

MARKET COMMENTARY



The Lithuanian commercial real estate market remained relatively viable throughout 2015 and sufficiently stable supply and demand indicators continued to be recorded. The largest positive development was observed in the market of investment transactions, investors continued to show great interest and invested/purchased developed real estate objects.

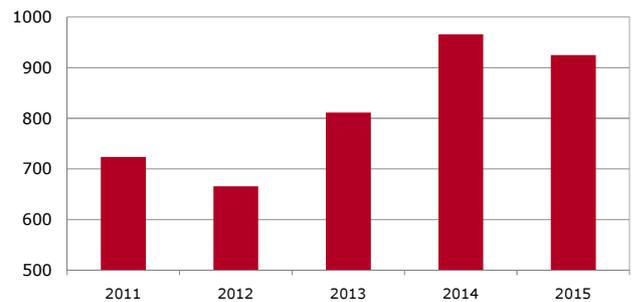
However, development of commercial objects was not that rapid and essentially remained at the 2014 level. The largest projects were developed in the regions of Vilnius and Kaunas. According to data from Statistics Lithuania, the costs of completed work in the area of construction of non-residential buildings in the country amounted to EUR 925 million in 2015, a decrease of almost 6% compared to 2014.

Although in 2015 there was a significant increase in the volume of investments in completed commercial objects, no increase was recorded in the market of transactions involving smaller objects. According to the State Enterprise Centre of Registers, a total of 16,130 transactions for non-residential property (buildings and premises) were concluded in 2015 **in Lithuania**, the figure being the same as in 2014 (16,135 transactions). Although the quantity of transactions is identical, the total value of transactions for non-residential property concluded **in Lithuania** in 2015 was by **4% higher** compared to that in 2014 (EUR 654 million in 2015 and EUR 627 million in 2014).

In 2015, record indicators were once again recorded in the Lithuanian market of commercial real estate investment transactions. Fifteen larger commercial objects (offices, retail, warehousing and production buildings) the total area of which amounted to almost **197,000 sqm** were acquired in Lithuania last year. The total value of the acquired property is **EUR 264 million** or 27% higher than that in 2014. Unlike in 2014, when most investments were made in office buildings (68% of the total investment), in 2015 most investments were made in the premises of the retail sector. The share of investments in 2015 was as follows: 68% – retail premises, 30% - offices and 2% - warehousing and production premises. The largest investment was made by the companies of the Lithuanian, Estonian and Swiss capital (76%), the rest was shared by the companies registered in Denmark, Sweden and the Netherlands.

The confidence of investors in the Lithuanian commercial real estate market led to further decline in the return on investment in the

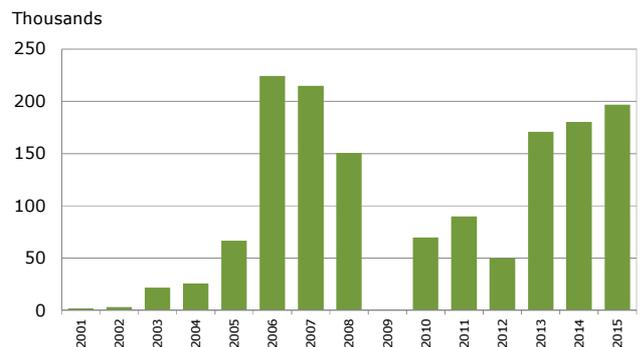
The volume of construction of non-residential buildings within the country
(million EUR)



Source: Statistics Lithuania

Data: 2011 – 2015

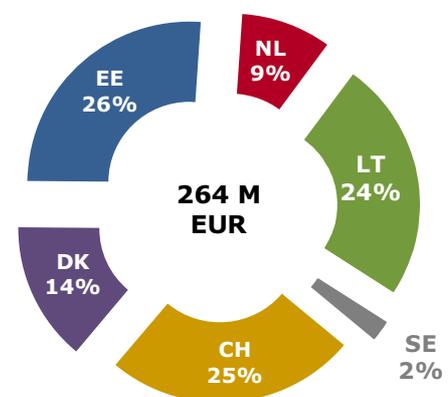
Investment volumes
(modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2001 - 2015

