

Lithuanian Commercial Real Estate

Q3 2014

MARKET COMMENTARY

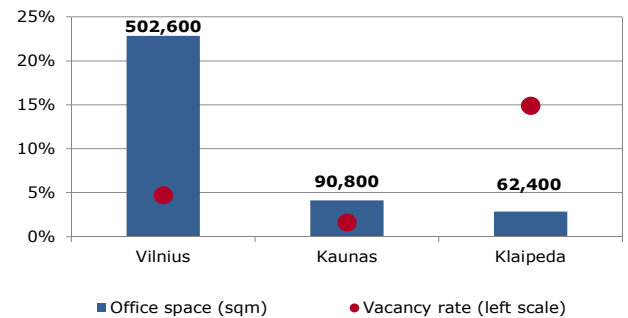


Despite the tense geopolitical situation and the challenges being faced by the country's economy, the outlook remains positive in the Lithuanian commercial premises market. Developers continue to develop projects and do not intend to abandon their plans, at least in the short term. Stable demand, which guarantees good commercial property occupancy rates and stable prices for properties to rent and to sell, is the main reason for the success of commercial property development. These factors mean that Q3 2014 was no exception and the market has continued its gradual recovery phase.

Particular attention should be paid to the office market of the capital, which in recent years has shown very rapid growth in both supply and rents and reflects the general trends in business development. In view of this year's data, the present supply is adequate for the current demand. Despite an upsurge in the vacancy rate in Q2 2014 in Vilnius (from 4.6% to 5.2%), a drop in the rate from 5.2% to **4.7%** can be observed in Q3 2014. It is important to note that three new business centres opened this year in Vilnius with a total useful area of over 20,000 sqm (Grand Office, Atea and the last block of Business Park 4). However, the serious increase in supply generated interest and general occupancy rates have not decreased. During the first three quarters of the year, a total of **33,800 sqm** was leased in the business centres in Vilnius or 37% more than over the same period in 2013.

No more major real estate projects are expected to come on the market this year (only the third building of the Baltic Hearts project will be completed in Q4), so the same high occupancy level of business centres can be expected until the end of 2014. Meanwhile, 2015 may see some more significant occupancy changes. It is expected that in mid-2015 and during the second half of 2015, four large office projects – PREMIUM, K29, QUADRUM, and UNIQ – will be completed. Currently, preliminary lease contracts are being signed for these projects and most premises should be leased by opening day. It should be noted that some of the tenants will move to the newly built premises from older office buildings, so the occupancy of new business centres will take place at the expense of older buildings.

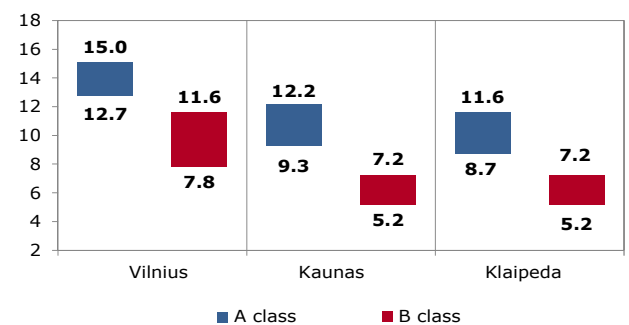
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q3 2014

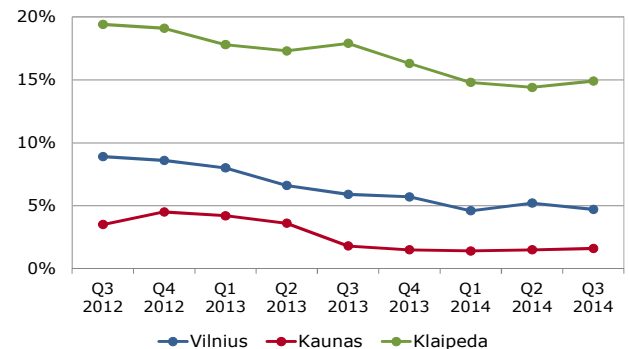
Modern office rents (EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q3 2014

