDP per capita, at current prices (€, 2011f)	10,672	8,446	9,512
Inflation rate (% , 2011f)	3.0	4.0	4.1
Unemployment rate (% , 2011f)	16.9	15.1	15.6

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

Property Times

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Office Market

Estonia

In Estonian office sector Tallinn as capital of Estonia clearly dominates, described by largest stock of office space and highest market activity. A distinct office market is also developed in other larger cities Tartu and Pärnu. In smaller cities there are almost no separately standing office buildings; office premises are located on ground and upper floors of residential and commercial buildings.

Tallinn

Office market in Tallinn is historically mainly gathered to city centre. Due to poor parking possibilities, almost non-existing vacancy and considerably higher rental fees compared to other city districts, more and more office buildings have been developed in commercial areas next to larger roads and crossings outside of the city centre. There are four main office areas - City Centre, area next to Mustamäe Road, Järve-Tondi area and Ülemiste City near airport area.

In the end of 2011, total area of office space in Tallinn was approximately 540,000 sq m. In 2010 the development activity was rather low, but the 2nd half of Y2011 brought clear revival in the development market and brought news about several different projects. 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. Third larger development is located in CBD between Swisshotel and Radisson SAS at Maakri Street, where the first phase of new double tower development should be completed in the end of 2012. The first phase is 10-storey building with 6 floors of parking and 4 floors of office premises. Approximately up to 5,000 sq m is estimated to be completed through that development in 2012. In 2013 first phase of triple tower office buildings are expected to be completed in Ülemiste City area, where new 10-storey office building with all together 6,000 sq m rentable area is being developed.

Map 1

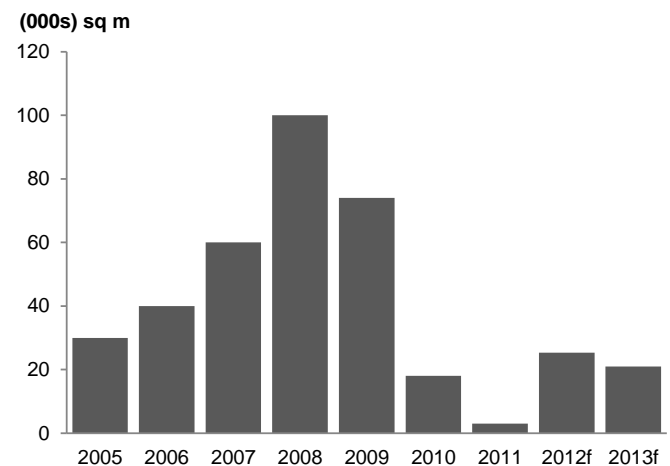
Office districts in Tallinn



Source: DTZ Research

Figure 2

New office space in Tallinn, GLA



Source: DTZ Research

Property Times

Baltic Office Q4 2011

Another office building is planned to be finished in 2013-2014 in city centre near Solaris shopping centre (Selvaag development) with approximately 15,000 sq m of office space in total. There are several other projects planned however, we have only listed the projects which will most likely be completed in the next couple of years.

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

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

During 2008 and 2009 large amount of new office space was completed, of which approximately 25-30% was still vacant in the beginning of 2010. By the beginning of 2011 most of the new office space was occupied and the vacancy rate was around 10-15%, being lower in CBD and higher in fringe areas of the city. Throughout 2011 the vacancy level decreased in newer buildings. The overall average vacancy rate in new office buildings was under 10% by the end of Q4 Y2011. 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 even lower than 5%.

There were two of the biggest investment transactions in Y2011 made in office sector, out of which the latest was made in the end of Q4 Y2011. The Estonian based equity fund EfTEN Kinnisvarafond bought two office buildings located on the edge of the city centre. The overall price of the transaction was €18.5m. The overall size of the buildings is approximately 19,000 sq m. Estimated yield level of named transaction was 8.5%.

Features of most demanded office space in Tallinn:

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

Other main cities in Estonia are Tartu and Pärnu, where compared to Tallinn, office market is considerably smaller.

Table 2

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

Source: DTZ Research

Figure 3

Dynamics of vacancy rate in Tallinn



Source: DTZ Research

Property Times

Baltic Office Q4 2011

Tartu and Pärnu

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

During 2009, overall rent price level decreased to 20-30% both in Tartu and Pärnu. During 2010 and 2011 there were no significant changes in the price level, it remained stable. Y2012 should bring a slight increase (up to 5%) in among the most attractive objects considering, that the overall economic situation remains stable in Estonia. In other parts the rental levels will remain on a quite similar level.