Commercial investment volumes in Lithuania
(by country)



Source: Ober-Haus

Data: 2015

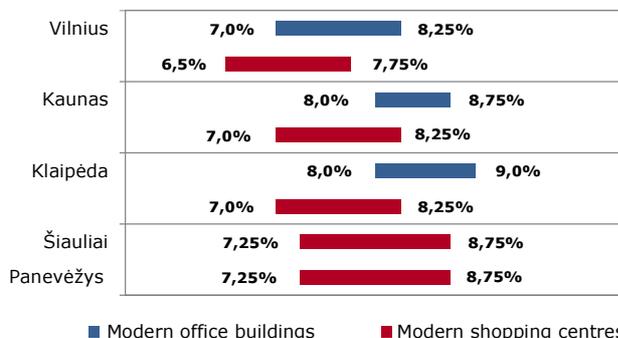
segments of most attractive property. The segment of top class business centres in Vilnius and the most popular and largest shopping centres in major cities of the country remains most attractive. Yield indicators for such property in 2015 decreased by 0.25 percentage points on average. The prime properties remains attractive not only among local investors, but also among large foreign companies which are only interested in large scale investments in the Baltic States. At the end of 2015, depending on the region of the county, yields varied around **6.5–8.75%** for business and shopping centres and around **8.5–9.0%** for modern warehousing projects.

Increasing rents and decreasing yields gradually increase the value of commercial property. For example, in 2015 rents for top class office space increased by 6% while the yield decreased by 0.25 percentage points on average from 7.50% to 7.25%. These changes determined a further growth of the capital value index, which for offices in Vilnius increased by almost 10% last year. The same value of top class commercial property was recorded in the second half of 2006 and the beginning of 2009. This shows that the value of A class offices today is only lower than it was at its peak (i.e. the price level in the period of 2007–2008).

The year 2015 was sufficiently intensive in the office market in Vilnius, which saw the opening of six new projects offering additional **38,000 sqm** of usable office space to the market (business centres Sostena, ONE, PREMIUM, k29, UNIQ, and also the reconstructed historical building on J. Basanavičiaus Street). The supply of modern office space in Vilnius last year increased by 7% and at the end of the year the total usable space of modern offices amounted to **546,600 sqm**. Developers of new business centres had no major problems in leasing the premises, because a large portion of the premises had been leased when construction was still in process (88% of premises supplied in 2015 were leased).

In 2015, **52,700 sqm** of office premises were leased in business centres in **Vilnius** or 21% more than in 2014. The total vacancy level in business centres in 2015 changed very slightly – from 3.9% to **4.1%**. At the end of the year, the total area of vacant office premises was 22,600 sqm. The difference between A and B class business centres continued to increase, because in 2015 financially strong local and international companies showed greatest interest in top class offices. As a result, at the end of 2015, the vacancy level of A class offices was only 0.6%, while that of B class offices – 6.2%. It is likely that in 2016 we will see greater changes in the office market

