

MARKET COMMENTARY

No major changes in the commercial property sector in the main Lithuanian cities were observed in Q3 of 2010, although the modern office premises sector has retained the first positive rents and occupancy trends recorded in the middle of the year. Unfortunately, the retail and warehousing premises sectors has not shown any signs of revival yet and it seems obvious that a more rapid revival of the national economy is needed for any positive changes to appear.

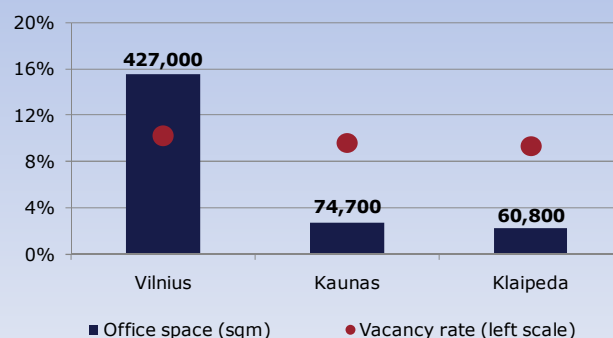
A decreasing office vacancy rate has been recorded for the fourth quarter in a row in Vilnius and Kaunas and for the third quarter in a row in Klaipėda. During the past quarter, the vacancy rate for modern office premises (class A and B) in **Vilnius** decreased from **11.2%** to **10.2%**, and the overall area of vacant premises dropped from 48,000 sqm to 43,500 sqm. The overall vacancy rate for modern office premises during Q3 2010 decreased from **12.7%** to **9.6%** in **Kaunas** and from **11.4%** to **9.3%** in **Klaipėda**. Accordingly, the areas of vacant premises at the end of Q3 2010 in these cities were 7,200 sqm and 5,600 sqm. It seems obvious that financially strong companies are attracted by the modern office rents which have declined considerably. The minimum offer of new offices (no major business centres were opened this year in Vilnius, Kaunas, or Klaipėda) and the scarce hope of any increase in new space in the near future (completion of construction of two office buildings is planned this year in Vilnius only, the total leasable area will equal approximately 21,000 sqm and most of it is already rented) improve the occupancy indicators of already operating business centres and even encourage some owners to gradually raise rents.

Although rents of modern office premises in Vilnius, Kaunas, and Klaipėda at the end of Q3 2010 remained similar to those at the beginning of this year, some business centre owners who had solved the occupancy issue have raised the rents of vacant premises by 5 to 7%, thus expanding the range of rents in modern business centres. At present, class A offices in **Vilnius** are offered for rents of **9.3–13.9 EUR/sqm**, while class B offices are offered for **5.8–8.7 EUR/sqm**. In **Kaunas** and **Klaipėda**, class A offices are offered for **5.8–10.7 EUR/sqm** and **4.6–10.1 EUR/sqm** accordingly, and class B offices—for **2.9–5.2 EUR/sqm**. However, some office premise owners do not have any reason to raise rents and must fight for their tenants by offering lower rents compared to those set by competitors. Similar rent trends are likely to remain for the near future, i.e. it seems very unlikely that any major change is underway.

The retail property sector has still to bottom out. Although some market players have started talking about the first positive changes, statistical data is uncompromising and shows the actual situation dominating in this sector. According to data from the Lithuanian Department of Statistics, in January–September 2010 retail turnover dropped by 8.3% compared to the same period in 2009. Retail turnover for the same period, with the exclusion of trade in motor vehicles and motorcycles, was smaller 11.1%. However, the owners of shopping centres or individual retail premises also have very different situations. While some are beginning to record somewhat of an increase in turnover at their retail outlets, the remainder continue to suffer the same problems—the significantly lowered rents and the high vacancy rate do not allow them to reach any positive indicators.

Although the era of active shopping centre development in Lithuania has ended, some investors continue to dare to implement some minor projects. These are usually small shopping centres (up to 5,000 sqm), which are mostly targeted at a nearby residential population and which contain a foodstuffs or construction and finish material retail chain.

