

Q3 2011

BPT Baltic Opportunity REIF Quarterly Fund Report



- Takeover of Lincona office complex completed
- Focusing new investments in A-class office and retail assets
- Next closing for investors in December

COMMENTARY

BPT Baltic Opportunity Fund (REIF) is a direct real estate fund investing in commercial properties in the Baltic States (Estonia, Latvia and Lithuania) focusing on the capitals and other areas with a catchment population of +50,000. The Fund targets institutional investors and should be seen as a medium term opportunity investment with a corresponding risk.

FUND PERFORMANCE SUMMARY

The Fund's performance is currently related to the performance of the first and only investment in the Fund - the Lincona Office Complex in Tallinn, Estonia, a home for Swedbank's back office operations.

Rental income from tenants during August and September was as expected, and there still remains approx. 657 m² of vacancy (5.8% of total NLA) on the 2nd floor of the building. As was agreed in the sales agreement, the Seller's cash guarantee covers the rent from the vacant space, if needed, until the end of 2012.

As the first investment is generating good cash-flow, the Fund's NAV has now passed the downswing of the J-curve and resulted in EUR 100.29 per unit at the end of September – a 0,6% increase from last month. The running net yield based on actual August and September financial results of the Lincona office complex was 8.45%.

ACTIVITIES OVER THE QUARTER

The final closing of the Lincona office complex took place on the 20th of July 2011 at the notary and new ownership inscription was made in the land registry on the 1st of September.

The focus in the third quarter has been on taking over the property and getting acquainted with the tenants while also renting out vacant premises. In September, the team was successful in renting out 158 m² of showroom space to AS Suwem, a successful producer of children's furniture. The new tenant complements well the already existing Baby Center store in the complex, widening the variety of children's merchandise offered at the location.

Fund Performance

NAV per share	EUR 100.29
Latest dividend per share	n/a
Total return since inception	n/a
Return since inception annualised	n/a

Portfolio

Target number of properties when fully invested	15-20
Target gross property value when fully invested	EUR 5-50m
Occupancy ratio (quarter average)	100%

Fund facts

Fund inception	December 2010
Expected exit	2015 with a possible 2 year extension
Status	Closed-end, open for investments
Target share capital	EUR 100.0m
Investment capacity	EUR 200.0m
Gross property value	EUR 15.4m
Loans	EUR 7.7m
Loan to value	50%
Interest coverage	250%

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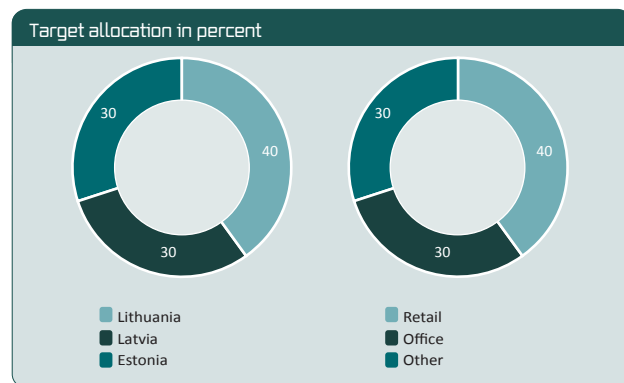
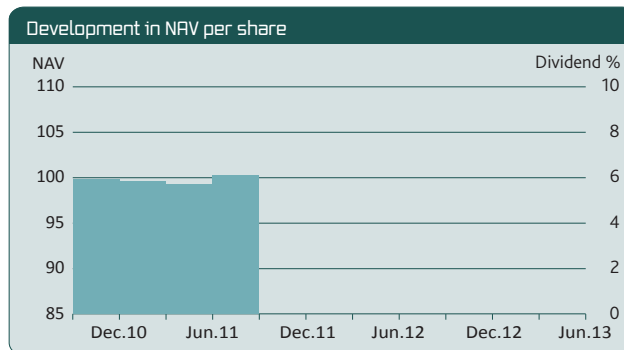
Lincona office complex, Tallinn Estonia

The other medium-term plan of the property management team is to rent out parking places in the parking house. Since the acquisition, the team was successful in renting out 8 places to the tenants working in the Lincona complex and in the surrounding buildings. Furthermore, rental income from some areas has slightly increased due to indexation of rents based on the agreed terms in the agreements. With the first investment completed, the management team continues to screen the markets for good investment projects in order to build a portfolio of sustainable and well diversified properties. Furthermore in Q3, the fund management team was pleased to note strong interest towards the fund from large scale international investors and is hopeful on getting the fund fully subscribed by Q1 2012.

MARKET OUTLOOK

The Baltic countries have strongly recovered from a deep recession generated by the excessively leveraged households, the asset-bubbles and the reduced domestic competitiveness that prevailed during the third quarter of the last decade. When the crisis hit, harsh budget cuts were effected by governments and after the ruthless drop of domestic market demand, companies had to abruptly realign their sales strategies. Just like following the collapse of the Russian export market in 1998, ten years later the Baltic companies again had to aggressively fight for survival and find new target markets where to sell their products. Renewed focus on efficiency and closeness to the strong Nordic markets has been the main reason of the quick Baltic recovery from early 2010, especially in Estonia. In general the success of the recovery of each Baltic nation has been directly correlated to the success of its main trade partners.

Hitherto, exports have been the single most important growth engine in the Baltics, but domestic demand is seen to slowly increase in importance, despite the above average inflation seen over the past 12 months. Lately however, the exploded Greek sovereign debt crisis has strongly affected the confidence of both businesses and households. Even though that the sentiment in the Baltics remained cautiously optimistic in Q3 and that the confidence levels decreased relatively less than in Western-European countries, the global economic slowdown is expected to have its effect also in the Baltic region in 2012, the extent of which is currently unknown. All in all, the Baltic region's competitiveness has improved and its internal imbalances have been solved creating a solid base, thus the region is expected to continue its progress up the economic ladder and do so faster than its peers in Old Europe.



Target allocation reflects the fund once it is fully invested.

Fees	
Management fee	1.9% of NAV per annum
Incentive fee	20% above a hurdle rate of 11% return on paid-in capital

The office vacancy in Baltic CBDs has been decreasing gradually but surely since 2010 and was in September 2011 estimated by Newsec to be 5-7% with available leasable areas normally not exceeding 300 m². This has put new development projects back on the table. Still, given the late increase in construction prices, the level of market rent is not at the level where it is profitable to develop. The new supply in CBDs has to wait either until construction prices settle downwards or market rents upwards presuming also further increase in business confidence and demand.

The retail market in the Baltic countries has shown stable signs of recovery since the middle of 2010. The previous fall in retail trade turnover came to a halt in early 2010 and turnover has increased steadily from the start of 2011. With gradually increasing wages and slowly diminishing unemployment in the Baltic countries, private consumption is on an upward trend throughout 2011, although retail sales remain modest compared with activity before the financial crisis. With regards to retail investments, single tenant supermarket projects have proven to be excellent providers of stable cash-flows in the fluctuating and uncertain market environment, however, strategically positioned multi-tenant shopping centers is where the upside may lie as the domestic demand continues to increase.

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