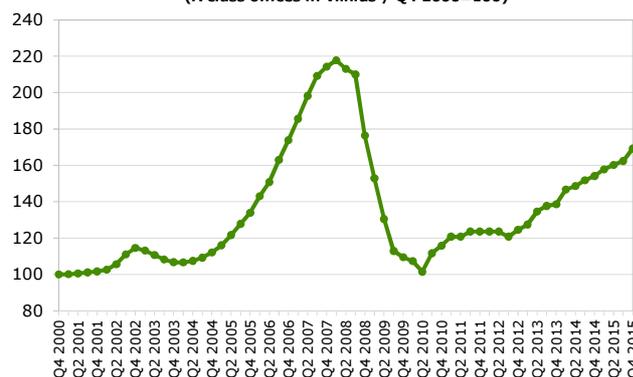
Commercial property yields



Source: Ober-Haus

Data: Q4 2015

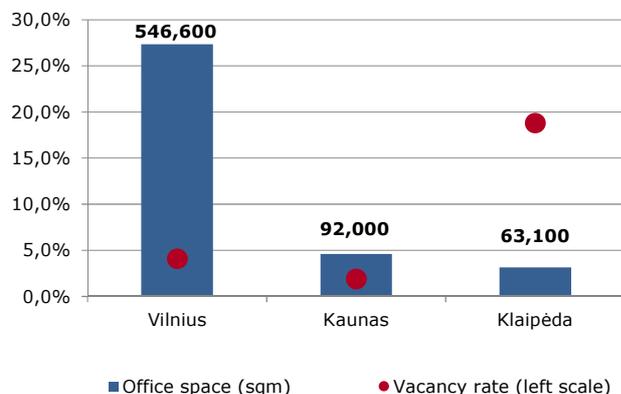
Capital value index
(A class offices in Vilnius / Q4 2000=100)



Source: Ober-Haus

Data: Q4 2000 – Q4 2015

Modern office stock and vacancy rate



Source: Ober-Haus

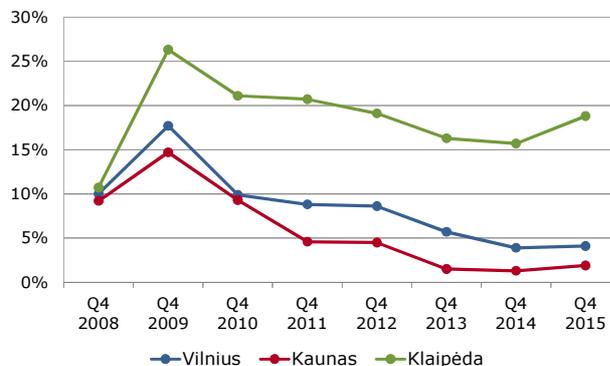
Data: Q4 2015

following the scheduled completion of another five new construction projects, which will offer 77,700 sqm of usable office space to the market (twice as much as in 2015).

High occupancy indicators offered more beneficial negotiating positions to the owners of office premises. Companies looking for larger premises did not have a particularly wide choice, therefore, in 2015 rents for modern offices in Vilnius increased by 6% on average. At the end of the year, rents for A class offices amounted **13.5–16.5 EUR/sqm** and for B class offices – **8.0–13.0 EUR/sqm**. However, the costs of the tenants are growing not only due to increasing rents, but also due to the costs of other related services. For example, if previously there was an established practice of providing a certain number of parking spaces free of charge with the leased premises, so today newly developed business centres essentially do not provide for such possibility and charge rent for parking spaces. The owners of most recently developed or completed business centres try to offer such lease agreements, which stipulate that tenants must compensate owners not only operation and maintenance costs of the building or premises, but also real estate and land taxes, property insurance and asset management costs. This standard practice in Western countries is now more widely applied in Lithuania not only for business centres, but also for shopping and logistics centres.

There has also been some movement in the modern offices market in Kaunas. Although the implementation of new larger projects in the second largest city of Lithuania is scheduled for not earlier than 2017, 2015 saw the opening of three smaller modern office projects: the telecommunications and real estate development company Mikrovisatos Valda built a business centre of 3,600 sqm on Savanorių Avenue; the US health care technology and services company Intermedix expanded its services centre by opening its second office in the reconstructed administrative building on E. Ožeškienės Street; and a four-storey multifunctional building with office premises was completed on Pramonės Avenue. The growth in supply of modern offices was recorded in Kaunas after a one-year gap, because no new projects were offered to the market in 2014 resulting in the increase of supply by 9% **in Kaunas** (7,600 sqm of usable office space) totalling **92,000 sqm** at the end of 2015. Kaunas must use its potential in attracting new companies and businesses, because international companies planning to move to Lithuania analyse possibilities of setting up operations not only in the capital city, but also in Kaunas. The situation could change only in 2017–2018, because the development of larger projects takes time. Until then

