Industrial Market

General Overview

> During the first half of 2014, the Latvian industrial real estate sector continued to be active in terms of demand. The beginning of the year was marked by generally optimistic expectations and the start of construction of several industrial properties, which are expected to supplement industrial stock by an additional 120,000 sqm of professional space.

> In the middle of the year, in terms of ongoing global political tension between Russia and Western countries, market sentiment shifted towards a more cautious attitude.

> Closer to the end of the year, although the industrial sector continued to be unstable, the negative momentum started to steadily settle down and market players were adjusting their processes to current realities.

> Throughout the year a significant amount of market activity was driven by the business requirements of industrial market players, which were consolidating and optimising their businesses in single locations.

> Despite the presence of some volatility, the market saw a further decline in vacancy to 2.2 per cent.

Supply

By the end of 2014, total leasable industrial stock amounted to approx 785,800 sqm, consisting of 589,300 sqm of speculative premises and 196,500 sqm of built-to-suit premises. Around 40 per cent of total stock is located within Riga city limits. The other 60 per cent is located around the Riga Ring Road (near Kekava, Olaine, Marupe, Salaspils and Jelgava).

Development activity, which resumed in 2013 after almost three quiet years, continued and built up in 2014. During the year, industrial stock was supplemented by two newly commissioned A class industrial properties: UA Investor on Daugavgrivas Street, consisting of approx 5,800 sqm of GLA, and Balt Cargo Solutions, located in Dreilīni and including approx 24,000 sqm of GLA. Moreover, industrial stock was supplemented by the existing G31 industrial complex on Ganibu Dambis Street 31 (GLA approx 11,500).

A number of projects, currently at the construction stage, with total GLA close to 120,000 sqm are planned for commissioning in 2015. Among these, the most significant is a BLS industrial...
complex totalling approx 44,000 sqm of GLA and the new Polipaks built-to-suit property currently under construction by Merks.

Apart from that, an additional 127,000 sqm is at the planning stage in several potential projects which are expected to begin arriving on the market starting from 2016. Among these planned projects the largest are VGP phase I in Kekava parish (GLA 33,000 sqm), the second phase of Balt Cargo Solutions (GLA 15,000 sqm) and expansion of Dommo Business Park (GLA 15,000 sqm).

Notable support for development has come from the Latvian Investment and Development Agency (LIAA), which issued approx EUR 8 mln co-funding, utilising EU fund support towards several industrial projects, including NP Jelgavas Biznesa Parks, Plienciema 16, among others. In contrast, Uralvagonzavod, which was planning to invest approx EUR 20 mln in expansion of their property in Jelgava, decided to put development plans on hold due to economic sanctions.

As a result, in 2015 we anticipate the most significant increase of industrial stock since 2009. Even so, the general trend remains that developers are willing to engage in new construction only in the event of having a predefined client. Additionally, shortage of premises above 1,000 sqm is observed.

Demand

In 2014, demand activity followed the usual seasonality trend with the highest activity achieved in the first part of the year. Total take-up of industrial premises amounted to approx 50,000 sqm, most of which happened during the first quarter and last months of 2014.

Decrease of demand activity in the middle of the year can be explained by the fact that it has been a typical busy season for logistics companies, representing a significant part of demand. Therefore companies focused on their core business rather than on acquisition or relocation of new warehouses.

Rent Rates

During 2014, rent rates in both A class industrial premises showed a decrease of their lower bounds compared to the previous year, while B class rent rate bounds remained unchanged compared to the previous year. As a result, by January 2014 rent rates for A class industrial premises stood at 3.5 - 4.5 EUR/sqm per month and rent rates for B class industrial premises at 3.0 - 3.6 EUR/sqm per month.

Amount of Goods Carried

With the opening of Balt Cargo Solutions industrial property, both tenants - Amber Logistics and Via3L Latvia - relocated their warehouses from various facilities in Riga under one roof. This fact supports a trend in warehouse activity consolidation to single locations, which was initiated in 2013 and is expected to continue in the future.

