Lithuanian Commercial Real Estate

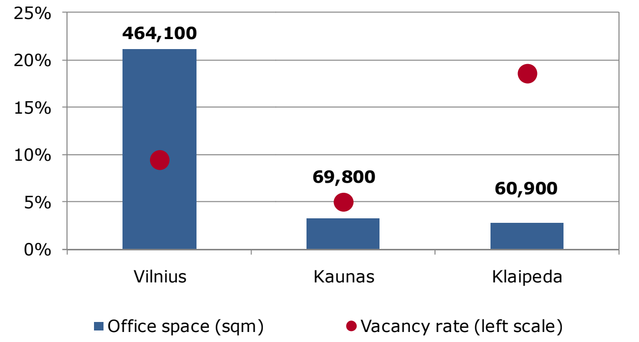
Q2 2012

MARKET COMMENTARY

Despite recent growth in the construction of new business centres in the capital, the take up rate of office premises still remains relatively sluggish. In the first half of 2012, **16,100 sqm** of office premises was leased which is **22% more** compared to the same period last year, when 13,200 sqm were leased **in Vilnius** business centres. This change was mainly driven by one large deal in Vilnius office market (Lithuania Post has leased 5,000 sqm office premises from MG Valda in Business Triangle). Although market activity has essentially remained at the same level for the last few years, the take up of office premises has been notably behind that of the 2010 period, when a sharp increase in new business start ups and record low rents encouraged further expansion and establishment of new enterprises in modern business centres. The entry of global business giants, Barclays and Western Union, should not be forgotten as this notably increased office occupancy rates at the time, and gave much hope to building owners and real estate developers. Unfortunately, this trend did not continue and since 2010, no large foreign companies have expressed any wish to rent. The area of office premises leased in Vilnius in 2012 is two times less than at the same period in 2010, i.e. 34,200 sqm. If we look at the leasing market by class for this year, we see that like last year most companies were interested in B class office premises. Of all premises leased during the first half of 2012 in Vilnius, B class office premises accounted for 76% and A class – 24% (the same as in 2011). This shows that the majority of enterprises prefer modern functional office space at a lower rent rather than prestigious premises.

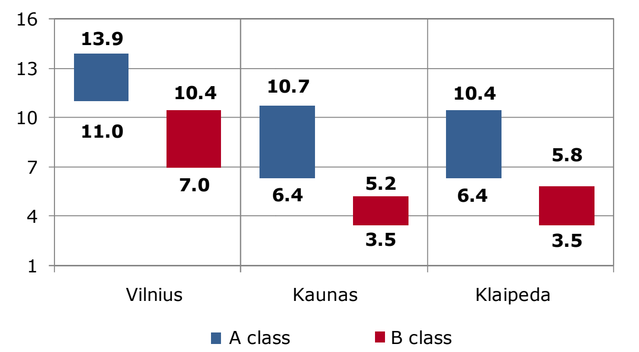
Reduced demand and rapid development of new projects have determined that the office vacancy rate in Vilnius is once again increasing. Unlike the other major Lithuanian cities where there have been no new developments, in Q2 2012, Vilnius saw the completion of three business centres (Merchants' Club on Gedimino Avenue, BC 12 on Jasinskio Steet, and Jan on Pilaitės Avenue). With the completion of these business centres, which have 12,300 sqm of total usable area, the total GLA area **in Vilnius** increased to **464,100 sqm**. During Q2 2012, the vacancy rate in Vilnius increased from 8.9% to **9.5%** (A class – 7.6%, B class – 10.7%) and the total vacant area available increased from 39,900 sqm to **44,000 sqm**. It is likely that similar trends will be observed in this sector until the end of the year – new projects will be finished, yet the existing demand (if it does not grow) will have a negative impact on the occupancy indicators. It is also worth noting that the occupancy of individual newly built business centres is growing at the expense of older business centres, i.e. companies migrate between office buildings, in most cases – from older to newer ones.

