Lithuanian Commercial Real Estate

Q3 2015

MARKET COMMENTARY

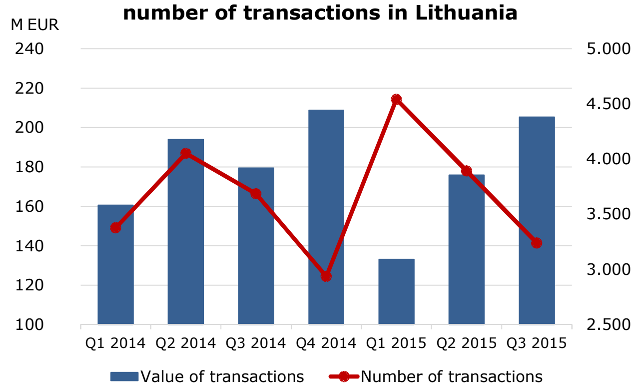
Interest in various commercial premises in Lithuania still persists and remains in a sufficiently high level. According to the State Enterprise Centre of Registers, during the first nine months of 2015, **3% fewer** transactions for non-residential property (buildings and premises) were concluded in **Lithuania** than were concluded in the same period in 2014. While a slight decline has been recorded in 2015, the overall number of transactions for this type of property remains high and is on average 44% higher than that during the same period in 2009–2013. Therefore, this year's activity in the commercial property sector (like in the previous year) remains at a high level and is almost comparable to the indicators recorded in 2004–2007. If we take the total value of the transactions **in Lithuania**, it is by **6% higher** in the first nine months of 2015 than that recorded for the non-residential property in the same period last year.

Similar trends have been recorded in the sector of large commercial properties **in Lithuania**. Over the first three quarters of this year, 8 investment transactions (*direct, indirect and forced acquisitions of existing modern office, retail and warehousing/industrial premises whose value is in excess of EUR 1.5 million*) were concluded totalling almost **EUR 183 million** or 6% higher value than that recorded in the same period last year. This year, 10 real estate objects have been acquired; their total area is 146,300 sqm (122,500 sqm of retail premises, 18,300 sqm of offices, and 5,500 sqm of warehousing/industrial premises).

According to the value of the acquired property, Switzerland (36%) accounts for the largest share of investment following the acquisition of Vertas Business Centre in Vilnius and two shopping centres in Kaunas and Klaipėda (Molas and BIG) by the international investment company Partners Group. Denmark is the second largest investor with its share of 20%, Estonia – 16%, the Netherlands – 13%, Lithuania – 12% and Sweden – 3%. Investors are interested in both fully completed/leased buildings and in the property that requires additional investment, search for tenants or changes in the tenant structure. Investors with experience who see further development prospects in a real estate object are not afraid to invest in the projects that may not look attractive. The supply of the objects for sale on the market is very limited, therefore investors consider various options. It is therefore likely that this year the volume of investment recorded in 2014, where a total of EUR 208 million was invested in modern commercial property, can be easily achieved.

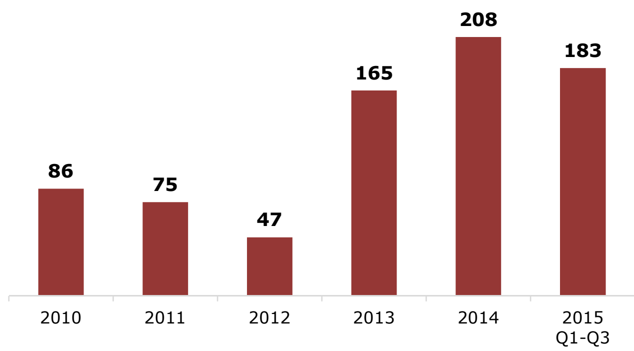
Investors continue to show great interest in successfully operating shopping centres (the majority of investment this year has been made in shopping centres), which due to growing consumption

Commercial property transaction value and number of transactions in Lithuania



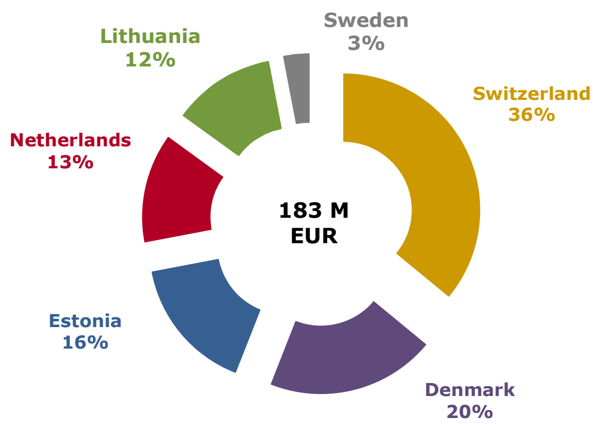
Source: SE Center of Registers | Data: 2014 - 2015

Investment volumes
(modern commercial property in Lithuania, million EUR)



Source: Ober-Haus | Data: 2010 - 2015

Commercial investment volumes in Lithuania
(by country)



