Lithuanian Commercial Real Estate

Q3 2013

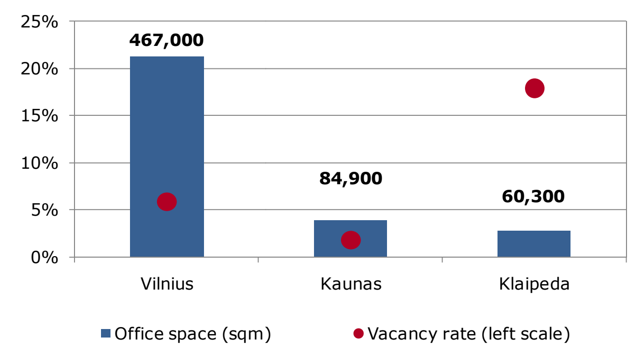
MARKET COMMENTARY

Q3 2013 in the Lithuanian commercial property market has finally demonstrated certain changes in supply not only in Vilnius but also in other main Lithuanian cities. A new office building was completed in Kaunas after a four-year break. A Senukai administrative building with a useful office area of approximately 15,000 sqm was opened in Islandijos road, next to the Mega shopping centre. This is the largest modern office building in Kaunas, and has increased the total supply of modern office premises in the city of Kaunas by one fifth to reach **84,900 sqm**. The new building will only house Senukai administrative staff; they will move from the old building in Pramonės Street. It should be noted that this large new building is already fully occupied, with a resulting positive impact on the occupancy statistics of the Kaunas modern offices.

The quantity of vacant office premises in Kaunas continues to decrease rapidly and remains the lowest compared to Vilnius and Klaipėda. The vacancy rate in **Kaunas** in Q3 2013 decreased from 3.6% to **1.8%** and the total quantity of vacant premises was only **1,550 sqm**. Despite the good vacancy statistics however, developers are not yet eager to start the construction of any new projects. The demand for modern office premises and rents in Kaunas are still too low for developers to be able to take any major decisions. The lowest vacancy rate for office premises in the past 6 years was also recorded in Vilnius. In Q3 2013, the vacancy rate in the capital city dropped from 6.6% to **5.9%** and the total quantity of vacant premises dropped to **27,400 sqm**. Currently, vacancy rate at A class business centres is 3.5%; this figure is 7.4% for B class office premises. In Q3 2013, a total of nearly **6,300 sqm** of office premises were leased in business centres already operating in **Vilnius**. Over the first three quarters of 2013, 24,600 sqm of offices were leased in Vilnius, which is a 19% decrease compared to the same period last year. The vacancy rate in **Klaipėda** remains the highest – 17.9%. The vacant office space in modern business centres in Klaipėda is **10,800 sqm**.

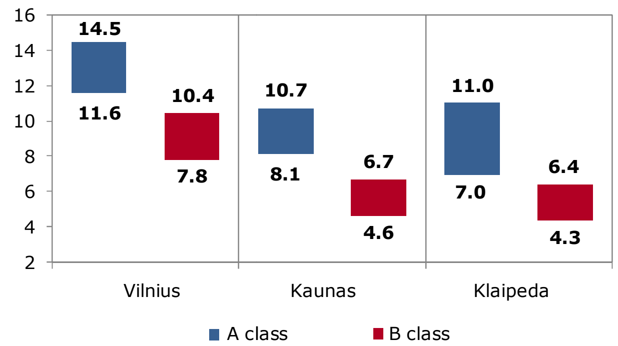
In Q3 2013, office rents were on the rise in Vilnius and in Kaunas. Rents for A and B class offices in **Vilnius** grew on average by 2–3% (approximately EUR 0.3 per sqm). Currently, rents are **11.6–14.5 EUR/sqm** for **A class** offices and **7.8–10.4 EUR/sqm** for **B class** offices. Rents in **Kaunas** grew on average by 3–4 % and are currently **8.1–10.7 EUR/sqm** for **A class** offices and **4.6–6.7 EURsqm** for **B class** offices. Rents for offices in **Klaipėda** remained unchanged and were **7.0–11.0 EUR/sqm** for **A class** offices and **4.3–6.4 EUR/sqm** for **B class** offices.

