

Lithuanian Commercial Real Estate

Q4 2013

MARKET COMMENTARY

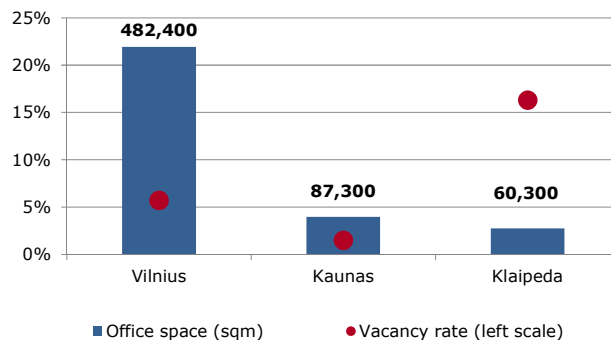


In 2013, the foundation was actively laid in the Lithuanian commercial premises market for further and likely more rapid growth of this sector. Despite various challenges that different regions of the country face (e.g. declining population, limited opportunities for development of new projects etc.), the mood in the market ranges from moderately positive to optimistic.

According to the Lithuanian Department of Statistics, 2013 saw the construction of non-residential buildings with a value of EUR 810 million or 5.8% more than in 2012. However, in 2013, not many new commercial projects were offered by developers to the markets of Lithuania's major cities: either projects were at the planning preparation stage or projects started but with completion dates of 2014–2015. The remaining projects in 2013 were initiated and implemented by companies that failed to find appropriate premises and therefore decided to develop projects for their own use.

Most of the development not surprisingly took place in the capital city. After a long pause, however, two new projects were also implemented in the second largest city, Kaunas. In 2013, an office building of about 15,000 sqm of usable area was completed by the Senukai company on Islandijos Road for its own administration staff. The other project was the reconstruction of an old administrative 2,400 sqm building in the area of Vilijampolė by e-business and programming services company NFQ. The opening of these two business centres meant that the supply of office space **in Kaunas** increased by a quarter and amounted to **87,300 sqm**. It is also obvious from these developments that financially capable companies that were unable to find suitable premises in Kaunas decided to realise their own projects to improve their work environment. Despite the extremely low vacancy rate in Kaunas, which at the end of 2013 was only **1.5%**, developers are not yet fully ready to supplement the poor supply by implementing new projects. In 2013, two new projects were completed **in Vilnius** too (GAMA and II stage of Baltic Hearts), which added an extra **13,900 sqm** of office space to the market. At the end of 2013, the total usable modern office space in Vilnius reached **482,400 sqm**. Meanwhile, **in Klaipėda**, no new projects were implemented. This was due to the very high vacancy rate in the port city, which was **16.3%** at the end of 2013.

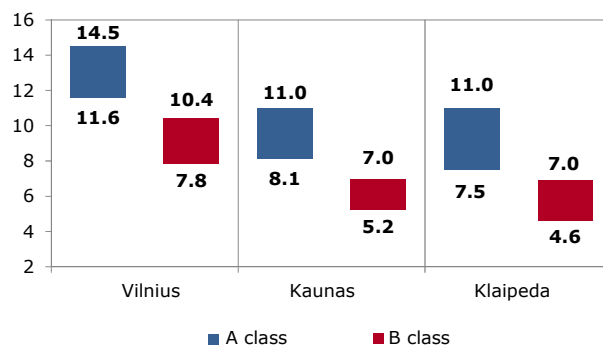
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q4 2013

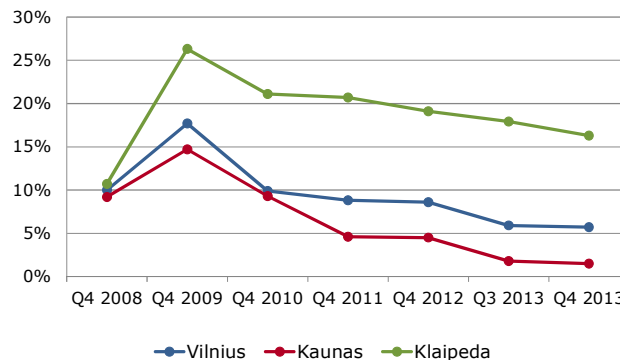
Modern office rents (EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2013