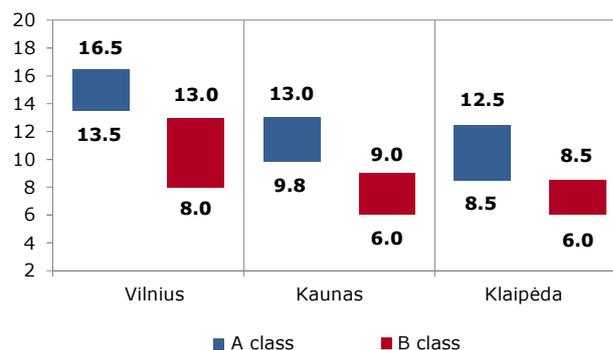
Modern office vacancy rate



Source: Ober-Haus

Data: Q4 2008 – Q4 2015

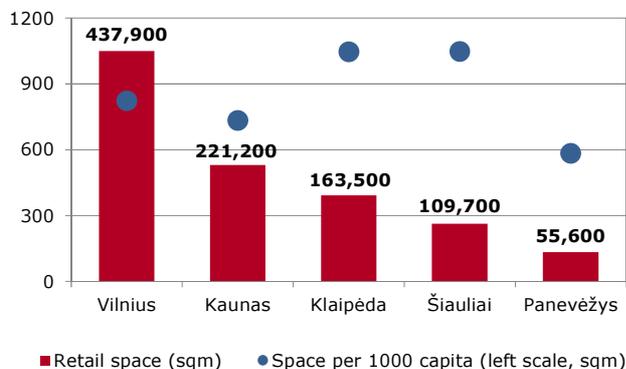
Modern office rents (EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2015

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



Source: Ober-Haus

Data: Q4 2015

some small size office or mixed projects with office premises will be offered to the market.

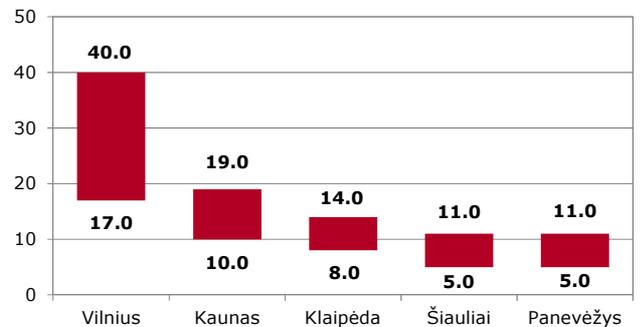
Statistically, the conditions for the development of modern offices in Kaunas are favourable, because the vacancy levels continue to be extremely low. At the end of 2015, the vacancy level of modern offices in Kaunas was **2.6%** totalling **2,350 sqm**. Office rents increased during the year by 6% on average. At the end of 2015, A class office rents were **9.8–13.0 EUR/sqm** and B class offices – **6.0–9.0 EUR/sqm**.

In 2015, no new office buildings were opened in Klaipėda and this reflects the prevailing moods in this sector. Unlike in Vilnius and Kaunas, development of larger projects in the near future is not planned. Total supply of modern offices at the end of 2015 in Klaipėda was the same as a year ago – **63,100 sqm**. However, despite the high vacancy level and the lowest rents (in comparison with Vilnius and Kaunas), a few new small projects will be offered to the market in Klaipėda. In the first half of 2016, completion of M19 administrative building on Minijos Street is scheduled and will offer 2,000 sqm of the leasable area. The project is developed by Stemma Management which in 2014 reconstructed a historical building on Liepų Street thus offering a small amount of higher class office space to the market in Klaipėda.

The new supply in Klaipėda will show the response of the market to new project premises, however, it would be difficult to expect a particularly smooth and rapid realisation. During the past six years the vacancy level of the office space in Klaipėda was 15–25% and so far the expectations for improvement have been low. In 2015 the vacancy level increased from 15.7% to **18.8%** (totalling 11,850 sqm). Despite very high vacancy level, owners are looking for higher rents than in the previous year. In a year's time rents for modern offices in Klaipėda increased by 8%, but this was mainly caused by the prevailing low rents and new projects marketed on the basis of increasing development costs. Notwithstanding the relatively significant growth, rents in Klaipėda remain the lowest (in comparison with Vilnius and Kaunas). At the end of 2015, A class office rents were **8.5–12.5 EUR/sqm** and B class offices – **6.0–8.5 EUR/sqm**.

