

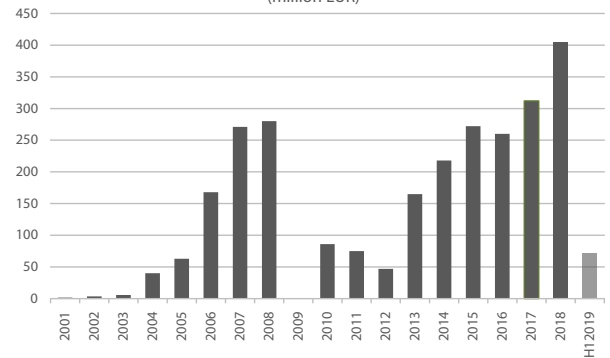
INVESTMENT MARKET

The transaction volume in the Lithuanian commercial property investment market in the first half of 2019 was much lower than expected in the sector which is currently rapidly developing and is highly active. Although the beginning of the year saw an announcement of one of the largest investment transactions in the history of Lithuania, where the Swedish investment company Eastnine signed an agreement with the developer M.M.M. Projektai for the acquisition of three office buildings in S7 project in Vilnius, this did not significantly improve the overall investment market performance of the first half of 2019. The value of the transaction for the three office buildings on Saltoniškių Street totalled slightly over EUR 128 million, but in the first half-year an acquisition transaction for only one of the buildings was finalised (tenant – Danske Bank Global Service Centre). It is likely that the acquisition of the second building (tenant – Telia Lietuva) will be finalised in the second half of 2019 and the third building (tenant – Danske Bank) – in early 2020, i. e. after the conditions of this truly significant transaction are implemented. Therefore, only the sum of the first transaction was included in the results of the first half-year.

According to Ober-Haus, acquisitions of the modern commercial property (office, retail and industrial buildings/premises with a value of at least EUR 1.5 million) in Lithuania in H1 2019 totalled **EUR 72 million**, the poorest half-year indicator since 2013. The purchase transaction for the first S7 building in Vilnius accounted for half that sum. The second highest value transaction was the acquisition of the second Duetto building in Vilnius. In December 2018 it was announced that the Baltic Horizon Fund managed by the Danish investment company Northern Capital Fund would purchase an office building from the developer YIT Lietuva for EUR 18.3 million and that the transaction would be finalised after the completion of the construction of the building and moving in of the tenants, i.e. at the beginning of 2019. The remaining acquisitions ranged from EUR 2 million to EUR 4 million and involved smaller office and retail properties in the country's capital and other cities.

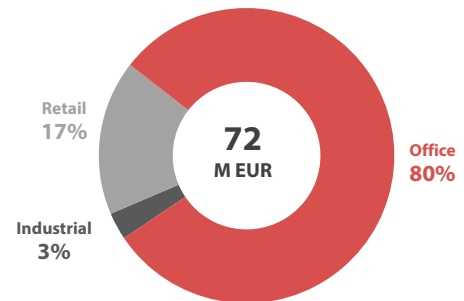
Looking at the prospects for H2 2019, higher sales volumes in the investment transaction market can be expected. In August 2019, a large investment transaction was announced in Kaunas, where Eften Real Estate Fund 4, managed by the Estonian commercial real estate fund management company Eften Capital, acquired the shopping centre River Mall and the business centre River Hall from Sirin Development. In addition to the transaction for the second S7 office building on Saltoniškių Street in Vilnius, which will be finalised in H2 2019, the acquisition of the second office building of the Park Town project that is nearing completion may be expected as announced earlier by its developer Darnu Group. The acquisition of these four objects should contribute over EUR 120 million to the investment transaction volumes this year. However, looking at the record investment transactions volumes in Lithuania recorded in 2017–2018 (in 2017 – EUR 312 million and in 2018 – EUR 404 million), the data currently available suggest that it will be difficult to achieve similar volumes this year. Specifically, at least 2 to 3 large commercial property acquisitions would be required (for at least EUR 30–50 million each) in order to achieve the 2017 indicator (i.e. at least EUR 300 million).

