

MARKET COMMENTARY

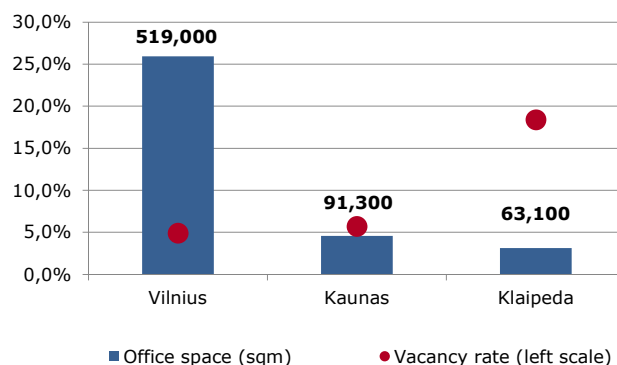


The beginning of 2015 was relatively stable in Lithuania's commercial premises sector and was marked by continued efforts of developers of modern offices to increase the number of design and construction projects involving business centres in the capital. The City business centre on Žalgirio Street, developed by Hanner and scheduled for completion in the second half of 2016, is one of the largest new projects and will offer about 20,000 sqm of modern office space to the market. Another large office building project is the office building complex planned by M.M.M. Projektai on the site of the former bakery on Saltoniškių Street, on completion this will offer up to 65,000 sqm. However, the construction of this business centre will not start before 2016 and both the speed of development and its different stages of development will depend on the situation in the market.

In addition to the above projects under planning or in progress, at least three new projects were implemented in Q1 2015: the Sostena and Vertingis business centres on Ukmergės Street, and the reconstruction of a historical building on J. Basanavičiaus Street, all of which have space for lease. The total area of modern office space in the capital is now 519.000 sqm. Meanwhile, in Kaunas, the telecommunications and real estate development company Mikrovisatos Valda completed a 3,600 sqm business centre on Savanorių Avenue; the total area of modern office space available in Kaunas increased to 91,300 sqm in Q1.

The opening of these new business centres has increased the supply of office space, with the result that for the first time in a while most of the country's major cities have recorded an increase in vacant office space. Previously it was **Kaunas** that had the smallest vacancy rate, but in Q1 2015 the vacancy rate there increased from 1.3% to **5.7%**. This jump in the vacancy rate was due to newly built office buildings that are still looking for tenants. The liquidity of modern office space in Kaunas is considerably lower compared to Vilnius. There is not sufficient development of local enterprises requiring space in the new business centres, even where there is quite a small vacancy rate on the market. International companies already in the city or planning to establish branches could provide an additional stimulus to the market. The three newly opened business centres

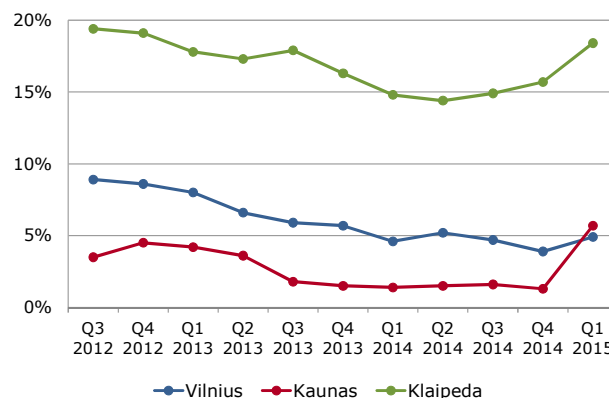
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q1 2015