Modern office vacancy rate



Source: Ober-Haus

Data: Q4 2008-Q3 2013

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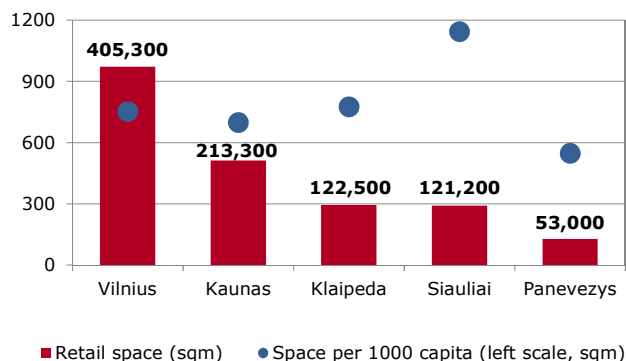
Q4 2013

The modern office market in Vilnius is increasingly more active. Total office take-up in **Vilnius** in 2013 was **42,900 sqm**, which was 11.6% higher than the 2012 and higher 34.6% than the 2011 result. This increase in performance was determined not only by the growing demand for modern offices located in existing business centres, but also by the success of new projects (business centres opened in 2013 were fully leased). Therefore, in 2013, the office vacancy rate in **Vilnius** fell from 8.6% to **5.7%**. Market trends in the top and lower class modern offices remain largely unchanged. The occupancy rate of A class business centres is quickly approaching the peak of 2006–2007, when the vacancy rate for A class business centres was 1%. Meanwhile, due to greater competition in the market of B class business centres we do not see the same high occupancy rates as we currently see in the A class office segment. At the end of 2013, vacancies in A class business centres were 2.7% (5,100 sqm) and in B class business centres, the figure was almost three times higher – 7.6% (22,500 sqm).

In 2013, office rents increased in all three major cities of the country. Decreasing vacancies had a decisive influence on this and also clearly showed that the major Lithuanian cities still had internal and external resources for the growth in demand. This provides the owners of business centres with leverage to continue to increase rents. In 2013, rents in **Vilnius** increased by an average of 6%. Today, A class office rents range from **11.5 to 14.5 EUR/sqm** and **7.8–10.4 EUR/sqm** for B class offices. However, the asking prices in newly developed projects in individual cases can be as much as **16.0 EUR/sqm**. In **Kaunas** and **Klaipėda** the annual rise in rents was higher with an average of **14%**. Higher relative growth in these cities was determined by the low price level, which only showed signs of increasing in recent years. Rents for A class offices in **Kaunas** are **8.1–11.0 EUR/sqm** and in **Klaipėda** – **7.5–11.0 EUR/sqm**. Rents for B class offices are **5.2–7.0 EUR/sqm** in **Kaunas** and **4.6–7.0 EUR/sqm** in **Klaipėda**.

In 2013, retail trade volumes grew at the same level as in previous years. According to the Lithuanian Department of Statistics, retail trade turnover (except for motor vehicles and motorcycles) compared with 2012 increased by 4.5%. The retail trade of second hand items (10.9%), textiles, clothing and footwear (10.3%), and pharmaceutical, medical and cosmetic goods (6.5%) saw the biggest increase. The turnover of food and beverage supply companies increased by 2.6% in 2012.

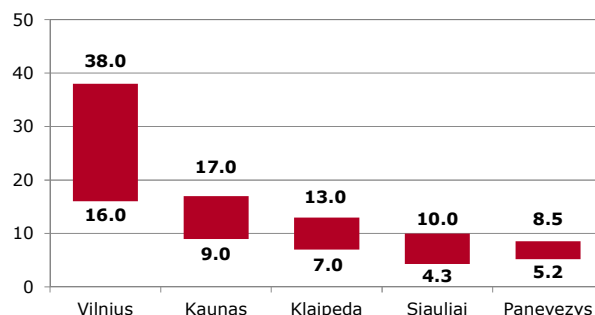
Shopping centre stock
(over 5,000 sqm GLA and over 10 tenants)