Potential tenants continued the tendency of searching for optimal value-for-money leasing offers and were tending to negotiate prices, which was one of the main factors limiting the amount of leasing deals.

Rent Rates* for 2014 and Trends for 2015

<table>
<thead>
<tr>
<th>CLASS</th>
<th>JAN 2014</th>
<th>JAN 2015</th>
<th>TRENDS FOR 2015</th>
</tr>
</thead>
</table>
| A     | 3.6 - 4.5 | 3.5 - 4.5 | ↓ |*
| B     | 3.0 - 3.6 | 3.0 - 3.6 | → |

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

Source: Colliers International
Vacancy

In January 2015, the total vacancy rate of industrial stock reached 2.2 per cent, compared to 2.7 per cent the previous year. The decrease in total vacancy was driven by the B class segment. In 2015, the commissioning of an impressive number of industrial properties, consisting mainly of built-to-suit, is expected to have a short term negative effect on vacancy, as companies will be relocating from non-professional premises.

Although the vacancy figures are signalling a very small number of vacant premises left available for the market, some tenants occupying industrial premises are offering sublease opportunities.

Dynamics of Vacancy Rates

<table>
<thead>
<tr>
<th>CLASS</th>
<th>JAN 2014</th>
<th>JAN 2015</th>
<th>TRENDS FOR 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.7 %</td>
<td>3.6 %</td>
<td>→↑</td>
</tr>
<tr>
<td>B</td>
<td>1.4 %</td>
<td>0.3 %</td>
<td>→→</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2.7 %</td>
<td>2.2 %</td>
<td>→↑</td>
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Source: Colliers International

Tendencies and Forecasts

- Development of the global political situation will continue to influence the general situation in the Latvian industrial real estate sector and the expectations of market players.
- The current vast planned project pipeline will begin to materialize as soon as tenants ready to engage in prelease contracts are found.
- Most projects expected to arrive on the market in 2015 are leased out, so that a major increase in vacancy is not expected.
- Rent rates are expected to remain stable in terms of their upper bounds, although a minor decrease of lower bounds might be expected.
Speculative and Built-to-Suit Projects in Riga District Over 5,000 sqm

Existing Developments
1. Valdo Logistikas Kompleks
2. Riga Industrial Park
3. Nordic Industrial Park, in Olaine
4. PBLC Business Centre
5. Dominante Park
6. Ronu ieleja 2
7. Dommo Biznessa Parks
8. Eirtel Business Park
9. Rolands S Warehouse Complex
10. Wellman Logistics Centre
11. Lauki Warehouse Complex, New Building
12. Olaines Logistic Park
13. Berli Logistics Centre
14. Ellipse-BLC
15. Nordic Technology Park
16. Abava Biznessa Parks
17. Ulbrokas 38 Warehouse Complex
18. IZoterms
19. DLW
20. NP Business Centre
21. Man Tess
22. Baltkors, I and II phases
23. Avers Centrs Logistic Park
24. Maykel Business Park
25. System Logistics
26. Atlas Logistic Centre
27. Granita Industrial Park
28. DSV Transport
29. Maxima Latvia Logistic Complex
30. Rimi Administrative and Warehouse Complex
31. DHL Logistic Centre
32. Sanistal Retail and Logistic Centre
33. Beverages Latvia Warehouse in Marupe
34. Baltijas Industrialais Parks
35. Iiron
36. BLPT
37. Kreiss Transport
38. Reaton Logistikas Centrs
39. Coca Cola Logistics Complex
40. Glasiek Industrial and Warehouse Building
41. Vollers Riga
42. DB Schenker Logistic Centre
43. LE/Rom Business Centre
44. Veju Roze
45. NP Jelgavas Biznessa Parks
46. Balt Cargo Solutions
47. UA Investor

Projects under Development
1. Polipaks
2. BLS
3. VGP, phase I
4. Plienciema 16
5. Lexel Fabrika
6. Frigo Terminal
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