Two new shopping centres opened in the major cities of the country last year and one shopping centre expanded its area. The biggest expansion took place in Vilnius. In September 2015, the first phase of the NORDIKA Shopping Valley was completed offering over 15,000 sqm retail space to shoppers. NORDIKA has become the largest

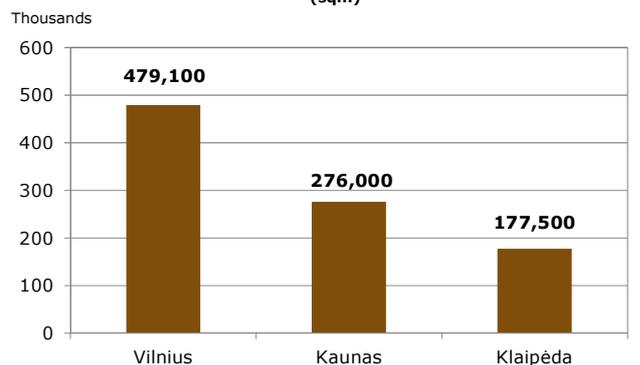
Main retail streets rents
(for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2015

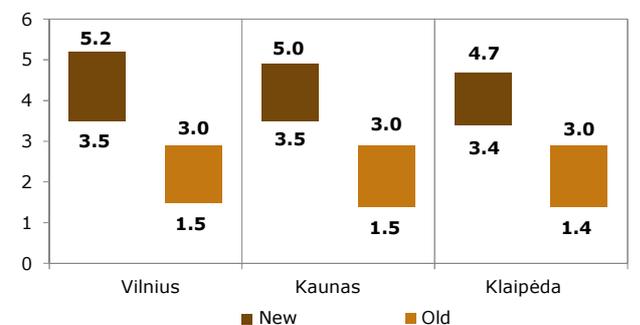
Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q4 2015

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



Source: Ober-Haus

Data: Q4 2015

project in the capital city since 2009 (when Ozas Shopping Centre was opened). At the end of 2015, a small shopping centre (around 5,000 sqm of retail space) was completed on Linkmenų Street (near Geležinio Vilko Street) with Rimi as an anchor tenant and some 15 smaller tenants. So at the end of 2015, there were 26 traditional shopping centres (usable area of at least 5,000 sqm and at least 10 different tenants) their usable area totalling **437,900 sqm** (823 sqm/1,000 inhabitants) **in Vilnius**.

In 2015, Panevėžys saw some new investment. At the beginning of the year an upgraded and expanded RYO shopping centre, previously known as Babilonas, was opened offering additional 1,500 sqm of retail space. At the end of 2015, the total usable area of shopping centres **in Panevėžys** amounted to **55,600 sqm** (584 sqm/1,000 inhabitants). No new projects were implemented in other major cities and the supply remained unchanged throughout the year – in **Kaunas** the total usable area of shopping centres amounted to **221,200 sqm** (734 sqm/1,000 inhabitants), in **Klaipėda** – **163,500 sqm** (1,047 sqm/1,000 inhabitants), and in **Šiauliai** – **121,200 sqm** (1,049 sqm/1,000 inhabitants). It seems that in 2016–2017 there will be greater changes in the retail premises market only in Vilnius and Kaunas, where the implementation of several larger projects will be completed: the second phase of the NORDIKA Shopping Valley in Vilnius and the expansion of the Mega shopping centre in Kaunas. The planned construction of a large shopping centre (around 45,000 sqm total area) on Drujos Street (former site of the textile company Audėjas) could be completed in 2018.

