

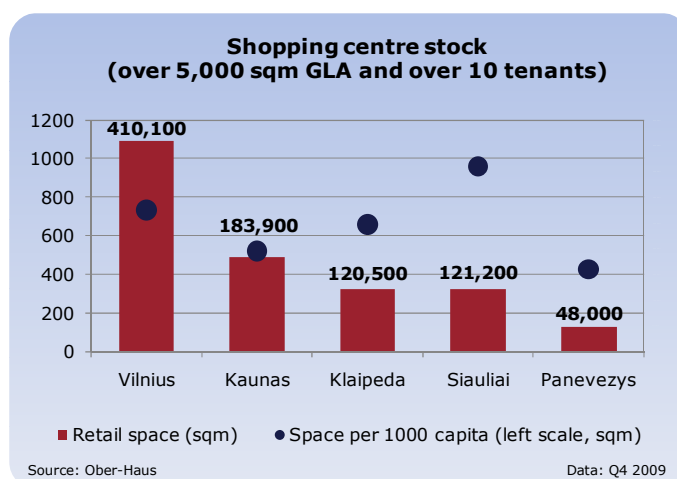
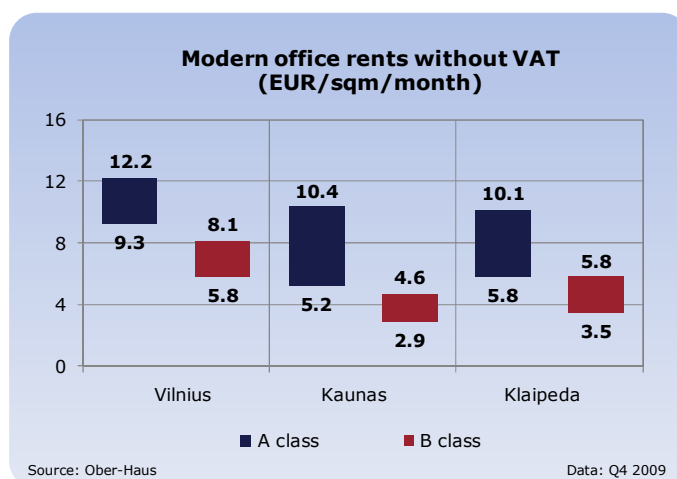
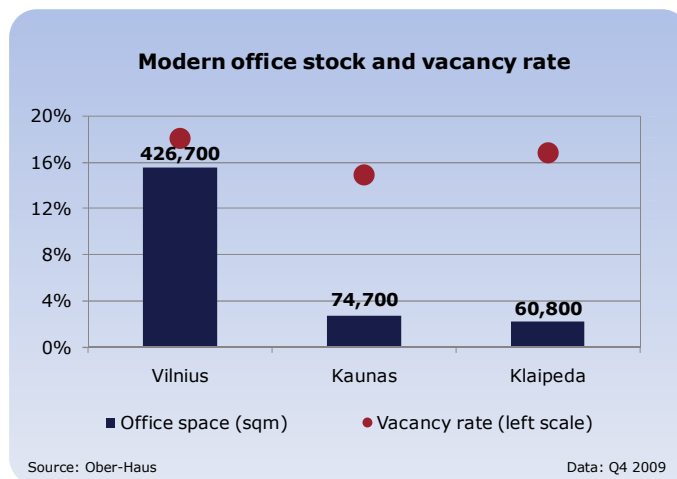
MARKET COMMENTARY

For the commercial premises sector in Lithuania, the last quarter of 2009 did not bring any positive changes: a majority of market indicators were still negative, but property owners should at least be inspired by the fact that the second half of the year showed a less harsh drop in prices and more stable occupancy indicators.

