

MARKET COMMENTARY

Compared to the previous quarter, no major changes were observed in the sector of Lithuanian commercial premises in Q3 2009. The same trends—decreasing prices and an increasing area of free premises—that have dominated since the middle of 2008 remained in the market.

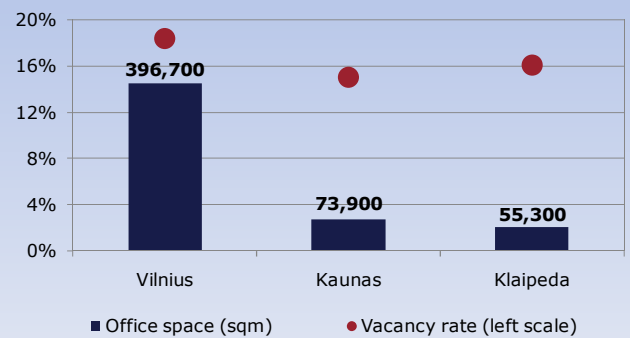
The decrease in rents of modern office premises observed in Q3 2009 is less significant than it was in the previous quarters of this year. In this period, rents of A and B class office premises in **Vilnius**, **Kaunas** and **Klaipėda** on the average again slumped **5-7%** while since the beginning of 2009 the rents of office premises went down **40-45%**. The current level of rents for modern office premises is the lowest within the entire market development period of modern office premises, i.e. since 1998. Now A and B class office rents are **6.4–12.2 EUR/m²** in **Vilnius**, **3.5–10.7 EUR/m²** in **Kaunas**, and **4.3–11 EUR/m²** in **Klaipėda**.

The vacancy of office premises remained nearly the same compared with the previous quarters of this year. In Q3 2009, the vacancy rate of modern office premises grew from **18.0** to **18.4%** in **Vilnius**, from **14.9** to **15.0%** in **Kaunas**, and from **15.9** to **16.1%** in **Klaipėda**. The major reason for such small changes in the vacancy of office premises was that no new business centres were opened in Q3 2009. In addition, the current level of rents in business centres seems very attractive to companies that plan to occupy or to renew their rental agreements in such premises. In the Q4 2009, there are plans to open two big office buildings on the right bank of the Neris River in Vilnius: the *Green Hall Business Centre* and the *Swedbank Administrative Building*. Even though these buildings will increase the supply of modern office area in **Vilnius** nearly **8%**, they will not have a significant effect on office occupation indicators.

After the completion of two new *Ogmios Group* projects (*Vilija* and the second stage of the *Airport Business Park*) in Q3 2009, the supply of modern warehousing premises increased nearly **12%** in Vilnius and currently reaches **334,400 m²** of the rentable area. Nevertheless, these new projects did not increase the excess supply in the Vilnius market. Premises of both projects are fully rented pursuant to rental agreements made in advance. The reduction in rents for both new and old warehousing premises continues, however. Since the beginning of the year, prices for warehousing premises dropped **20-25%** in **Vilnius**, **Kaunas** and **Klaipėda**, and the current level of rents has reached the level of 2003. Rents of new warehouses in **Vilnius**, **Kaunas** and **Klaipėda** are similar and reach **2.6** to **4.9 LTL/m²**, while rents of old warehouses are **1.2** to **2.3 LTL/m²**.

Negotiations between the owners of retail premises and their tenants regarding a reduction in rents or even termination of agreements still continue in the sector of retail premises. Even previously reduced rents have not saved a majority of the tenants of retail premises since the indicators of their activities have got worse and worse.

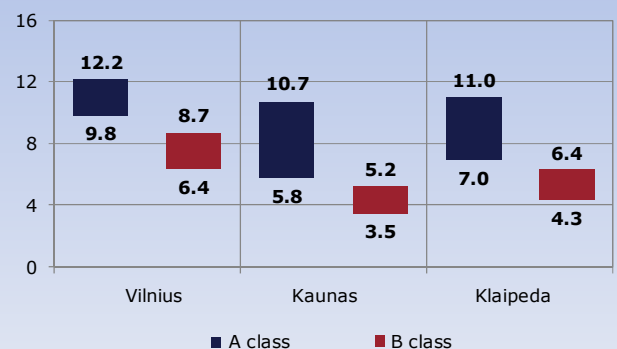
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q3 2009

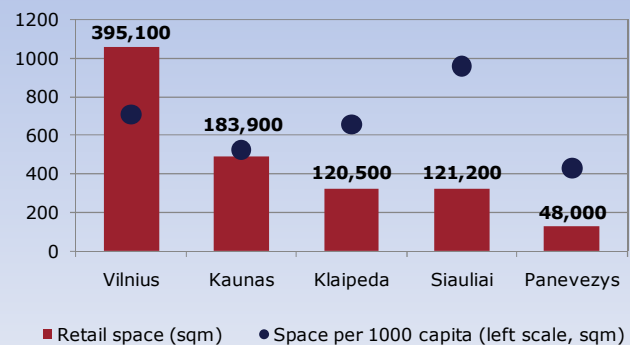
Modern office rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q3 2009