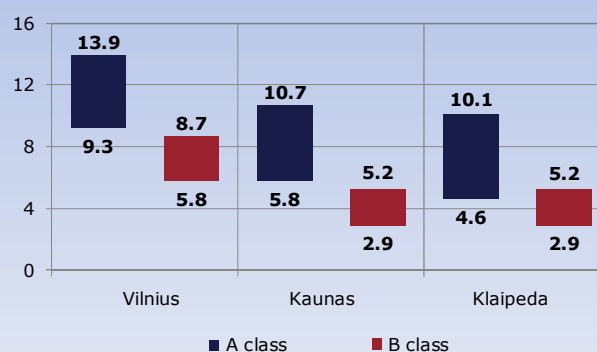
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q3 2010

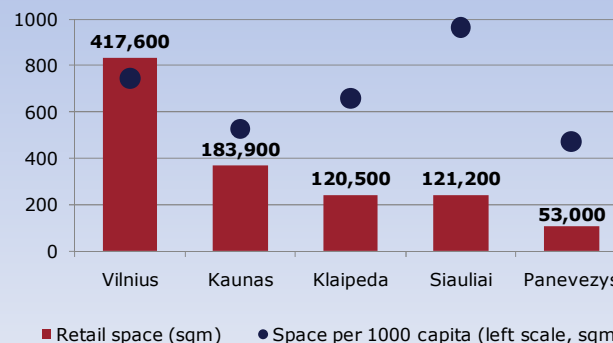
Modern office rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q3 2010

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



Source: Ober-Haus

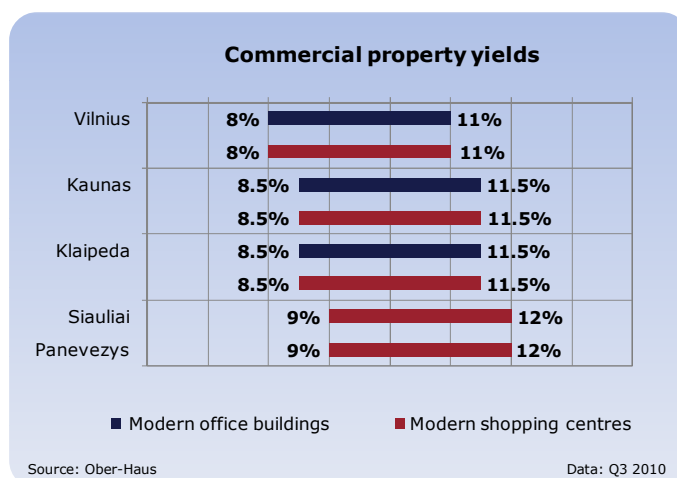
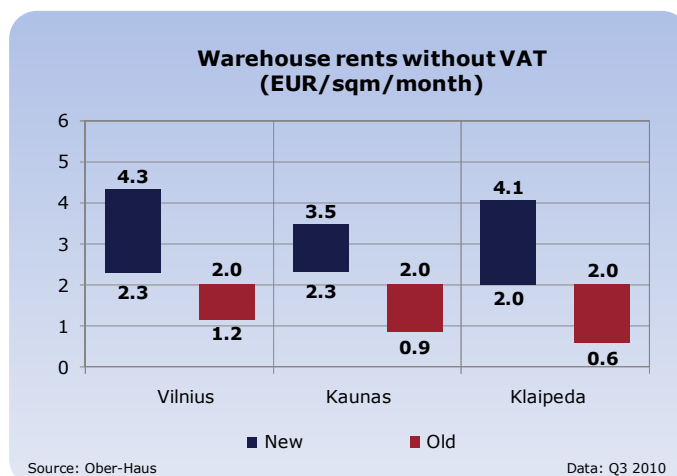
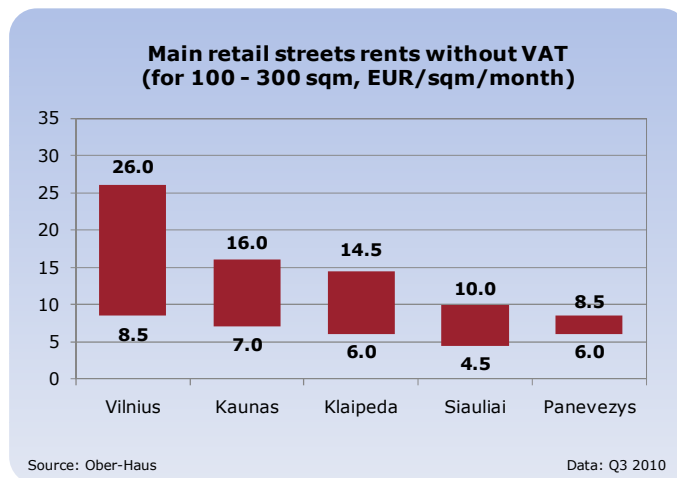
Data: Q3 2010

