

Real estate market overview 2007/2008

Industrial and warehouse premises

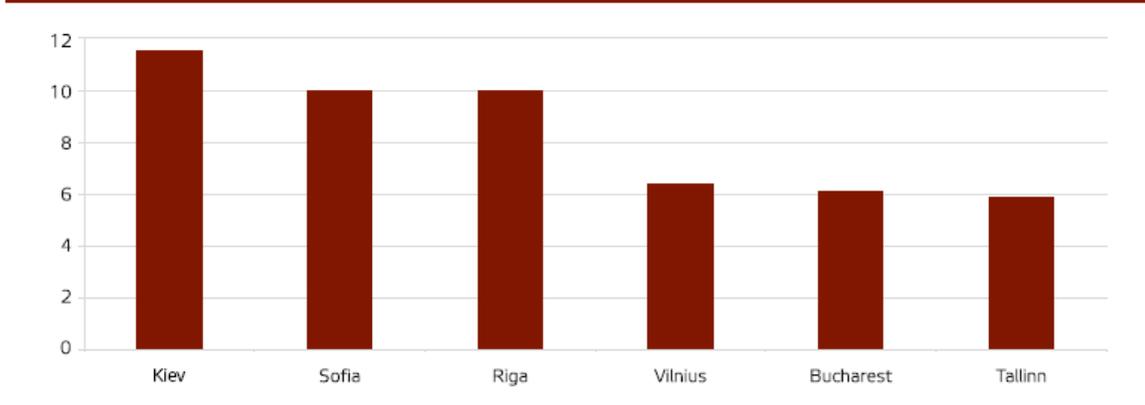
Source: www.arcorealestate.com

Average rental price, EUR/m²/month

	Tallinn	Riga	Vilnius	Kiev	Sofia	Bucharest
New premises	4.5-5.8	6-10	5.2-6.4	7.4-11.5	4-10	2.5-6
Old premises	1.0-4.5	Up to 2	2.3-4.6	3.7-7	2-5	4-4.5

Source: Arco Real Estate

Highest rental prices of warehouse and production premises in various capitals, EUR/m²/month



Source: Arco Real Estate

ESTONIA

The market situation for warehouse and production premises is characterised by the fact that most buildings to be constructed are intended for private use. The most active construction areas are situated along the main roads leading out of the city, from the city borders to the Tallinn roundabout (mainly Rae, Saku and Saue rural municipalities). Development activities in the Maardu area, located in the immediate vicinity of Tallinn, and around the Muuga Port, have also become more active. Significant new buildings have been established along the Tallinn roundabout whilst further afield construction and the liquidity of existing premises are dropping dramatically.



The new and modern warehouse and production buildings are mainly established in technology parks with improved facilities, plots ready for construction, and the technology supplies necessary for the building. The companies assembled into technology villages are often a synergic community in which various companies supplement each other with their fields of activity; there are cases in which tenants are selected according to what additional value the new company can offer the existing ones. The current success of technology parks is also characterised by the launching of new stages within the parks. The development of new stages has been initiated at Mõigu, Jüri, Maardu and Tännasilma technology parks. Amongst the technology parks currently being developed, the Nordshore Corporate Park, to be established near Muuga Port, may be regarded as the most impressive.

The volume of new building permits in the warehouse and production premises sector has been stable in recent time; and as mentioned before, new buildings are mainly intended for owner use – there are few premises established for speculative purposes.

In the case of existing rental premises, the most demanded size of premises, according to experts at Arco Real Estate, is between 300–700 m² and 1 000–1 500 m². The maximum size of rental premises is 7 000–10 000 m², but these dimensions can be regarded as being exceptional. It can also be stated that interested parties considering premises with a size of more than 5000 m² are seriously considering the option of building themselves or getting the premises “tailor made“. The latter means the construction of a rental space by the developer according to the wishes and needs of a specific tenant which is becoming more widespread. Regarding premises, modern technical conditions (communication lines, loading platforms, planning) are also important, in addition to size. Premises with a good access for goods, open planning and sufficient working height (approximately 10–12 m²) are preferred.

When compared to previous periods, the industrial real estate sector has not witnessed significant changes in rental prices, although a certain price increase can be noted in the top prices. The differences in the prices of warehouse and production buildings of various specification and location are still rather large. As land and construction premises have constantly been getting more expensive, an increase in the price of warehouse and production premises can also be expected in the long run.

There have been few sales transactions of new and high quality warehouse and production buildings; the transactions that have been made are often of the sale and leaseback type, and the buyers have often been various real estate funds that wish to actively increase their portfolio.

In 2–3 years, the stable development of the warehouse and production premises market, and further development activities can be expected. A majority of the new developments are still expected to be owner occupied. New premises are mainly established in technology parks that feature complete infrastructure and synergy. In case of warehouse complexes, logistical concepts are becoming more important than before, with the owner providing other solutions related to logistics in addition to renting the premises. Although there is strong pressure on rental levels due to an increase in the prices of land and construction, the possible increase in rent is not expected to be more than 10%.