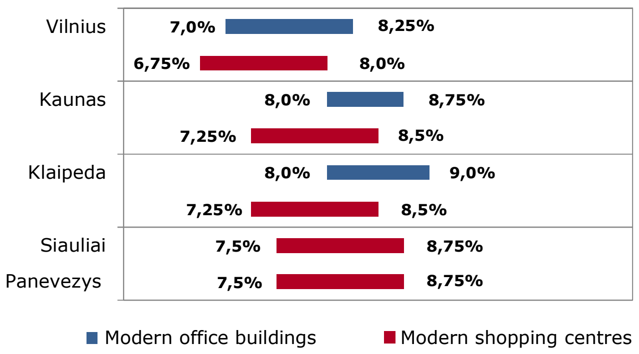
Source: Ober-Haus | Data: Q1 – Q3 2015

keep increasing their operating income. Although the supply of new projects in Lithuania is not very huge, developers have started implementing projects on a larger scale. After a six-year break a larger shopping centre opened in Vilnius. The first phase of the development of the Nordika Shopping Centre was completed near IKEA offering over 15,000 sqm retail space (in 2016, after the completion of the second phase, the shopping centre will have over 35,000 sqm of retail leasable area). It is the 25th shopping centre **in Vilnius** (in the sense of a traditional shopping centre with the usable area of at least 5,000 sqm and more than 10 different tenants) and after the opening of this shopping centre, the usable area of shopping centres has reached **439,400 sqm.** No larger shopping centres were opened in Q3 2015 in other cities of Lithuania and the total retail area remains unchanged: **221,200 sqm in Kaunas**, **163,500 sqm in Klaipėda**, **109,700 sqm – in Šiauliai**, and **55,600 sqm – in Panevėžys.**

Interest of investors in office buildings also remains quite high. However, potential buyers are only interested in the projects developed in the capital city. The fifth office building this year was opened in Vilnius in Q3 2015. K29 project offers around 13,500 sqm of A class office space and is already occupied by such companies as American International Group (AIG), Nasdaq, KPMG Baltics, Seesam and others. In Q3 2015, the total usable area of modern office space **in Vilnius** increased to **539,800 sqm**. With prospects for new projects still pending in Kaunas and Klaipėda (construction of a small administrative building on Minijos Street is underway in Klaipėda and a larger project is planned in K. Donelaičio Street in Kaunas) the supply of modern office space remains unchanged: **90,800 sqm in Kaunas** and **63,100 sqm in Klaipėda**.

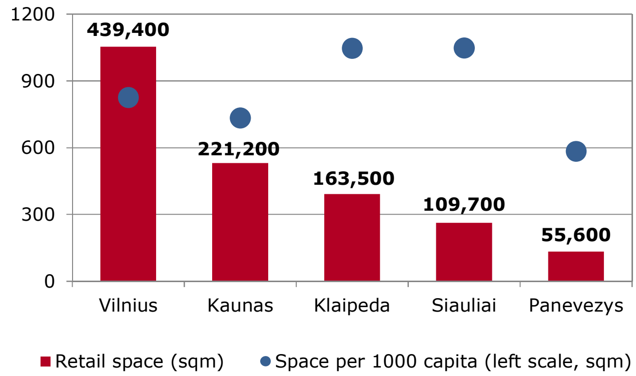
The abundance of office space development projects currently in progress or in planning in Vilnius fuels various discussions regarding rapidly growing supply and demand in the near future. In theory, over the next 15-18 months, around 100,000 sqm of office space will be offered to the market. In 2012–2014, 38,000–43,000 sqm of modern office space was leased **in Vilnius each year**, whereas over the first three quarters this year, the demand for modern office space stood at over **40,000 sqm**. It is likely that the total area of office premises leased in 2015 will reach 50,000 sqm and this will be the largest take-up indicator since 2010. It is obvious that new projects are being developed because of objective reasons (real demand) and the main reason is the demand from international companies (service centres). K29 business centre which was nearly fully leased on its opening day shows the presence of real demand. So it is extremely important for further development prospects of the office market in Vilnius whether Lithuania will continue to attract new and to retain