COMMERCIAL PROPERTY INVESTMENT VOLUMES IN LITHUANIA
(million EUR)



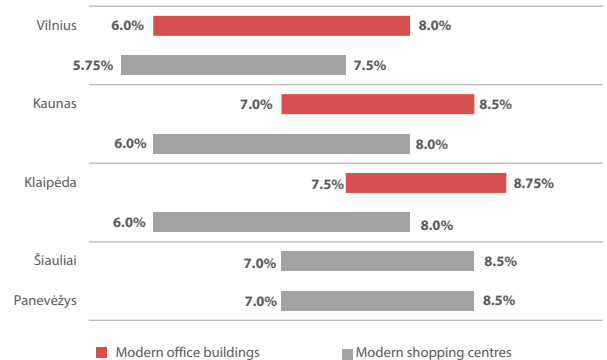
Source: Ober-Haus

COMMERCIAL PROPERTY INVESTMENT VOLUMES BY SECTOR LITHUANIA



Source: Ober-Haus / H1 2019

COMMERCIAL PROPERTY INVESTMENT YIELDS



Source: Ober-Haus / Q2 2019

Under the current conditions in the commercial real estate market this is achievable, because the commercial property portfolio continues to expand quite rapidly in Lithuania. It is particularly noticeable in Vilnius and Kaunas regions where new business or logistics centres are being built at a fast pace and could attract potential investors. In the meantime, property owners have real opportunities to make use of the current market rise and sell their commercial real estate at top prices of the past decade.

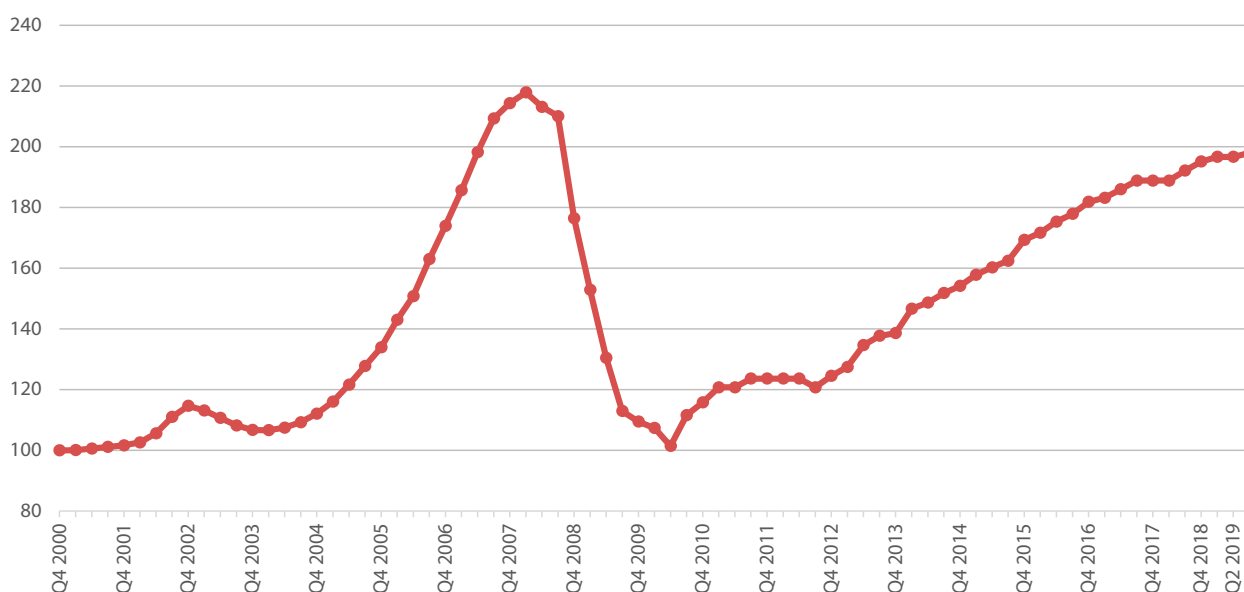
The developments in the most rapidly expanding commercial property sector in the country – offices in the country's capital – in the past 12 months show that the rapid investment value growth potential in this segment has already reached its limits and any more noticeable positive change in the nearest future is hardly expected. Although the lowest investment yield indicators during the entire history of modern commercial real estate are reported in the office market in the country's capital (e.g. the acquisition yield for three S7 office buildings is 5.8%), we can see that in the competitive environment office rents in the country's capital, including the rents of A class offices, have not essentially changed for four consecutive quarters. The growth in the property value has been lately determined by slightly declining yield indicators and a symbolic increase in rents in one of the most attractive segments – the top class office buildings. During the past 12 months, the capital value index for A class offices in Vilnius has **increased by 3%**. Despite the recorded very low yields in individual transactions involving the newest and the most modern buildings, in the case of the acquisition of older A or B class office