In Q4 of 2009, the rents of office premises fell at a similar rate as in the previous quarter. During this period, rents for A and B class office premises fell an average of **5%** in **Vilnius** and **10%** in **Kaunas** and **Klaipėda**. Throughout the entire year, the rents of office premises dropped an average of **40%** in **Vilnius** and nearly **50%** in **Kaunas** and **Klaipėda**. Today A class offices in **Vilnius** are being offered for **9.3–12.2 EUR/sqm**, and B class are being offered for **5.8–8.1 EUR/sqm**. Office rental prices in **Kaunas** and **Klaipėda** were far lower: A and B class offices were offered for rent at **2.9–10.4 EUR/sqm**. Compared to the peak time (mid 2008), sales prices for office premises also dropped **40–60%**, but even the much lower sales prices of today are of interest only to financially strong buyers independent of bank financing.

In Q4 of 2009, two new modern office buildings opened in Vilnius (Green Hall Business Centre and Swedbank administrative building) with total rental area of around 30,000 sqm. Therefore, at the end of 2009 the total area of leased modern office premises increased to **426,700 sqm**. As was forecast, the opening of these buildings did not have any major impact on occupancy indicators. For example, the Swedbank building did not increase the area available for rent since all the building is used for the needs of the bank. Though the total area of premises available for rent increased from 73,000 sqm to 75,500 sqm, the total vacancy rate of modern office premises in Vilnius dropped in Q4 of 2009 from **18.4%** to **17.7%**. In **Kaunas**, the office vacancy rate also registered a slight drop - from **15.0%** to **14.9%** - but in **Klaipėda** it went up from **16.1%** to **16.8%**. The rapidly growing office vacancy rate at the beginning of the year clearly became stable in Q4 of 2009, and leads to the belief that in 2010 these indicators will slowly begin improving. The reasons for such a forecast: stabilisation of the country's economy, restructuring of the majority of companies by reducing the number of employees and the area of leased premises, and in terms of supply - hardly any resumption of construction work or development of new projects in the near future. It is more likely that the time of projects for speculative purposes has ended in Lithuania: the majority of new office buildings in the future will be built only after making sure that a large part of the building, if not all of it, is leased in advance.