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



Source: Ober-Haus

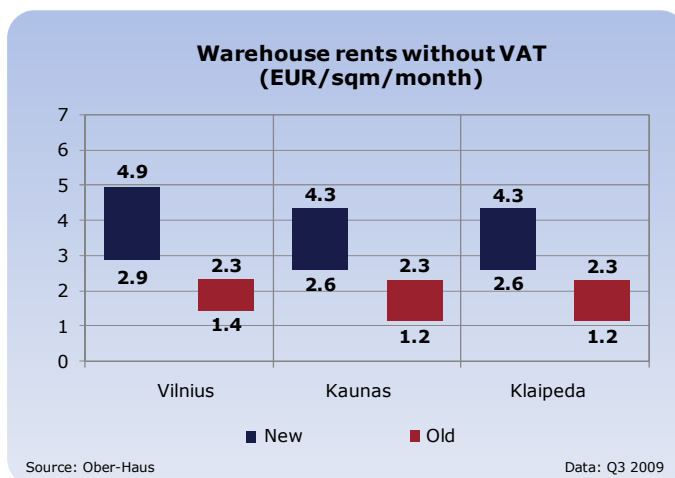
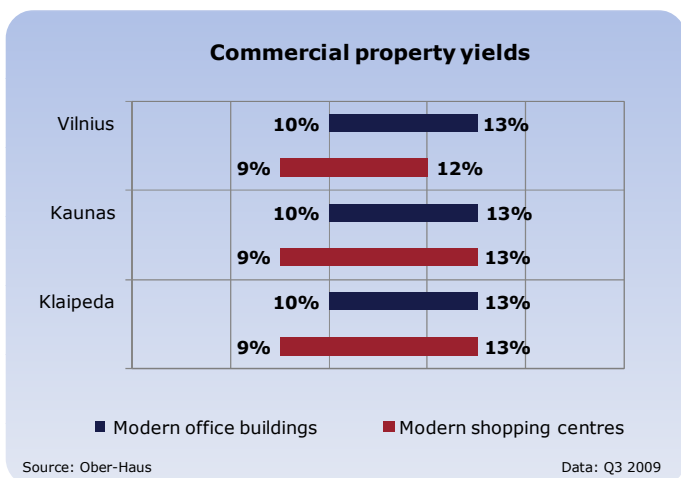
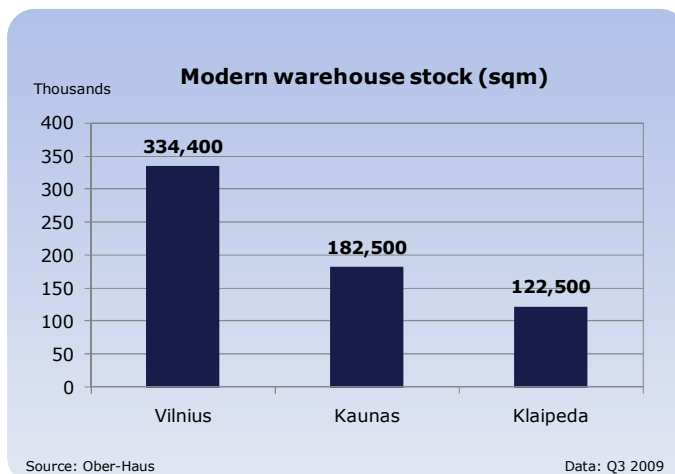
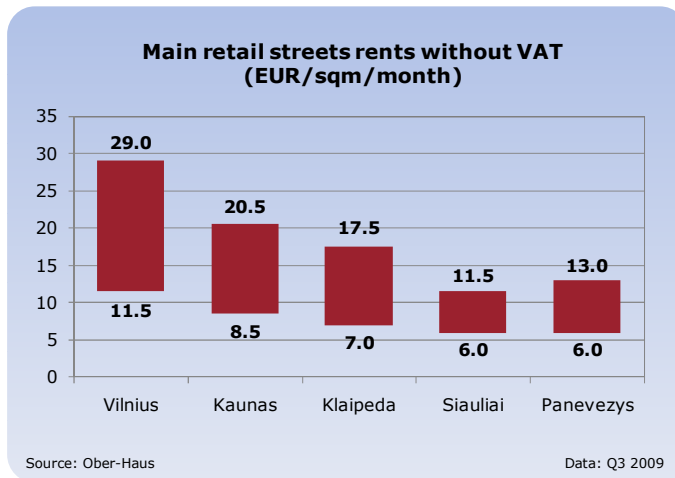
Data: Q3 2009

Lithuanian Commercial Real Estate **MARKET COMMENTARY** Q3 2009

Owners of individual retail premises and shopping centres are in a complicated situation since significantly decreasing rents markedly change cash flows planned in advance. While adapting to the changing situation, owners of retail premises are forced not only to negotiate reductions in rents but also to seek tenants for free premises or even to think about a possible correction in the concept of shopping centre.

As was planned, Ozas, the second largest (by leasable retail area) shopping and entertainment centre in Vilnius, opened its doors in August 2009. **Šiauliai** still holds the leading position by area of shopping centre per city resident—**960 m²** per 1,000 residents. After the opening of Ozas, **Vilnius** took second place (outrunning **Klaipėda**), and currently 1,000 Vilnius residents have **708 m²** of shopping area. The remaining large cities in Lithuania rank as follows: **Klaipėda, Kaunas and Panevėžys (657 m², 522 m², and 426 m²)**. This ranking should be maintained for several years since large construction projects that could change the existing situation will hardly be launched in the near future.

When analysing the trends of Q3 2009, the conclusion could be drawn that rents and sale prices for commercial premises have reached the bottom. Rents and sale prices in all segments slumped below the level of 2003. The main economic indicators of the country also decreased to the level of 2003–2006. Even if there were improvement in the country's economic indicators, the speedy recovery of prices for commercial premises is hardly to be expected, however. The main reason is the rapid growth and still growing supply of commercial premises in the past 5 years. The existing area of commercial premises will suffice for recovering businesses not only in the near future but also for a longer period. It is therefore unlikely that a growing demand in the future will surpass supply and cause a significant rise in the prices of these premises.



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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