Commercial property yields



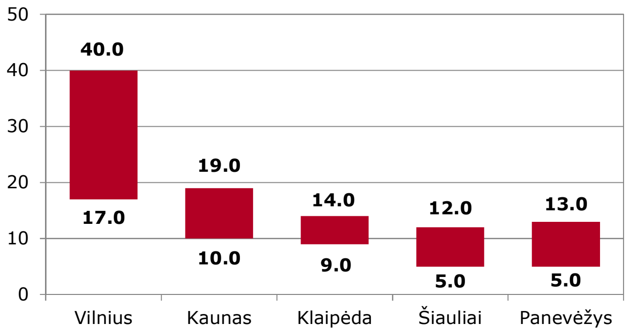
Source: Ober-Haus Data: Q3 2015

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



Source: Ober-Haus Data: Q3 2015

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



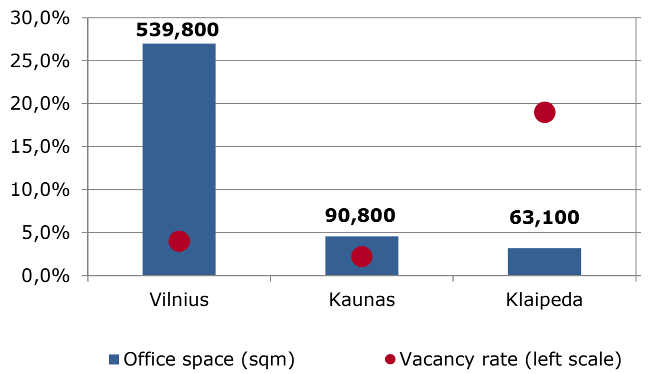
Source: Ober-Haus Data: Q3 2015

the existing enterprises, whose employees require premises that meet their contemporary needs.

The level of vacant premises in the capital city also supports optimistic prospects. The vacancy rate for office space in Vilnius in Q3 2015 decreased from 4.4% to **4.0%** amounting to 21,700 sqm. The analysis by segments shows that the vacancy rate for B class business centres has decreased to 5.5% and for A class business centres it is only 1.5%. The situation in the sector of modern offices in the second largest city in the country is also positive. Although due to the newly opened business centre on Savanorių Avenue the vacancy level **in Kaunas** in Q1 2015 increased to 5.7%, in Q2 and Q3, it decreased to **2.2%**. There is demand for modern office space in Kaunas, but it still lags behind that in the country's capital city. As a result, developers should expect that the realisation of new projects may not be as rapid as that in Vilnius. In the meantime, no market changes can be seen **in Klaipėda**. The vacancy rate at the end of Q3 2015 stood at **19.0%** and despite minor annual variations remained at the same level as the average vacancy rate recorded in 2010–2014.

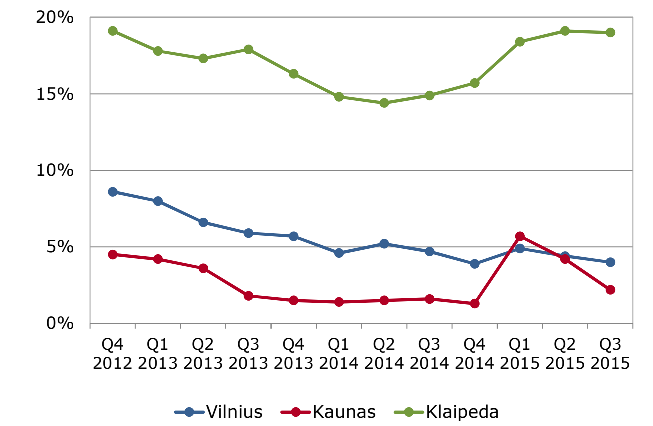
Despite the difference in the situation in Vilnius, Kaunas and Klaipėda, the price level of office premises in all cities currently remains essentially stable or a small rise has been recorded. Office rents in these cities over the past five years have significantly increased: the rise in modern office rents in Vilnius is 31%, in Kaunas - 48%, and in Klaipėda - 46%. This increase partially offsets the losses of the recent recession. Therefore, any major price changes in the current situation are unlikely. It seems that growing competition between developers will prevent any rise in prices, while the good economic situation in the country and attention to Vilnius (and to a certain extent to Kaunas) from international companies basically guarantee that there are no premises for the current price level to decrease. At the moment, rents of A class office premises **in Vilnius** are **13.0–16.0 EUR/sqm**, B class – **8.0–12.0 EUR/sqm**. Meanwhile **in Kaunas** A class office rents are **9.7-13.0 EUR/sqm**, and **in Klaipėda** about **8.5–12.5 EUR/sqm**. B class office rents **in Kaunas** range **5.8–8.0 EUR/sqm** and **in Klaipėda – 5.5–7.5 EUR/sqm**.

Modern office stock and vacancy rate



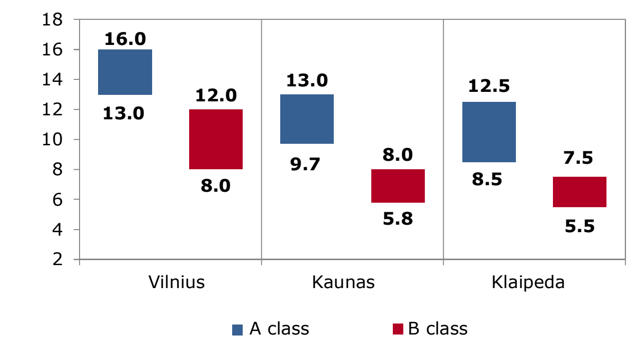
Source: Ober-Haus Data: Q3 2015

Modern office vacancy rate



Source: Ober-Haus Data: 2012 – 2015

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



Source: Ober-Haus Data: Q3 2015

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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