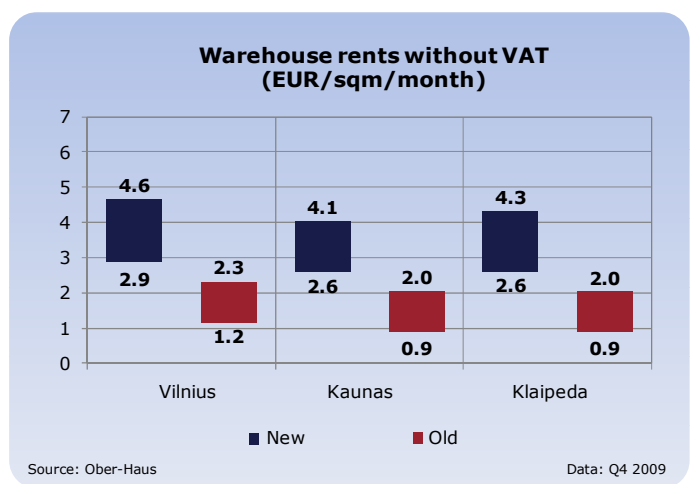
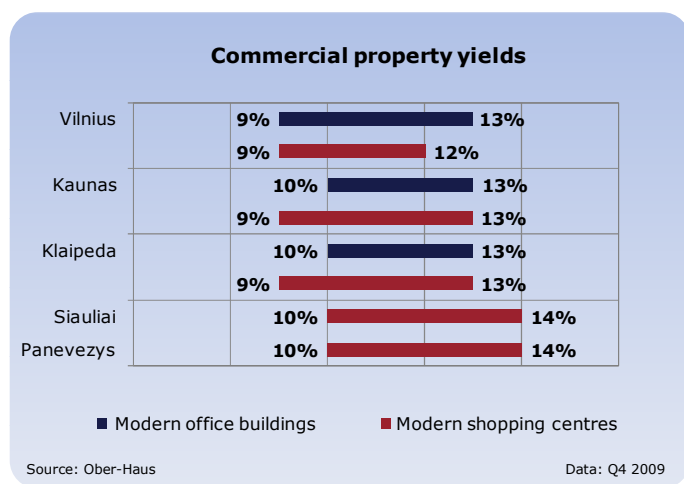
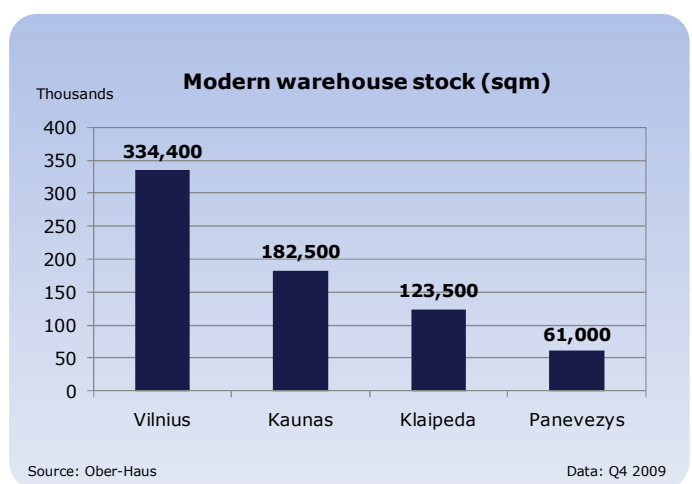
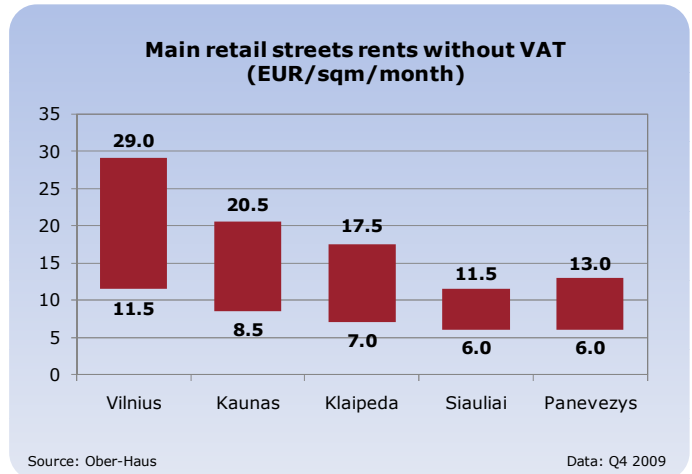
In the sector of retail premises, rent decreased further and the number of unoccupied premises increased due to falling retail trade volumes and increase of new supply. At the end of 2009, the total vacancy rate of shopping centres was **5.7%** in **Vilnius** (In Q4 of 2008 vacancy rate was **2.5%**).



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The relatively low vacancy rate of shopping centres as compared to, e.g., offices, can be explained by the fact that the managers of shopping centres cannot afford to have a large amount of free premises because the more unoccupied premises in a shopping centre, the less attractive it is; the flow of shoppers drops, and that has a negative impact on the lessees remaining in the shopping centre. Many shopping centres therefore opt for impressive discount schemes (or even a rent-free period) for some of the tenants in order to retain as many premises in operation as possible despite smaller revenues from some of the lessees.

It is very likely that rents and occupancy will become stable in 2010 and will start to rise slightly, but even if the country's economy in 2010 shows more promising signs of recovery, it will be a long time before the number of new projects and transactions starts growing. In 2010, some commercial construction projects still in progress from inertia will be completed, but property owners will have a hard fight for each tenant in order to reduce the amount of vacant space. On the other hand, the record low level of rents and curbed growth of supply must already be attractive to foreign investors who have recently been intimidated by the unstable economy of the country, the risk of currency devaluation, and the overheated real property market. Following the experience of 2009, the investment yields of **10-15%** offered by some potential buyers was not of interest to property owners, and therefore no major investment transactions were concluded in Lithuania last year. It is expected that in 2010 there will be such transactions and also that the investment yields will be no higher than **10%** because the majority of market indicators have already reached the bottom and financing conditions for transactions should become more favourable.



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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