

Lithuanian Commercial Real Estate

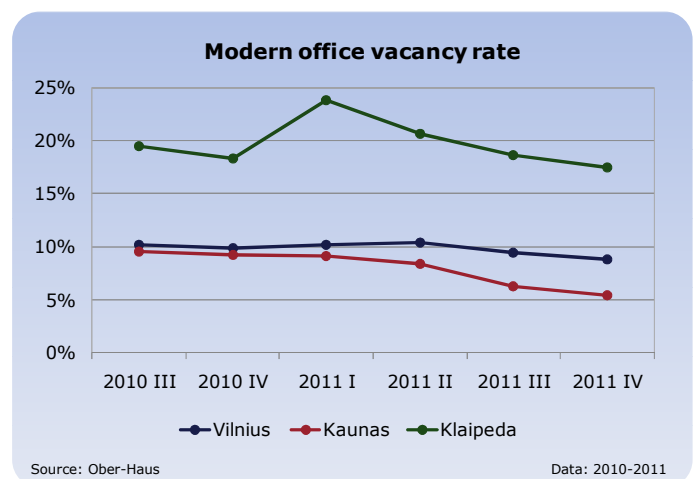
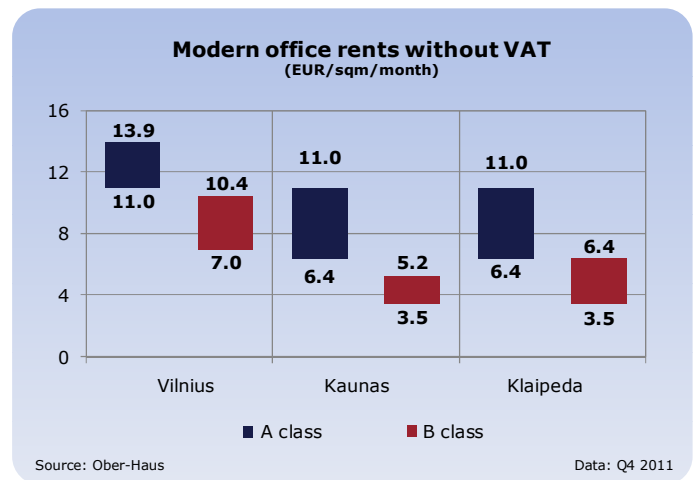
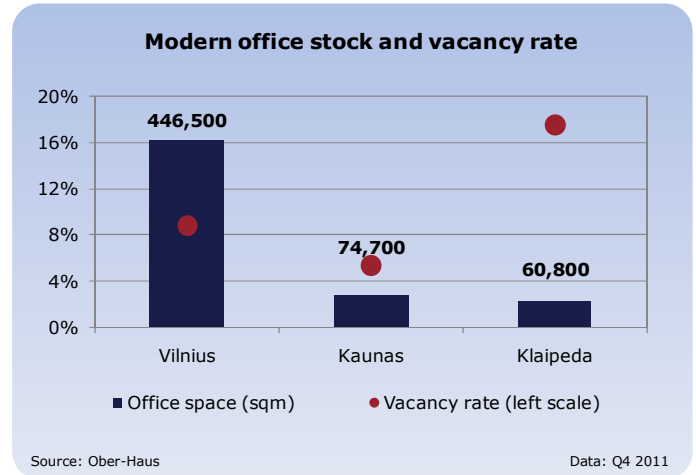
Q4 2011

MARKET COMMENTARY

Although the development of the Lithuanian commercial property market was quite sluggish in 2011, there was nonetheless, to the joy of property owners, a little price growth. Compared to 2010, property development volumes in this sector in 2011 were a third higher, but they were considerably lower than the quantity of floor area built in previous years. In 2011, developers in major Lithuanian cities carried out projects to construct office, retail and warehousing premises totalling 70,000 sqm of leasable area. This is almost six times less than the amount that was built annually in 2007–2009. This situation was caused by the natural response of developers to processes taking place both in the real estate market and the economy of the country. Projects are now being developed only if there is prior assurance concerning the occupancy of the building, i.e. by concluding lease contracts or other significant agreements in advance. This turn of events has led to a decrease in investment in the construction of new commercial buildings based on the belief in optimistic future prospects, but not on specific contracts.

