The Baltic Markets

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Part of the Newsec Group

THE FULL SERVICE PROPERTY HOUSE

Newsec is the *only* full service house in Northern Europe, with 20 offices

In Norway, Sweden, Finland, Lithuania, Latvia, Estonia.

In total we are 700 consultants in Northern Europe

Newsec offers services to property owners as well as to company's letting or owning their premises

A strong track record:

- EUR 9 billion of transaction experience
- EUR 10 billion of value under asset management
- Valuate properties of Euro 65 billion per year

NEWSEC IN BALTICS

NEWSEC

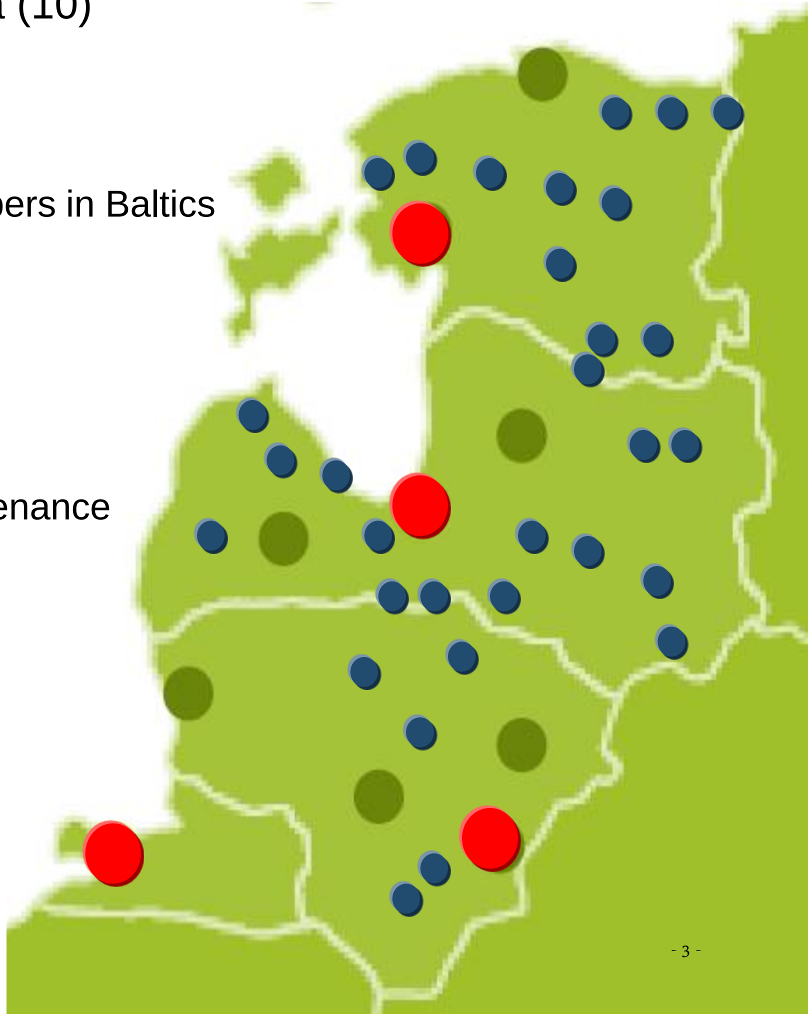
Re&Solution is the leading regional provider of integral real estate, financial, investment and property management services in the Baltics.

Re&Solution
INTERNATIONAL PROPERTY ADVISERS
Part of the Newsec Group

- Owned and integrated part of Newsec
- 65 professionals - Lithuania (45); Latvia (10); Estonia (10)

Services & Results:

- **Valuations, Research, Analysis:**
  - for financial institutions, for major investors and developers in Baltics (~1000 reports p.a.)
- **Investment advice:**
  - closed investment transactions volume 800 mln.Eur.
- **Assets under management:**
  - 500.000 sq.m.
  - 40 towns, 1700 tenants, contracts with 90 facility maintenance suppliers.
- **Agency:**
  - contacts to more than 3.000 owners,
  - 6.000 tenants
  - active in office, retail, logistics and residential sector
- **Euromoney real estate awards for BALTICS(2008;2009)**



ECONOMY

In Global Context

- The world economy is forecasted an almost 5% growth p.a. in 2010-2011, coming mainly from developing economies (China – 10.5%)
- Both Lithuania and Estonia should grow up to 2% in 2010, whereas in Latvia the growth of real GDP is only forecasted in 2011.

