## Lithuanian Commercial Real Estate **Q2 2010**

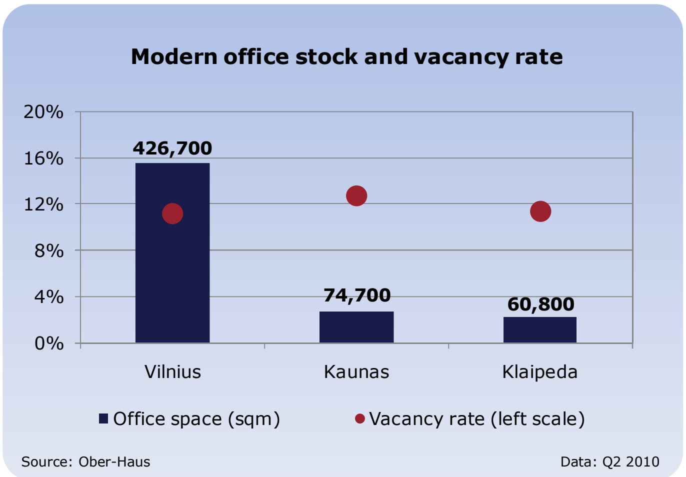
# MARKET COMMENTARY

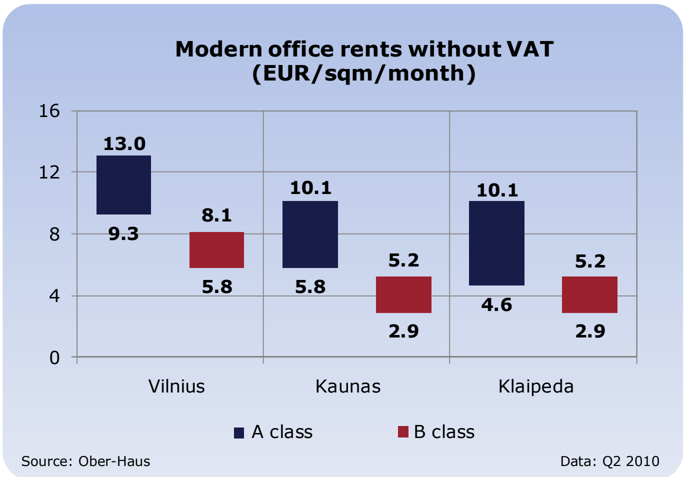
In view of the results of the first half of the year, we can say that the commercial premises sector in Lithuania has already resolved its major problems, but the optimism that characterised this market a few years ago is still not to be seen. Despite further decreases in rents and sale prices in the individual segments of the market (retail and warehousing premises), the first positive changes can be observed in the modern office premises sector that was most hit by the crisis. The current situation in the commercial premises market could be called a wait and see stage, i.e. after a considerable drop in both market prices and demand, the occupancy indicators of the premises are improving slightly, however the market is still very slack and any developments can only take place with the start of the expected economic recovery.

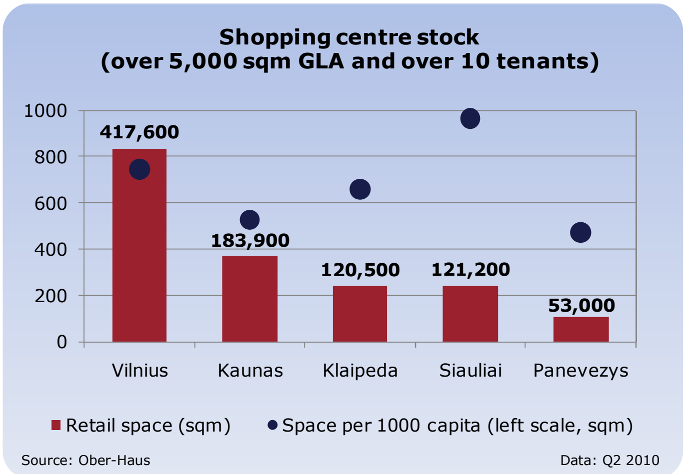
In the modern office premises sector, rents have not changed for the second consecutive quarter and remain the same as at the beginning of the year. The present rents for Class A offices in **Vilnius** are **9.3–13.0 EUR/sqm** and for Class B **5.8–8.1 EUR/sqm**. In **Kaunas** and **Klaipėda**, the asking price is **4.6–10.1 EUR/sqm** for Class A offices and **2.9–5.2 EUR/sqm** for Class B offices. Office rents that have halved since the beginning of 2009 are already acceptable to lessees and it can be said that the market for modern office premises is recovering the balance between supply and demand. The rapid reduction in the number of vacancies attests to this.

