

Lithuanian Commercial Real Estate

Q1 2011

MARKET COMMENTARY

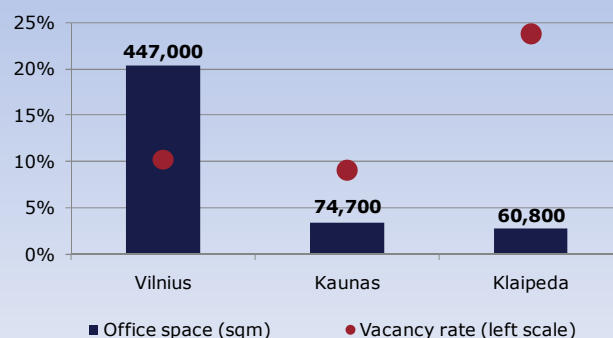
For the Lithuanian commercial real estate market, 2011 year started smoothly and without any larger changes. For the first quarter of this year, the rents and sales prices of commercial premises have been almost on the same steady level, occupancy figures have been stable, while the most portion of new construction projects still is considered only on paper. Such a situation in the market absolutely correlates with the country's economic situation: only insignificant positive changes are noticed, while more serious changes still are expected.

In 2010, the most noticeable changes in the commercial real estate market were fixed in the Vilnius modern office sector: The level of vacant premises reduced from 17.7% to 9.9% per year, which is almost twice as little, while rents increased approx. by 10%. Compared to 2009, the floor space of rented office premises increased from 26,000 to 51,000 sqm. It should be noted that these changes were materially predetermined by the decisions of several large companies to take an advantage of the situation which is particularly favourable for tenants, when rents reached the lowest level, while the number of vacant premises in the market is the largest since the beginning of development of the market of modern offices. In 2010, two thirds of all rented premises of the modern business centres of the capital of Lithuania – in business centres Green Hall, Vilnius Verslo Uostas, and Beta were taken by four companies (Barclays, TEO, Western Union, and SEB) on the basis of rent contracts. Only one third of rented premises, the rented floor space of which was 100 to 300 sqm, were occupied on the basis of smaller contracts (mainly concluded with local companies).

The statistics of the first quarter of 2011 witnesses that, for the first three months of this year, the vacancy rate of modern A and B class office premises in Vilnius slightly increased – from **9.9% to 10.2%**, and the total floor space of vacant premises formed **45,700 sqm**. Statistical figures indicate quite large options for selecting vacant premises. However, taking into consideration the distribution of rented areas in individual business centres, we see that the most portion of vacant premises is not suitable for larger companies – it is difficult to find the office floor space over 3,000 sqm which would be concentrated in the same building (or on the floors of this building). Therefore the prospective offer for international companies which are going to open their representation offices in Lithuania is narrowed up to several business centres which, even if they have the necessary number of premises, possibly do not meet other requirements of tenants such as: location, engineering and architectural solutions, and etc. It is most likely that the figures of occupancy of office premises will depend on the rate of establishment of smaller entities and the development of available companies rather than on the expectation of the arrival of new giant companies to Lithuania.

For the first quarter of this year, in all larger Lithuanian cities, rents eventually were not subject to any change, while, in the Vilnius modern office sector, rents were subject to the slight growth tendency. Therefore today, in Vilnius, A class office rents are **10.4 to 13.9 EUR/sqm**, B class office rents – **7.0 to 10.1 EUR/sqm**. In Kaunas and Klaipeda, the level of office rent prices was maintained the same as at the end of 2010: A class – **5.5 to 10.7 EUR/sqm** and B class – **2.9 to 5.2 EUR/sqm**.

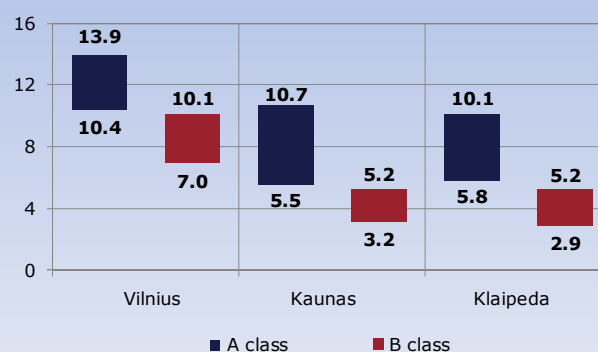
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q1 2011

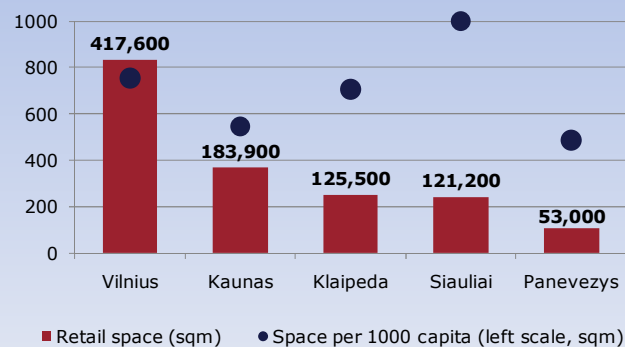
Modern office rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q1 2011