Change in Real GDP per Annum (%)					
	2007	2008	2009	2010*	2011*
World	5.2%	3.0%	-0.6%	4.7%	4.7%
USA	2.0%	0.4%	-2.4%	3.6%	2.8%
Euro Zone	2.7%	0.5%	-4.0%	1.5%	1.8%
Japan	2.4%	-1.2%	-5.2%	2.4%	2.2%
United Kingdom	2.4%	0.5%	-4.9%	1.5%	2.0%
China	13.0%	9.6%	8.7%	10.5%	9.0%
Lithuania	**9.8%**	**2.8%**	**-14.8%**	**1.6%**	**2.8%**
Sweden	2.5%	-0.2%	-4.9%	3.0%	2.7%
Russia	8.1%	5.9%	-7.9%	5.0%	5.0%
Latvia	**10,0%**	**-4.6%**	**-18.0%**	**-4.0%**	**2.0%**
Estonia	**7.2%**	**-3.6%**	**-14.1%**	**2.0%**	**3.6%**
Poland	6.8%	5.0%	1.7%	3.5%	4.5%
Germany	2.5%	1.3%	-5.0%	1.8%	2.0%

Source: Departments of Statistics and Ministries of Finance of Lithuania, Latvia and Estonia, and SEB. * - forecast by Ministries of Finance, SEB

Varying Forecasts

LITHUANIA		Real GDP growth						Change in CPI, %			
Source	**Date**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2010**	**2011**	**2012**	**2013**
Ministry of Finance	05 2010	1.6%	2.8%	1.2%	2.4%	-	-	-0.1%	1.5%	2.0%	2.5%
Bank of Lithuania	08 2010	0.5%	3.1%	-	-	-	-	1.0%	1.7%	-	-
SEB	06 2010	1.0%	4.0%	4.5%	-	-	-	0.0%	2.0%	3.0%	-
Swedbank	04 2010	-2.0%	3.0%	-	-	-	-	1.0%	1.0%	-	-
IMF	04 2010	-1.6%	3.2%	-	-	-	2.9%	-1.2%	-1.0%	-	-
European Commission	03 2010	-0.6%	3.2%	-	-	-	-	-0.1%	1.4%	-	-

LATVIA		Real GDP growth						Change in CPI, %			
Source	**Date**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2010**	**2011**	**2012**	**2013**
Ministry of Finance	06 2010	-4.0%	2.0%	3.8%	-	-	-	-2.0%	0.0%	0.5%	1.0%
Bank of Latvia	06 2010	-2.5%	~3.5	-	-	-	-	-3.4%	~0.0%	-	-
SEB	03 2010	-2.8%	4.0%	-	-	-	-	-3.2%	1.6%	-	-
Swedbank	04 2010	-2.5%	4.0%	-	-	-	-	-3.0%	0.0%	-	-
IMF	04 2010	-4.0%	2.7%	-	-	-	4.0%	-3.7%	-2.5%	-	-
European Commission	03 2010	-3.5%	3.3%	-	-	-	-	-3.2%	-0.7%	-	-

ESTONIA		Real GDP growth						Change in CPI, %			
Source	**Date**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2010**	**2011**	**2012**	**2013**
Ministry of Finance	08 2010	2.0%	3.6%	4.0%	3.8%	3.5%	-	2.6%	2.5%	2.6%	2.7%
Bank of Estonia	04 2010	1.0%	4.0%	3.3%	-	-	-	1.3%	1.1%	1.3%	-
SEB	03 2010	2.0%	5.0%	-	-	-	-	2.0%	3.0%	-	-
Swedbank	04 2010	1.5%	4.5%	-	-	-	-	0.5%	1.8%	-	-
IMF	04 2010	0.8%	3.6%	-	-	-	3.3%	0.8%	1.1%	-	-
European Commission	03 2010	0.9%	3.8%	-	-	-	-	1.3%	2.0%	-	-