buildings the buyers assess the prospects of such property (potential rental income in the future and the likely additional costs to achieve it) much more carefully and this reflects in the proposals made to property owners. That is why the investment yield gap is expanding to the detriment of older buildings.

If in the country's capital the biggest property value hike has been recorded in the office premises sector in the past decade, so the more noticeable property value growth could be expected in the regions of the country with a faster growth potential (e.g., Kaunas) resulting both from the moderate rents increase and the decreasing yields in the most attractive office, warehousing or retail properties (most technologically advanced buildings with strong tenants).

Only after the evaluation of the data for H2 2019 and H1 2020 will it be possible to say whether the activity in the commercial property investment market manages to exceed the record highs achieved in 2017–2018. Due to the relatively small size of the Lithuanian commercial real estate market and lower liquidity, greater activity fluctuations in small markets are a frequent and natural occurrence. However, it is likely that in the nearest future the negotiations between property owners and potential buyers will be more difficult than in the previous years. On the one hand there are the sellers who can see a very active commercial real estate market with the best historical indicators, on the other hand there are buyers who can see increasingly lower growth potential in certain property segments and a more conservative traditional financing environment.

CAPITAL VALUE INDEX
(A class offices in Vilnius / Q4 2000 = 100)



Source: Ober-Haus

OFFICE MARKET

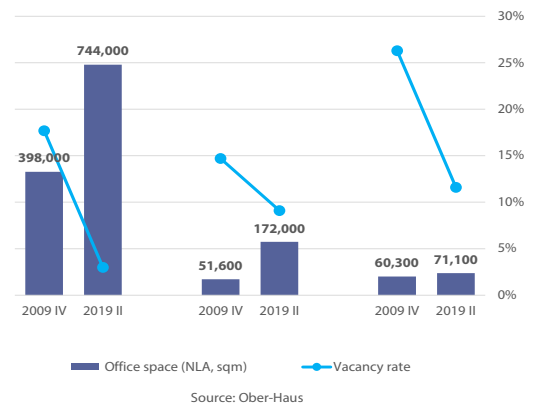
In the first half of 2019, construction of four office buildings was completed in Vilnius: the second building of S7 project (tenant – Telia Lietuva), the second building of Duetto project, an administrative building of the INHUS Group and a business centre in the multifunctional complex Live Square. These projects supplemented the market of the capital city with 25,700 sqm of useful office space. At the end of H1 2019, the area of modern office space in Vilnius totalled **744,000 sqm**. Tenants of office premises have been very active this year and continued to reduce vacant spaces at newly opened office buildings and to sign preliminary lease agreements in the projects in progress. The total floor area of modern office space leased within the first half-year in the country's capital amounted to almost **39,000 sqm** or **5%** more than during the same period last year. The unfading interest of tenants further reduced vacancies in the completed office buildings. During the first half of 2019, the office space vacancy rate in Vilnius **decreased** from 3.7% to **3.0%**. The vacancy rate of A class offices was 2.5% and B class – 3.3%. Over the past decade, the vacancy rate under 3% was recorded in Vilnius only in Q2 and Q3 2018.

