

MARKET COMMENTARY

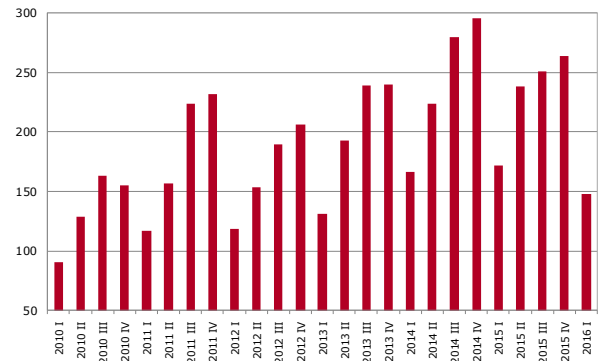


The commercial real estate market in Lithuania remained steady through Q1 2016. The overall situation in the country shows no signs of faster recovery in the construction volumes and even a decrease in the volume has been recorded. If 7–9 years ago numerous new commercial construction projects were carried out in all regions of the country, so currently more activities in the commercial real estate development can only be observed in Vilnius or Kaunas. The remaining regions of the country are less optimistic and developers offer a very small number of projects. However, the overall market interest in already completed objects (buildings and premises) at the beginning of this year remained fairly high. This is particularly visible in the total number of transactions for commercial property in the country and the purchase of larger investment objects in Vilnius.

According to Statistics Lithuania, the total value of completed construction works of non-residential buildings in the country in Q1 2016 was almost **EUR 148 million** or nearly **14% less** than during the same period in 2015. It is worth noting that the volume of construction is also over 11% lower than that in Q1 2014. Compared to the most active period in the development of commercial buildings in Lithuania in 2007–2008, this year's indicator is nearly half as small. However, despite the shrinking construction volumes, the number of transactions has increased. According to the State Enterprise Centre of Registers, in Q1 2016 there were **25% more** transactions for non-residential property (buildings and premises) concluded in **Lithuania** than in the same period in 2015.

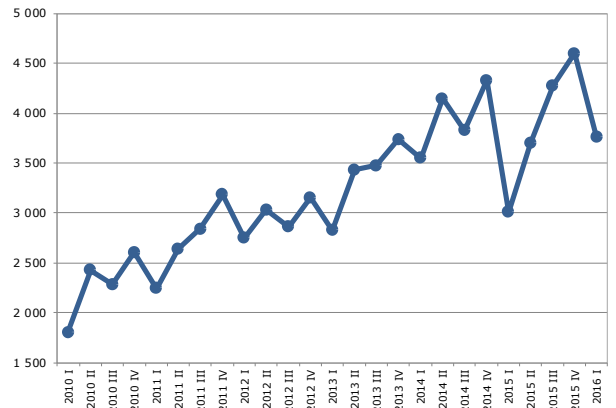
The beginning of the year did not bring any major changes in the office sector. In Kaunas, the reconstruction of an administrative building (Neris Business Centre) next to the Neris krantinės Street was completed offering about 1,700 sqm of office premises. In Q1 2016, the total office area in **Kaunas** increased to **91,600 sqm**. While development of larger office projects is in the planning in Kaunas (one of the largest is the reconstruction/construction of the building on K. Donelaičio Street; Mikrovisatos Valda is planning to develop another office building on Savanorių Avenue), local developers are trying to offer smaller modern office buildings for lease to the market.

The volume of construction of non-residential buildings within the country
(million EUR)



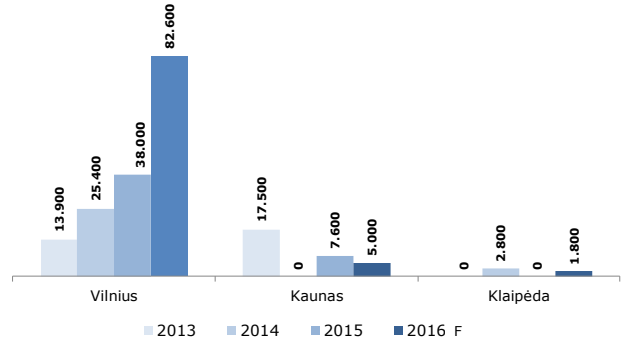
Source: Statistics Lithuania Data: 2010 - 2016

Number of non-residential real estate transactions in Lithuania



Source: SE Centre of Registers Data: 2010 - 2016

New modern office supply (GLA, sqm)