Credit Ratings

Moody's			Standard & Poor's			Fitch		
	Long term sovereign	Perspective		Long term sovereign	Perspective		Long term sovereign	Perspective
LITHUANIA								
2010 03	Baa1	Stable	2010 02	BBB	Stable	2010 03	BBB	Stable
2009 09	Baa1	Negative	2009 03	BBB	Negative	2009 04	BBB	Negative
2009 04	A3	Negative	2008 10	BBB+	Negative	2008 12	BBB+	Negative
LATVIA								
2010 03	Baa3	Stable	2010 02	BB	Stable	2010 09	BB+	Stable
2009 03	Baa3	Negative	2009 08	BB	Negative	2009 10	BB+	Negative
2009 01	Baa1	Negative	2009 06	BB+	Watch Neg.	2009 03	BB+	Negative
ESTONIA								
2010 03	A1	Stable	2010 06	A	Stable	2010 07	A	Stable
2009 04	A1	Negative	2010 02	A-	Stable	2010 03	A-	Watch Pos
2008 11	A1	Negative	2009 08	A-	Negative	2010 02	A-	Stable

- All three main credit rating agencies turned the rating perspective into stable in 2010 February- September
- This serves as a positive sign for foreign investors
- Latvia is still regarded as the most problematic country with the weakest ratings assigned

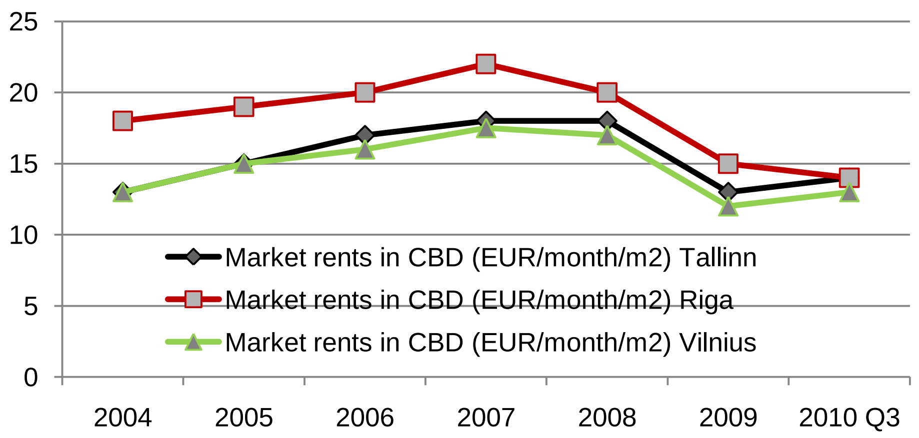
Source: Ministries of Finance, National Banks, Moody’s, Fitvh, S&P, newsagnecies

COMMERCIAL REAL ESTATE MARKET: OFFICES

Offices. Massive rent renegotiations last year…

- Most of activity last year - rent renegotiations, which are less frequent in 2010.
- Stronger local and international companies stayed, but renegotiated rent by 25-30%.
- Small local companies moved to C grade buildings or closed.
- New tenants attracted by rent free periods and attractive cost structure (e.g. fixed or capped common costs, ”all inclusive“ rent, etc.).
- Average lease period shorter and lease termination easier (e.g. prior 6 months notification), allowing landlords to readjust lease conditions as soon the market recovers.

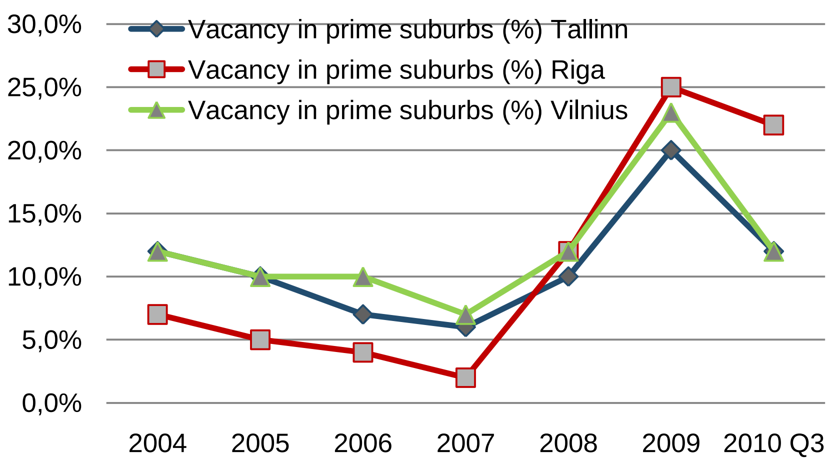
	A-grade rent, EUR/sq.m/month	B-grade, EUR/sq.m/month
Vilnius	11-14	9-12.5
Riga	11-15	6-9
Tallinn	12-16	8-12.5

