

MARKET COMMENTARY

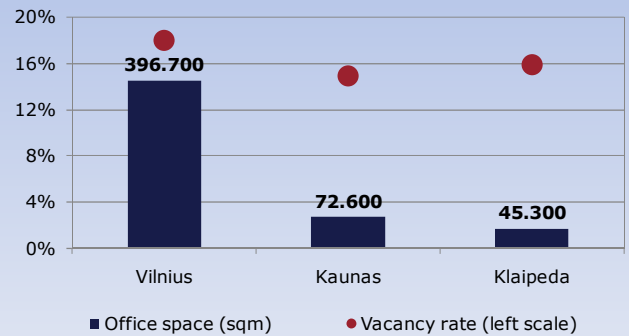
The second quarter of 2009 did not bring any big surprises in the Lithuanian commercial property market. In this quarter, lease and sales prices for commercial premises continued to drop rapidly, the number of vacant premises increased, and the disconsolate economic forecast for the country wrecked the short-term prospects of this sector and the expectations of its participants. Currently, all segments of commercial real property (office, hotel, retail and warehousing) face problems, but the owners of office and hotel buildings and premises are in a particularly difficult situation.

Rapidly decreasing numbers of both domestic and international tourists are having a significant negative influence on the occupancy indicators of hotels and other agencies providing accommodation. These indicators cannot be improved even by considerably reduced prices for accommodation services (on average **20 – 30%** since the beginning of 2009). The rise in VAT for this type of business during this hard period and the current real property tax aggravate the opportunities to operate in this sector even more. It is therefore hardly surprising that many representatives in this sector are using all measures possible to draw the attention of the government to their problems and even are looking for opportunities to withdraw from this business.

The sector of office premises has also found itself in an unenviable position, because the supply of premises is still rising by inertia, whereas demand is slowly dropping. As a result, in Q2 of 2009, office rents were rapidly falling and the rate of vacancies was rising. During this period, rents for class A and B office premises in **Vilnius, Kaunas** and **Klaipėda** on average dropped by another **15 – 20%**, which makes a drop of as many as **35 – 40%** since the beginning of 2009. Today, therefore, the level of rents for modern office premises is historically at the lowest point throughout the entire period of the development of the modern office market. At present, rents for Class B and A offices amount to **7,2 – 13 EUR/sqm** in **Vilnius**, **3,5 – 10,7 EUR/sqm** in **Kaunas**, and **4,3 – 11,6 EUR/sqm** in **Klaipėda**.

At this time, the owners of office buildings must put up not only with rapidly dropping rents, but also with the increasing vacancy rate. In Q2 of 2009, the vacancy rate for modern office premises went up from **14,8%** to **18,0%** in **Vilnius**, from **10,9%** to **14,9%** in **Kaunas**, and from **13,6%** to **15,9%** in **Klaipėda**. At the end of June 2009, vacant office premises in office buildings built and operating amounted to about **10.800 sqm** in **Kaunas**, around **7.200 sqm** in **Klaipėda**, and over **71.000 sqm** in **Vilnius**. It is likely that these indicators will not stop growing because there are almost no new or expanding companies, and the supply of premises keeps growing at the expense of the projects that were started in 2007 - 2008. Although the cities of **Kaunas** and **Klaipėda** cannot boast of the affluence of completed projects or projects in progress, the modern office market in **Vilnius** has apparently got enough floor area for several years ahead. In the first half of 2009 alone, **35.000 sqm** of the office floor area to let was built in the capital of Lithuania, and another **50.000 sqm** was planned to be completed before the end of the year.

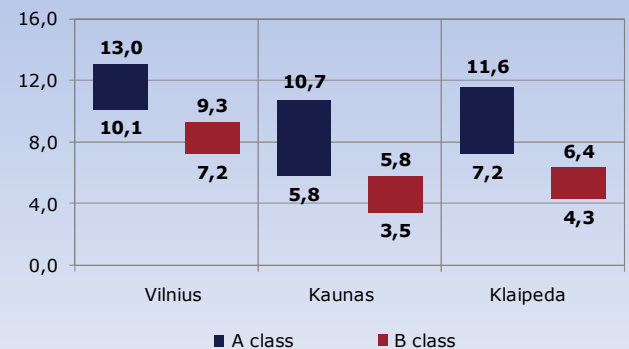
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q2 2009

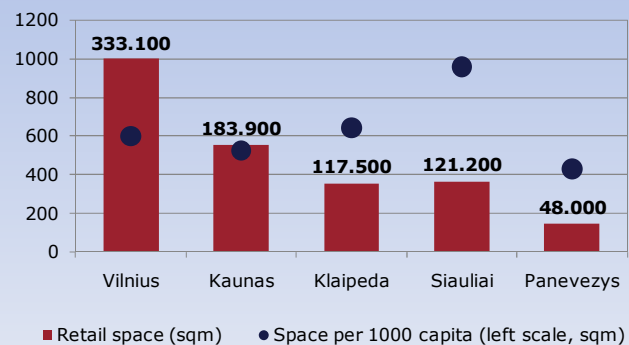
Modern office rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q2 2009

