

COMMERCIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q1 2017

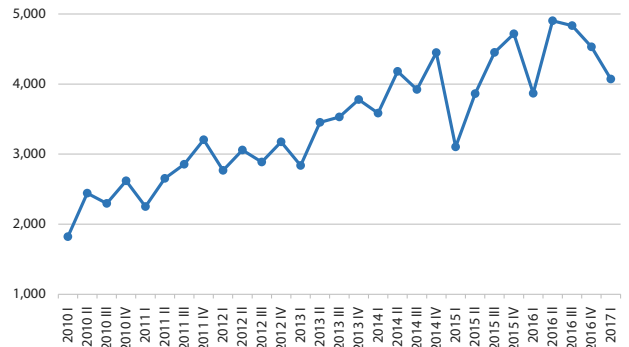
In Q1 2017, the Lithuanian commercial real estate market witnessed increasing construction volumes and a further increase in the number of transactions. According to Statistics Lithuania, construction works worth **EUR 177 million** were carried out in the non-residential buildings sector in Q1 2017 or **20% more** than in the same period in 2016. Although the results of Q1 2017 are the best since 2008 (compared to Q1 of the previous years at current prices), they are still behind the 2008 record by almost a half. In the meantime, the country's market activity is seeing new heights. According to the data of the State Enterprise Centre of Registers, during the first three months this year **5% more** transactions for non-residential properties (buildings and premises) were concluded **in Lithuania** compared with the same period in 2016. In Q1 2017, a total of 4,072 non-residential buildings and premises were acquired in Lithuania and this is the best result at the start of the year in the the entire history of the country.

Developers continue to focus on the development of office buildings in Vilnius and Kaunas. In Q1 2017, construction of four new administrative buildings was completed in the country's capital: the former building of DNB bank on Basanavičiaus Street was reconstructed and was opened as the business centre B NORDIC 26; a new office building Duetto (first stage) was completed next to the Vilnius Western Bypass; the construction of an administrative building for Maxima LT needs was completed on Naugarduko Street, and a small office building was finished on Verkių Street. A total of 18,000 sqm useful office area was offered in these buildings. As a result, the area of modern office space at the end of Q1 2017 in Vilnius totalled 645,400 sqm.

The expansion of international and local businesses matches the supply of premises, therefore the office market in the capital city is balanced at the moment. Since businesses actively look for premises in advance and sign preliminary lease contracts, newly opened buildings are largely full. For example, in Q1 2017 the occupancy rate of the four newly completed buildings mentioned above reached almost 70%. About 26,600 sqm of the office floor area was leased in Vilnius in Q1 and the total vacancy rate in the business centres in Vilnius fell from 6.4% to **5.8%**. The vacancy rate of A class offices is 3.2% and that of B class offices – 7.1%.

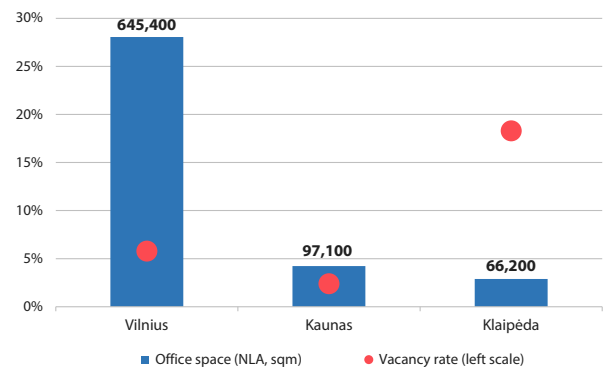
Notwithstanding the activity of the tenants, more new business centres are being opened and announcements of new construction projects sometimes force developers to make compromises as regards the rents. Developers feel extremely positive about well known and financially strong companies, which ensure solid neighbourhood and guarantee a steady flow of rental income. International companies and strong local firms looking for a larger area in new business centres manage to negotiate more favourable rents than those publicly available. Smaller companies are currently in a less favourable negotiating position. In principle, rents for the top A class office space have remained unchanged since the end of 2015 and stand at **EUR 13.5-16.5/sqm**. In the meantime, it is observed that prices are falling in B class office premises and in Q1 2017 the lower end of the rent for such premises fell by around 0.5 EUR/sqm standing at **8.0-13.0 EUR/sqm**. This can be explained by the recent faster development of this segment and rapidly growing competition between the buildings offering this class of offices.

