

Baltic markets saw red hot 7 percent GDP growth for five straight years, while Warsaw saw yields drop below 7 percent

By Ober-Haus Real Estate Advisors

Warsaw

Poland's GDP growth slowed from 5 percent in 2004 to 3.5 percent in 2005. GDP growth should reach 4.4 percent by the end of 2006. Unemployment dropped by 1.8 percent to a level of 17.3 percent. Inflation fell to 2.2 percent.

By the end of 2005, total modern office stock stood at 2,300,000 sqm of which 45 percent is located in the Central Business District. Currently Warsaw has 730,000 sqm of class A office space, 110,000 sqm of modern office space was constructed or renovated in 2005.

Future supply for 2006-2007 is estimated to be 250,000 sqm per year. The biggest building planned for 2006 will be Rondo 1, a 55,000 sqm project developed by the German firm Hochtief Development.

Take-up in 2005 reached 250,000 sqm exceeding new supply. Taking into account regional investment attractiveness, we forecast that take-up will peak at around 300,000 sqm over the next two years.

Rents in Warsaw city centre fell on average by 2.1 €/sqm in 2005. Rents are at the level of €15-18/sqm per month for prime surface areas in the centre and €11-14/sqm per month in non-central locations.

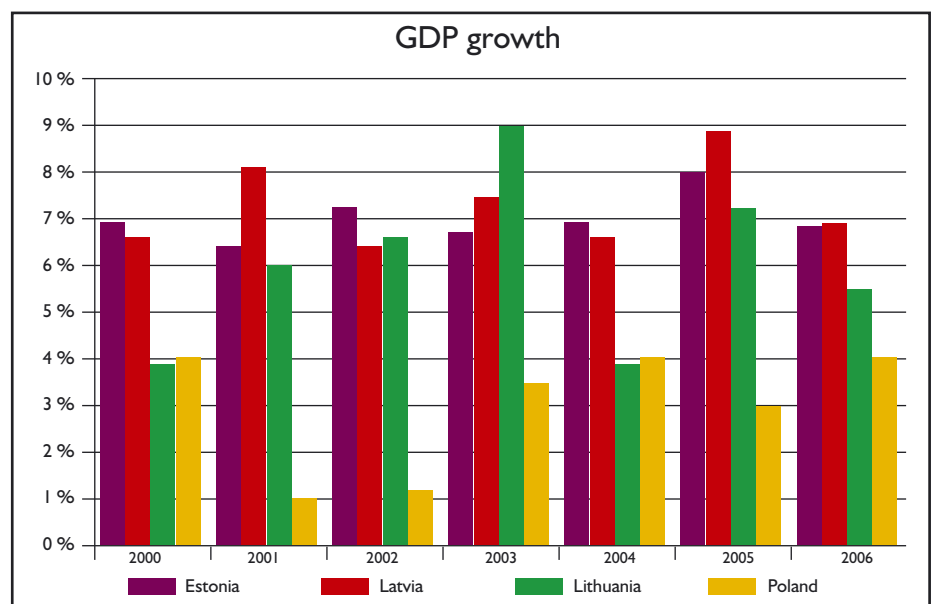
Investment transactions continued in 2005. Warsaw Financial Center was sold to TMW Pramerica for €98 million at a yield of 8.25 percent. DB Real Estate bought the Topaz building for €30 million at a yield of 7 percent. And Sireo bought the Renaissance Plaza from Rida Development for €20 million at an 8 percent yield.