During Q2 2010, the total vacancy rate of offices decreased in all three major cities, Vilnius, Kaunas, and Klaipėda. Over the past quarter, the modern office (class A and B) vacancy rate saw the largest drop in Vilnius—from **15.1%** to **11.2%** and the total area of vacant premises decreased from 64,300 sqm to 48,000 sqm. The total vacancy rate of modern offices went down from **13.4%** to **12.7%** in **Kaunas** and from **14.1%** to **11.4%** in **Klaipėda** in Q2 2010. The total area of vacant premises in these cities was 9,500 sqm and 6,900 sqm respectively.

The selection of vacant office premises in modern business centres is slowly, but steadily decreasing, consequently owners of business centres are not under the same pressure to reduce rents as they were in 2009. However, it must be noted that this decrease is mostly observed with respect to modern Class A offices and the owners of these offices are already free from the pressure of vacancies. Many companies have used the opportunity of lower rents for higher class premises and are moving from lower quality to newer offices (e.g., TEO). This is exacerbating the situation in the market of old/non-modern office premises the vacancy rate of which is still increasing. The arrival of larger foreign companies (e.g., Barclays, Western Union) in Lithuania has also contributed (and will continue to contribute) to the vacancy rates in this sector. The arrival of such large companies certainly improves the situation in the segment of top class offices, however, this brings little improvement in the situation of lower class offices. Over the past six months, the **Class A** office vacancy rate dropped by over a half in Vilnius—from **15.1%** to **6.4%** and the **Class B** office vacancy rate dropped a little less—from **19.6%** to **14.8%**. Having solved the vacancy problem, the owners of top class business centres stand on firmer ground in negotiations with prospective lessees and it is likely that it will be in this segment that the first positive price changes will be recorded. The owners of lower class offices, however, have little to celebrate as yet. The large supply of such office premises (e.g., the supply of Class B office premises in Vilnius is 3 times higher than that of Class A premises) and the slow growth in demand does not allow the owners of Class B premises to think about increases in rents or sale prices yet.