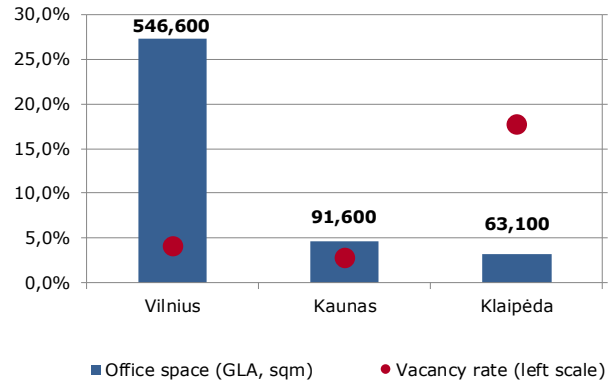
Source: Ober-Haus Data: 2013 - 2016

Completion of a small administrative building on Taikos Avenue and a multifunctional project Žaliakalnis Terraces with some administrative premises are scheduled this year in Kaunas. Development of such small projects is conducive for the office market in the city of Kaunas, because the city remains attractive to both local and international businesses. The vacancy rate in **Kaunas** is still very low and at the end of Q1 2016 stood at **2.8%** (2.6% at the end of 2015). Positive changes in the rents of office space also contribute to successful implementation of projects. In Q1 2016, rents increased by **3%** on average in Kaunas amounting to **10.0–13.0 EUR/sqm** in A class buildings and **6.0–10.0 EUR/sqm** in B class buildings.

In Klaipėda, the completion of a new office building on Minijos Street (M19) is scheduled for mid-year. The total area of the building is 2,000 sqm and will not bring any major changes in the market, but tenants will be able to choose between previously completed projects and this functional and energy-efficient building. Although in Q1 2016, the vacancy rate in **Klaipėda** fell from 18.8% to **17.7%**, this does not offer a fundamental change in the overall situation in the market. The vacancy rates in this seaport town differ considerably from those in Vilnius and Kaunas. The lack of development of larger local or foreign businesses prevents a faster pace of development in the real estate sector, because only larger businesses can afford paying rents for new premises which meet their modern needs. Meanwhile small and medium-sized enterprises usually opt for premises located in old buildings where rents are less than **5.0–6.0 EUR/sqm**. In the meantime, rents in A class business centres stand at **8.5–12.5 EUR/sqm** and in B class buildings – at **6.0–9.0 EUR/sqm**.

Opening of six new business centres is scheduled in Vilnius this year. The usable area of the premises will total 82,600 sqm. This is a really great leap in the annual supply, which could only be compared to that in 2008, when nearly 90,000 sqm of office space area was offered to the market. At the moment, despite the growing competition, the occupancy rates in Vilnius remain very high. Since no new business centres were opened in Q1 2016, the vacancy rates in business centres in **Vilnius** remain unchanged and stand at **4.1%**; the total area of vacant office premises amounts to **22,300 sqm**, whereas the average area of unoccupied premises in buildings where office premises are offered amount to 640 sqm.

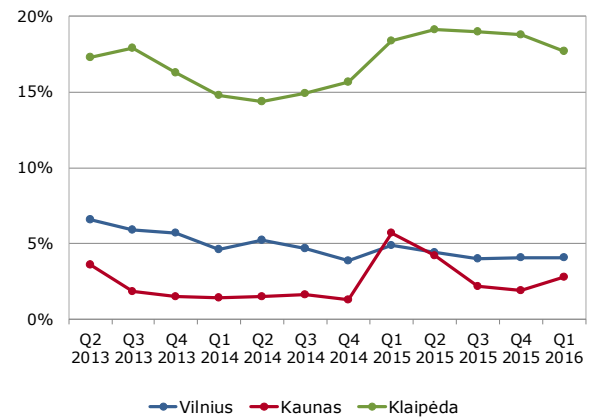
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q1 2016