Modern office stock and vacancy rate



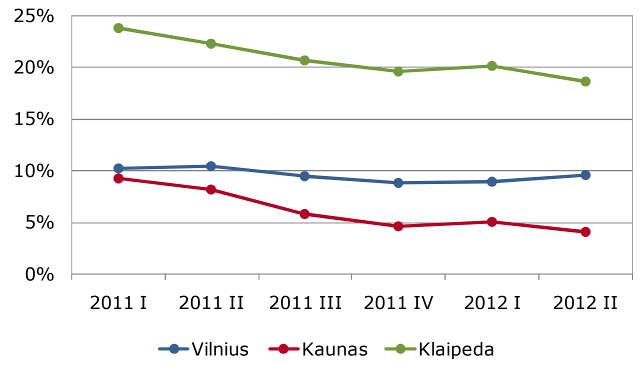
Source: Ober-Haus Data: Q2 2012

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



Source: Ober-Haus Data: Q2 2012

Modern office vacancy rate



Source: Ober-Haus Data: 2011- 2012

Lithuanian Commercial Real Estate MARKET COMMENTARY Q2 2012

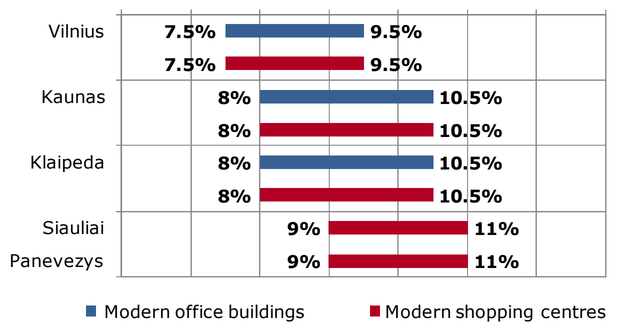
The modern office market in the cities of Kaunas and Klaipėda is stabilised and the statistical indicators are improved by the virtual suspension of new construction projects. **Kaunas**, in comparison to all the other major cities, it seems can boast of the best vacancy rate indicator, which was just 4.0% at the end of Q2 2012, and the vacant office area was 2,800 sqm. During Q2 2012, the vacancy rate **in Klaipėda** fell from 20.1% to **18.6%** with a figure of **11,300** sqm in already completed business centres.

No major changes were recorded in rents during Q2 2012. Rents have remained largely unchanged since the beginning of 2012, except for a slight (0.3-0.6 EUR/sqm) drop in the rents of more expensive offices in Klaipėda: **in Vilnius**, A class office rents are **11.0–13.9 EUR/sqm** and B class – **7.0–10.4 EUR/sqm**. **In Kaunas** and **Klaipėda**, A class office rents are **6.4–10.7 EUR/sqm** and B class – **3.5–5.8 EUR/sqm**. It is likely that this year will see no major changes in rents in either Vilnius or Klaipėda. In the current economic climate, the increasing supply of new offices in the capital and an extremely high vacancy rate in Klaipėda do not create preconditions for increases in rent in these cities. Only Kaunas, with the least amount of vacant office space, could expect to see positive rents changes in the near future. However, this also requires greater demand, which can only be created by economic growth of the city.

The situation in the Lithuanian market of shopping centres essentially remains stable and no greater external changes can be observed (except for some internal negotiations regarding lease prices between landlords and tenants of shopping centres). However, the situation in the main retail streets is changing for the better. The recovery of such streets that started last year continues this year. At the peak of the crisis one in five or six retail premises on the streets were unoccupied (i.e. occupancy rates were 80–85%), the number of vacant premises has now significantly decreased and further increase of rents has been recorded.

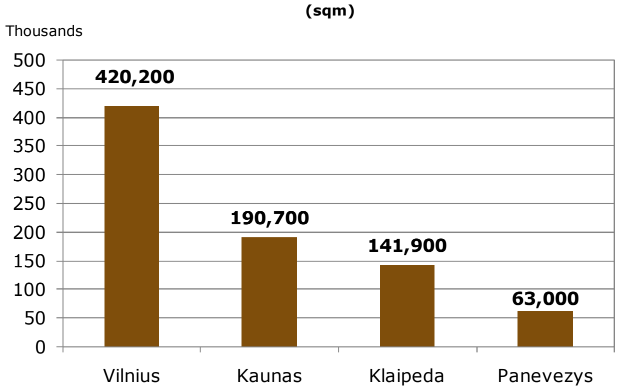
The fastest recovery is seen in the main retail streets of the capital (Gedimino Avenue, Pilies Street, Didžioji Street, Vokiečių Street), which continue to show improved occupancy rates. Currently, the total occupancy rate in these streets is **92.4%**; this means that only one in thirteen premises (suitable for retail trade or various services) are not occupied. Gedimino Avenue continues to have the lowest occupancy rate (90.7%), mainly because of the least visited stretch of the avenue from the intersection of Gedimino Avenue and V. Kudirkos Street to the Parliament Building. Vokiečių and Pilies streets can boast of the highest occupancy rates of 95.7% and 94.1%

Commercial property yields



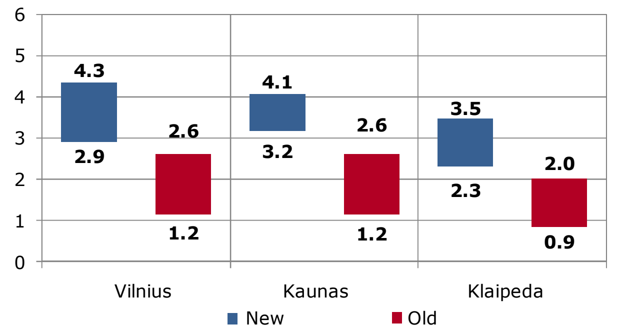
Source: Ober-Haus Data: Q2 2012

Modern warehouse stock
(sqm)



