

MARKET COMMENTARY

Although global financial markets are unsettled, the ambiguous expectations have so far had little impact on the Lithuanian market of commercial premises: in Q3 2011, slight, yet positive indicators were recorded. In the capital where the market is generally more active, a further decline in vacancies and a rise in prices have been noted. In the other major Lithuanian cities, the commercial premises market is still rather sluggish: in general, there is no new construction, prices remain stable, and there is no significant growth in demand. However, the absence of new supply and the relatively attractive rent and sale prices are leading to a gradual reduction in the vacancy rate not only in Vilnius, but also in the other major cities.

After two consecutive quarters, when there was a slight rise in the office vacancy rate, Q3 2011 saw a decrease in the vacancy rate from **10.4%** to **9.4%** in **Vilnius**. During this quarter, the fall in vacancy rates was noted only in B class business centres: from 12.1% to 10.3%. In the meantime, the vacancy rate in the top A class business centres remained at 8.0%. At the end of the third quarter, the total area of vacant office premises in Vilnius amounted to **41,900 sqm**, two-thirds of which accounted for B class facilities. In Kaunas and Klaipėda, the choice of modern office premises in the last quarter also decreased. In **Kaunas**, the vacancy rate of modern office premises dropped from 8.4% to **6.3%** and totalled **4,700 sqm**. In **Klaipėda**, the drop was from 20.6% to **18.6%** and totalled **11,300 sqm** of vacant premises in the business centres, which have already been completed.

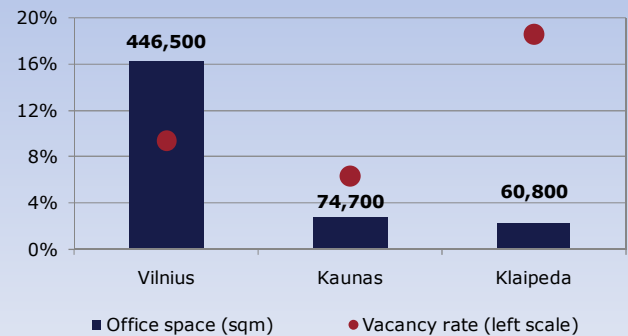
With the fall in the number of office vacancies, owners of leased premises now have the leverage to review their pricing, consequently, in Q3 2011, rents increased by an average **5%** (**0.3-0.6 EUR/sqm**). At the end of the third quarter, the rent of A class offices ranged between **11.0** and **13.9 EUR/sqm** and B class – **7.0-10.4 EUR/sqm** in **Vilnius**. In **Kaunas** and **Klaipėda**, prices for A class offices were **5.8-11.0 EUR/sqm** and B class – **3.5-5.8 EUR/sqm**. However, given the uncertain economic situation next year, and a slight increase in supply, it would be too bold to forecast further price growth in rent or sale prices. It is likely, that prices will remain at a similar level not only in Vilnius, but also in the other cities for the rest of this year and the next.

This year, the fractional increase in rents for modern offices and decreasing vacancy rate is already encouraging developers to take up new or resume previously started projects. However, these trends have only been recorded in the capital, because developers and their backers, in particular, are not inclined to trust the growth prospects in other cities. Despite the still large amount of vacant office space in Vilnius (the total amount of vacant space currently available in the market is equivalent to the size of 8-10 medium-sized business centres), the construction of 8 business centres is either currently underway or about to begin in the near future, with a total useful area of 35,000 sqm.

When these projects will be successfully completed, the total supply of modern office premises in the capital will increase by a further **8%** between the end of 2012 and the beginning of 2013. The analysis of recent office vacancy trends in Vilnius (the vacancy rate in 2010 dropped dramatically from 18% to 10%, but in 2011, it remained essentially unchanged) shows that the absence of new supply has had the greatest impact on the situation: in 2011, there was no major growth in demand, whereas the indicators of 2010 were determined by a few major lease transactions. Taking this into account, the new ambitions of developers seem a bit too ambitious for the prevailing sluggish demand. In addition, in the absence of faster market recovery, it is most likely that the opening of some office buildings previously announced will again be postponed for a later period, thereby avoiding a sharper rise in market supply.

This year has seen very positive developments in the retail trade, mostly due to the significant increase in motor sales. According to data of the Lithuanian Department of Statistics, in January–September 2011, the retail trade turnover in comparison with January–September 2009 increased by 21.3%. However, once we eliminate the indicators of motor vehicle and motorcycle sales (excluding the retail sale of fuel), the growth in retail trade turnover during the said period is considerably more modest, amounting to only 6.4%.

