

Lithuanian Commercial Real Estate

Q1 2014

MARKET COMMENTARY

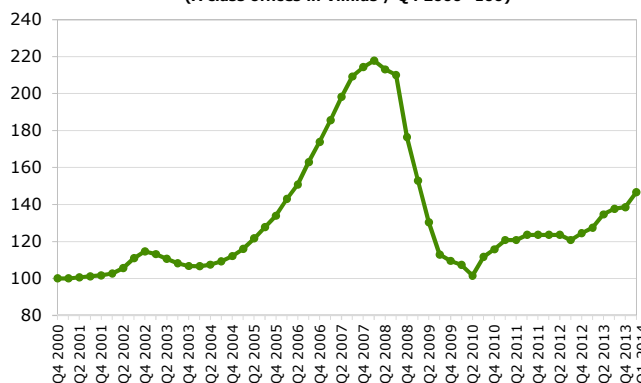


The country's growing economy continues to support the Lithuanian commercial property market, which can boast of sustainable growth and further development prospects. Rising commercial property rents and occupancy rates over the past few years have attracted both large and individual private investors. Higher quality property located in attractive locations of the capital city with high quality and more interesting exterior features (new or historic buildings), functional layout and prospects of a growth in value is of greatest interest. High-quality property is attractive for safety of investment. This is one of the most important criteria for large foreign investors seeking to avoid major risks in markets that they are not familiar with. Meanwhile, investors who know the local market are looking for various investment opportunities, including commercial property which is not of particularly high quality (B class business centres or shopping centres located in cities other than the capital).

Analysis of changes in the capital value of commercial property shows that the theoretical value of investment has been steadily growing since mid-2010, i.e. from the time when the market was at rock bottom. The capital value index shows the value of the investment at a certain moment, which is estimated by taking into account the rent and yield indicator. Rapid growth of commercial property rents and decreasing yields increase the capital value. For example, since mid-2010, A class office rents in Vilnius have already increased by 22% on average, while the yield over the same period fell by 1.4 percentage points on average – from 9% to 7.6%. Therefore, rental income increased by a fifth and the significantly reduced appetite of investors has, since mid-2010, increased the capital value by 45%. Similar trends can be observed in other regions of the country as well as in other segments of commercial property (retail, logistics), but it is clear that higher-quality property in the capital is recovering its value most quickly. It is likely that this segment will continue to record moderate growth of rental rates and decline in yields, which could slow down unless there is an instantaneous leap in supply or demand eases.

Meanwhile, the results this year continue to boost the mood of real estate market players. During Q1 2014, rents in Vilnius, Kaunas and Klaipėda increased by 2–4%. Currently, A class office rents range from **12.0** to **15.0 EUR/sqm** and B class – **7.8–11.0 EUR/sqm**. Moreover, developers of high-end projects currently in progress in Vilnius expect to lease office premises at **16.0–17.5 EUR/sqm**. If similar price growth trends continue in the capital, such office rents may soon become a reality. The top rents depends on how successful the largest and the highest class business centres Quadrum, K29, PREMIUM, and G12 currently under construction will be in leasing their premises. If the demand for such premises were to fall this year, significant vacancy rates in mid-2015 would force landlords to review rents under conditions of the existing competitive environment.

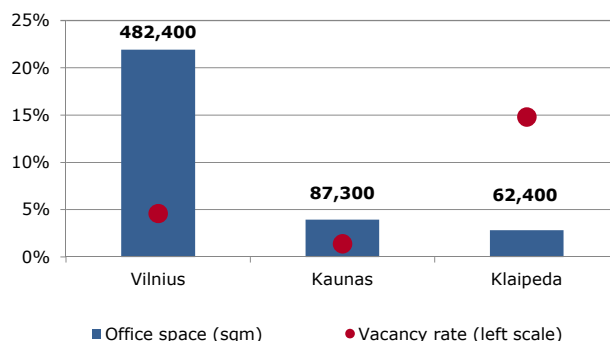
Capital value index
(A class offices in Vilnius / Q4 2000=100)



Source: Ober-Haus

Data: Q4 2000 – Q1 2014

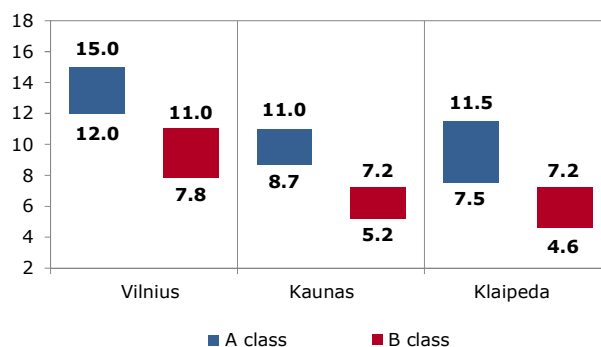
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q1 2014

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



Source: Ober-Haus

Data: Q1 2014

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Meanwhile, in **Kaunas**, rents of A class office premises in Q1 2014 increased to **8.7–11.0 EUR/sqm** and in **Klaipėda** – to **7.5–11.5 EUR/sqm**. B class office rents range **5.2–7.2 EUR/sqm in Kaunas** and **4.6–7.2 EUR/sqm in Klaipėda**.

