

MARKET COMMENTARY

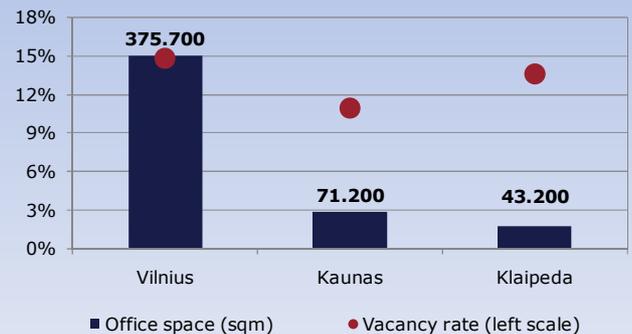
The first quarter of 2009 was one of the worst periods in the market of commercial property in Lithuania over the past 10 years. Even during the 1999-2002 drop in the real property market caused by the crisis in Russia, there was no instance of such sharp changes in prices.

The modern office market is currently experiencing the major problem of an extremely large amount of offices to let and a daily decrease in demand for such premises; the majority of companies are not considering an expansion, but a reduction in the number of employees and office area. The situation is particularly complicated and offers no hopes in the modern office market **in Vilnius**, where the supply of modern offices between 2007 and 2008 increased by as much as **65%** (from 219,000 m² to 360,000 m²) and at least another 80,000 m² should be built by the end of 2009. The situation for property owners in Vilnius is therefore currently becoming unenviable; the record high supply is facing not demand as planned earlier, but on the contrary, the economic slump in the country and the tenants' wish to reduce the area of office premises leased. Property owners in Klaipėda and Kaunas have encountered the same problems, even though the supply of office premises in those cities is **5-9 times** smaller than that in the capital city. Rental prices for modern offices (Class A and B) in **Vilnius, Kaunas, and Klaipėda** in Q1 2009 went down an average of **20-25%**.

Even the rapid reduction in rental prices is not improving the occupancy levels of buildings, which are rapidly getting worse. In Q1 2009, the vacancy level of modern office premises increased from **10%** to **14.8%** in **Vilnius**, from **9.2%** to **10.9%** in **Kaunas**, and from **6.8%** to **13.6%** in **Klaipėda**. As a result, at the end of March 2009, there were around **7,700 sq. m** of office premises vacant in **Kaunas**, around **5,900 sq. m** in **Klaipėda**, and over **55,000 sq. m** in newly built and functioning office buildings in **Vilnius**. In view of this situation, the successful completion of the majority of construction projects in progress is hardly plausible. It is likely that this year the projects that are close to completion will be finalised, whereas the fate of newly started or half-completed projects is gloomy.

The market of retail property saw the largest reduction in rental prices for premises in the main retail streets of cities. The prices for the rent of such premises in Q1 2009 went down an average of **15-20%** in **Vilnius, Kaunas, Klaipėda, and Panevėžys** and around **30%** in **Šiauliai**. Since the supply of premises at shopping centres in Šiauliai went up as much as **39%** after the opening of **Akropolis**, this change in prices was forecast in advance. Today, Šiauliai has an impressive **954 sq. m** of retail space at shopping centres per thousand inhabitants.

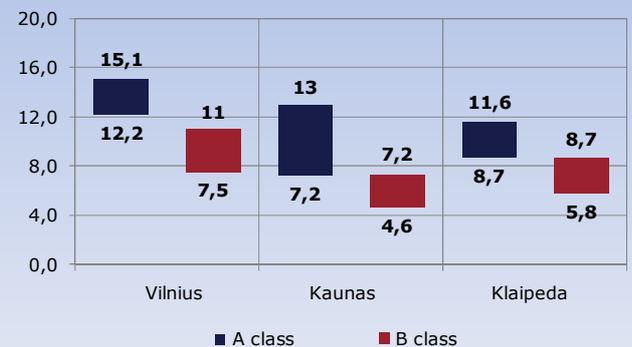
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q1 2009

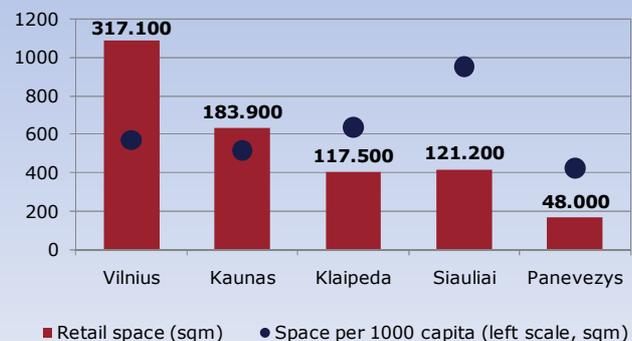
Modern office rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q1 2009

Shopping centre stock (over 5.000 sqm GLA and over 10 tenants)