LATVIA

The industrial premises sector in Latvia has grown. Further new warehouse and production premises are planned or are under construction. Demand has risen and as in the previous year supply has fallen short of demand.



Primary demand for this kind of premises is near the capital city of Riga; demand in the regions is relatively low. In 2006 and 2007 the supply has been characterized by old premises not suitable for modern building criteria; this is a major problem. New buildings do not offer the required space. Most large warehouse buildings are under construction: the logistics centre in Salaspils, the Dommo business park in Olaine, the SMI logistics centre in Bergi and the Eclipse Business and logistic centre near Riga airport.

The biggest supplier in the market is NP properties who have developed the most business parks throughout Latvia, but the problem remains: all of these business parks are full.

Average rental prices EUR/m²/month

New warehouse premises in Riga	6-10
New warehouse premises in surrounding areas of Riga	5.5-6.5
Renovated warehouse premises in Riga	4.5-5
Premises in Industrial Parks in surrounding areas of Riga	5-6.5
Old warehouse premises in surrounding areas of Riga	Up to 2

Source: Arco Real Estate Latvia

Growing demand affects the rental price level and it is still very high. This fact will remain until most of the large industrial parks are built and that will not be soon. This sector will develop further and is currently worthy of consideration.

Interest in warehouse and industrial premises in Riga city is not as great any longer. This can be explained by the transport restrictions in and out of the city. All interest in the city is focused around the areas of Maskavas St and Krustpils St.

The most demand is for industrial premises outside the borders of Riga: along a 35 km radius around Riga city. The infrastructure here is good and the location is very advantageous because of the proximity to good transport links throughout Latvia and outside its borders.

LITHUANIA

Vilnius

The market for new industrial buildings in Lithuania is still developing; and rental prices are progressively rising for both old and new warehouses. Despite the existence of developed projects (Autoverslas, Dobrovolė, Arvydo paslaugos), demand is still higher than supply.

A surplus of warehouses over the coming years, in Vilnius, is not expected. At the moment occupancy is close to 100 %. Most of the rentable warehouses are about 1 000 m² in area and there is a need of smaller industrial premises in the market of around 100–400m².

Warehouse prices over 2007 rose about 15% in old buildings, while only about 10% in new buildings. During 2008 prices of new warehouses should stay stable, and in the old warehouses there may be a small price rise. Prices depend on location and size of the warehouse and vary from 2.3–4.6 EUR/m² in old buildings and from 5.2–6.4 EUR/m² in new buildings.

Kaunas

Kaunas city is marketable by virtue of its geographical location, it is very good location for warehousing or logistical premises. This year as in the previous year, the demand for logistic centres was not realised. These centres are already being built in LEZ (free economic land) and near the highway Via Baltica.

In the first quarter of 2007, in Kaunas city, the price of storage premises has grown by almost 30%; in the second quarter of the year it grew only about 2%.

Klaipeda

In 2007 the market of storage premises increased more than 30 000 m². During the years 2008–2009, financially strong trade companies are predicted to move their goods to storage in new premises, thus increasing the supply of the older type of store.

Due to a lack of industrial land area in the city, increasing prices of the land and intensive traffic in the city, more and more manufacturing and storage objects will be built in the suburbs of the city, near the main roads, more than 15 km from the city centre.

Average rental prices of industrial premises (2007) EUR/m²/month

Area	Vilnius	Kaunas	Klaipeda
Old space	2.30–4.60	2.00–4.30	1.50–3.20
New buildings	5.20–6.40	4.30–5.80	3.00–5.20

Source: Arco Real Estate Lithuania

Ukraine

At the beginning of 2007 industrial real estate remained the least developed sector of the Ukrainian real estate market.

A peculiarity of the industrial market in Kiev is end-user development rather than investor development. Notable projects for logistics and manufacturing are Kuhne & Nagel, FM Logistic, Ost-West Express, Ukrainian Cargo Express and Komora-S.

Cap rates for warehouse properties are approximately 15%.

At the beginning of 2007 the supply of purpose-built warehouse space was 184 000 m².

As a whole, the supply of the industrial market of Kiev can be divided into several categories, depending on the quality of the properties offered. The first and largest category comprises about 85% of the total supply utilising buildings constructed in the 1960s and 1970s. These buildings generally do not fit modern industrial warehousing facility requirements.

This category of the market also includes semi-professional warehouses, namely reconstructed hangars and small factories built during Soviet times. This category can be classified as warehouse premises of class C type.

The second market category is represented by class A and B professional grade warehouse properties which make up a 15% share of the market.

The capacity of the warehouse market at the beginning of 2007 can be estimated at 900 000–950 000 m². The present demand for professional warehousing facilities exceeds the supply.

At the beginning of 2007 rental rates averaged EUR 7–10/m² /month, excluding VAT.

The rental rates depend on the location of the warehouse, infrastructure, technical characteristics and range of services provided.