Modern office vacancy rate



Source: Ober-Haus

Data: Q3 2012 - Q3 2014

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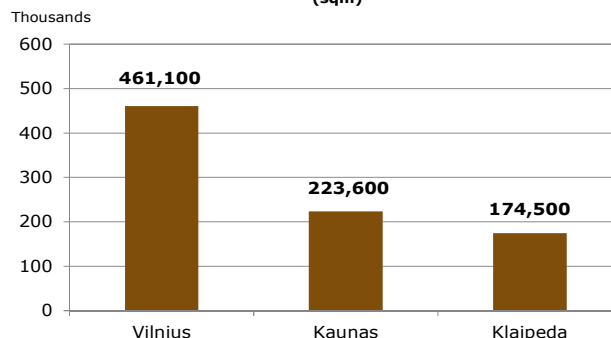
The second half of 2015 may, as a result, become a watershed and we will see growing vacancy rates in the office premises market.

In Q3 2014, rents increased in Vilnius and Kaunas. In the **capital city**, rents for A and B class office space increased on average by 2–3% (about 0.3 EUR/sqm). Currently, **A class** office rents range **12.7–15.0 EUR/sqm**, **B class** – **7.8–11.6 EUR/sqm**. In **Kaunas** office rents increased by 3% on average and now **A class** office premises are renting for **9.3–12.2 EUR/sqm** and **B class** – for **5.2–7.2 EUR/sqm**. In **Klaipėda** rents remained unchanged: **A class** offices are renting for **8.7–11.6 EUR/sqm** and **B class** – for **5.2–7.2 EUR/sqm**.

The current situation in the warehousing premises sector can be described as cautiously optimistic. Although there are not many projects developed exclusively for the market, companies continue investing in warehousing facilities mainly intended for their own needs. During the first nine months of this year, at least 9 warehousing projects were completed in Vilnius, Kaunas and Klaipėda regions: Transekspedicija, Autoverslas, Hormann Lithuania, Entafarma, Limedika, Sanitex, Osama, Vlantana and AD REM. With these projects, the total warehousing area increased to **461,100 sqm in Vilnius**, **223,600 sqm in Kaunas** and **174,500 sqm in Klaipėda**. Despite relatively high occupancy rates, the development of warehousing projects is not a priority for real estate developers. The low level of rents, specific needs of tenants and the overall risk profile of the entire sector do not inspire confidence in developers wishing to start new projects designated not only for own needs, but also for market needs, either to rent or to sell.

In Q3 2014, rents for warehousing premises **in Vilnius** remained stable. At present, new warehouses are renting for **3.5–5.2 EUR/sqm** and old warehouses – for **1.5–2.9 EUR/sqm**. In **Kaunas and Klaipėda regions** rents for newly built warehouses increased by **7%** and **4%** respectively. In Kaunas, newly built warehouses are renting for **3.5–4.9 EUR/sqm**, old warehouses – for **1.2–2.9 EUR/sqm** and in Klaipėda – for **3.2–4.6 EUR/sqm** and **1.5–2.6 EUR/sqm** respectively.

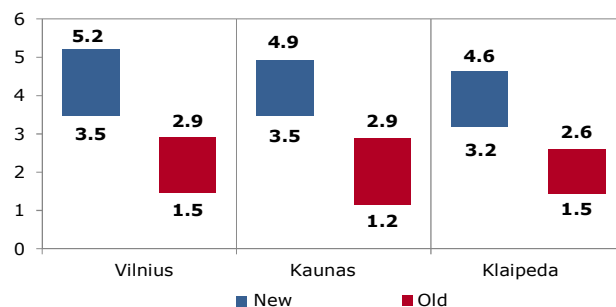
Modern warehouse stock (sqm)