The second half of 2019 promises to be even more active in the modern office market in Vilnius. With the planned completion of seven new office buildings, the modern office space market in Vilnius should be supplemented with nearly 67,000 sqm useful office space. The tenants moving into these new buildings will vacate their currently used premises in other buildings, giving space for other potential tenants. Since many projects are scheduled to be implemented in the second half-year, sufficient changes could be seen in the office rental market by the end of 2019 and the beginning of 2020. If all these projects currently under construction are implemented as scheduled, the total annual supply will be the largest in history with over 90,000 sqm. The record year in the office market in Vilnius was considered to be the year 2008 when eleven administrative buildings were completed totalling 86,500 sqm of useful office space.

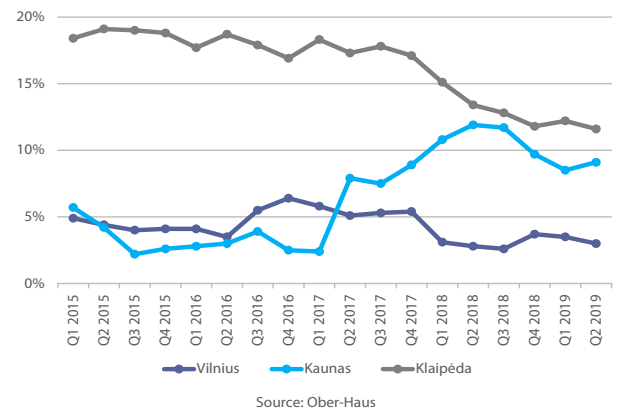
Despite continuing high office space demand and occupancy rates, the annual ample new office supply has substantially stabilized rents which have seen little increase since 2015. The year 2019 is no exception – in the first half of 2019 rents **increased by 1-2%** on average and currently rents for B class office space stand at **9.0–13.5 EUR/sqm** and A class office space – at **14.0–16.7 EUR/sqm**. Since the real estate developers continue to be optimistic and continues to offer new projects to the market, stable rents could be expected in the future even under the conditions of the growing economy. In order to retain high occupancy rates, developers will continue to attract tenants by offering competitive rents and the latest office solutions in their developed projects.

In the meantime, in H1 2019 in Kaunas no major changes in supply were recorded. Only two small buildings were completed in this city (commercial building with retail and office space Longas on Veiveriu Street and a commercial building on Statybininkų Street) offering almost 2,400 sqm of office space. The area of modern office space in Kaunas totalled **172,000 sqm** in mid-2019. Much larger changes in the office space supply is expected in Kaunas in H2 2019 – in total five new projects (including further phases of

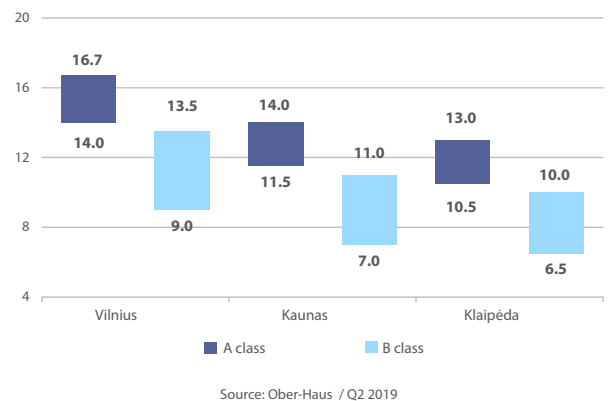
MODERN OFFICE STOCK AND VACANCY RATE



MODERN OFFICE VACANCY RATE



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



earlier projects) should be completed, as a result of which 27,000 sqm of new office space will be provided.