NUMBER OF NON-RESIDENTIAL PROPERTY TRANSACTIONS IN LITHUANIA



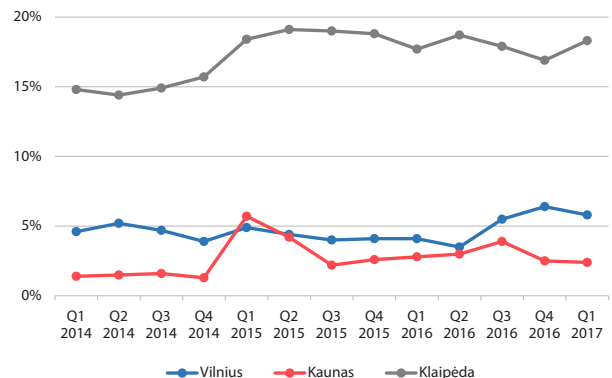
Source: SE Centre of Registers / 2010 - 2017

MODERN OFFICE STOCK AND VACANCY RATE



Source: Ober-Haus / Q1 2017

MODERN OFFICE VACANCY RATE



Source: Ober-Haus / 2014 - 2017

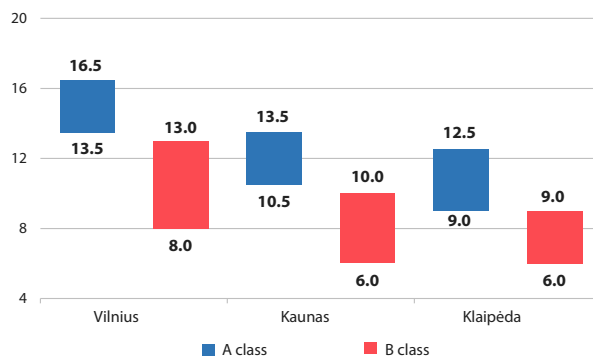
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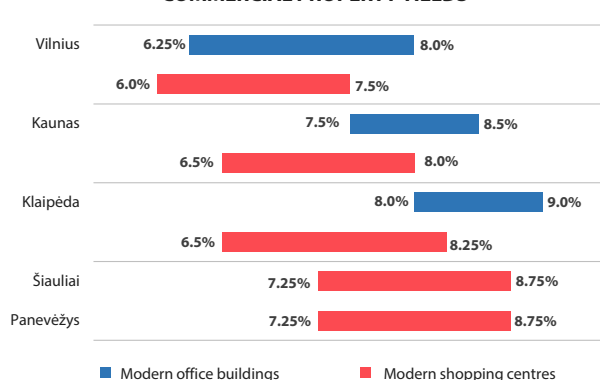
Over the past five quarters, 9 buildings of B class offices were opened in Vilnius and only one building of A class (Quadrum). Out of almost 100,000 sqm of the office projects implemented since the end of 2015, B class office buildings accounted for 74% of the supply. Soon the structure of the supply will change significantly. In 2017–2019, much more top-class office space will be on offer in Vilnius. At the moment almost 110,000 sqm of A and B class office premises are being built, of which A class offices account for more than 70%. It is therefore likely that the total rent level (both publicly advertised and actually agreed) will be adjusted downwards in this segment. However, the remaining high demand for modern office space hardly allows to expect any major price changes in A class office rents in the short term. The very high and specific demands of large companies (in terms of the location, building and fitting-out of the premises, layout of the premises in the building, parking and potential expansion possibilities in the future) often leave companies with the choice of just a few options, which does not give them a strong negotiating position.

The market in Kaunas is still preparing for the arrival of new office buildings. In Q1 2017, no new projects for office space have been completed or opened. The total area of modern office premises therefore remains stable in Kaunas standing at **97,100 sqm**. In the meantime, changes are expected in Q2 2017 in Kaunas with the completion of five new projects offering over 15,000 sqm modern office space to the market (blocks A and B of Business Park of Vytautas Avenue, Sitis, Žaliakalnio Terasos, B66, and Jonavos 30). So the vacancy rate in Q1 2017 remained at essentially the same level of **2.4%** (2.5% at the end of 2016) **in Kaunas**. Greater changes in the occupancy of office space will be seen in Q2 2017. Although most of the space in the pending projects has already been leased, some vacant office space is expected to be offered to the market. The planned supply hike and competition between developers keeps office rents in Kaunas at a stable level. At the end of Q1 2017, A class offices in Kaunas were lease for **10.5-13.5 EUR/sqm** and B class – for **6.0-10.0 EUR/sqm**. Compared to Vilnius, rents for modern office space in Kaunas remain very attractive, although changes will depend on the real demand. It is obvious that the real foundation has been laid for growth in supply in Kaunas and the market situation in the nearest future will largely depend on the number of potential tenants. In the second half of 2017, it will be possible to assess the potential of Kaunas and judge in greater details whether the expectations of developers have been fulfilled.

MODERN OFFICE RENTS (EUR/sqm/month, without VAT)



COMMERCIAL PROPERTY YIELDS



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 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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