Office Market

General Overview

- A strongly pronounced shortage of large office premises was noted in 2015. In terms of shortage of vacant premises, several professional building acquisitions for owner occupation purposes were observed.
- Disregarding limited construction, some developers started to work on office project plans. Capital Mill, Hanner, ELL, Vastint, NCH and Pillar are an example of players driving market development.
- During the year the market saw commissioning of two speculative office properties and continuing development of properties initiated in 2015 with commissioning planned for 2016.
- A tendency to prelease properties at the construction stage was observed during the year. Medium sized tenants expressed their readiness to engage in prelease agreements already at that early stage.
- The total vacancy rate remained at the 2014 level; however, a slight increase in A class rent rates was observed.

Supply

By the end of 2015, the total space of office premises in Riga amounted to approx 596,900 sqm. Speculative space dominates with 405,300 sqm or 68 per cent, while built-to-suit (BTS) office buildings account for 191,600 sqm or 32 per cent.

In 2015, office space was supplemented by two speculative B1 class office buildings - the reconstructed 13 Janvara Street 3 (GLA 2,100 sqm) and Jauna Teika 2nd stage (GLA 2,400 sqm). Both properties were already partially preleased during the construction stage.

Three smaller B class office buildings are under construction at the moment, including Katrinas Osta on Katrinas Dambis 20 (GLA 1,700 sqm), as well as the Tele2 BTS project (GLA 1,700) and a speculative office building (GLA 2,000 sqm) both located in Mukusalas Business Centre territory. All three properties were expected to be commissioned by the end of the first half of 2016. Moreover, the A class office property Place 11 (GLA 15,000 sqm) on Sporta Street 11 is expected to be delivered to the market in Q4 2016 and approx 10,000 sqm of A class office premises are under construction in Z-Towers, due for commissioning in Q2 2017.

Apart from all buildings under construction, a number of developers announced their willingness to enter the market with new projects. In total more than 140,000 sqm of professional office premises are at the planning stage and taking into account the lack of vacant space we anticipate the materialisation of some of these over the next three to five years. Even though the development pipeline for the upcoming three years is starting to grow, it still lags behind Tallinn and Vilnius.

By the end of 2015, a number of planned projects were approaching the final stages of technical planning. Among these the 1st stage of the New Hanza City project, consisting of an A class speculative office building of 14,000 sqm and a BTS office building of 18,500 sqm, have already received a building permit and the start of preparatory work can be expected in Q2 2016. Additionally, Business Garden Riga 1st stage, consisting of two buildings and being developed by Vastint with total planned GLA of approx 14,000 sqm, is expected to approach the construction stage in 2016.

After commissioning of Jauna Teika 2nd stage, Hanner continued planning the next Jauna Teika stage.

Dynamics of Office Space in Riga*

\[\text{Thousands, sqm} \]

<table>
<thead>
<tr>
<th>Year</th>
<th>New construction</th>
<th>Existing stock</th>
<th>Expected construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>150</td>
<td>300</td>
<td>700</td>
</tr>
<tr>
<td>2007</td>
<td>170</td>
<td>270</td>
<td>740</td>
</tr>
<tr>
<td>2008</td>
<td>190</td>
<td>250</td>
<td>780</td>
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<td>2009</td>
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<td>230</td>
<td>820</td>
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<tr>
<td>2011</td>
<td>250</td>
<td>190</td>
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<td>290</td>
<td>150</td>
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</tr>
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<td>310</td>
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<td>1,020</td>
</tr>
<tr>
<td>2015</td>
<td>330</td>
<td>110</td>
<td>1,060</td>
</tr>
<tr>
<td>2016f</td>
<td>350</td>
<td>90</td>
<td>1,100</td>
</tr>
</tbody>
</table>

* - office space at the end of the period (both speculative basis and built-to-suit)
f - forecast

Source: Colliers International

Distribution of Speculative Office Space by Class in Riga in 2015

- Class A: 12%
- Class B1: 17%
- Class B2: 71%

Source: Colliers International
Demand

According to Colliers International estimates, absorption of total office space in 2015 amounted to 4,000 sqm. This relatively low figure is explained by the fact that most leasing was generated by tenants rotating within professional space.

The financial sector and IT companies are the most active in terms of leasing, willing to consolidate in single locations with further expansion opportunities. Additionally, the BPO / SSC sector continued to be active, looking at the Latvian market to establish their presence, but interest did not materialize due to lack of large vacant premises, typically above 3,000 sqm, and competition with neighbouring countries.

Overall, during 2015 a third of the take-up in professional and non-professional office premises consisted of deals targeting areas above 1,000 sqm, while another third was focused on areas between 500 and 1,000 sqm.

Meanwhile, shortage of available premises caused big companies to acquire buildings for BTS purposes. In this context, Evolution Gaming acquired the Ziemelu Varti office building on Brivibas Street, Euro Live Technologies acquired the Triangular Bastions office property on 11 Novembra Krastmala, Compensa acquired its former rented location on Vienibas Gatve 87h, and Regionala Investiciju Banka acquired an office building in Jura Alunana Street. Lastly, the property at Jeruzalenes Street 1 was bought from Latectus potentially for single tenant occupancy. Total area within all these transactions amounted to approx 39,500 sqm.

In 2015, we observed continuation of activity from medical centres. These are acquiring administrative buildings for reconstruction with the purpose of expanding their business. At the same time, 2015 saw an increase in demand for 400 – 600 sqm premises suitable for medical practice.

