

Rough patch ahead for Lithuanian real estate developers

Economy

Lithuanian GDP growth cooled to just 3.2% in 2008, after seven years of better than 7% growth. Lithuania is no exception to the worldwide slump, and the consensus forecasts call for a -4.8% drop in GDP in 2009.

Inflation was 11% in 2008, after peaking at 12.5% in the 3Q. As credit tightens, demand plunges, taxes rise, and spending drops off, economists expect Lithuanian CPI to be 5-7% in 2009.

Officially reported salaries grew 20% in Lithuania in 2008, according to the Department of Statistics, but the main bank analysts report only 11% salary growth. The difference is that the official statistics include the increase in tax rolls coming from grey economy salaries being shifted to official salary payments, while independent analysts projections of 11% show the truer overall picture. At any rate, analyst project salary's to decline by 3-4% in both 2009 and 2010.

Unemployment jumped from 4.5% in mid-2008 to 7.5% by the beginning of 2009.

The Lithuanian currency, the litas (LTL), remains pegged to the euro at a rate of 3.4528 litas to one euro. The adoption of the euro is a key economic goal for Lithuania, but it is unlikely to be achieved before 2012, at the earliest. In the meantime, the exchange rate remains fixed through a currency board system.

Office

In 2008, 85,700 sqm of office space was built – the most in any year for Vilnius – bringing the total amount of office area available to 354,500 sqm, according to Ober-Haus Real Estate Advisors. The surge in the office market provides impressive but alarming figures: in 2009, 14 projects will be completed which will mean a record increase of over 100,000 sqm in modern office area available for rent, just as economic growth grinds to a halt.

The added supply and lack of demand drove vacancy rates up sharply, from 1% at the beginning of 2008 to 10% at the start of 2009 for class A space.

Rents for class A offices in Vilnius declined 7% in 2008, to €15.50 - €19.00 per sqm. Typical service charges in class A buildings are €2.50 - €3.50 per sqm per month. Rents for B class offices dropped 12% to €11.00 - 14.00 per sqm.

Clearly in 2009 tenants will have more opportunities to negotiate the basic rental price and payment for additional services.

Retail

The city centre three storey shopping centre Panorama, at 52,000 sqm, was the largest new retail offering in Vilnius last year. Besides that, just 20,000 sqm was built in three smaller hypermarket schemes.

Looking to 2009-2010, we see three more major retail centres to come: Ozas, which will have 62,000 sqm of retail and another 30,000 of entertainment and mixed-use, and Olinda (30,000 sqm) and DomusPro (18,400 sqm).

Due to increasing supply and recession hampered demand, Ober-Haus expects that the vacancy rate in shopping centres will increase from the present 2-3% up to 4-5% by end of 2009.

Retail sales fell 9% in 2008, leading to downward pressure on rents as tenants sales figures declined. While rents in the best shopping centres saw no decrease in 2008, the rents in second tier retail centres were down 12% in 2008, with rents for a medium sized (150-300 sqm) unit in a major retail centre running from €12.50 - €29.00 per sqm. Rents for anchor tenants (like hypermarkets) remained stable at €8.50 - €14.50 per sqm.

Rents on the high street (such as Gedimino or old town centre) were down 13% on the year, to €21 - €52 per sqm.

Logistics

The total area of modern warehouse space in Vilnius at the beginning of 2009 was 281,000 sqm. Ober-Haus sees another 46,900 sqm more of space coming to market in 2009-2010.

2008 was neutral for industrial rents. New modern warehouses near the city centre rent for €5.20 - €6.90 per sqm, depending on the size. Near or outside the city limits, rents range from €4.00 - €5.50 per sqm. Renovated older premises are being offered at prices from €2.80 - €5.20 per sqm. Average and poor quality premises rent from €1.70 - €3.50 per sqm. Owing to growing supply and poorer economic perspectives in Lithuania, we expect lease rates for modern warehouses to soften 5-10% in 2009.

Residential

The party ended for residential developers in Vilnius, with prices for newly built units slumping 21% to as low as €1,070 per sqm in some new suburban schemes. The average price range for a new suburban flat at the beginning of 2009 was €1,070 - €1,950 per sqm.

In the city centre, secondary market flat prices fell 15% to €1,600 - €3,200 per sqm.

Delivery of new apartments in 2008 dropped for the first time in years, with only 5,809 flats built versus 6,289 in 2007. Ober-Haus forecasts that from 2000 to 3,000 new units will be delivered in 2009, the lowest level in six years, and will stay at that level through 2010.

Complete 2009 Real Estate Market Report

Ober-Haus Real Estate Advisors will publish a complete 2009 Real Estate Market Report for Estonia, Latvia, Lithuania and Poland in March 2009.

For more information, or to receive our reports, call or write:

Peter Gage Morris
Managing Director
Ober-Haus Real Estate Advisors
GSM: +370 652 00 477
peter.morris@ober-haus.com
www.ober-haus.com