

MARKET COMMENTARY

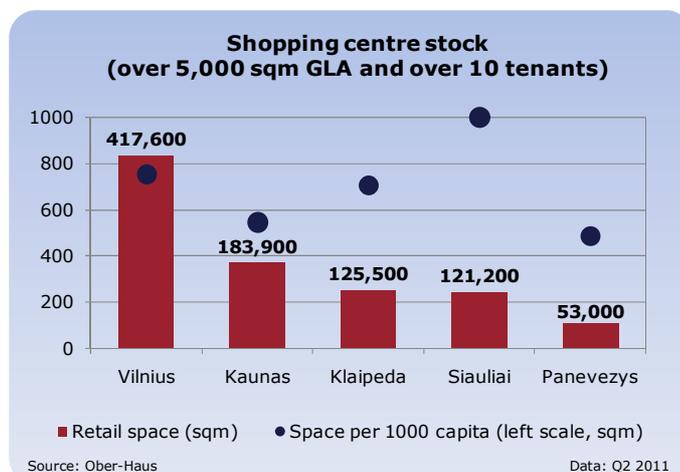
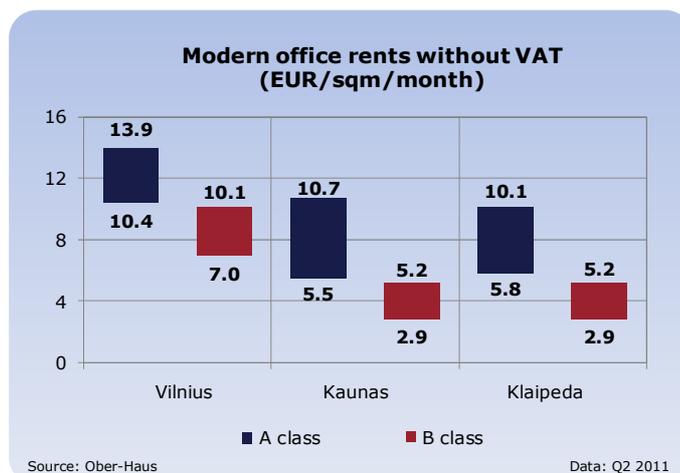
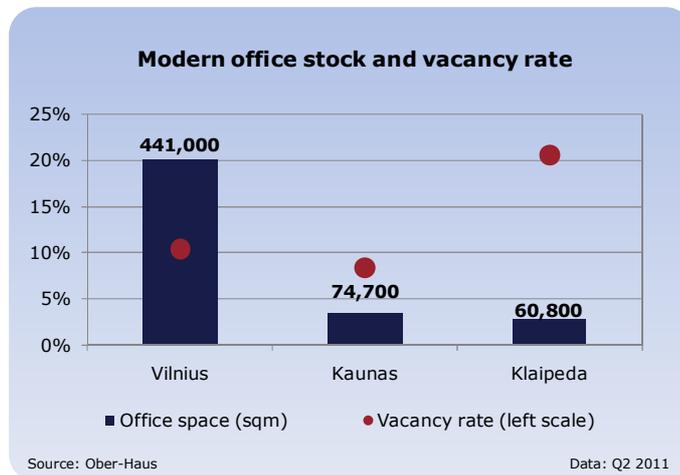
As could have been expected, the situation in the commercial real estate market in Lithuania over Q2 2011 did not change considerably. The development of commercial property remains sluggish and has still not gained momentum, whereas demand remains stable. Therefore, evaluating the current activity of the market, we dare state that the present situation in the market is balanced. I.e. both buyers and tenants have indeed a wide selection and the odd new project has essentially no significant effect on the supply of commercial premises.

After a two-year break the warehousing and logistics sector has finally seen some positive developments. Between 2009 and 2010, this commercial property sector could not really boast of any positive changes, but only saw record low sale and rental prices, as well as frozen new projects. However, the recovering export market of the country was cause for optimism for market players. According to the Department of Statistics of Lithuania, corporate earnings of companies providing warehousing- and transportation-related services, increased by as much as 52% in 2010 (revenues from the sale of warehousing and storage services alone increased by about 35%) compared to 2009.