In 2011, one office building, *Evita*, was built in Vilnius, and that was the only office building opened in the three major cities in Lithuania (Vilnius, Kaunas and Klaipėda). This new project supplemented the modern office market in Vilnius by 2,300 sqm and did not have any major impact on the development of the market. The total supply of modern offices in the capital city in 2011 increased just 0.5% and amounts **446,500 sqm**. The shortage of new supply influenced the positive developments in the occupancy rate of office premises. Over the last quarter of 2011, the vacancy rate of office premises in **Vilnius** decreased from 9.4% to **8.8%**. At the end of 2010, this indicator was 9.9%. The total area of vacant office premises in Vilnius at the end of 2011 decreased to **39,400 sqm**. The overall vacancy rate of modern office premises in **Kaunas** decreased from 6.3% to 5.4% and amounted to **4,100 sqm**, and in **Klaipėda** the vacancy rate fell from 18.6% to **17.5%** and amounted to **10,600 sqm** of area available in completed business centres.

As forecasted, the growth in office rents continued in 2011. In Vilnius, Kaunas and Klaipėda, it increased **6–11%** (0.6–0.9 EUR/sqm). Currently, A class office rents in **Vilnius** ranges from **11.0** to **13.9 EUR/sqm** and class B from **7.0** to **10.4 EUR/sqm**. In **Kaunas** and **Klaipėda**, the level of office rental prices is very similar: A class — **6.4–11.0 EUR/sqm** and B class — **3.5–6.4 EUR/sqm**. Price growth in 2011 was influenced not only by the improving performance of companies or decreasing area of vacant premises, but also by the relatively low price level, particularly in Kaunas and Klaipėda.



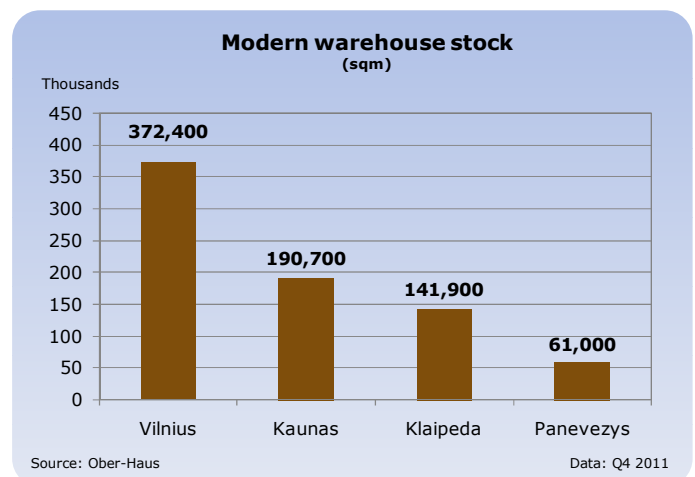
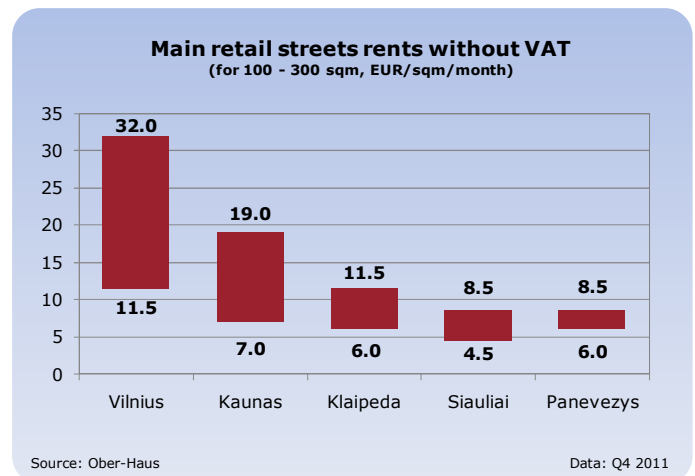
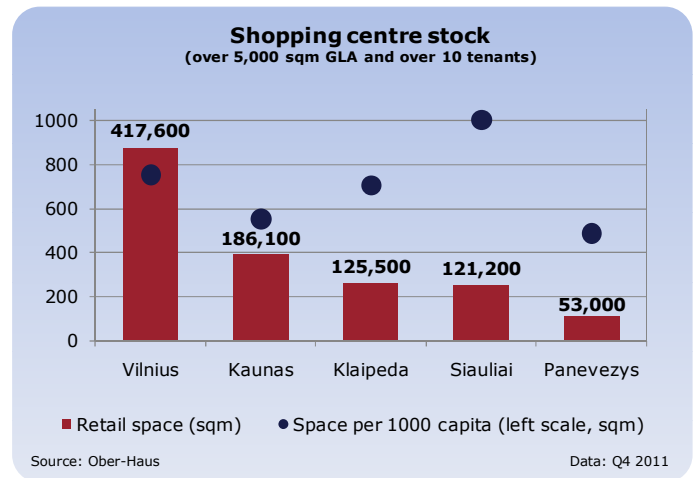
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Growing retail trade turnover and the positive performance indicators of companies in 2011 had an impact on the market of retail premises in the major cities of Lithuania. Owners of retail premises that for a long time stood empty in the high streets of the cities are finding it easier to attract new tenants or buyers. Attractive prices and a wide selection are encouraging the emergence of new commercial outlets in the retail streets of the cities. Empty premises are usually attracting gourmet or fast-food shops, cafes, night clubs, etc. Clothing or footwear retailers, which dominated the retail streets 5–10 years ago, are now looking for buyers in shopping centres. In 2011, rents of retail premises in the main retail streets in **Vilnius** and **Kaunas** on average increased **10%**, while in some cases the growth was 15–20%. In Klaipėda, Šiauliai, and Panevėžys, the rent level did not change substantially over the year. Rents for medium-sized (about 100–300 sqm) retail premises in such streets today approximate **11.5–32.0 EUR/sqm** in **Vilnius**, **7.0–19.0 EUR/sqm** in **Kaunas**, **6.0–11.5 EUR/sqm** in **Klaipėda**, and **4.5–8.5 EUR/sqm** in **Šiauliai** and **Panevėžys**.