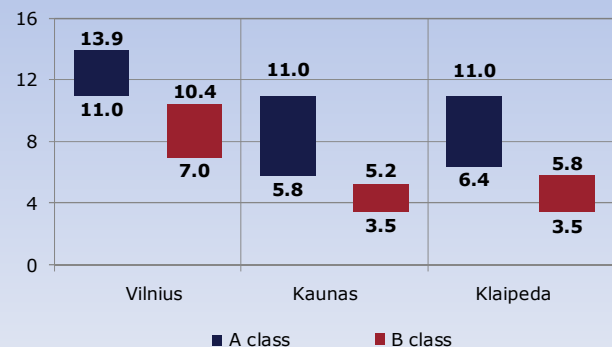
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q3 2011

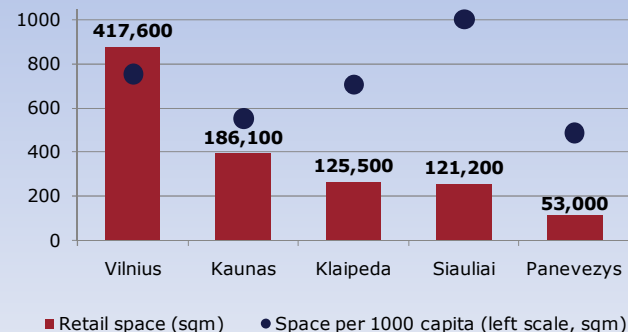
Modern office rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q3 2011

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



Source: Ober-Haus

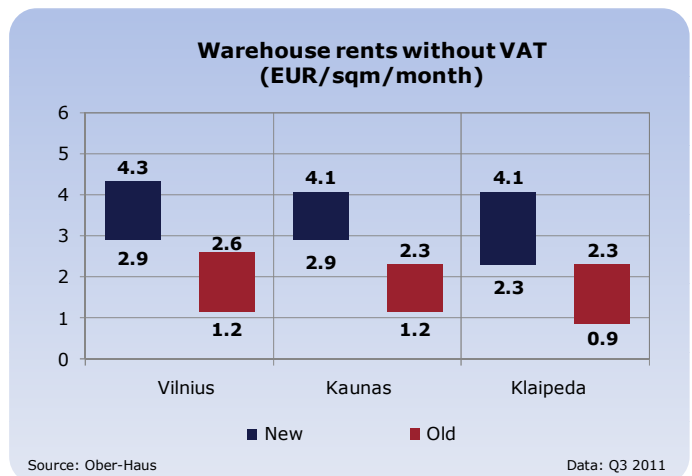
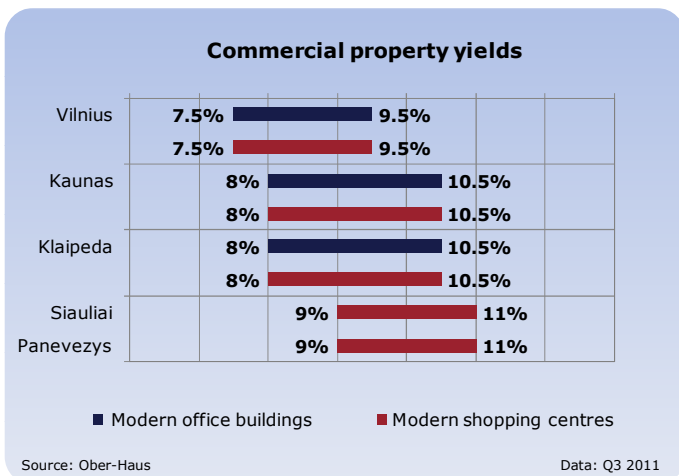
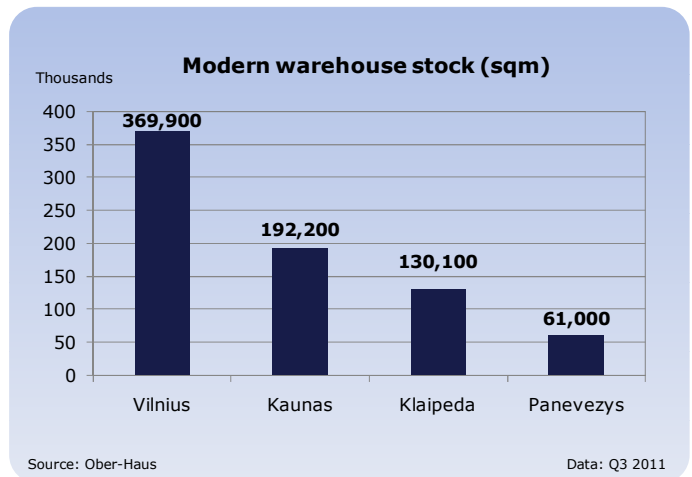
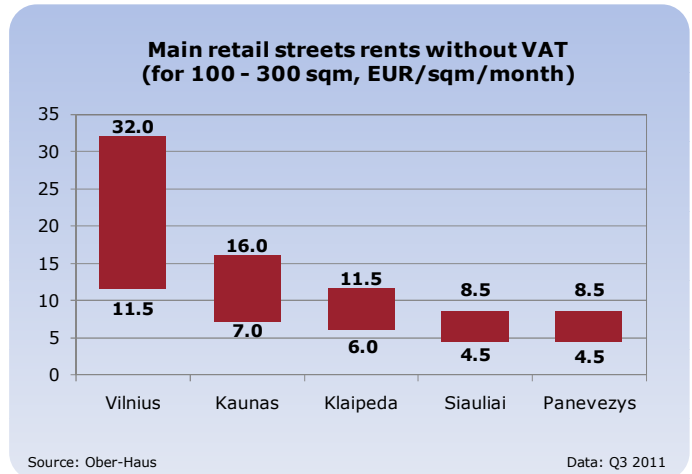
Data: Q3 2011