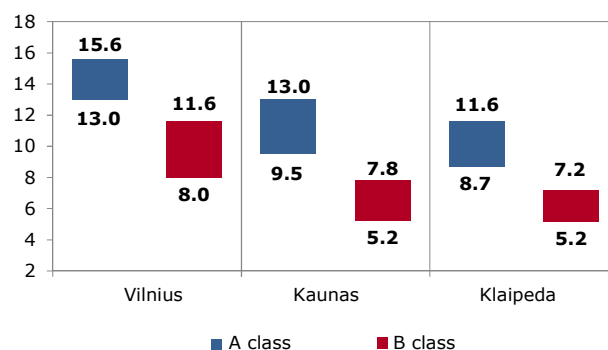
Modern office vacancy rate



Source: Ober-Haus

Data: Q3 2012 - Q1 2015

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



Source: Ober-Haus

Data: Q1 2015

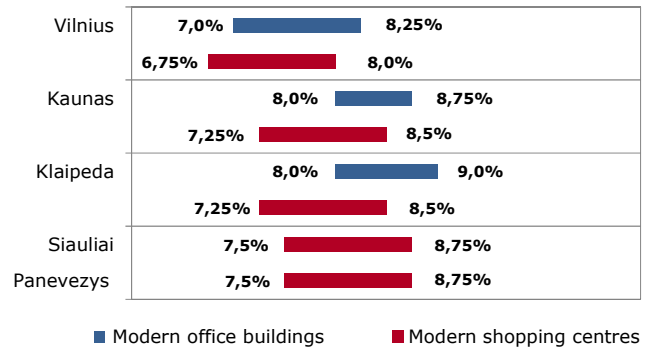
in **Vilnius** were also responsible for the increased vacancy rate in Q1 2015, which rose from 3.9 % to **4.9 %**, an area of **25,500 sqm**, at the end of the quarter. In view of the statistics of the past seven years, this amount of vacant space and the increase are not significant enough to speak about oversupply, which could influence the rents. In fact, it is lower class (B) office projects that increase vacancy rates, which currently stand at 6.9%, whereas the vacancy rate in A class business centres is only 1.0%. It is likely that because of this low vacancy rate in A class business centres, an increase in the vacancy rate will be recorded in late 2015/early 2016, when the business centres currently under construction are opened. However, this growth should not be significant, because early interest in these premises remains high and lease agreements are actively signed when construction is still in progress.

The fact that owners of new and existing business centres do not feel any pressure because of vacancies is illustrated by stable office rents. In Q1 2015, rents for modern office space remained stable in Kaunas and Klaipėda, and saw a slight growth, of 1% on average in Vilnius in class A business centres. At the moment, A class office rents in **Vilnius** are **13.0–15.6 EUR/sqm**, B class – **8.0–11.6 EUR/sqm**. Meanwhile in **Kaunas** A class office rents are **9.5–13.0 EUR/sqm**, and in **Klaipėda** about **8.7–11.6 EUR/sqm**. B class office rents in **Kaunas** range **5.2–7.8 EUR/sqm** and in **Klaipėda** – **5.2–7.2 EUR/sqm**.

Steadily increasing office rents and decreasing yields gradually increase the value of commercial property in Vilnius. Top-class office rents rose almost 5% in Vilnius in last 12 months, while the yield of such premises during the same period decreased on average by 0.2 percentage points – from 7.6% to 7.4%. Thus, the capital value index over the past 12 months increased by almost 8%; such capital value was last recorded in the second half of 2006 and in early 2009. This shows that at the moment, property values are only lower than the price levels recorded at the peak (i.e. the price level of 2007–2008).

No changes were recorded in the market of shopping centres at the beginning of 2015. The only exception to this was the reconstruction, and expansion by 1,600 sqm, of the Babilonas I shopping centre in Panevėžys. Henceforth the shopping centre will be called the RYO shopping centre and has attracted some

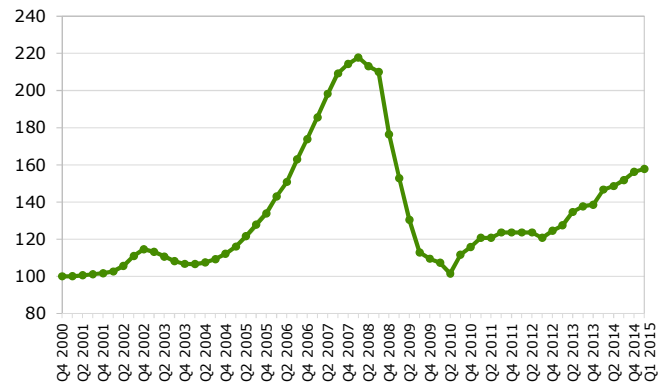
Commercial property yields



Source: Ober-Haus

Data: Q1 2015

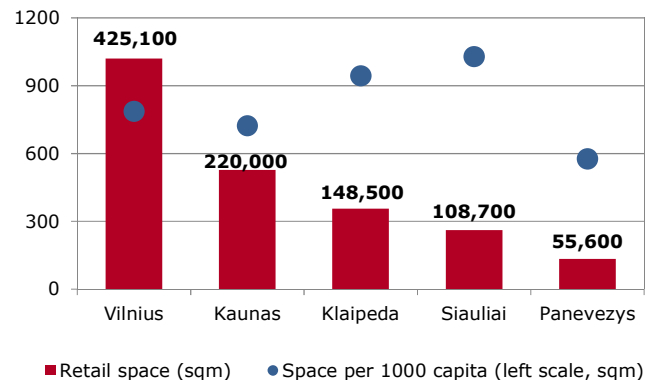
Capital value index
(A class offices in Vilnius / Q4 2000=100)