Source: Ober-Haus Data: Q2 2012

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



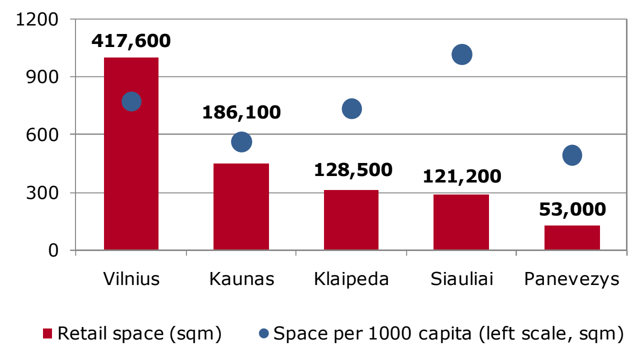
Source: Ober-Haus Data: Q2 2012

respectively. It has recently been observed that new brands or businesses have taken leases on previously vacant premises and new tenants are replacing older ones. Basically, these retail streets have already changed their face, which used to be associated with clothing, footwear and luxury goods. Today different products or services dominate in these streets.

So what is the new face of the major retail streets of Vilnius? Nearly a third of the premises (**28.9%**) are occupied by cafes/bars, clubs, and fast food outlets, which attract new flows of people to these streets almost at any time of the day. This is particularly advantageous to enterprises engaged in other activities that require higher flow of people. Enterprises, which provide various services (offices, pharmacies, travel agencies, insurance companies, hairdressers, opticians and mobile communications outlets) occupy a significant proportion (**26.9%**) of the premises. Clothing and footwear shops are the third largest tenants and account for **20.1%** of all premises. Jewellery, accessories and gift shops, which are an integral part of Pilies Street and account for more than one third of the premises of this street, occupy **12.5%** of all premises. Branches of credit institutions (banks) account for **6.0%** and shops offering food products and beverages – **5.6%** of the premises.

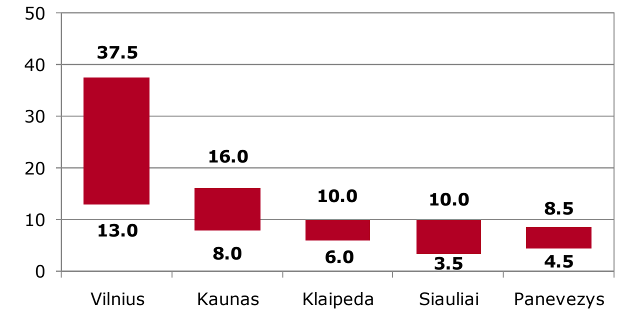
The growing interest in retail premises in attractive locations improves the negotiating positions of their owners. In the first half of 2012, rents for retail premises in the main retail streets of **Vilnius** increased by **10–20%** and today the rents for medium sized (about 100–300 sqm) units in these streets is usually around **13.0–37.5 EUR/sqm**, i. e. from 11.6 EUR/sqm in the least attractive locations (the part of Gedimino Avenue mentioned above) to 40.6 EUR/sqm in the most attractive locations (the beginning of Gedimino Avenue or the most prominent premises on Didžioji Street). Although other major Lithuanian cities cannot boast of a significant rise of rents, it is observed that new tenants are occupying the premises at affordable prices. The main commercial streets in Kaunas, Klaipėda, Šiauliai and Panevėžys have occupancy rates of **92–96%** possibly due to continuing record low rents: **8.0-16.0 EUR/sqm in Kaunas, 6.0-10.0 EUR/sqm in Klaipėda, and 3.5–10.0 EUR/sqm in Šiauliai and Panevėžys**.

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



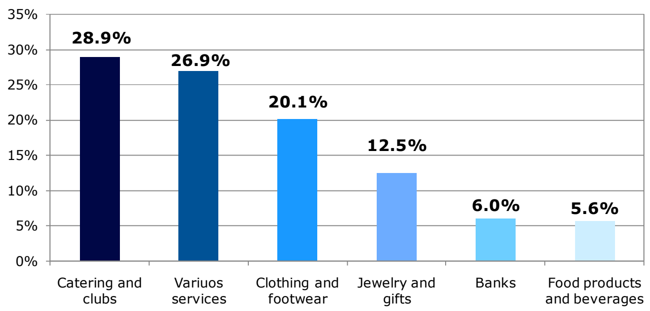
Source: Ober-Haus Data: Q2 2012

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



Source: Ober-Haus Data: Q2 2012

Tenants distribution by sector in main retail streets of Vilnius
(Gedimino Ave., Pilies St., Didžioji St., Vokiečių St.)



Source: Ober-Haus Data: Q2 2012

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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