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



Source: Ober-Haus

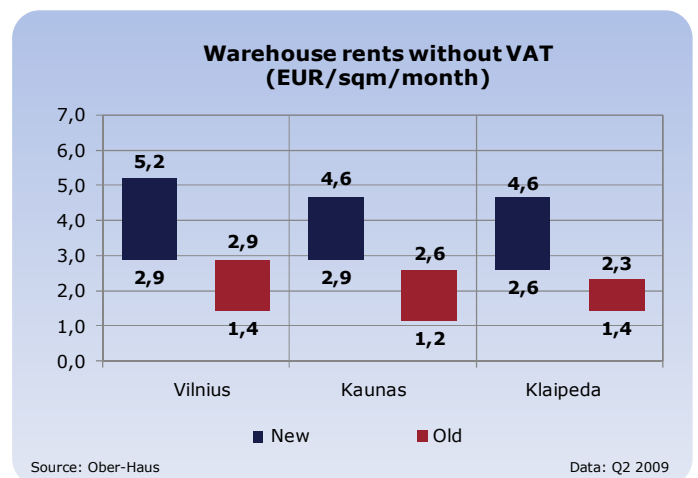
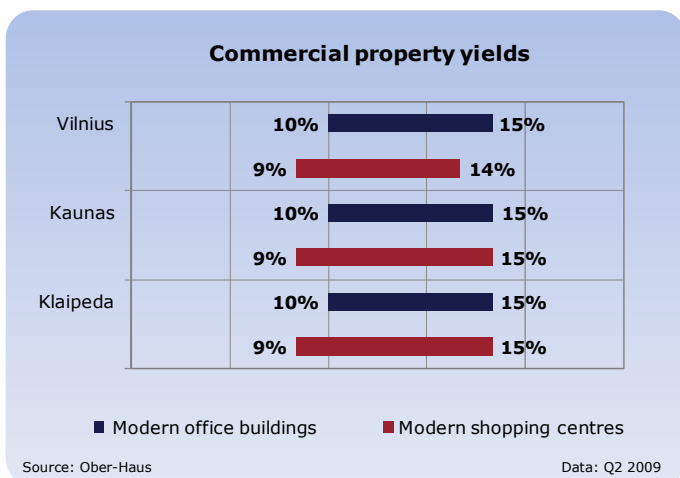
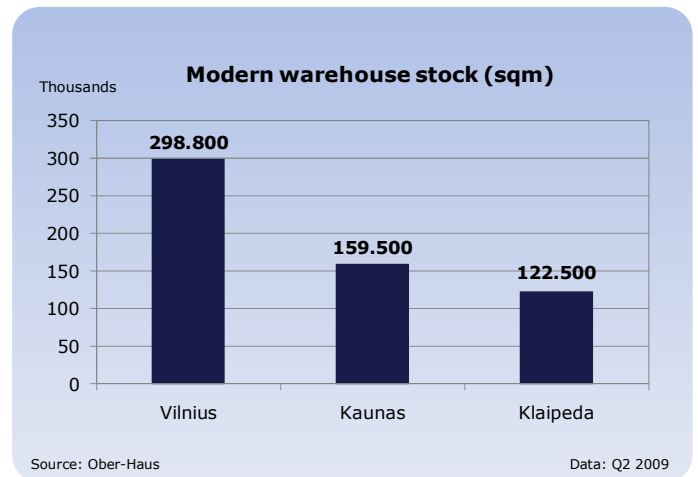
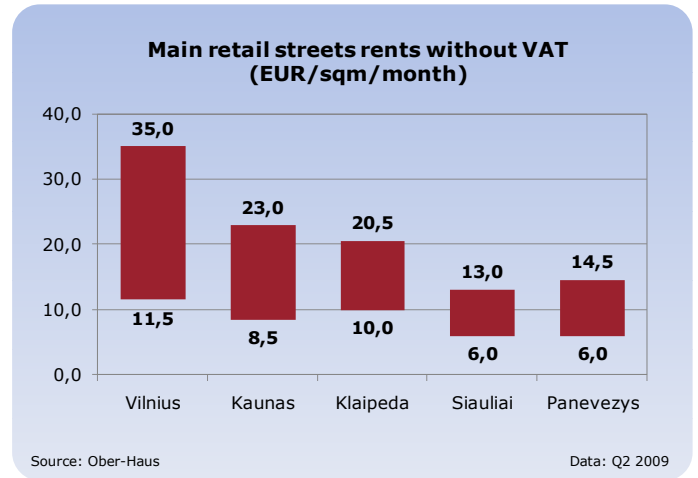
Data: Q2 2009

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However, these figures are unpleasant to the owners of office buildings, since the current amount of vacant office premises in Vilnius equals the total floor area of modern offices available in Kaunas... Therefore, in the current situation, companies have a really good opportunity to rent or purchase modern office premises in any part of the city at a record low price.

The owners of trade premises must also make considerable discounts for tenants, since due to the sharp drop in trade turnover tenants are forced to negotiate a reduction in rents with the owners of the premises. Yet even after having reduced rents, the owners are not guaranteed that the same tenant will not ask for a further reduction after a few months. Due to a sharp decline in the turnover of retail companies since the beginning of 2009, rents for retail premises have gone down by **20 – 50%**. The most considerable decline has been recorded in the retail shops located in the shopping streets of the cities, with the smallest drop in the most popular shopping centres, which can guarantee a steady flow of shoppers and a more balanced turnover for retailers.

Even in the hard times, new retail units are being opened in various towns across Lithuania. In **Klaipėda**, *Bauhof* opened its fifth shopping centre of building materials and gardening products, and a shopping centre, *Herkaus Galerija*, was opened in the centre of the city. Another shopping centre with a total floor area of 4.000 sqm is being built in Klaipėda in Liepojos Street and will open at the end of this year. In Savanorių Avenue in **Vilnius**, the shopping centre *N BAZĖ* with the total floor area of 18.000 sqm was opened. Half of the floor area is taken by a NORFA shop. We are also looking forward to the opening of the shopping and leisure centre *Ozas* scheduled for the end of summer this year. Competition with other shopping centres in these hard times will become a real challenge for this shopping and leisure centre with a total rented floor area of 62.000 sqm, and we will soon be able to witness whether this project has been implemented at the right time and place.



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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