Source: Ober-Haus

Data: Q4 2013

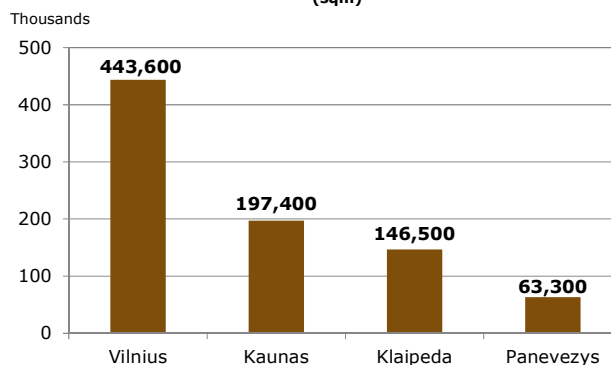
Main retail streets rents
(for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2013

Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q4 2013

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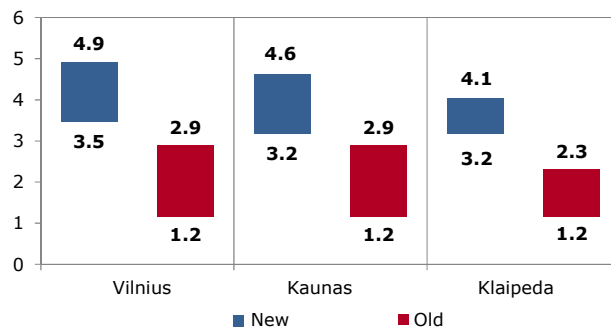
The growing retail trade turnover was reflected in the retail premises sector. Owners of retail premises not only enjoyed growing occupancy rates, but also had the opportunity to increase rents. The key market players that manage major shopping centres announced a gradual improvement in performance. For example, in 2013, the overall vacancy rate in **Vilnius** shopping centres declined from 3.2% to **2.3%**. The turnovers of tenants in shopping centres continued to show growth, e.g., at Ozas and Europa the growth was 12% and at Panorama – 6%. It is obvious that the improving performance of tenants allows managers of shopping centres to expect higher rental income. Despite the increase in rental income, which is linked to and dependent on the turnover of the shops, the growth of the fixed part of rents in successful shopping centres could have been around **5–10%**.

In 2013, only two new larger shopping centres were built in Lithuania. In August, Ikea opened a shopping centre with a total area of 26,500 sqm in Vilnius and at the same time a shopping centre with 7,200 sqm retail space managed by the Vičiūnai Group was opened in Kaunas. At the end of 2013, the renovated shopping centre Gedimino 9 was reopened in Vilnius. The anchor tenant of the shopping centre will be an H&M shop located over three floors (2,500 sqm or nearly a quarter of the total retail space of the shopping centre) that will open in spring 2014. In 2014, the supply of larger shopping centres will grow at a similar rate. In Vilnius, construction of Prisma (10,000 sqm) and DomusPro (I stage – 7,500 sqm) shopping centres will be completed and in Klaipėda, the new shopping centre Luizė (6,200 sqm) will be completed. There are more signs and discussions in the market about more rapid development of shopping centres, which could see projects that had been shelved now being restarted or new projects being implemented.

In 2013, the **5–7%** increase in rents of retail premises in the shopping streets of cities was recorded in **Vilnius** and **Klaipėda**. Prices remained stable in the other major cities of the country. Rents for average size (about 100–300 sqm) retail premises in the main shopping streets of **Vilnius** currently range between **16.0–38.0 EUR/sqm**, **8.7–17.5 EUR/sqm** in **Kaunas**, **7.2–13.0 EUR/sqm** in **Klaipėda**, **4.3–10.0 EUR/sqm** in **Šiauliai**, and **5.2–8.7 EUR/sm** in **Panevėžys**.

According to the Lithuanian Department of Statistics, in the first three quarters of 2013, operating income of warehousing and support services for transportation increased by 9.5% (sales revenues of warehousing and storage companies alone increased by 8.2%).

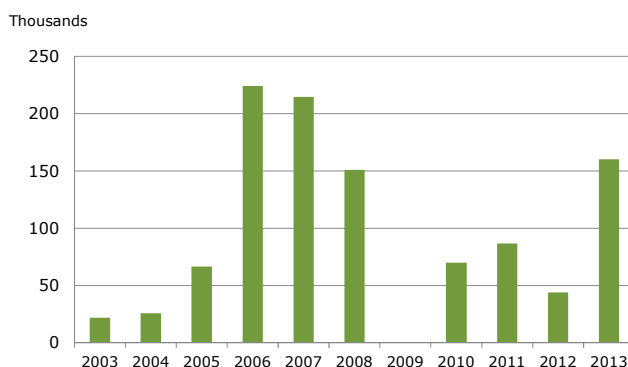
Warehouse rents
(EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2013

