

Lithuanian Commercial Real Estate

Q3 2012

MARKET COMMENTARY

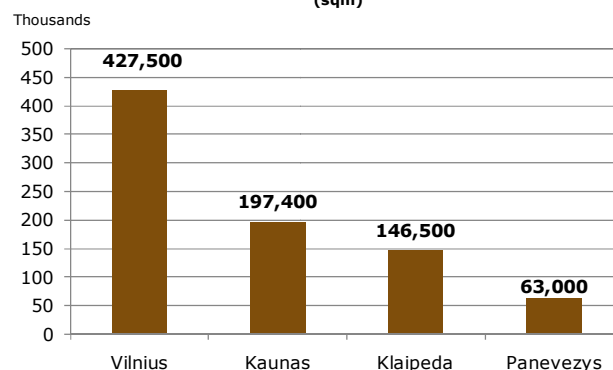


In Q3 2012, the indicators of the commercial real estate market in the major cities of Lithuania (Vilnius, Kaunas and Klaipėda) continue to show gradual improvement. Recently, positive changes have been particularly noticeable in the warehousing and logistics sectors, where improving performance continues to be recorded. According to the Lithuanian Department of Statistics, in the first half of 2012, revenues in warehousing and activities typical of transport services increased by nearly 34% compared to the same period last year (sales revenue from warehousing and storage business increased by more than 46%). It is no surprise therefore that this year has seen an increase in the rents and occupancy rates for warehousing.

During the first nine months of the year, the vacancy rate of warehousing premises in **Vilnius region** fell from 6.1% to **2.9%**, and the total vacant area available at the end of Q3 2012 was **12,300 sqm**. Furthermore it is very difficult today to find larger premises of 3,000–5,000 sqm in one location. The situation in the market is reflected by the completion of the third phase of the Airport Business Park project in the middle of this year; the premises near Vilnius airport are already fully leased (8,000 sqm warehousing premises with offices). At the end of Q3 2012, the vacancy rate of modern warehousing premises was **1.3% in Kaunas** and **4.0% in Klaipėda**. Rather high occupancy indicators are determined not only by the demand for such premises, but also by the fact that there is little other development. Vilnius is the only city that can boast of more active developers: this year, 3 new projects with almost 16,000 sqm of modern warehouse space were completed. As a result, the area of modern warehousing premises in Vilnius region increased by nearly 4%, with a total area of **427,500 sqm**. In Kaunas, Sanitex completed the construction of a 6,700 sqm warehouse for refrigerated products. In spite of the good occupancy figures developers are not encouraged to start new projects because rising construction costs mean that current rents of warehouses do not give a sufficient return on investment.

While private investors hesitate to start active development of new projects, state-owned enterprises in conjunction with city governments continue the implementation of three major projects – Public Logistics Centres (PLC) – in Vilnius, Kaunas and Klaipėda. It is expected that the actual construction work will start soon and the implementation of these projects will benefit the Lithuanian transport system, transport and logistics companies, and city governments (by developing urban infrastructure, collecting additional taxes, etc.). The state-owned enterprise Lietuvos Paštas announced plans to move its postal sorting centre from Vilnius to Kaunas. Relocation to the new 10,000 sqm logistics centre near the Vilnius-Kaunas motorway is scheduled for 2015. An investment transaction was recorded in Kaunas whereby the Finnish company Peikko Group acquired an 8,600 sqm manufacturing, warehousing and administrative complex on R. Kalantos Street from Ektornet Commercial Lithuania, a subsidiary company of Swedbank (details of the transaction are not disclosed).

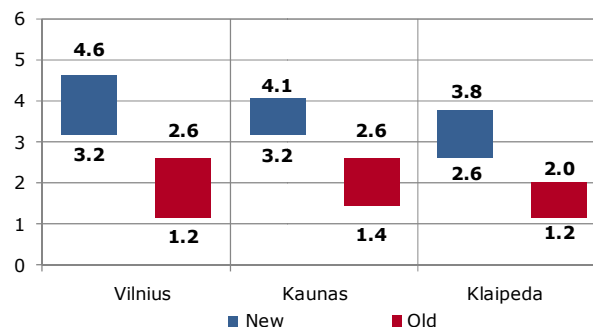
Modern warehouse stock (sqm)



Source: Ober-Haus

Data: Q3 2012

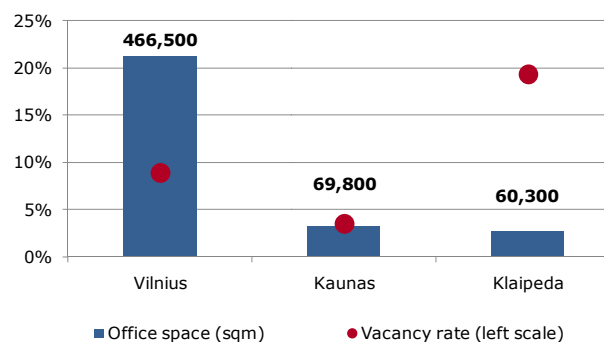
Warehouse rents (EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q3 2012

Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q3 2012

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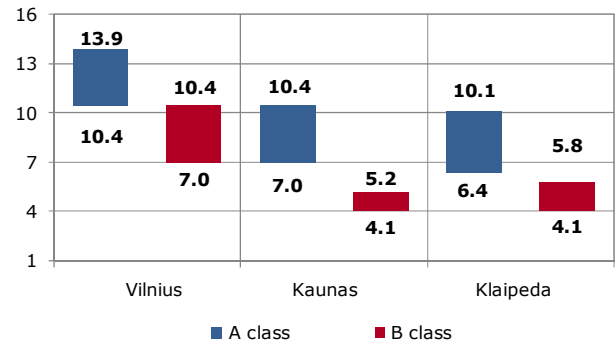
Q3 2012

During Q3 2012, rents for new and old warehousing premises in Vilnius, Kaunas and Klaipėda regions increased on average by approximately **5-10% (0.15-0.3 EUR/sqm)**. Current rents in **Vilnius** are **3.2-4.6 EUR/sqm** for new warehousing premises and **1.2-2.6 EUR/sqm** for old warehousing premises; in **Kaunas**, **3.2-4.1 EUR/sqm** for new warehousing premises and **1.4-2.6 EUR/sqm** for old warehousing premises; and in **Klaipėda**, **2.6-3.8 EUR/sqm** and **1.2-2.0 EUR/sqm** respectively.

After two consecutive quarters in Vilnius whereby a small increase in vacant office premises was recorded, in Q3, vacancy rate of office premises fell from 9.5% to **8.9%** (A class – 6.3% and B class – 10.6%). The total vacant area available in the capital city market fell from 44,000 sqm to **41,700 sqm**. Since Q3 2010, the office vacancy rate has fluctuated in the range of 9%-10% in Vilnius. Considering that during this period, 7 new business centres were built with a total usable office space of nearly 41,000 sqm, which is equivalent to about 9% of the total supply, this is a decent result. During the first three quarters of 2012, the total area of leased office premises in Vilnius business centres was **24,000 sqm** or 7% more than during the same period in 2011. Basically, business centres are able to retain existing tenants or attract new tenants, and the available free space has not caused concern to the owners of these centres. Currently, 3 business centres are under construction in Vilnius and these will add an additional 25,000 sqm of modern office premises to the market. It is expected that these projects will be completed by the end of this year and first half of next year. It is likely that with the completion of these projects there may be an adjustment in the general vacancy indicators of business centres of about 1-2%. Today, rents for A class office premises are between **10.4** and **13.9 EUR/sqm** and B class office premises from **7.0** to **10.4 EUR/sqm** in Vilnius.

The lowest office vacancy rate continues to be in **Kaunas** at only **3.5%** or 2,500 sqm of vacant premises in modern business centres. However, the second biggest city of Lithuania is still waiting for more decisive steps from developers. Rather low rents and unpredictable demand for office space determine the construction of individual projects for own use (e.g. construction of Senukai HQ office building). The worst situation remains in **Klaipėda** where the office vacancy rate is **19.4%** or 11,700 sqm vacant premises in modern business centres. Basically, this is the third consecutive year where there has been no construction of new business centres in the seaport city and it is difficult to forecast when new projects might begin. Low rents, a significant number of vacancies, and uncertain economic prospects of the city constrain developers from major investment. In **Kaunas and Klaipėda**, A class office rents range from **6.4** to **10.4 EUR/sqm** and B class office rents from **4.1** to **5.8 EUR/sqm**.

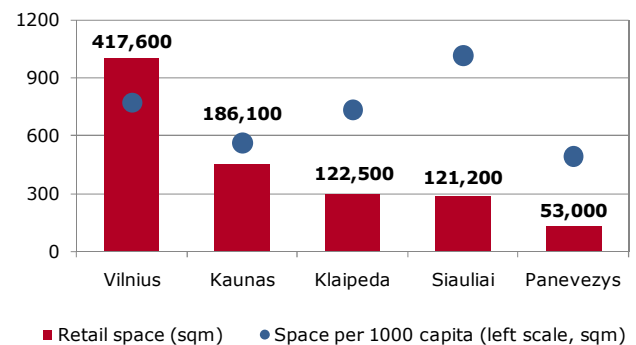
Modern office rents
(EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q3 2012

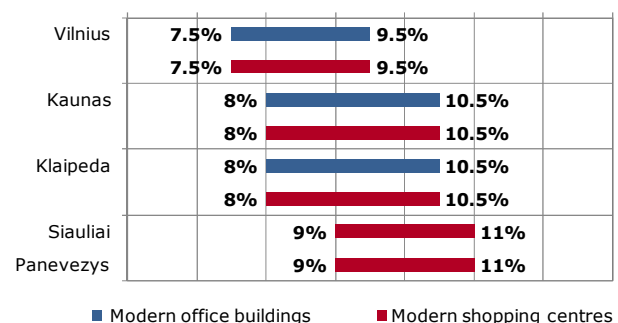
Shopping centre stock
(over 5,000 sqm GLA and over 10 tenants)



Source: Ober-Haus

Data: Q3 2012

Commercial property yields



Source: Ober-Haus

Data: Q3 2012

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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