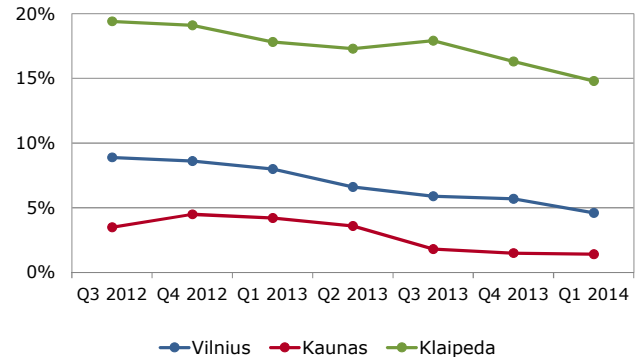
A decrease in office vacancies has been recorded in the country's major cities. In Q1 2014, the vacancy rate in Vilnius decreased from 5.7% to **4.6%** and the area of vacant premises totalled **22,100 sqm**. At the end of Q1 2014, vacancies in A class business centres accounted for only 2.3% (4,400 sqm) and 6.0% (17,700 sqm) in B class office market. A total of 6,800 sqm of office premises were leased in **Vilnius** business centres in Q1 2014 or 14% less than in the same period in 2013. It is likely that the following quarters of the year will bring better results – in the next 3-5 months, at least three new business centres (Grand Office, Baltic Hearts – III stage, and Sonex Consulting/Atea office building) will open in Vilnius. On the opening day of these centres, take-up of modern office premises will be improved, because some of the premises have already been leased.

In Q1 2014, no major changes in supply and demand were observed in **Kaunas**, but the vacancy rate of modern office premises decreased from 1.5% to **1.4%** and the area of vacant premises totalled **1,200 sqm**. In **Klaipėda** the construction of the new 4,500 sqm administrative building of the Passenger and Cargo Terminal (KKKT) was completed. The building will be used for KKKT administrative personnel and passengers; the remaining premises will be leased. The office vacancy rate in **Klaipėda** further decreased from 16.3% to **14.8%**, yet the overall vacancy rate remains the highest among the major cities of Lithuania. The area of vacant premises in modern business centres of Klaipėda totals **9,200 sqm**.

The biggest news at the beginning of 2014 in the retail property sector was the opening of the 7,500 sqm shopping centre DomusPro on Ukmergės Street in Vilnius. The opening of this shopping centre marks the completion of the acquisition transaction announced by the investment fund BPT Baltic Opportunity Fund (now Northern Horizon Capital) and the developer of shopping centre TK Development A/S in August 2013.

A growth in retail sales continues to be recorded in Lithuania; in January-February 2014, as compared to the same period in 2013, it was 5.3%. Increasing company turnovers directly determine rents of retail premises, which will continue to grow moderately. In the shopping streets of **Vilnius, Kaunas, Šiauliai** and **Panevėžys**, a **4–6%** increase in rents of retail premises was recorded. Rents of average size (about 100-300 sqm) retail premises in the main shopping streets of **Vilnius** are currently about **16.0–40.0 EUR/sqm**, **9.0–19.0 EUR/sqm in Kaunas**, **7.5–13.0 EUR/sqm in Klaipėda**, **5.2–10.0 EUR/sqm in Šiauliai**, and **4.3–10.0 EUR/sqm in Panevėžys**.

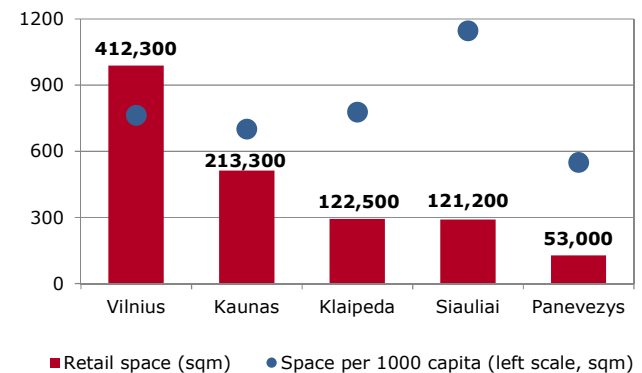
Modern office vacancy rate



Source: Ober-Haus

Data: Q3 2012 - Q1 2014

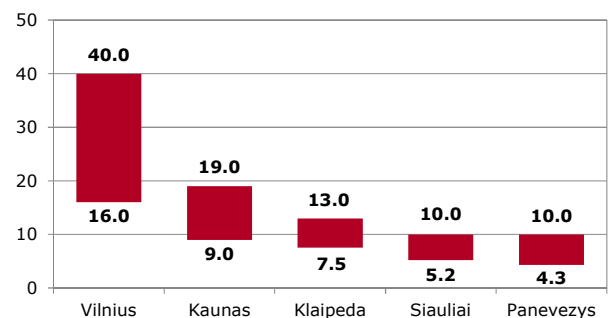
Shopping centre stock (over 5,000 sqm GLA and over 10 tenants)



Source: Ober-Haus

Data: Q1 2014

Main retail streets rents (for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q1 2014

When using the survey data, a reference to **Ober-Haus Real Estate Advisors** is required.

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 Ober-Haus real estate market analysts.

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