BULGARIA

The sector of warehouse-logistics and industrial areas in the state up to the present day is not so well developed. The supply is scarce and it usually consists of areas that are rarely consistent with the raised requirements of clients. The increased demand and limited supply of contemporary store – logistics and industrial areas, as well as the exclusively favourable and strategic location of the state, are prerequisite for attracting investors' interest in the coming years. The return in this sector is comparatively high – about 9–10%. Leading construction entrepreneurs and investors, specialising in the construction of logistics parks, have examined market opportunities and have already started the execution of some large-scale projects.

The high economic activity and the stable development of the manufacturing and servicing area increases the demand of industrial and logistics platforms; the good business climate, the low corporate tax on profits and levels of labour remuneration attract more and more foreign corporations and commercial operators to the state. The companies that have already entered the country, from the manufacturing area and the transportation, commerce and distribution areas, widen their activity and this in turn, increases the demand for modern industrial and warehouse – logistics areas. The other factors stimulating the sector development are the new European requirements for food and drugs storage.

Currently in the capital, there are about 1 200 000 m² of industrial areas; in Plovdiv there are 450 000 m²; and in Varna 300 000 m², considered by analyzers in the sector. In most cases these are

custom built warehouse–logistics areas; they are built in order to serve the specific needs of a company that is also the owner. The part of the warehouse and industrial areas built for rental premises is still insufficient, that leads to a great shortage and demand for industrial areas. (Up to the end of June, 2007, the industrial areas for rent in the region of Sofia were about 160 000 m² or 13% of the total present areas, considered by analysts in the sector.

The main interest of investors is directed towards the capital Sofia. There are several sizeable warehouse–logistics projects already underway that are destined to change the ratio between premises custom built by the owners and premises for rent. Nearly 850 000 m² of new warehouses, logistics and manufacturing units are due to be built in the city of Sofia by 2010.

In addition to Sofia analysts note high potential for development of similar projects in the town of Plovdiv and Gorna Oryahovitza as well as for the large harbour towns of Varna, Bourgas, Vidin, Rousse, and Lom. The strategic location of these towns, the proximity to the trans–European transportation corridors and significant transportation advantages are some of the most important factors for investors.

One of the first projects to be realised in the city of Sofia, was in the region of the airport and the ring road – the headquarters of “Vrajdebna” and “Slatina” where there is a logistics area, under development, of 300 000–400 000 m².

The rents for industrial areas are highest in the city of Sofia and in the outskirts of the city they are between 2 –10 EUR/m². For quality premises they vary between 3.8–5.5 EUR/m². The most expensive industrial areas are in the region of the by–pass, these are between 4–10 EUR/m². Rent at the airport is between 4–7 EUR/m² and the cheapest rents are in the centre of Vrajdebna between 2–5 EUR/m². In the region of Sofia rents for industrial areas are between 2–6 EUR/m².

In Varna rents are between 3–10 EUR/m²; Bourgas between 3–5 EUR/m²; and in Plovdiv, rents are between 2–5 EUR/m².

The prices of lots suitable for construction of industrial areas differ widely. Traditionally they depend on the location of the lot; the proximity to large transportation facilities and transportation accessibility; infrastructure; and the town–planning parameters. Lot dimensions influence price as well. For the development of logistics bases and industrial sites large lots are usually in demand. In the industrial areas of Plovdiv, Varna and Bourgas there is a wide choice of plots suitable for construction. The real estate land sector has land on offer which varies in quality, price and potential. It could be possible to purchase large sections of agricultural land preparatory to changing their designated use.

In Sofia, investors aimed at regions like Bojurishte, Kostin brod and Novi Iskar where there are large enough lots on offer at comparatively good prices. With the construction of several logistics sites in one industrial zone the lots around them will increase in value too.

In close proximity to the city lots are most expensive and supply is more limited. There is a comparatively larger supply of various lots suitable for industrial construction, to the north of the ring road, where the price of real estate varies between 20–315 EUR/m². Even more expensive are lots in the region of the airport where land is offered at a price of 40–750 EUR/m². There are some very high upper price limits but these are exceptional. They are perhaps indicative of greater interest and specific regional demand.

ROMANIA

The industrial market in Romania has gone through a period of accelerated growth. The market is dominated by rental transactions. Many new projects have been announced, throughout the country, to the value of EUR 350 million. The new investments were focused on the large logistics development, on the outskirts of Bucharest.

Developers of industrial space have been attracted by land in the north and west of Bucharest because of land availability and easy access to the national road network. The demand for industrial and logistics space has developed because of increased production and storage activity and of the relocation of some companies from central Bucharest. Land availability is low, consequently brownfield sites are in high demand. The price evolution is influenced by the land price and by the price of construction materials.

In the first quarter of 2007, logistics and industrial projects totalling around EUR 980 million have been announced. The biggest percentage of these investments are outside the cities.

Logistics and industrial projects

Location	Details
Cefin logistic park	15 000 m ² for storage
Cefin logistic park	3 820 m ²
Cefin logistic park	5 000 m ²
Prologis park	10 700 m ²
Prologis park	8 000 m ²
Bucharest west	6 000 m ²

Source: Arco Real Estate Romania

Investments will continue to be made inside and outside Bucharest; the main focus being on large industrial spaces.