Modern office stock and vacancy rate



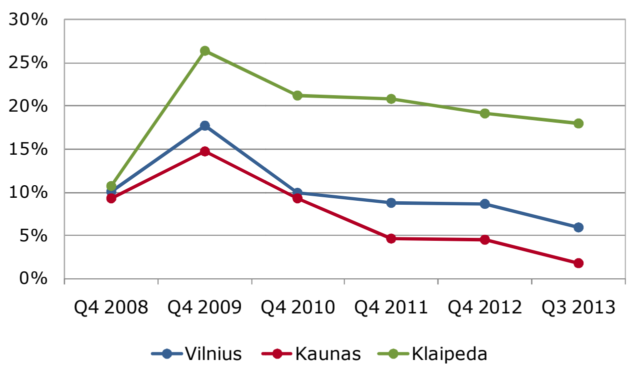
Source: Ober-Haus Data: Q3 2013

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



Source: Ober-Haus Data: Q3 2013

Modern office vacancy rate



Source: Ober-Haus Data: Q4 2008-Q3 2013

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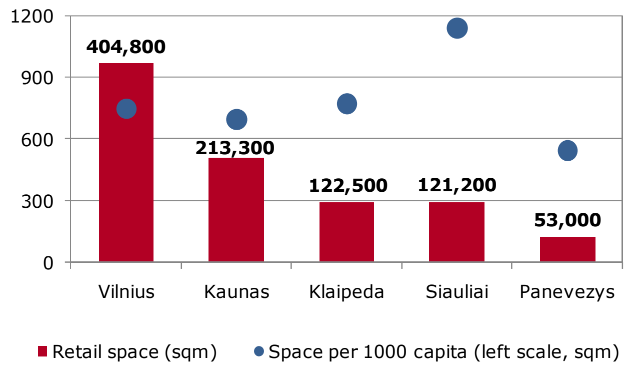
The modern retail premises sector is also in the news. A new shopping centre with a useful area of 7,200 sqm managed by the Vičiūnai Group was opened in Šiaurės Avenue in Kaunas. August saw the opening of the first IKEA shopping centre in the Baltics in Žirnių Street in Vilnius (near Vilnius airport); the total area of the shopping centre is 26,500 sqm. **Šiauliai** remains the leader among the main Lithuanian cities by shopping centre area (*traditional shopping centres with over 5,000 sqm GLA and with over 10 tenants*) per 1,000 residents: **1,144 sqm** per 1,000 residents. Šiauliai is followed by **Klaipėda** with **776 sqm** of shopping area per 1,000 residents. The order of the remaining main Lithuanian cities is as follows: **Vilnius, Kaunas** and **Panevėžys** with **751 sqm**, **699 sqm** and **548 sqm** respectively.

It should be noted that these indicators are highly influenced by the decreasing population. The number of residents in Vilnius over the past 5 years has dropped by 1%, and this figure varies between 8 and 10% in Kaunas, Klaipėda, Šiauliai and Panevėžys. The development trend for shopping centres that started in 2009–2010 is likely to persist. It is likely that small or medium-sized supermarkets will be built, supplemented by the expansion of some individual large traditional shopping centres in rapidly developing city areas, e.g. the shopping centre in the vicinity of IKEA, the shopping centre in the vicinity of the western bypass Olinda, etc.

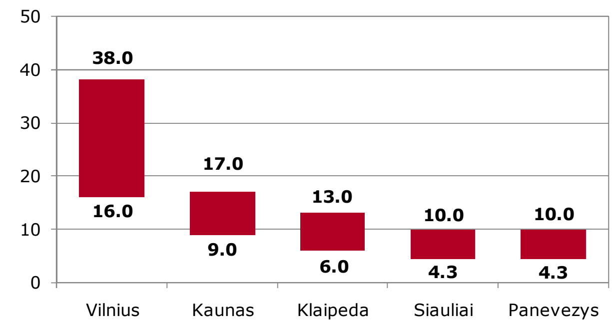
Currently, the occupancy rate of shopping centres and high streets is very high. For instance, the vacancy rate in shopping centres and the main shopping streets in Vilnius (Gedimino Avenue, Pilies Street, Didžioji Street, Vokiečių Street) is only 3%. If we compare the current situation with the figures recorded during the peak of the economic downturn in 2009–2010, when the vacancy rate was approximately 5% for shopping centres and as much as 15–20% for shopping streets, the current situation is good and allows the owners of the premises to generate higher rent income. The largest growth in rents in shopping streets is observed in **Vilnius** where in the course of 2012 rents grew on average by **15%**; rents grew by a further **5%** over the first three quarters of 2013. Rents for premises of this type in the other main Lithuanian cities remained stable this year. Rents for medium-sized (approximately 100–300 sqm) premises in the main shopping streets in **Vilnius** are currently at **16–38 EUR/sqm**. These figures are **9–17 EUR/sqm** in **Kaunas**, **6–13 EUR/sqm** in **Klaipėda**, and **4.3–10 EUR/sqm** in **Šiauliai** and **Panevėžys**.

