

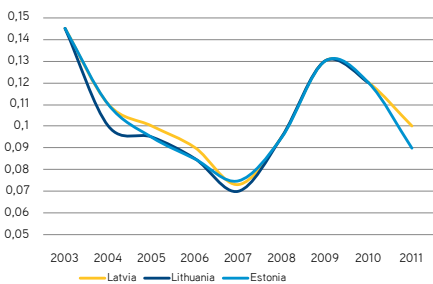


THE BALTIC STATES: ESTONIA - LATVIA - LITHUANIA

RESEARCH & FORECAST REPORT

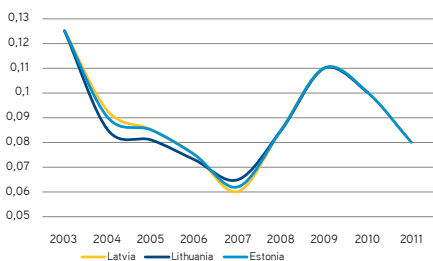
MARKET INDICATORS

INDUSTRIAL YIELD* DYNAMICS



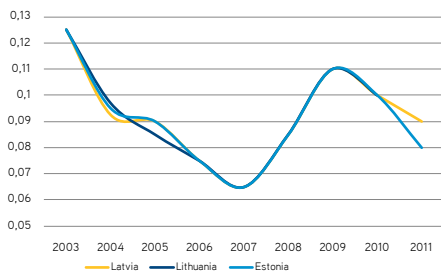
Source: Colliers

RETAIL YIELD* DYNAMICS



Source: Colliers

OFFICE YIELD* DYNAMICS



Source: Colliers

* - Yields according to expectations of investors

1HY 2011: Investment Volumes in Baltic Real Estate up by 57%

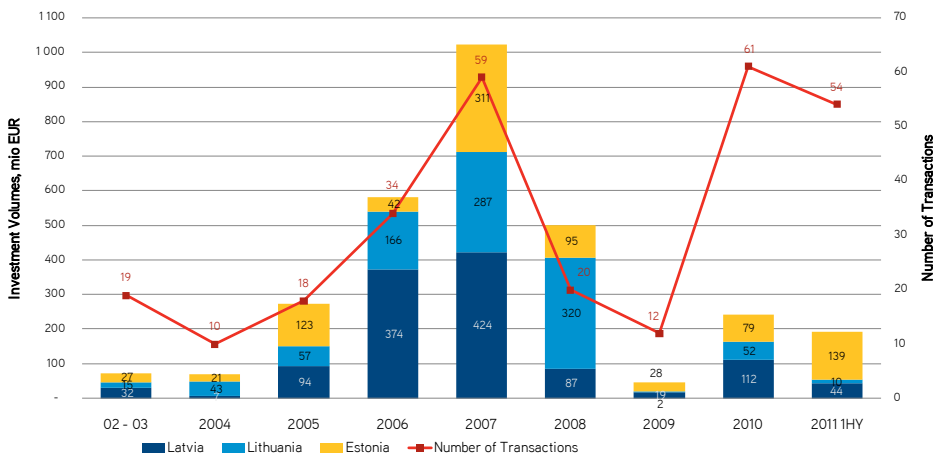
OVERVIEW

The Real Estate Investment Market in the Baltics is slowly improving and recovering: investment volumes are on the rise since hitting rock bottom in 2009. Among the three Baltic States, Estonia is leading in terms of investor interest, number of transactions and investment volumes as well as investment supply. Though economic recovery is still fragile, with high uncertainty in the wider EU region, tense credit availability and lack of high quality investment supply will lead to more sustainable and smoother investor activity.

INVESTMENT VOLUMES

Investment volumes in 1HY2010 have increased by 57 per cent in comparison with the same period a year ago, reaching a level of EUR 192 million (122 million Euros for the corresponding period in 2010). This is still far below the levels of 2006-2008, though has led to some stabilisation of yields and a more positive outlook for local market players. Estonia is clearly a leader among the three Baltic States in winning investment, accounting for 72% of the total Baltic market investment market. This is due to a better political and economic situation as well as availability of investment products.

INVESTMENT VOLUMES (MIL. EUR)



Source: Colliers

INVESTMENT TRANSACTIONS

As the overall situation remains uncertain, investors are interested in acquiring financially secure assets. For instance, properties occupied by one or several reliable anchor tenants with long-term unbreakable lease agreements. Assets like this are mostly available in the retail market segment, which is much closer to meeting the balance between seller expectations and investor readiness to offer a competitive acquisition price. Assets in both office and industrial segments are not attractive for investors due to low rental rates and flexible lease contracts with tenants. Current yield levels in the office and industrial segments versus investor expectations of 8-10 per cent are lower, usually not exceeding 5 per cent. Investors with a speculative, rather than investment acquisition approach dominate the market. Thus, most investments are based on future capital appreciation expectations and not yield based pricing. A totally different situation exists for instance in Estonia, where the market was less leveraged and the decrease in rental rates over the last two years was not so dramatic. Greater investment supply is available in the market compared to the other Baltic States and investment funds which announced readiness to invest in the region can more easily find properties in Estonia to suit their requirements.

The acquisition of Kristiine Shopping Centre by Finnish company Citycon for 105 million Euros was the largest investment transaction in the Baltics since 2008. More modest transactions took place in the office segment, such as the Pils 23 object in Riga Old Town, sold for 16 million Euros, and the Narva Road 7a office building in Tallinn. Colliers helped to mediate acquisition of the Terbatas Street 14 office building in Riga centre.

Strong activity was evident in the residential segment, where investors acquired both cashflow generating buildings and vacant newly developed multi apartment buildings. Colliers mediated the acquisitions of a historic building at 3 Raina Street and an 87-apartment building in Marupe.

The industrial segment was less active than others, with only one serious transaction in the Latvian market in 1HY2011 – acquisition of 9 Katlakalna Street with a total building area of 28 800 m², where Colliers was involved as the buyer representative.

Most transactions in the Baltic investment market are still up to 1-3 million EUR. These transactions are not usually yield based, are speculative and properties purchased are expected to be sold when the financial environment improves. Interest in cash-flow generating investments has increased, although the number of deals closed is still quite small.

Several investment deals are at the stage of negotiations and are expected to take place in 2HY2011.

INVESTORS

Compared with the previous year, higher activity was manifested by investors (both from investment funds and wealthy private individuals) from the Commonwealth of Independent States (CIS). These players have a more flexible approach compared with most local investors established or present in the market.

Specialised real estate funds, such as Baltic Property Trust, Lords LB, East Capital, Hipofondi and others are active, although properties that suit their requirements are very limited.

SPV companies of Banks continue to purchase distressed real estate properties, a trend which will remain active in both 2HY2011 and 2012.

YIELDS

During 2HY2010-1HY2011, investor expectations of yield levels in Riga have decreased by 100-200 bps compared with the previous period, reaching a level of 10% for industrial, 8-9% for offices and 8% for retail properties. As the real estate market is stabilising and rental rates are showing first signs of growth, investors are declining expectations on yield levels as well.

Despite the fact that many investors are still interested in purchasing properties for speculative use, a number of buyers favour purchasing cash-generating objects and their decisions are yield based.

DEFINITIONS

> **Yield** – net operating income of purchased property as percentage of investment in the property

512 offices in
61 countries on
6 continents

> Revenues:	€1.14 Billion
> Professionals & Staff:	12,509
> Brokers:	4,387
> Square Meters Managed:	90.9 Million
> Lease/Sale Transactions:	73,972
> Total Transaction Value:	€44.5 Billion

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