The year 2011 was not marked by an abundance of very large new retail objects. At the beginning of last year, *Liepa*, a 6,200 sqm shopping centre, was opened in Klaipėda; *Ermitažas* and *PROMO Cash & Carry*, 14,000 sqm and 5,000 sqm shopping centres, were opened in Kaunas; and *Moki-Veži*, a 6,000 sqm shopping centre of finishing and building materials was opened in Panevėžys. In Vilnius, two supermarket centres of similar size (over 4,000 sqm) of the *Maxima XX* chain and, at the end of 2011, a 3,200 sqm *Norfa XXL* were opened. Judging by these projects, it is evident that the main trend of investment today is development of specific retail stores rather than large shopping complexes accommodating various tenants.

The existing large shopping centres increased their turnover over the past year and managed to attract new tenants. The overall vacancy rate in the shopping centres in Vilnius fell from **4.5%** to **3.7%** in 2011. Despite substantial competition and the very uncertain economic situation, new players are interested in the Lithuanian market. One of the largest European retail trade networks, *Lidl*, announced its plan to return to the Lithuanian market in 2013 by opening the first shopping centre in Alytus, and *IKEA*, one of the most famous furniture producers in the world, is planning to open its first franchise shopping centre (with an area of around 25,000 sqm) in the Baltic States in Vilnius.

After a long break, positive changes can be observed in the market of warehousing premises, where several new large projects were implemented. In 2011, a logistics centre with a 12,500 sqm storage area was opened in Sausupio Street in Vilnius, and near Vilnius (in Parapijoniškės) construction of a 8,500 sqm warehouse was completed.