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



Source: Ober-Haus

Data: Q1 2011

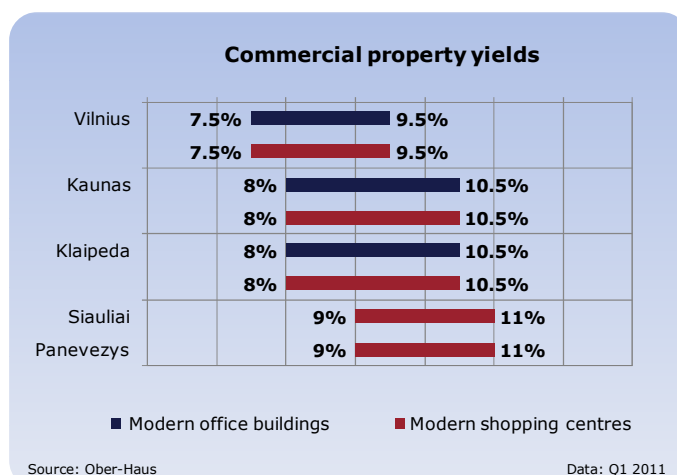
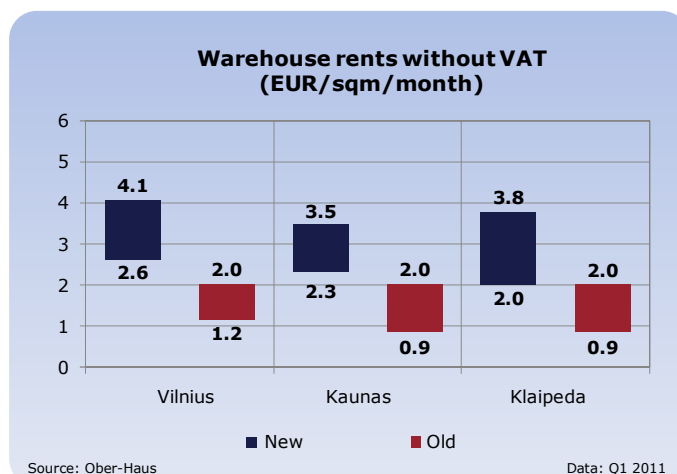
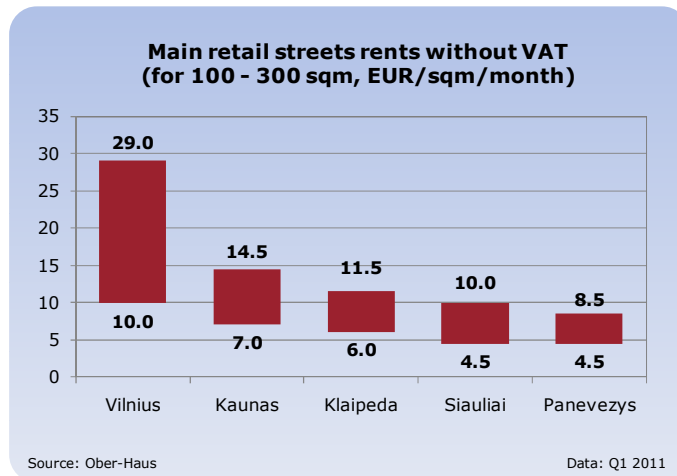
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The examples of successful arrivals of international companies to Lithuania encourage the developers of commercial premises to publicly inform the market of new projects under development. However, the beginning and completion of constructional works of most of these projects still are indefinite. By declaring the beginning of constructional works, developers expect to find one or several larger tenants which would conclude preliminary rent contracts, which constitute one of essential and obligatory conditions for financing the project. However, today even a larger preliminary tenant does not secure the successful development of the project because 45,700 sqm vacant premises available in the market, in already finished business centres, form serious competition for future projects.

Therefore, this year, the market will face with the poorest new office supply since 1999 to 2000, the years which are considered as the beginning of development of modern offices. For the being time, in Vilnius, 3 new office projects are under construction: „Pirklių klubas“ and „Evita“ are planned to be completed this year, while the reconstruction of the building at Jasinskio St. is planned to be finished at the beginning of the next year. Upon the implementation of these projects, slightly over 10,000 sqm will be offered to the market, and this increase will form 2.3% of the total supply in Vilnius. Analogous tendencies of development are preserved in the sectors of retail and warehousing premises. For the being time, several small projects which do not materially affect the situation in the market are under construction.

Large foreign investors continue to look at the Lithuanian market of commercial premises with caution. In 2010 and 2011, two cash-flow investment deals were fixed in Lithuania (the office building in Vilnius and the logistics centre in Kaunas). However, in both events, the buyers are of local origin. The lack of investment deals is predetermined not only by the reserved attitude of foreign investors to the country's economy and real estate market but also by the increased expectations of the real estate owners. The owners of most objects which appeal larger foreign investors successfully survived through the economic slowdown and do not have reasons to sell real estate at "crisis" prices.

Estonia is an evident leader of the investment market in the context of all Baltic countries. Here, for the same period (2010 and 2011), 10 investment commercial real estate deals were concluded, the total floor space of the premises acquired was 3 times larger than in Lithuania, and foreign investors were the parties to over half these deals. The more active interest of larger buyers to the Estonian real estate was predetermined both by the larger economy of this country and by the introduction of euro, and the enhanced legal base which better protects real estate owners against the non-fulfilment of contracts. It is evident that the further development of the country's economy and the fundamental economic figures in the context of other countries will materially affect both the recovery of the commercial market and the activity of investors. It is expected that larger changes in this sector will take place not earlier than at the end of this year or at the beginning of the next year.



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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