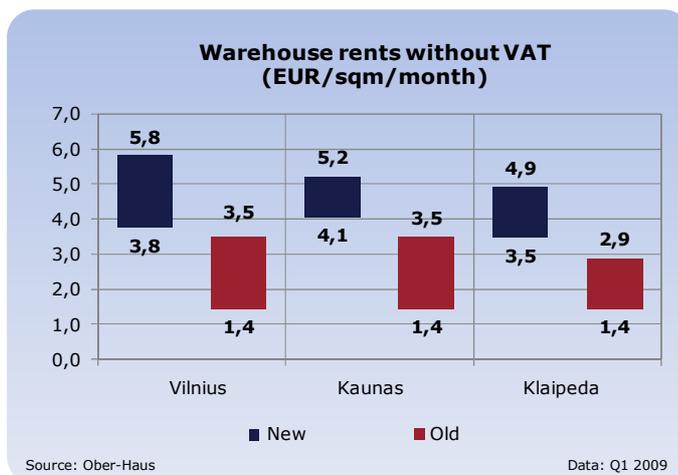
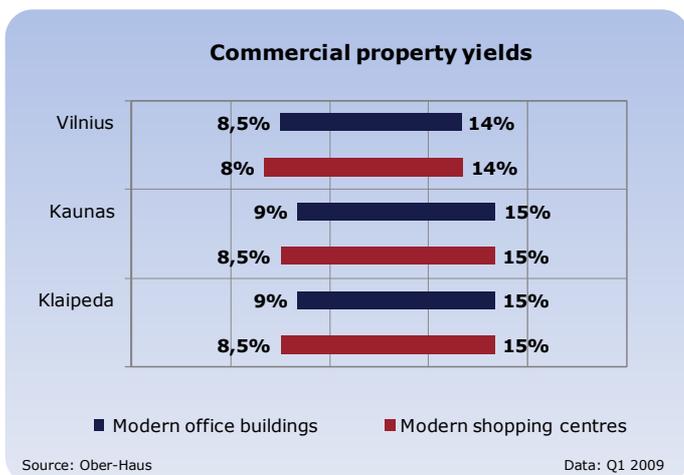
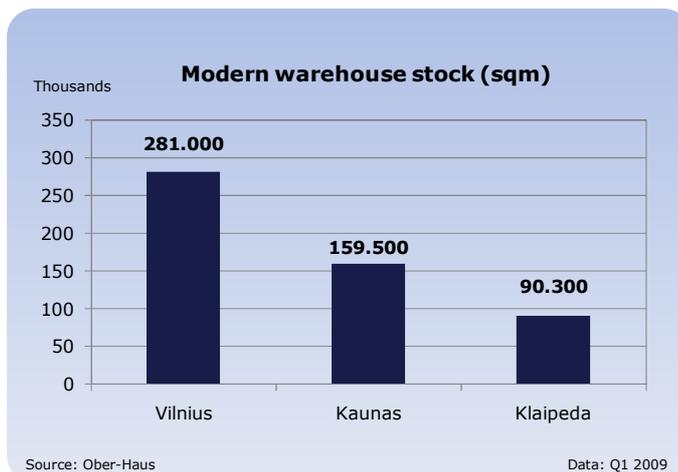
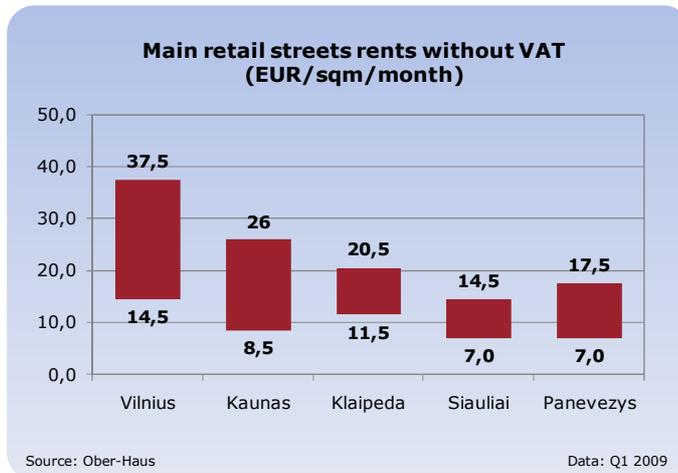
Source: Ober-Haus

Data: Q1 2009

Lithuanian Commercial Real Estate **MARKET COMMENTARY** **Q1 2009**

Even though the shopping centres are winning the competition against the retail streets of cities, managers of shopping centres are being forced to reduce rental prices or correct the conditions of rental contracts for the benefit of the tenants. Rapidly decreasing retail turnover makes tenants particularly active in negotiating with the managers of the premises regarding better rental conditions and prices. Even though the major part of shopping centres in Lithuania are fully let, owners wishing to prevent empty shop windows in their projects must put up with present-day realities and consider the tenants' wishes. It is expected that in the near future the dialogue between the lessors and lessees will become sharper and more complicated.

Large investors watching the rapidly deteriorating situation in the office, retail, warehousing, and hotel markets in Lithuania are not making any overt moves. Even though profitability ratios over the past 15 months have risen by at least 2.5-4% (theoretical yield of the projects currently of interest to investors in large cities in Lithuania this year starts at **8%** [compared to **6%** at the end of 2007] and for less attractive properties reaches **10%-15%**), even these changes are failing to attract potential buyers who understand that rental contracts for most of the projects on offer were signed when prices peaked and even the best prepared contracts do not guarantee the income specified in the contract in view of the difficult economic situation in the country and contradictory development prognoses. It is therefore most likely that in the near future potential investors will only observe our market and wait for at least some signs of stability in the economy and the prices of individual property segments.



If you wish to receive any additional information about development of the real estate market in Lithuania, Latvia, Estonia and Poland; or you would like to order a special report on the part of the market relevant to you or the market of the project in progress, please contact UAB Ober-Haus real estate market analysts.

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