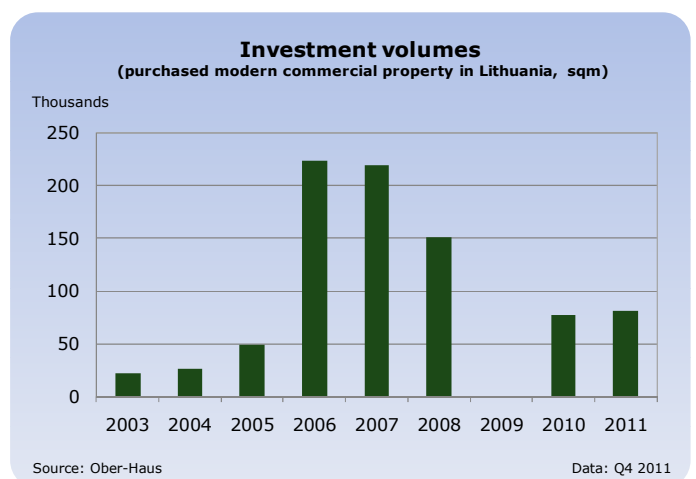
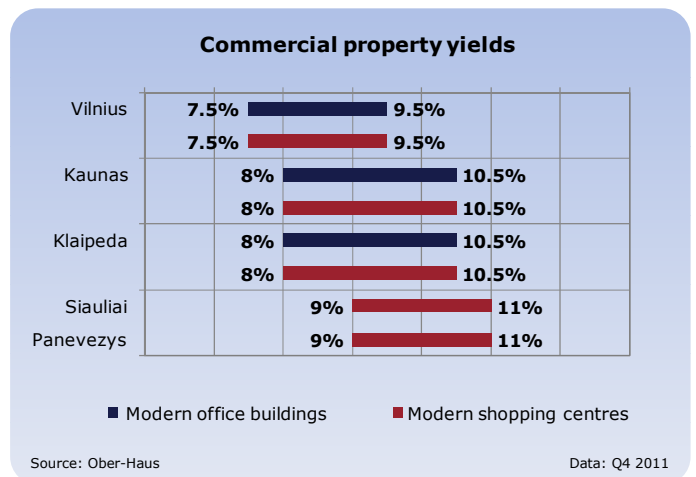
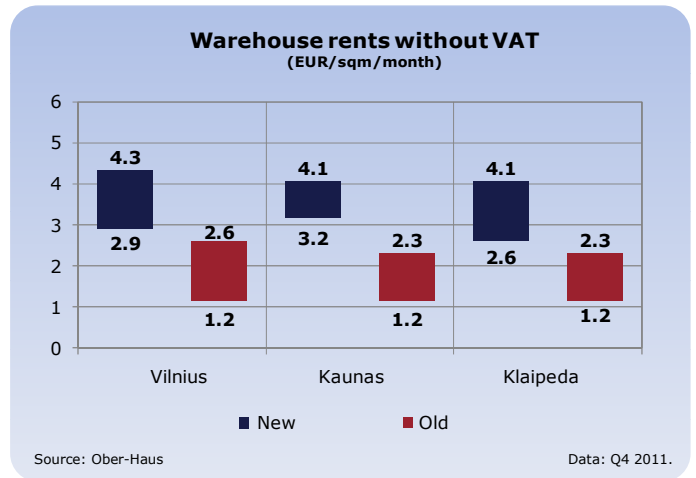


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The total area of modern warehousing premises in the city and district of **Vilnius** in 2011 increased by 5.5% and now reaches **372,400 sqm** of leasable area. At the end of 2011, the transport company Vlantana opened a 10,500 sqm logistics centre with offices, services, a petrol station, a motel, and 4,400 sqm warehousing premises near Klaipėda (Vilnius-Klaipėda highway). The total area of modern warehousing premises in the city and district of **Klaipėda** at the end of 2011 amounted to **141,900 sqm**. No new projects were implemented in other major Lithuanian cities last year. One important piece of news in the sector of transport and logistics was an agreement concerning establishment of the Vilnius Public Logistics Centre (PLC) near the settlement of Pagiriai, where private enterprises will be established that will contribute to the implementation of the "dry port" concept as early as in 2012.

Rents for warehousing premises in 2011 also showed positive developments. Last year, rents for new and old premises in the regions of **Vilnius, Kaunas, and Klaipėda** increased an average of **10–15%**. In **Vilnius** today new warehouses can be leased for **2.9–4.3 EUR/sqm** and old warehouses for **1.2–2.6 EUR/sqm**. New warehouses in **Kaunas** are being leased for **3.2–4.1 EUR/sqm** and old for **1.2–2.3 EUR/sqm** and in **Klaipėda** for **2.6–4.1 EUR/sqm** and **1.2–2.3 EUR/sqm** respectively.

Despite the stable situation in the commercial real estate sector, the volumes of investment transactions are not demonstrating substantial growth. In 2011, five fairly large investment deals (in terms of direct, indirect and compulsory asset acquisition) were concluded in Lithuania and nearly **81,000 sqm** of modern commercial (office, retail, and warehousing) premises were purchased. The total value of the acquired property is potentially **EUR 67 million**. The largest transaction in 2011 was the second sale of the *Babilonas I* shopping centre in Panevėžys, purchased for EUR 24.1 million by a Finnish investment company. It is worth mentioning that the former investor sold the shopping centre for a price that was 25% less than the purchase price in 2006. It should be noted that some investment transactions in 2010–2011 were concluded in the absence of normal market conditions because some property was compulsorily auctioned off or sold under special agreement between the buyer and the seller (pursuant to mutual debt settlement, loan refinance, etc.). It is likely that in 2012, there will be more of these "non-traditional" transactions because large foreign or local investors are still cautious about investing in the Lithuanian market and are not willing to pay the prices expected by the sellers.



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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