Lithuanian Commercial Real Estate MARKET COMMENTARY Q3 2011

Although some traders notice a revival in consumption, it is not so noticeable that property owners can adjust rents in their favour. Therefore, in Q3 2011, rents of commercial premises did not change substantially and higher demand was only observed in Vilnius. Rents of medium size (about 100–300 sqm) commercial premises in the main commercial streets of **Vilnius** varied from **11.5-32.0 EUR/sqm**, **7.0-16.0 EUR/sqm** – in **Kaunas**, **6.0-11.5 EUR/sqm** – **Klaipėda**, and **4.5-8.5 EUR/sqm** – in **Šiauliai** and **Panevėžys**.

The positive mood in the storage premises sector was maintained by still improving, though more modestly, results in the transportation and warehousing services of companies. According to data of the Lithuanian Department of Statistics, operating revenues of companies providing services typical to storage and transportation in Q1 2011 increased by 15.4% compared to the same period last year. The steadily working logistics sector has recently not only coped with existing problems, but also showed some growth prospects. Therefore, during Q3 2011, rents of new and old storage facilities in the regions of Vilnius, Kaunas, and Klaipėda increased on average by around **5-10% (up to 0.3 EUR/sqm)**. At the moment in Vilnius, newly-built storage premises are renting for **2.9-4.3 EUR/sqm** and old premises – for **1.2-2.6 EUR/sqm**. In **Kaunas**, newly-built storage premises are renting for **2.9-4.1 EUR/sqm** and in **Klaipėda** – for **2.3-4.1 EUR/sqm**; old premises are renting for **0.9-2.3 EUR/sqm**. In view of the fact that over the past few years very few warehouses have been built, the excess of vacant storage facilities does not threaten this market. For example, in **Vilnius**, the vacancy rate of new storage premises in Q3 amounted to **7.3%** and finding premises of a larger area (4,000-5000 sqm) in completed buildings is very difficult.

Looking at the rather cautious economic forecasts for the world economy, it can only be concluded that it is unlikely that the commercial premises sector will gain a larger development momentum in the next couple of years or that there will be any growth in rents or sale prices. Foreign investors are wary of our markets and have reservations about additional earnings from growing prices in the future; therefore they do not expect a higher return on investment than is currently in the market – an average of **8-9%**. On the other hand, it must be acknowledged that in the past few years, the commercial premises market has been stable and balanced, however in view of the lack of any substantial recovery in demand; any rapid development of commercial premises may bring confusion in this sector. Thus, those investing in commercial objects should justify their investment decisions not by expectations of growth in rents or sales prices, but by calculating return on their money based on the actual occupancy indicators and the level of prices in the market.



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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