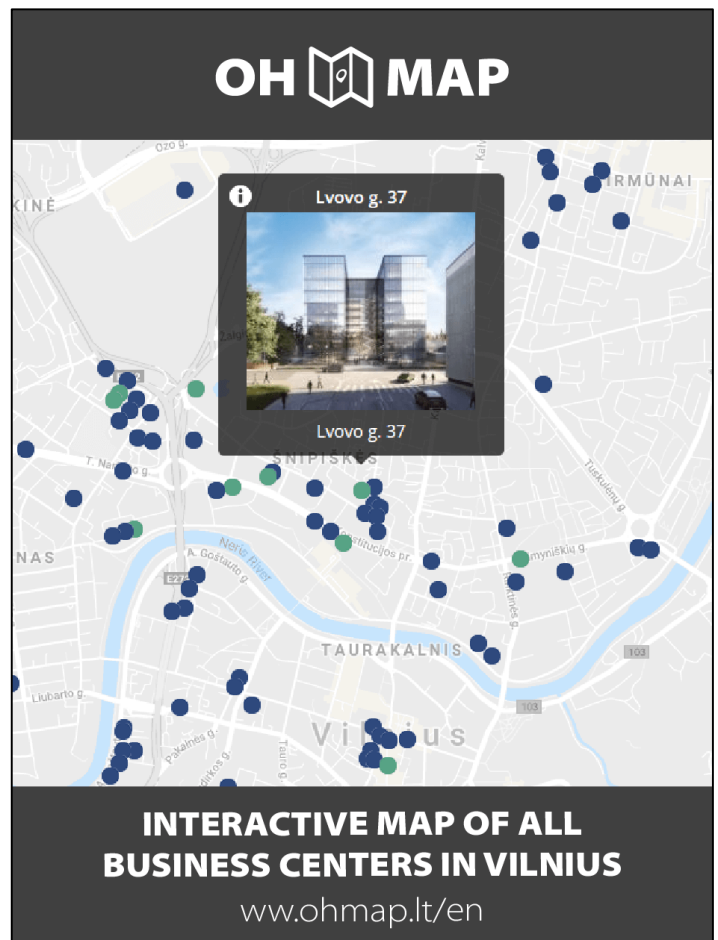
Continuing stable demand for modern office space and little new development in the first half of this year slightly reduced the vacancy rates in Kaunas. During the first half of 2019, the total vacancy rate of modern office space **decreased** from 9.7% to **9.1%**. Since the start of the intensive development of the office sector in 2017, the vacancy rate of office space in Kaunas has never fallen below 7.5%. Since sizeable development of new offices is planned in H2 2019 and in 2020, the vacancy rate at the end of the year should exceed 10% and is likely to reach the level of 2018 (11–12%).

Like in the country's capital city, the factor of increasing supply over the past three years in Kaunas has reduced opportunities for rent increase, so rents increased only slightly (in proportion to the country's inflation rate). In H1 2019, rents for **B class** office space **increased by 3%** on average and rents for **A class** office space remained stable. In mid-year, B class rents in Kaunas stood at **7.0–11.0 EUR/sqm** and A class rents – at **11.5–14.0 Eur/sqm**. It is likely that in the nearest future office rents in Kaunas will remain at the same level and will attract tenants as they are by almost one fifth lower than those in the capital city.

The modern office space market in Klaipėda continues the tradition of symbolic development with only one new project offered each year. This year has been no exception and at the beginning of 2019 the first stage of the private capital research and innovation valley Baltic Tech Park on Liepų Street was completed. On the site of the former industrial building a 2-3-floor building of over 6,000 sqm was built offering retail and office space. The major part of the office space was occupied by Light House coworking space (1,500 sqm). The developer, Viremidos Investicijos, is planning further development of the Baltic Tech Park with potentially three more buildings for various research and business companies. Although this innovative project has brought new developments in the business and property markets in the city of Klaipėda, this had no major impact on the modern office market statistics in this city. The total area of modern office space has increased by only 18% in the past decade in this city and by mid-2019 totalled to **71,100 sqm**. By way of comparison, during the same period the total area of modern office space increased by almost 90% in Vilnius and by 230% in Kaunas.

The first half-year of 2019 saw no major changes in office vacancy levels in the city of Klaipėda, which has consistently decreased over the past ten years, but still is over 10%. During the first half of 2019, the vacancy rate fell from 11.8% to **11.6%** and this is the lowest rate since the end of 2008. In the same period rents for **B class** office space

increased by 3% on average, while the prices for **A class** office space remained stable. Rents are lower than in Vilnius or Kaunas: B class offices rent are for **6.5–10.0 EUR/sqm** and A class offices rent for **10.5–13.0 Eur/sqm**. Unlike Vilnius or Kaunas, Klaipėda cannot boast of a leap in supply or demand of office space making it difficult to forecast any faster growth in rents than the general price level of goods and services in the country.



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.