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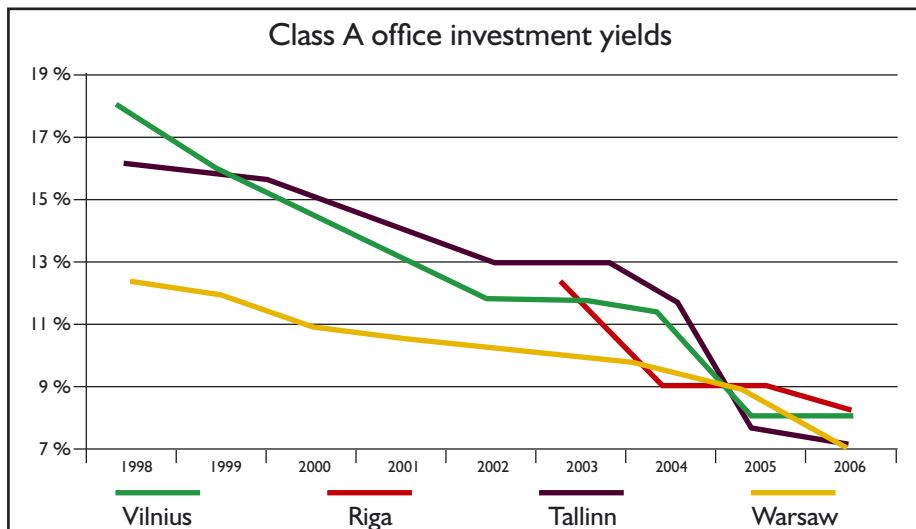
Tallinn

Estonia's GDP grew 8 percent in 2005 and projected growth of 6.8 percent in 2006. Estonia will join the euro currency by 2007 bringing numerous benefits including currency stability, lower interest rates, and increased FDI.

By the end of 2004 modern class A office stock in Tallinn grew to 120,000 sqm. Only 8,000 sqm of new class A office stock was added in the last 12 months. A further 8,000 sqm will come online in 2006.



Class A office investment yields



Take-up totalled 23,000 sqm in 2005, exceeding new supply, and leading to a tightening in the market. With GDP and employment growing so rapidly, we expect take-up to continue to exceed supply in 2006. Vacancy has dropped below 1 percent which has resulted in available space being vacant only for a short time.

During the last six months, due to limited supply, rents have increased 10-15 percent to €13.5-16 per sqm. Typical service charges are €2.50-3.50 per sqm. Rents for class B office space range from €8 to 11/sqm and have increased by 5-10 percent during the last year. We expect rents to rise further as take-up will continue to exceed supply.

Investment yields have dropped rapidly over the last 12 months. Class A office buildings currently attract buyers at yields of 7-7.5 percent. Buyers believe that rents are low and will increase by 10-15 percent, so they believe they are buying at real yields of 8-8.5 percent.

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Riga

Latvia's economy roars with 7 percent GDP growth in 2005 and projected growth of 7.5 percent in 2006. By the end of 2005, modern A and B class office stock in Riga grew to 260,000 sqm. The last 12 months saw the addition of 55,800 sqm.

Riga take-up amounted to 52,600 sqm in 2005. The lower end of class A rents have increased by 20 percent to €16- 20 per sqm as demand for class A stock and the overall price level increased.

Increased investor interest has pushed yields down significantly since last year, hitting as low as 7 percent on the best projects and portfolios. The Danish investment group Baltic Property Trust has been aggressive throughout the Baltic region closing a few top market deals and buying the Valdemara building a 8,300 sqm class A office building in downtown Riga.

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Vilnius

Since 2001 Lithuania's GDP has grown at an average annual rate of 7.5 percent. Predictions are that it will continue to grow at 6.5 percent in 2006 and 2007. Lithuania intends to adopt the euro single currency on January 1, 2007.

Modern office space in 2005 increased by 42,500 sqm and at the end of the year total office stock reached about 197,000 sqm. By the end of 2006 modern office space in Vilnius should have increased by over 40,000 sqm.

Demand is so high that current modern office vacancy stands at a low of 4 percent. This is in spite of the fact that during 2005 office supply grew 25 percent (from 154,500 to 197,000 sqm).

Rents for modern office space have just begun to rise. At the moment rents for space in a prestigious class A office building range from €13-16/sqm. No modern office buildings were sold in 2005.

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