The overall vacancy in the beginning 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.

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

Forecast

- The amount of rental offers will continue to decrease in newly-built office buildings and stays on the same level or even increases in older buildings;
- The rental levels will stabilize or in Tallinn also slowly increase in moderate amount, especially in A+ and A-class buildings; the increase will be lower than in the period of 2010-2011;
- After the projects already in construction phase in Tallinn are delivered, there will be most probably less demand towards new premises and we do not foresee large construction boom in the sector; most of the projects planned will most probably not be delivered. The development activity is continuously low in Tartu and Pärnu.

Table 3

Rent levels (€/ sq m/ month) in Tartu and Pärnu	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

Property Times

Baltic Office Q4 2011

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.

Riga

Offices are mostly built in city centre, but general tendency is to move outside. Typical locations of most recent office developments are East bank (Skanstes Street region, former VEF factory territory) and West bank (along Mukusalas Street, near airport).

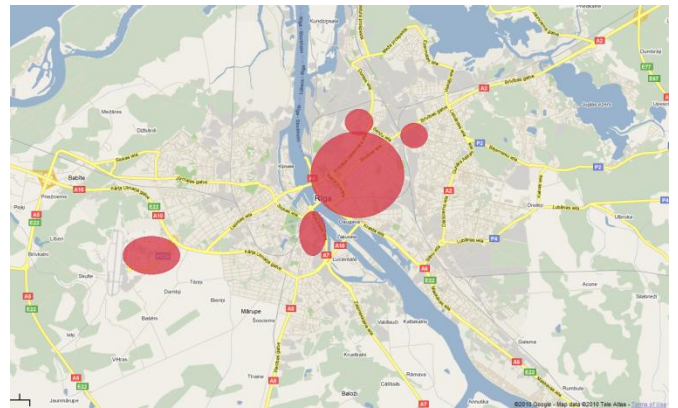
Most of the office buildings are located at downtown areas, but also in old-style reconstructed industrial buildings and new buildings located outside the city centre. Significant share of modern office space in Riga has entered to the market through re-construction at both, Old Town and city centre.

The total stock of modern office space in Riga was approximately 480,000 sq m (GLA) by Q4 2011. There are three office building projects under construction – Jupiter Centre located at Skanstes street 7 with total area of 16,000 sq m, Z-Towers - two interconnected skyscrapers with total area of 100,000 sq m and State Revenue Service administrative complex with 40 000 sq m. The new building of American Embassy was constructed in spring 2011. No new developments have been delivered during the Q4 2011.

The prime and upper rent rate levels remained stable during Q4 2011. The lowest rates rose by 1-2 EUR/ sq m/ month compared to Q3 2011.

Map 2

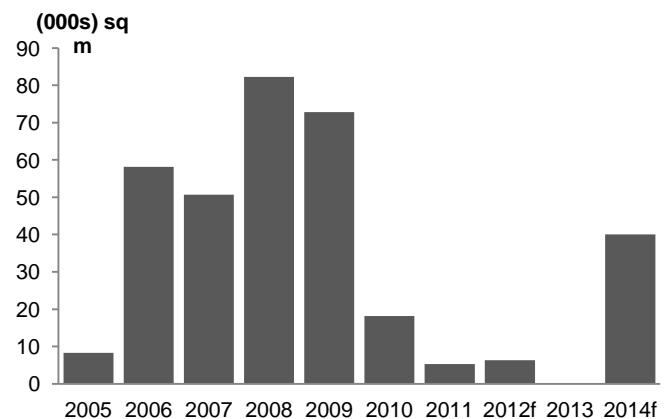
Office Districts in Riga



Source: Google Map, DTZ Research

Figure 4

New office space in Riga, GLA



Source: DTZ Research

Table 4

Rent levels (€/ sq m/ month) in Riga	A+	A	B	C
CBD	10-15	8-12	6-10	3-7
Suburban	-	-	3-10	2-4

Source: DTZ Research

Property Times

Baltic Office Q4 2011

Most office deals that took place in Q4 2011 were related to medium size areas, i.e. 200-700 sq m. Larger deals (i.e, 500-2000 sq m) were mostly closed in the first half of 2011. For example the IT company hosting the largest social networking site in Latvia draugiem.lv moved to the new office premises with a total area of ca 1500 sq m in November 2011. Generally the demand side was mostly driven by companies expanding their businesses or leaving lower standard buildings for higher quality offices.