In 2015, the volumes of retail trade in Lithuania grew at a similar pace as in 2014. According to data from Statistics Lithuania, in 2015 the retail turnover (except for the trade of motor vehicles and motorcycles) compared to 2014 increased by 5.3%. The largest increase was recorded in the retail trade of food, beverages and tobacco in specialised shops (16.1%) and the retail trade of such goods as information and communication technology equipment, cultural and recreation goods, watches, jewellery and other new goods (8.7%). The turnover of the companies which provide food and beverage services grew by 5.8%.

In 2015, the growing volumes of retail trade determined a

moderate increase in rents of retail premises in major cities of the country. Rents in the shopping centres with the largest flows of customers increased by 2–5%. Positive changes were also recorded in the rents in high streets of the cities which compete with shopping centres. Following a significant increase in prices in 2010–2014, rents in high streets of Vilnius, Kaunas and Klaipėda essentially stabilised and increased by further **2%** only in the country's **capital**. In the meantime, rents of retail premises in high streets of **Šiauliai** and **Panevėžys** increased by up to **10%** on average. However, rents in the fourth and fifth largest towns of the country remain substantially lower in comparison with those in Vilnius, Kaunas and Klaipėda.

Rents of medium size (about 100–300 sqm) retail premises in high streets of **Vilnius** at the end of 2015 were around **17.0–40.0 EUR/sqm**, in **Kaunas** – **10.0–19.0 EUR/sqm**, in **Klaipėda** – **8.0–14.0 EUR/sqm**, and in **Šiauliai** and **Panevėžys** – **5.0–11.0 EUR/sqm**. The current price level and the existing differences between the major cities reflect the expectations of property owners and tenants and the specific situation in each city. The purchasing power of the people and their flow are the key criteria when selecting the premises, therefore it is no surprise that rents in the country's capital are 2 to 3.5 times higher than those in other major cities.

If in 2014 a considerable reduction in the income of the companies involved exclusively in warehousing and storage services was recorded, so in 2015 there was a visible growth trend. According to data from Statistics Lithuania, in 2015 the operating income of transport and warehousing companies fell by 2.4%, while the sale income of warehousing and storage business increased by 6.5%. Although a breakthrough in the sector of warehousing premises is hardly expected, developers and businesses continued building warehousing premises last year. However, in the main the warehousing buildings were constructed exclusively for own use or for a specific prior agreed tenant.

In 2015, six new warehousing projects were completed **in the regions of Vilnius, Kaunas and Klaipėda** with the total area of around **70,000 sqm**. The major portion of the supply (about 75%) was offered in Kaunas region where three

logistics centres for specific companies (Lidl, DPD Lietuva, Lietuvos paštas) were built. The Lidl logistics centre became one of the largest logistics centres in Lithuania with the total area of 42,000 sqm (1,300 sqm office premises). Two new warehouses were built in Vilnius (on Sausupio Street and on Vilnius-Druskininkai Road) with 14,000 sqm of warehousing facilities. A small warehouse was built in Klaipėda district on

Vieversių Street (in Ginduliai). At the end of 2015, the area of new warehousing premises in the **city and district of Vilnius** amounted to **479,100 sqm**, in **Kaunas region** – **276,000 sqm**, and in **Klaipėda region** – **177,500 sqm**. In 2016, similar volumes of development are planned in these regions offering approximately 5–6 small and medium size warehousing projects.

In 2015, rents for warehousing premises in **the regions of Vilnius, Kaunas and Klaipėda** increased by **3–7%** on average (the largest increase in rents was recorded in old construction warehouses). In Vilnius new warehousing premises are leased for **3.5–5.2 EUR/sqm** and old premises for **1.6–3.0 EUR/sqm**. In Kaunas new warehousing premises are leased for **3.5–5.0 EUR/sqm** and old premises for **1.5–3.0 EUR/sqm**, in Klaipėda new warehousing premises are leased for **3.2–4.6 EUR/sqm** and old premises for **1.4–3.0 EUR/sqm**. It is likely that in 2016 further minor positive changes in prices (2–3%) will continue to 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 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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