Because of these positive changes in the transport sector, companies have more bravely ventured into further property development projects. As a result, in Q2 2011, construction of two new, modern warehouses was finished. To the southwest of Vilnius (Sausupio Street) a new building with a warehousing area of around 12,500 sqm was built. The total area of modern warehouses in Vilnius District, after a nearly two-year break, has therefore reached around **347,000 sqm**. In Širvintos District (near Maišiagalai), a modern pharmaceutical warehousing and logistics centre was opened offering a storage area for medicinal products of around 8,000 sqm. Although these are the first projects implemented after a long break, their development is based on satisfaction of own rather than market needs. I.e. only a part of these premises is intended for rent. Record low warehousing rent and sale prices, a reasonable selection of vacant premises, and too small internal consumption do not yet encourage developers to engage more actively in projects intended for the market only. In the near future we should find out whether developers believe in the market recovery and whether they will start development of those projects.

Record low rents for warehouses, which have continued for a long time, have increased slightly. In Q2 2011, rents of both old and new warehouse premises in **Vilnius, Kaunas and Klaipėda districts**, on average, increased by about **5%**. At the moment **in Vilnius**, rents for new storage premises are **2.9–4.3 EUR/sqm** and old ones for **1.2–2.3 EUR/sqm**. In **Kaunas and Klaipėda**, rents for new storage premises are **2.3–4.1 EUR/sqm** and old ones – **0.9–2.3 EUR/sqm**.

In Q2 2011, there have been no major changes in the modern office premises sector. Statistically, an increase in the office vacancy rate from **10.2% to 10.4%** (8.0% – Class A and 12.1% – Class B) has been recorded in Vilnius for the second consecutive quarter; altogether there are **45,800 sqm** of vacant premises.



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Although the area of vacant premises has increased slightly, given the fact that no new office projects came on the market in Vilnius, this is an indication of the continuing weak demand. I.e. despite the country's recorded economic growth, local companies still refrain from development or try to cut costs opting for cheaper premises rather than those located in modern business centres, and that no larger foreign companies have been attracted to. **In Kaunas**, meanwhile, the total vacancy rate for modern office premises fell from **9.1% to 8.4%** and the available vacant area now stands at **6,300 sqm**. The rather low vacancy rate and its further decline is attributable to the slow development of this sector in the past which lead to better statistical indicators compared to other major Lithuanian cities. Although, there was a decrease in the vacancy rate of modern office premises from **23.8% to 20.6%**, **in Klaipėda** in Q2 this year, the vacancy rate nevertheless still remains high and the number of vacant premises is twice as high as that of the much larger city of Kaunas.

The remaining rather significant amount of vacant premises area does not allow office holders to increase either the rent or sale price, so no changes were recorded in Q2 this year. The rent for Class A offices in Vilnius ranges from **10.4 to 13.9 EUR/sqm** and Class B – **7.0–10.1 EUR/sqm**. In Kaunas and Klaipėda, office rents remain similar: Class A – **5.5–10.7 EUR/sqm** and Class B – **2.9–5.2 EUR/sqm**. This situation in the market does not encourage builders, who are obviously reluctant to start or resume suspended projects. It is obvious that the current price level, remaining vacancies, and growing construction costs cannot ensure the success of future projects. Therefore as long as some market players continue only with the completion of projects in progress, others will have to wait for pre-lease agreements (most likely not from local companies) to allow them to begin new construction projects.

Even though the active development of the retail premises sector is a distant prospect, stronger market players however continue with small, but targeted development plans. In Q2 2011, two shopping centres of the Maxima XX format were opened in Vilnius (in Pilaitė and Žirmūnai). A Norfa XXL format supermarket opened in Kaunas, which is predominantly occupied by a food and goods store. These are small shopping centres (4,000 - 4,500 sqm) and are mostly intended for people living nearby. In Panevėžys, a home improvement and builders' providers centre Moki-Veži with a total area of about 6,000 sqm was opened (the second one in this city). Considering the stable situation in the retail premises market, stronger market players will continue to strengthen their positions by developing small size (up to 5,000 sqm) shopping centres and will postpone implementation of any major projects for an indefinite time.

Given the existing trends in the commercial property market, it is likely that the commercial sector will continue to remain stable for the next 12 months. Considering the forecasts for the country's economic development, it is hardly possible to expect a very rapid growth in demand and, simultaneously, higher supply, particularly in view of those few new projects in progress. Major players today seeing the much more rapid recovery of the housing market, focus more on residential property development as well as on the maintenance and effectiveness of the operations of already built and operating commercial objects.

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.

Saulius Vagonis, Valuation and Market Research Group Manager
Tel.: +370 5 210 97 17, e-mail saulius.vagonis@ober-haus.lt