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.

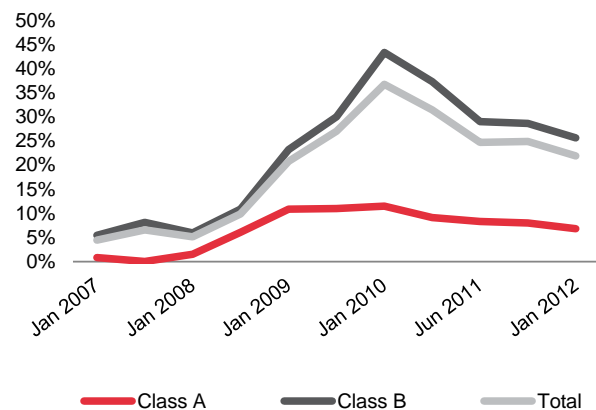
Average vacancy rate decreased slightly during 2011. A-class and B-class office buildings are gradually being filled. Vacancy rate in class A offices is approximately 7%, in B-class offices average rate is 26%. In some cases still vacancy is up to 50% or even 100%. However, the extreme cases are mostly related to insolvency issues of the owners or the properties being in takeover process by the real estate SPV's of the banks.

Forecast

- Rental fees will be stable during Y2012; slight increase is foreseen in lowest level rent rates.
- The vacancy rate is expected to decrease slightly due to overall market recovery and a limited increase in office stock during Y2012.
- Only one office building Jupiter Centre is going to be completed during Y2012.

Figure 5

Dynamics of vacancy rate in Riga



Source: Google Map, DTZ Research

Property Times

Baltic Office Q4 2011

Lithuania

The Vilnius office market represents the most active and largest part of total office market in Lithuania. On the other hand, Lithuanian office market is active not only in the capital city, but also in other larger cities Kaunas and Klaipeda

Vilnius

Most of the high class office space in Vilnius is located in newly developed central areas “Business Triangle” and in the New City Centre, both located on the banks of the river Neris. Large area of new developments is also located outside the city centre in direction to Riga (along Ukmerges Street). Another business cluster locates in Naujamiestis, further in the south, but mainly accommodates B-class office buildings (a mix of old soviet-style offices and modern glass-facade buildings). New office developments are also built in newer districts, namely, North Town (Siaures miestelis) and around Ukmerges St.

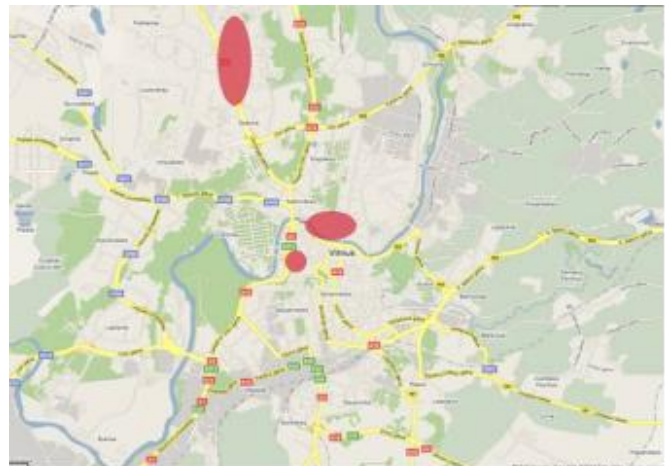
Currently, the total stock of modern office space in Vilnius is roughly 355,000 GLA sq m, of which around 35% can be valued as A+ and A-class premises.

New development pipeline with amount of 37,200 sq m of GLA is planned to be built during 2012.

During 2011 rent levels in modern office buildings increased 3%. These upward trends were noticed in those successfully working business centres, which managed to retain or achieve low vacancy rate.