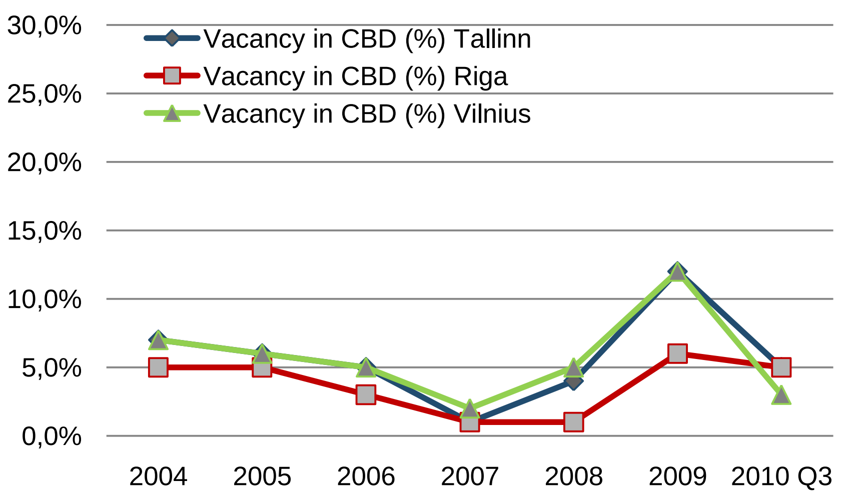


Offices. Small markets

- Every single deal makes strong impact on vacancy rate statistics and available supply.
- Extremely low A grade office vacancy – **in 2011 available supply will be almost zero.**
- **There are just few (max 1-2) buildings with over 2000 sq.m available in Tallinn and Vilnius. The company seeking to lease office immediately would have no choice in existing A grade buildings.**
- Possible way-out – built to suit type developments. Banks become more positive on financing pre-let developments already today.

	A-grade	B-grade	Total
Vilnius	3% (4,000 sq.m)	12% (26,000 sq.m)	11.5%
Riga	5% (7,000 sq.m)	22% (75,000 sq.m)	17%
Tallinn	8% (10,000 sq.m)	12% (35,000 sq.m)	11%





Offices. Positive moods

- **Positive moods will be spread into lower grade office segment.**
- Moreover, **there is much less pressure in the market** – majority of property owners have been able to agree with banks on more flexible loan terms.
- **This means, that possibility of declining rents in lower grade segment becomes low, and market is not purely “vendor’s” anymore.**
- The 2010 take-up generated by large existing companies, tending to relocate and secure attractive long term rent (e.g.TEO, KPMG in Vilnius, Tieto in Riga),
- and international newcomers, finding Baltics attractive again in terms of competitive qualified labor force costs (e.g. Barclays, SEB, Western Union, IBM).

Largest deals in 2009/2010

City	Company	Origin	Area, sq.m.	Relocation/ new
Vilnius	TEO (telecommunication)	Local	8,700	Relocation
	Barclays (bank)	International	4,000	New (technology centre)
	Tax Inspectorate	Local	5,000	Relocation
	Swedbank (bank)	International	20,000	Relocation (built to suit)
	SEB (planned in 2010) (bank)	International	12,500	New (back office from Sweden)
	Western Union	International	n/d (min 200 working places)	New (back office)
Riga	Parex (bank)	Local	17,500	Relocation (built to suit)
	Nordea (bank)	International	9,500	Relocation
	DnB Nord (bank)	International	15,000	Relocation (built to suit)
	Tieto	International	6,000	Relocation
Tallinn	Trigon capital	Local	2,100	Relocation
	Nordea	International	5,000	Relocation

Office markets - Outlook

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- New speculative developments will not start for at least a year and half due to lack of financing. Built to suit type facilities only.
- Banks still very cautious, however moods are changing (Nordea, SEB).
- In the end of the year and beginning of 2011, A-grade rentals might see a moderate growth (new leases).
- Positive moods spread to B-grade segment, expected stabilization as well.
- Office properties end the year with 3% vacancies for A-grade buildings and 8-10% for lower grade schemes.
- Short term demand generators:

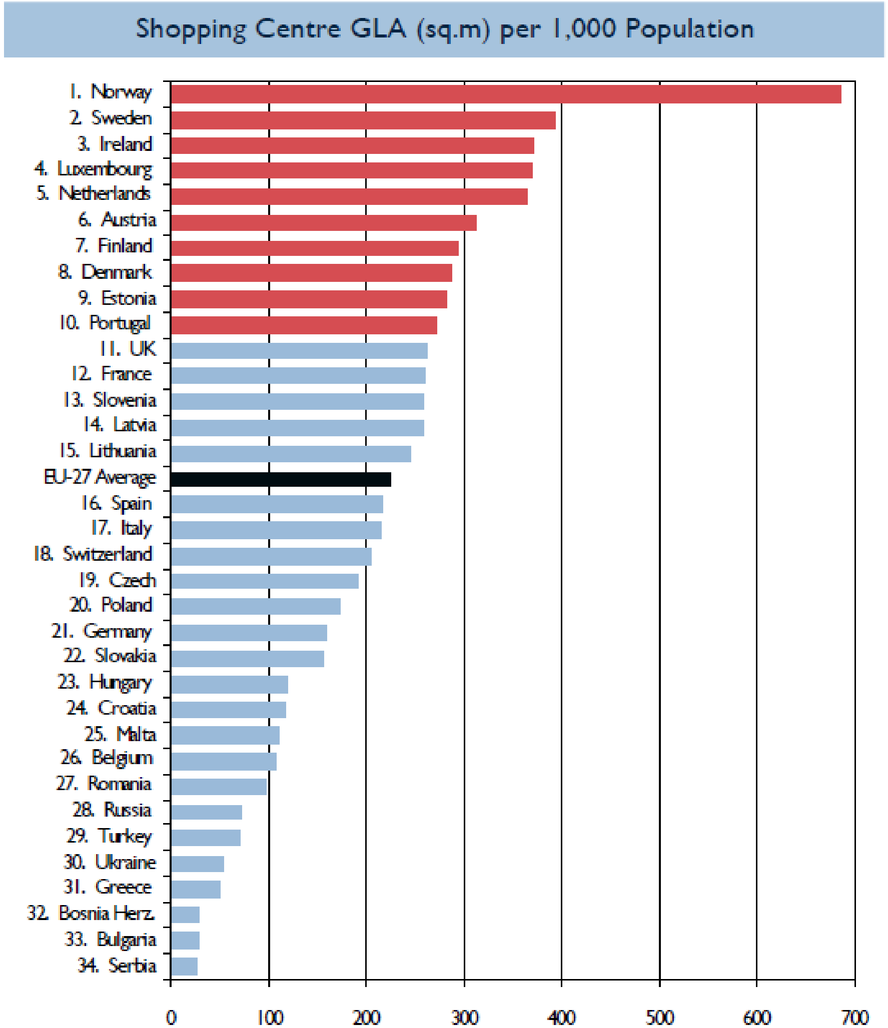
- Large existing enterprises relocate office and new international companies, using an opportunity of competitive labor costs - in 2010/11.
- Smaller local companies expected to move back to modern buildings – in 2012/13.
- Newly established local enterprises – in 2013/14.

COMMERCIAL REAL ESTATE MARKET: RETAIL

Retail property – saturated shopping centre market

- Shopping centre market seems rather mature in the Baltic region as all 3 countries exceed EU-27 average ratio.
- Pipeline for upcoming years rather miserable except expansion of existing centres.

Country	Stock, sq.m	Pipeline, sq.m (for 2011/12)
Lithuania	770,000	35,000
Latvia	470,000	38,000
Estonia	400,000	20,000



Desperate market – is there a light at the end of the tunnel???

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- Last year owners concentrated on sustaining 85-90% occupancies. Different strategies used:
- Change concept. Discount and outlet type clothing and footwear shops gained pace last year.
- Significant discounts (up to 40%) and turnover based rents to existing occupiers.
- High streets suffer dramatically (40-50% vacancies).
- The major retail chains have suspended expansion in 2009 and are now reviewing enlargement plans for the next few years. Supermarket chains, e.g. Finnish Prisma are planning to open new stores in 2010 already.
- However, retail turnovers have stabilized in the beginning of Q2, 2010 and some retailers start monitoring minor growth on a monthly basis. Local indexes of consumer confidence have started to improve half a year ago and keep growing in all three Baltic countries.
- Major international retailers (H&M, C&A, Next etc.) keep monitoring the market, no plans to enter soon.