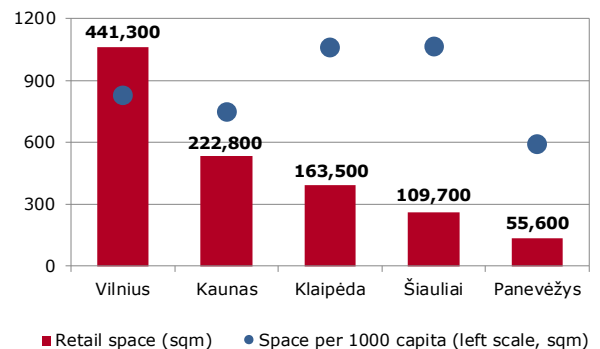
Modern office vacancy rate



Source: Ober-Haus

Data: 2013 - 2016

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



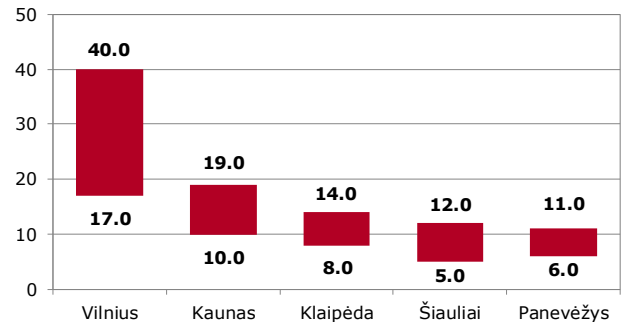
Source: Ober-Haus

Data: Q1 2016

Enterprises in need of larger office space (1,000–2,000 sqm) are essentially looking only at the projects in progress or projects being planned. Out of the 2016 supply, nearly half of the premises have already been leased.

Over the past six years, rents for modern office space in Vilnius have increased by 45% on average, but any further increase in rents will unlikely be so robust. The increase in rents since 2010 has clearly been determined by the improving economic situation in the country and the development of new enterprises in the capital city, therefore the demand for new premises essentially outpaced the overall supply of new premises, because real estate development has still been hampered by the fear of stagnation. No major price changes were recorded in Vilnius in Q1 2016 and rents for A class offices stood at **13.5–16.5 EUR/sqm** and for B class offices – at **8.0–13.0 EUR/sqm**. It is likely that the particularly active current market will be able to absorb the major portion of supply this year and we will hardly see greater price corrections (both negative and positive) in the near future. However, the situation in 2017 is less clear. In view of the current construction in progress or planned projects to be launched soon, 9–10 projects/construction stages should be completed next year and the supply should increase by further 75,000–85,000 sqm. This will be the second year in a row that such large number of projects and area of office space have been on offer in Vilnius. In order to maintain the occupancy rate, the growth in demand for modern office space in 2016 and 2017 will have to be even faster than that over the past few years. Although the country's economic outlook is optimistic and development of services centres is positive, a pessimistic scenario of the increase in vacancy rates and an increase in the rent gap (when developers suspend further development plans due to the lack of tenants or compete by offering lower rents) cannot be excluded in 2017.

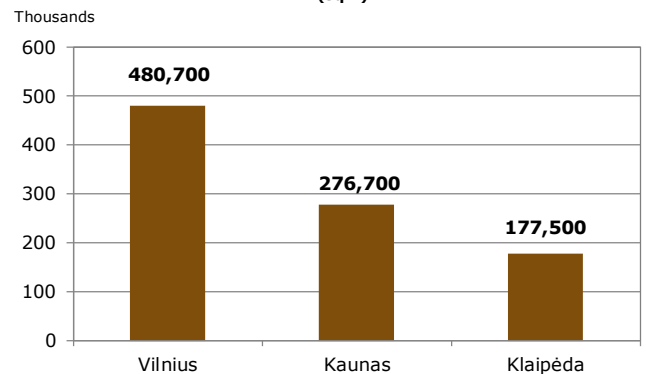
Main retail streets rents
(for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q1 2016

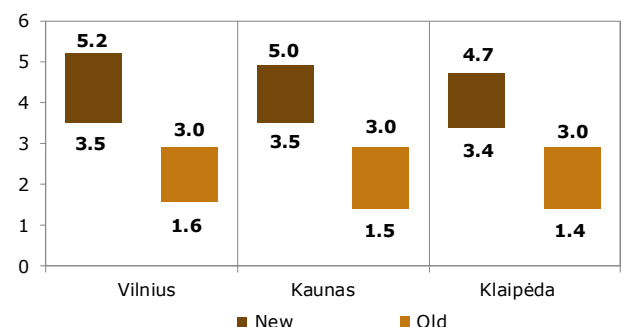
Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q1 2016

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



Source: Ober-Haus

Data: Q1 2016

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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