Source: Ober-Haus

Data: Q3 2014

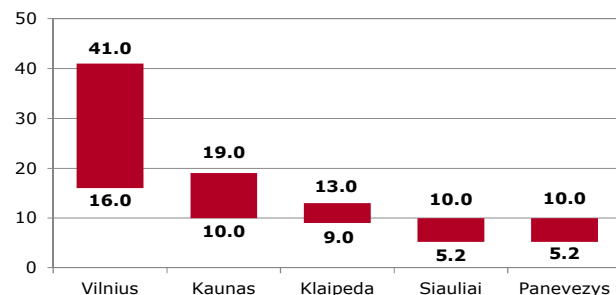
Warehouse rents (EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q3 2014

Main retail streets rents (for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q3 2014

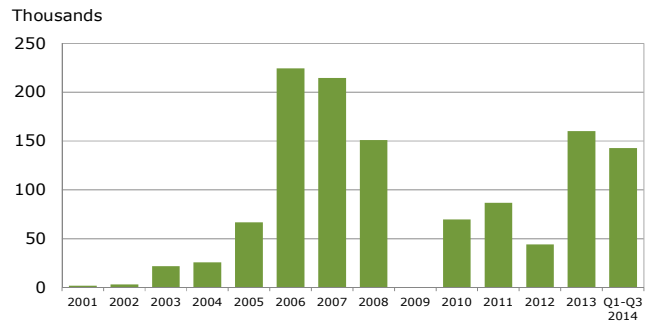
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As forecast, the total volume of investment through purchasing already developed commercial property has been growing rapidly. An investment breakthrough was recorded back in 2013, but this year's indicators are even more impressive. Over the first three quarters of 2014, 14 investment transactions (*modern office, retail or warehousing/industrial premises worth over EUR 1.5 million*) were concluded in Lithuania, with a total value of almost **EUR 169 million** or an 11% increase compared to the same period last year. In total, 89,100 sqm of offices, 38,900 sqm of retail premises and 14,700 sqm of warehousing/industrial premises have been purchased this year.

According to the value of purchased property, Swedish capital companies (54%) were the leading investors. The remaining investments attracted buyers from Estonian, Dutch, Finnish, Danish, Russian, the United States and Lithuanian capital companies. Falling commercial property yields and expanding geography of investors, signals the attractiveness of the Lithuanian real estate market. Seeing the stable economic and political situation of the country and the growing prospects in this sector, investors take decisions to channel some of their available funds from less risky, yet less lucrative markets (e.g. Western Europe). Foreign investors, with the exception of investors from Latvia and Estonia, carefully select projects and see priorities in investing in property in the country's major cities – Vilnius and Kaunas. Only the retail property sector (most popular shopping centres), are of any interest in the remaining cities in the country. However, realistic assessment of the completed transactions shows that the majority of investment goes to Vilnius and only then are prospects of channelling investment to other cities considered. Over the past 5 years, 80% of all investment was made in Vilnius (according to the value of investments), and it is likely that this will remain the same for the near future.

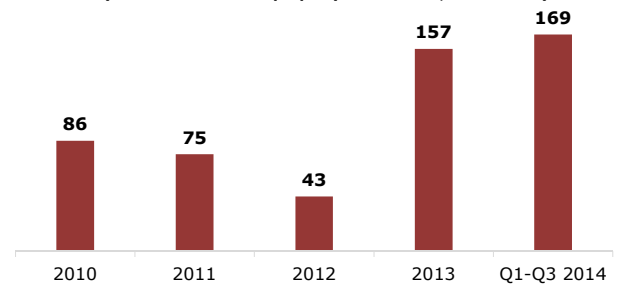
Investment volumes
(modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2001 – 2014

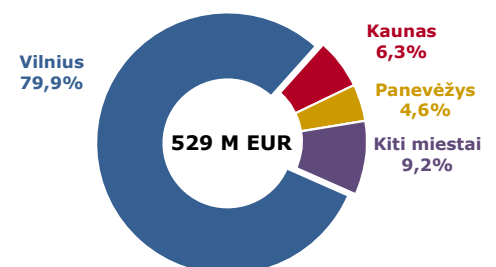
Investment volumes
(modern commercial property in Lithuania, million EUR)



Source: Ober-Haus

Data: 2010 – 2014

Investment distribution by regions



Source: Ober-Haus

Data: 2010 – 2014

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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