Source: Ober-Haus

Data: Q4 2000 – Q1 2015

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



Source: Ober-Haus

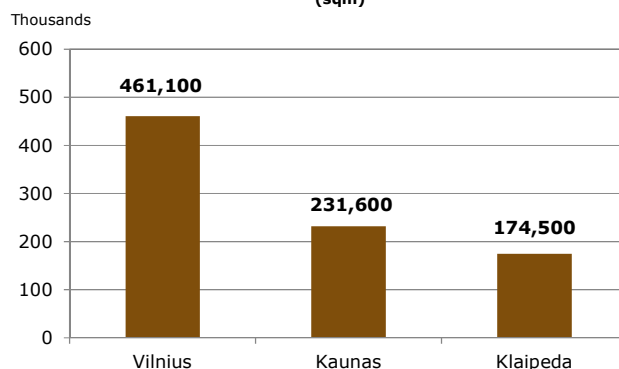
Data: Q1 2015

new tenants: Rimi, New Yorker, United Colors of Benetton, H&M, KFC, Pizza Hut and others.

Development of warehousing premises is not showing any great signs of recovery. Since developers are cautious, new facilities are built only for specific tenants or their own needs. In March a new 8,300 sqm logistics centre was opened near Kaunas Airport. It will be leased to Lietuvos Paštas and will accommodate the largest parcel distribution centre. Currently, the total area of warehousing premises **in Vilnius is 461,100 sqm, in Kaunas it increased to 231,600 sqm, and in Klaipėda – 174,500 sqm.** In Q1 2015, rents of warehousing premises remained stable **in Vilnius, with rents of 3.5–5.2 EUR/sqm for new warehousing premises and old ones for 1.5–3.0 EUR/sqm.** In **Kaunas and Klaipėda regions** rents for old and new storage premises increased by **3%** and **5%** respectively. **In Kaunas** rents for new warehouses are **3.5–4.9 EUR/sqm**, and old ones **1.4–2.9 EUR/sqm**, while rents in **Klaipėda** are – **3.4–4.7 EUR/sqm** and **1.4–2.9 EUR/sqm** respectively.

The beginning of the year saw two larger commercial property investment transactions. In both cases the seller of the property was Northern Horizon Capital investment funds. The international investment company Partners Group with its head office in Switzerland, purchased Vertas business centre in Vilnius and two shopping centres in Kaunas and Klaipėda (Molas and BIG). The Baltic Opportunity Fund, managed by the same Northern Horizon Capital, purchased the Europa shopping centre in Vilnius. These transactions combined accounted for a total area of 75,000 sqm, with a total value of around EUR 100 million. Given that, during a very active 2014, the value of modern commercial property transactions was EUR 205 million, the results of 2015 already exceed earlier forecasts. If attractive properties are offered to investors in the market this year, the final results of the year may match the 2014 level.

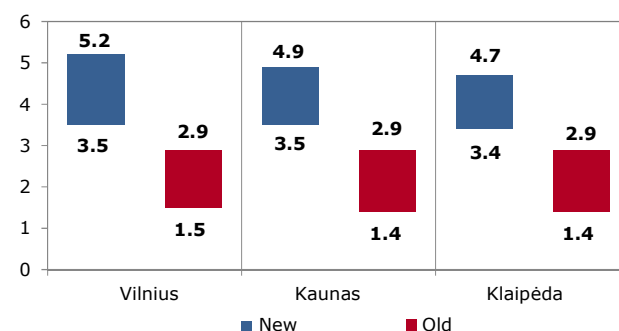
Modern warehouse stock (sqm)



Source: Ober-Haus

Data: Q1 2015

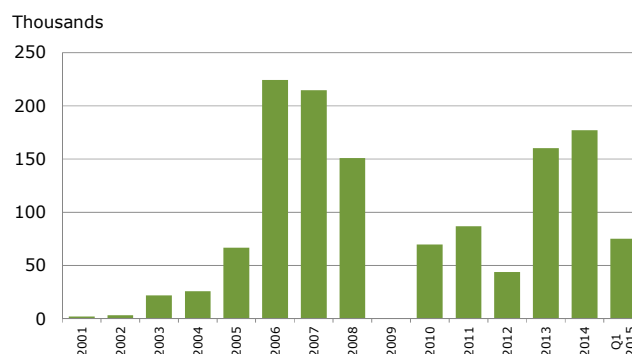
Warehouse rents (EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q1 2015

Investment volumes (modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2001 – Q1 2015

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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