Changes in rent payment structure

- Massive rent-price renegotiations have led to temporary rent discounts of around 30-40% and have changed rent payment structures. Turnover rent structures are now gaining ground in the Baltic region.
- Most of existing occupiers are not asking to increase existing rental discounts, which mainly are provided by the end of the year, however expect them to be prolonged for another 6 to 12 months

Type of tenant	Rent, EUR /sq. m./month
Anchors (supermarkets, DIY stores)	6-9
Home appliance, DIY, electronics	5-9
Clothes, footwear, accessories:	
Up to 200 sq.m.	12-25
200-500 sq.m.	8-12
Over 500 sq.m.	6-10
High street	15-25

Retail property market - Outlook

- The competence and professional approach in shopping centre management will be a key issue this and next year. Existing shopping centres are sharing the same customer, having very limited spending power. Ability to retain the same pool of customers will be a challenge for shopping centre managers in the short term.
- Supermarket and hypermarket chains expected to renew expansion end of 2010, beginning of 2011.
- New large fashion shopping centres not expected for at least 3-4 years.
- Retail turnover expected negative on a yearly basis (5% - EE, 7% - LT, 10% - LV), however positive trends foreseen 2011.

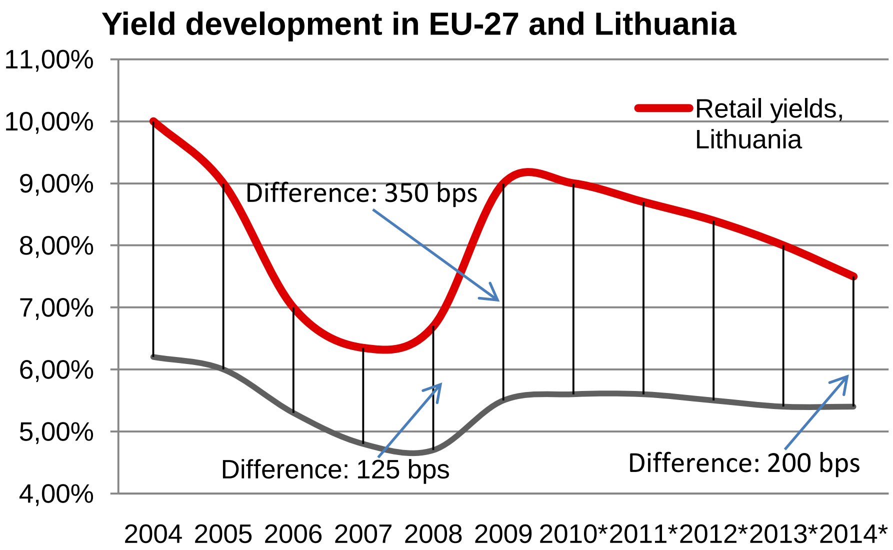
COMMERCIAL REAL ESTATE MARKET: INVESTMENT

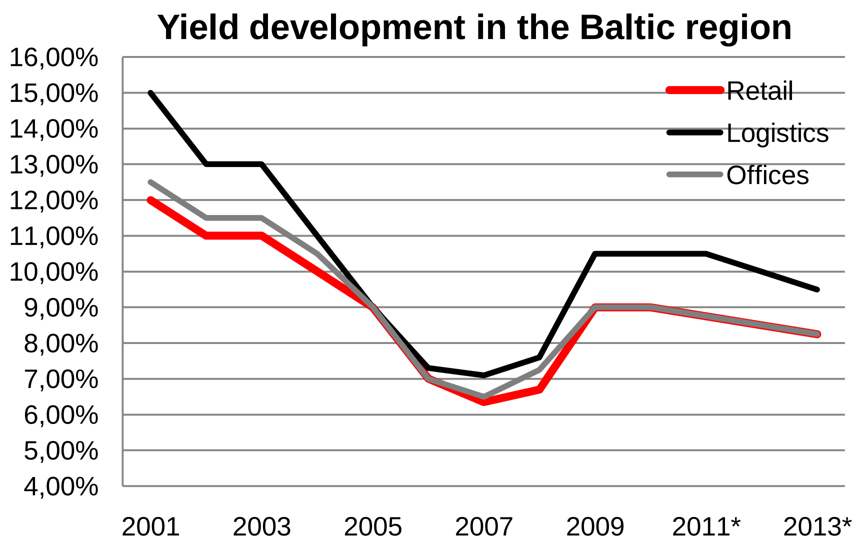
Sell the region – a challenge for 2011

- Just few small investment transactions have been completed in the Baltics in the first half of 2010. Their total volume has not exceeded EUR 20 -30 million.
- Market is mostly explored by local investors – private firms and small funds. Interest from opportunistic Finnish and Swedish buyers has increased recently, but they have not made any significant transactions yet.
- Distressed property buyers have not made any larger deals in the field of income producing assets. Banks rather agree with existing owners than initiate forced sales.
- Low supply of really sellable and reasonably priced opportunities.