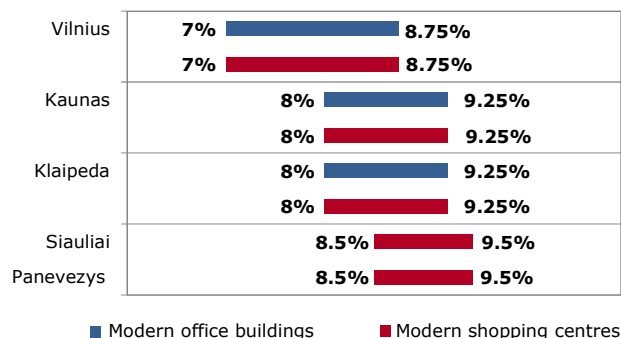
Investment volumes
(purchased modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2003 - 2013

Commercial property yields



Source: Ober-Haus

Data: Q4 2013

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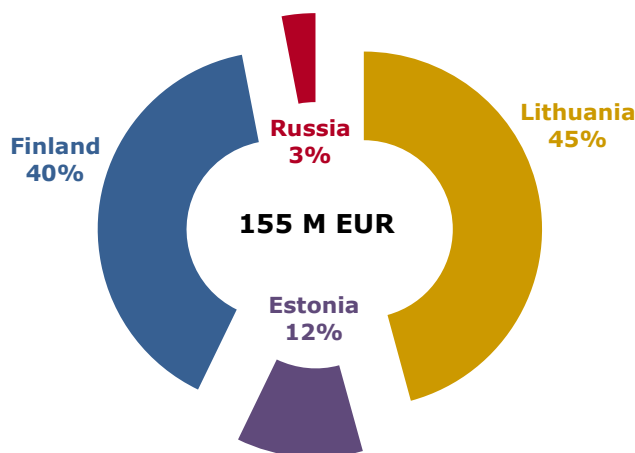
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Noticeable changes in 2012, when the operating income of warehousing and support services for transportation grew by 38%, and positive changes in 2013 encouraged companies to accelerate investment in the development of new warehousing and industrial buildings. Nevertheless, in 2013, only one project was implemented (Humana clothing sorting unit in Vilnius, a total area of 14,000 sqm). After some time, both developers and companies channelled significant investments into this segment. As a result, in 2014, up to 10 new projects can be expected in Lithuania, most for internal corporate use, but some premises will come on the open market. The following companies which are currently continuing their projects in Vilnius, Kaunas and Klaipėda regions can be mentioned: Transekspedicija, Arvydo Paslaugos, Autoveršlas, Hormann Lietuva, Entafarma, Wurth Lietuva, Limedika, Sanitex, Osama, Vlantana, and KLASCO.

In 2013, the most prominent changes could be seen in **Kaunas region**, where rents of new warehouses increased on average by **12%**. Rents in **Vilnius** and **Klaipėda regions** increased by **7%** and **4%** respectively. Currently, newly constructed warehouses are being offered for **3.5–4.9 EUR/sqm** and old premises for **1.2–2.9 EUR/sqm in Vilnius**. Rents of new warehouses are **3.2–4.6 EUR/sqm** and **1.2–2.9 EUR/sqm in Kaunas** and in **Klaipėda – 3.2–4.1 EUR/sqm** and **1.2–2.3 EUR/sqm** respectively.

In 2013, the highest figures for investment transactions were recorded since 2008 in the commercial real estate market of Lithuania. A total of 10 investment transactions involving the acquisition of **160,200 sqm** of the total area of modern commercial space (offices, retail, and warehousing/industrial facilities) were concluded. The total value of the acquired property was over **EUR 155 million** and was 38% higher than the combined figures of 2011 and 2012. Abundant investment injections were made in office and retail sectors: 57% of the investment went to offices, 30% – to retail premises and 13% – investments in warehousing/industrial facilities. Investment geography by country was as follows: Lithuania (45%), Finland (40%), Estonia (12%) and Russia (3%). It is likely that in 2014, similar investment indicators in commercial sector will be recorded, because both local and foreign investors have clearly demonstrated confidence in the country's economic recovery and the market itself.

Commercial investment volumes in Lithuania (by country)



Source: Ober-Haus

Data: 2013



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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