Map 3

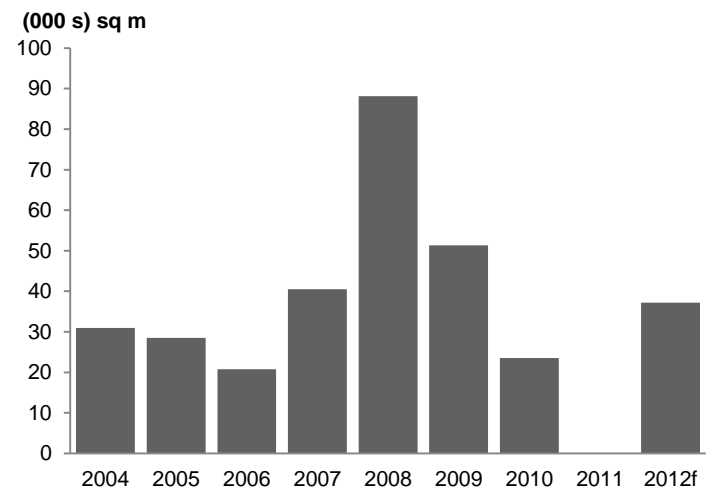
Office Districts in Vilnius



Source: Google Map, DTZ Research

Figure 6

New office space in Vilnius, GLA



Source: DTZ Research

Table 5

Average rent level (€/sq m/month) in Vilnius	A	B	C
Vilnius city centre (CBD)	11-14	7-9	-
Suburban	-	5-7	2-4

Source: DTZ Research

Property Times

Baltic Office Q4 2011

Table 6

New office developments in Vilnius	Address	Total area, sq m	GLA, sq m	Date	Quality
GAMA	Kalvariju St., Vilnius	13,000	11,400	2012	B
Pirkliu Klubas (reconstruction)	Gedimino Ave. 35, Vilnius	10,200	6,300	2012	B
Ulonu business center	Verkiu St. 25C, Vilnius	4,000	n/a	2012	B
Administrative building	Ukmerges St. 120, Vilnius	10,000	n/a	2012	n.d.
Administrative building	J.Jasinskio St. 10,12, Vilnius	n/a	n/a	2012	n.d.
Total		37,200	21,700		

Source: DTZ Research

Overall vacancy rate in modern (A class) office buildings has decreased to 5-10% during 2011 because of the fact that there were no new deliveries in the market and the demand, despite being comparably small, was quite stable. Higher vacancy rates were in B-class buildings, reaching 15-20%. Total average vacancy rate in A- and B-class buildings reached 15% in Q4 2011. The vacancy rate in C-class office buildings was around 20-30%.

During 2010 and 2011 the A-class buildings were occupied by some earlier B-class tenants as a result of substantial fall in rentals, especially in 2010. At the same time, B-class offices faced tougher competition due to larger supply and, in many cases, more vulnerable tenants.

Valued office space has the following features:

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

The office market in the secondary Lithuanian cities is far less developed and is basically determined by lower business activity.

Kaunas

The Kaunas office market is the one where prevailing trend is to own the office rather than rent it. There is mostly demand for 20-50 sq m premises for small businesses. Usually branches of larger local and

international enterprises tend to lease larger office premises.

Figure 7

Dynamics of vacancy rate in Vilnius



Source: DTZ Research

Property Times

Baltic Office Q4 2011

There were no new offices supplied in 2011. The total modern office stock in Kaunas is currently in amount of 35,400 GLA sq m. No new projects are realistic in 2012 either.

In the second half of 2011 the rentals in Kaunas office centres were demonstrating more or less the same level compared to 2010 and the prices vary from 4.3-10.0 €/sq m/month. Vacancy rate remains rather high, at the level of 10-25%.

Klaipeda

The total amount of modern office space in Klaipeda is 45,200 GLA sq m. On the contrary, there were no deliveries during 2011, nor are expected any in 2012. So, the office market in the third largest Lithuanian city Klaipeda is somewhat similar to that of Kaunas.

The rentals in Klaipeda high quality business centres range from 5.8-10.0 €/sq m/month, whereas office premises in economy class centres are leased for 2.9-5.8 €/sq m/month. Vacancies were standing at the level of 10-20% and it was one of the major issues in 2011.

Panevezys and Siauliai

The secondary cities Panevezys and Siauliai are characterized by the following features:

- there are no A-class office buildings as well as need for prime quality premises, the few existing tenants are satisfied with converted B-class premises on the first and second levels of existing buildings;
- the most demanded premises are in the size range of 30-50 sq m;
- local companies, owning their premises, dominate in the market;
- the monthly rental fees for offices in Siauliai residential and industrial districts vary from 3.0-5.0 €/sq m/month, whereas those in the city centre are in the range of 6.0-8.0 €/sq m/month. The rentals in Panevezys are quite similar, ranging from 3.5-6.0 €/sq m/month.

Forecast

- Rental fees will be stable or decrease a little bit in Y2012 as a result of declining economy and big number of new constructions in Vilnius;
- Rentals will remain stable in the secondary cities in 2012; the new office projects will be the major contributor to increasing vacancy rates, which will lead to more unbalanced market in 2012 in terms of supply and demand.

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