Taking into account the shortage of professional office space, landlords stand at a greater advantage in lease negotiations compared to tenants.

Rent Rates and Vacancy

During 2015, rent rate spreads for B1 and B2 class office premises remained at the 2014 level, while the upper bounds of A class rent rate spreads experienced an increase. Rent rates amounted to 13 - 16 EUR/sqm per month for A class premises, 8 - 12 EUR/sqm per month for B1 class office premises and 6 - 9 EUR/sqm per month for B2 office premises.

As of January 2016, the total vacancy rate for both speculative and BTS projects comprised 5.7 per cent, that is, on the same level as the previous year. Vacancy calculated only for speculative office buildings stood at 8.4 per cent. This fact is explained by the situation in the A class segment, where by the end of 2015 total vacancy reached 5 per cent, compared to 3.2 per cent at the end of 2014.

Tendencies and Forecasts

► While project completion in 2015 was scarce, development is expected to improve in 2016. Properties under construction might become a target of prelease agreements.
► Rent rates are expected to remain stable until the end of 2016.
► Vacancy is expected to remain stable in 2016.
► Despite improving construction and anticipated completions in 2016, demand is expected to remain limited due to shortage of larger premises available for lease.
► Properties which were the target of acquisition for owner purposes in 2015 are expected to be improved and upgraded in 2016.

Rent Rates* for 2015 in Riga and Trends for 2016

<table>
<thead>
<tr>
<th>CLASS</th>
<th>2014</th>
<th>2015</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>13 - 15</td>
<td>13 - 16</td>
<td>→→</td>
</tr>
<tr>
<td>B1</td>
<td>8 – 12</td>
<td>8 – 12</td>
<td>→→</td>
</tr>
<tr>
<td>B2</td>
<td>6 – 9</td>
<td>6 – 9</td>
<td>→→</td>
</tr>
</tbody>
</table>

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable

Source: Colliers International

Vacancy Rates for 2015 in Riga and Trends for 2016

<table>
<thead>
<tr>
<th>CLASS</th>
<th>2014</th>
<th>2015</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.2 %</td>
<td>5.0 %</td>
<td>→→</td>
</tr>
<tr>
<td>B1</td>
<td>6.3 %</td>
<td>5.5 %</td>
<td>→→</td>
</tr>
<tr>
<td>B2</td>
<td>5.3 %</td>
<td>7.6 %</td>
<td>→→</td>
</tr>
</tbody>
</table>

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable

Source: Colliers International
Existing and Development / Planned Office Projects in Riga

Existing Developments
1. Valdemara Centre
2. Swedbank HQ
3. Office Complex “Ostas skati”
4. Rietumu Capital Centre
5. Alojas Business Centre
6. DNB Bank HQ
7. Pasta Banka, Brivibas 54
8. Office Centre at Citiades St. 12
9. Ziemelu varti
10. Kronvalda Bulvāris 3
11. Baznicas 20/22
12. Valdo Office Complex
13. Gertrudes Centrs, Gertrudes 10/12
14. Terbatas Centre, Terbatas 30
15. Helio Birži
16. Terbatas Business Centre
17. Marine Business Centre
18. Astras Birži
19. Baltas Vējs
20. Barons Kvartals
21. PBLB Bussines Centre
22. Modern City
23. Duntes Nam
24. GMP Bussines Centre
25. Mukusala Business Centre,
26. Duntes Birži Biznesam
27. Muitas 1a Office Building
28. Dzēravas Biržu Nam
29. SWH Business Centre
30. Unity Business Centre
31. Reaton Office Building
32. Panorama Plaza
33. Upmalas Birži
34. Indi Centrs
35. Asu Centre
36. Muitas 1 Office Building
37. Zuma Birži
38. Zaļa 1 Office Building
39. Duntes Biržu Centrs
40. Dzēravas 120 Office Building
41. Europa Business Centre
42. Office Complex Mukusala 41
43. Jupiter Centre
44. Energoefektiva Biržu Eka
45. Astras Biznesa Centrs
46. Open Centre
47. Citādele HQ
48. RSTA Office Building
49. Bussines Center Mukusala
50. WTC “Riga”
51. Dominante Office Building
52. Domina Office
53. Brivibas 171 Office Building
54. NTP Business Centre
55. Torenberg
56. Magnit Business Centre
57. Tomo Business Centre
58. Lubanas Centrs
59. Valdemara Pasaza
60. M4A Office Building
61. State Revenue Service HQ
62. LNK Centre
63. Variodes 1
64. Kalu 15
65. Jauna Teika, 2nd stage
66. NBP Central Offices
67. American Embassy
68. Valdemara Pasaza

New Speculative and Built-to-Suit Projects Under Construction/Reconstruction and Most Realistic Projects for Development in Riga
1. Z-Towers
2. Place 11
3. New Hanza City, 1st stage
4. Katrinas Osta
5. Origo Retail and Business Centre
6. Krasta 99, 1st stage
7. Jauna Teika, 3rd stage
8. Business Garden Riga, 1st stage
9. Ulmāna Office Park, 1st building
502 offices in 67 countries on 6 continents

United States: 140
Canada: 31
Latin America: 24
Asia Pacific: 199
EMEA: 108

€1.75 billion in annual revenue

160.0 million square meters under management

16,300 professionals and staff

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