No transactions, no yield evidence

- Asking yields have decreased during 2010 due to the clear signs of an economic recovery, significantly lower interest rates and a slightly improving credit situation.
- Asking yields for secondary assets range from 8 to 9.5% and from 5% (!) for prime
- Recent transactions in Estonia were transacted for ~8.5-9%. We receive bids at ~9%.





Property investments - Outlook

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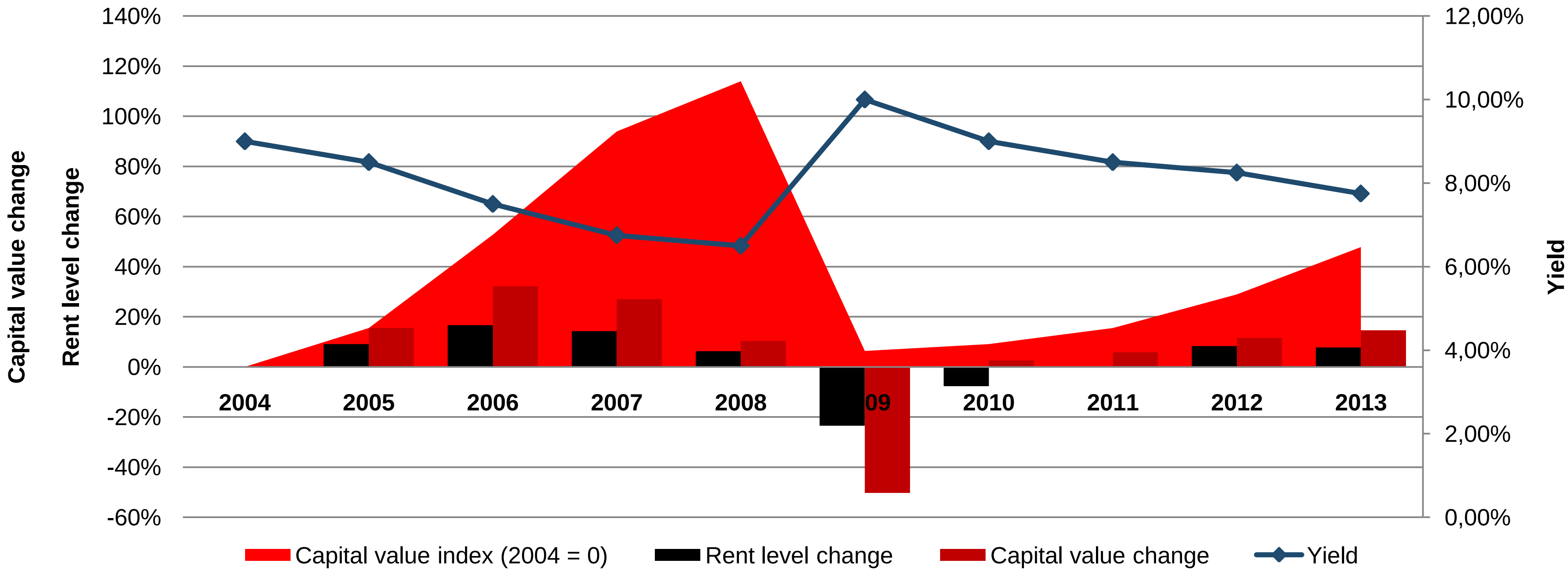
- Acquisitions in 2010/ 2011 are expected to be done by local investors.
- Institutional investors expected doing their homeworks in the Baltics next year, but hardly start buying. Large acquisitions will gain pace 2012/13.
- The yield compression overseen after first “ice-breakers”. In longer term yield difference between local and Western European level shall not exceed ~200-225 bps and ~100-150 bps upon entrance into Eurozone.



- Thank you!

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