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



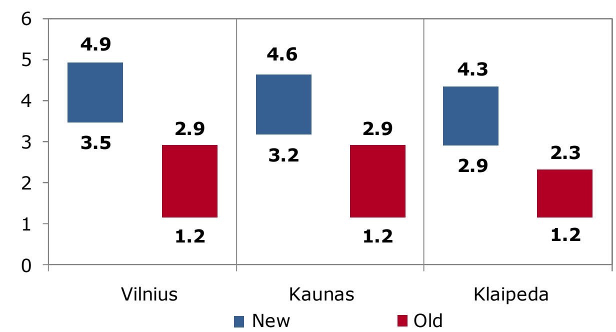
Source: Ober-Haus Data: Q3 2013

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



Source: Ober-Haus Data: Q3 2013

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



Source: Ober-Haus Data: Q3 2013

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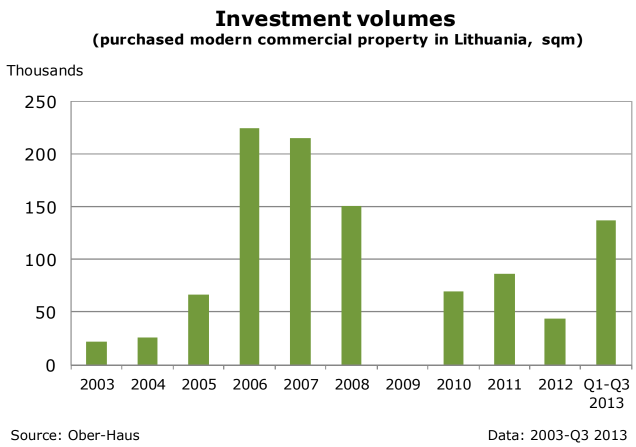
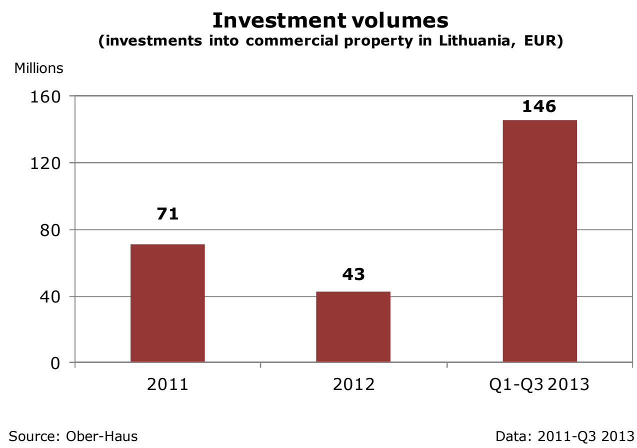
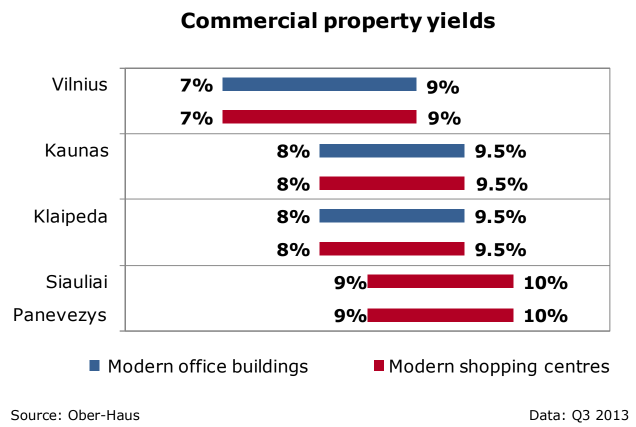
The current situation in the market for commercial properties is also reflected by the recent growth in the number of investments. A total of seven investment deals were transacted in **Lithuania** in the first three quarters of 2013 (*including direct, indirect and forced acquisitions of the available modern office, commercial or warehousing/production premises with a value exceeding EUR 1.5 million).* The total value of these deals is **EUR 146 million**. This is a 28% increase compared to 2011 and 2012 taken together. Despite the visibly increased investments in commercial properties however, local funds or companies remain the key market players since they are very familiar with the local market and look for properties that can generate stable revenues. Office and retail sectors dominate in the Lithuanian investment market this year: offices - 60%, retail - 30% and warehouses - 10% of the total volume.

It was announced at the end of Q3 2013 that Danhaus LT, a company controlled by a Lithuanian, had acquired a A class business centre in Vilnius from the investment fund LORDS LB BALTIC FUND I. About EUR 16.2 million was paid for this office building with an area of 8,500 sqm. This was the second sale of this building: in 2010, LORDS LB BALTIC FUND I acquired it from the project developer Vilmesta. A new investment deal was announced in August 2013; one peculiarity of this contract is that it is a forward sale. BPT Baltic Opportunity Fund acquired the shopping centre (shopping park) Domus Pro, which is being constructed next to Ukmergės Street in Vilnius, from the Danish developer TK Development. The shopping park is expected to have an area of 11,000 sqm, and the completion of the first stage (7,500 sqm) is expected in the spring of 2014. The value of the investment deal was established based on the required initial yield of 8.5%.

The investment deals finalised recently demonstrate that investors who acquire standard properties in the capital city normally hope for an initial yield of at least 8.5%, while sellers hope to sell their sites at a yield not exceeding 8.0%. Any investment contracts finalised in the foreseeable future are therefore likely to be finalised within this range of investment yields. Given the current market situation, these figures look sufficiently reasonable.







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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