Lithuanian Commercial Real Estate MARKET COMMENTARY Q3 2010

The Banginis shopping park is currently being constructed in Kaunas. The largest space in Banginis will be occupied by the Senukai chain, which is already in operation, and a Prisma hypermarket, which is currently under construction and will occupy over 11,000 sqm. On completion of the second stage of construction, the two outlets will be united into one shopping park. A new residential and commercial building is being constructed in Laisvės avenue (main shopping street of Kaunas) in the place of former Merkurijus. The building will also have retail premises. The construction of building A of the Gariūnai business park, in which 1,100 traders can already work, has been completed in Vilnius. Most traders will transfer to this new business park from one of Lithuania's largest marketplaces which bears the same name. The construction of building B is planned to be undertaken later, on completion of which the total area of the business park will equal approximately 80,000 sqm. A Maxima shopping centre is under construction in the Pilaitė district in Vilnius. This is likely to become a serious competitor to the Pupa (with the key tenant Iki) and Rimi shopping centres operating nearby. A Maxima shopping centre of a similar size is also under construction in Tuskulėnų Street in the Žirmūnai district. The 6,100 sqm Liepa shopping centre is being constructed in Klaipėda. The key tenant will be Norfa with its new concept store. Also some construction and finish materials shopping centre is currently under construction in Panevėžys.

The owners of individual retail premises continue to face the same old problems: the steep drop in revenue and scarcity of tenants. Rents for retail premises in the main shopping streets remain at their record low and do not show any signs of revival. At the end of Q3 2010, rents for average size retail premises (approximately 100–300 sqm) in the main shopping streets were approximately **8.5–26 EUR/sqm** in Vilnius, **6–16 EUR/sqm** in Kaunas and Klaipėda, and **4.5–10 EUR/sqm** in Šiauliai and Panevėžys. However, rents of such premises, which have declined by 40–60% from the highest level reached, do not usually help in the search for tenants because with both the active development of new shopping centres and the economic recession shopping streets have lost their initial attractiveness. The current situation will only be improved by a more rapid economic revival and a growth in consumer purchasing power. This segment will have to wait a while longer for its revival because it is only possible with an improvement in people's financial situation and changes in their consumption habits.

The warehousing premises sector is increasingly encouraged by the improving results of transportation and warehousing companies. According to data from the Lithuanian Department of Statistics, the sale revenue of transport service companies in the first half of 2010 grew by 27.3% compared to the first half of 2009. This growth was determined by a 50.3% increase in the revenue of warehousing and transport-related service companies. Still, regardless of the obvious improvement of the operational results of these companies, which are the major users of warehousing premises, the warehousing sector does not show any signs of revival. The construction of new projects has been suspended, and rents for warehousing premises also remain at a record low. At present, rents for new warehousing premises in the **main Lithuanian cities** are offered for **2–4.3 EUR/sqm**, and old warehousing premises are offered for **0.6–2 EUR/sqm**. However, it could be forecast that, with the further successful revival of the national economy and increasing consumption rates, the construction of suspended projects will be resumed and the first positive changes in rents will be recorded.



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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