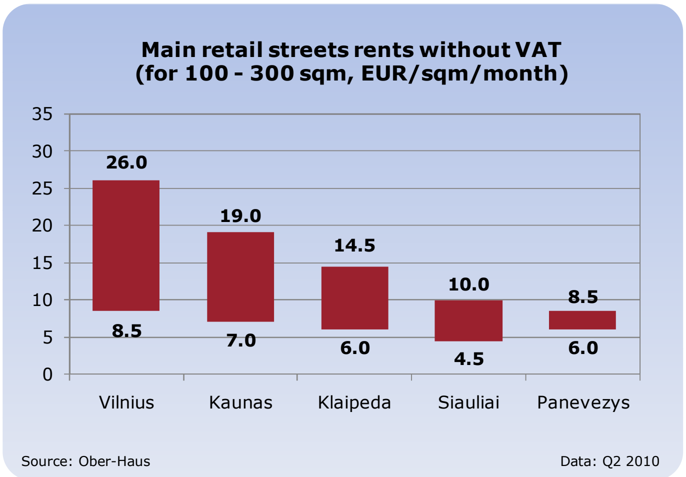



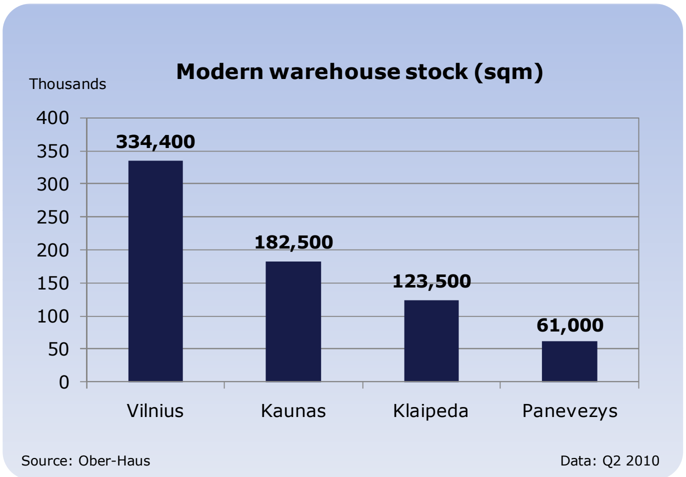



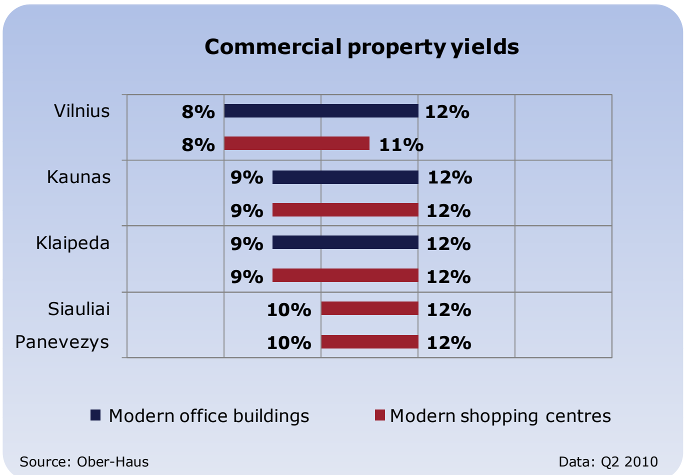
Q2 2010 did not bring any significant changes in the retail premises sector. According to official statistics, retail turnover in Lithuania is still shrinking in comparison to the 2009 indicators, as a result, the demand for retail premises has no substantial basis for growth. During the past quarter, rents on the principal shopping streets and in shopping centres that are having difficult times went down by another **5–10%**. Rents at successfully operating shopping centres have remained unchanged and it is likely that their owners are looking forward to the growth in the lessees' turnover, i.e. for a strong argument to review rents.

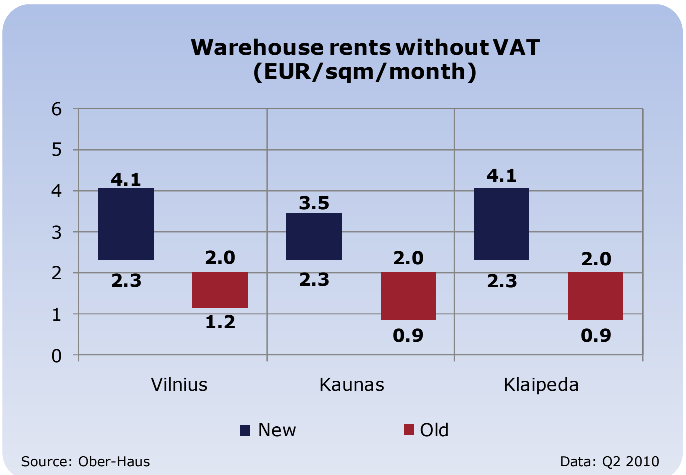
Rents for warehousing premises over Q2 2010 in Vilnius, Kaunas, and Klaipėda dropped another **5–10%**. The prospects in this sector are affected by the reduction in domestic consumption; therefore, a rapid recovery in the warehousing and logistics sector is unlikely. Even though rents, compared to 2007–2008, decreased by 30–40% (depending on the location), new warehousing premises are renting for **2.3–4.1 EUR/sqm** and old premises—for **0.9–2.0 EUR/sqm**.

To summarise the events of the first half year in the commercial premises market, it can be said that the recovery of the market from the stressful 2009—when the demand decreased so unexpectedly and there was an excess supply of modern premises (particularly offices)—has started. The general vacancy rates of both business and shopping centres currently show that a large number of property owners have already solved vacancy problems and the prevailing price reduction race is over. A clear segmentation has taken place in the commercial premises market that suffered challenges in the past few years. Shopping and business centres of poorer quality and inefficient management face the largest problems and their vacancy rate may still increase which will have a negative impact on rents. Therefore, the current situation could be called an intermediate stage on the way to recovery—prices in the commercial premises market, which is free from excess supply, have finally bottomed out, however, a more significant growth in prices and, particularly, transactions will be related to a more noticeable recovery of demand that will only take place in the wake of the country's economic recovery.




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.

Saulius Vagonis, Valuation and Market Research Group Manager
Tel.: +370 5 210 97 17, e-mail saulius.vagonis@ober-haus.lt