Lithuanian Commercial Real Estate Q1 2013

MARKET COMMENTARY

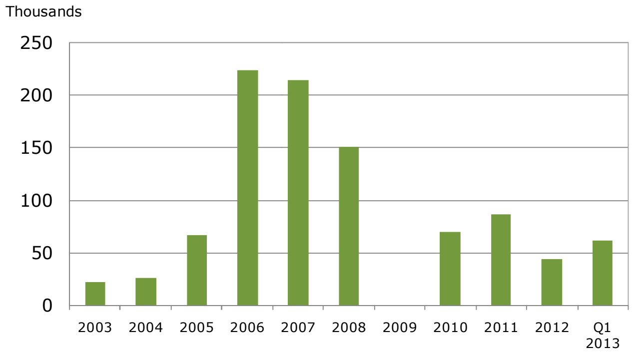
The start of 2013 has brought some positive change to the commercial properties market in Lithuania. This means not only an improvement in occupancy rates and increase in rents but also record high investments in the commercial properties sector. In Q1 2013, 3 investment deals were finalised **in Lithuania** (including direct, indirect and compulsory asset acquisition of modern office, retail or warehousing/production premises with a value exceeding EUR 1.5 million) for a total value of **EUR 73 million**. This is a 72% increase compared to the whole of 2012. The total area contracted equals **61,000 sqm**. The largest investment deal in Lithuania over the past 5 years was announced in March. The Finnish company Technopolis signed a contract for the acquisition of 3 office buildings in Vilnius (ALFA, BETA and GAMA) from the ICOR group. It was reported that the Finnish company had paid EUR 61 million for the buildings and that the net market yield equals 8.2%.

Due to this investment deal, in Q1 2013 Lithuania surpassed Estonia, the leader in the Baltics, in terms of volume of investments in commercial properties. Nevertheless, if we consider the total volumes of investments in 2010–2013, Estonia remains the unsurpassed leader among the three Baltic States. The total value of investments in commercial properties **in Estonia** in the aforementioned period was **EUR 503 million**. This figure was **EUR 273 million** for **Lithuania** and **EUR 109 million** for **Latvia**. Baltic markets mostly attract Scandinavian and local capital funds and companies: the share of their investments in 2010–2013 was as high as 67% (23% for Finland, 16% for Estonia, 14% for Sweden, and 14% for Lithuania).

A decrease in office vacancy is further recorded in the main Lithuanian cities. In Q1 2013, the vacancy rate in Vilnius decreased from 8.6% to **8.0%**, to reach a total area of **37,250 sqm** of vacant premises. The greatest number of vacant premises was recorded in B class business centres, although this indicator has been rapidly decreasing this year to reach the current 9.5% rate. The vacancy rate of A class over the same period increased to 5.6%. Over Q1 2013, a total area of **7,950 sqm**, or 7% less than over the same period last year, was leased in Vilnius business centres. As much as 76% of all the leased space accounted for B class premises.

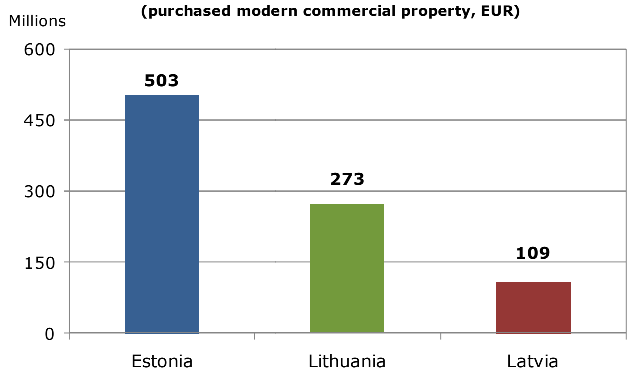
Currently, 55% of all business centres in Vilnius can boast 100% occupancy. The remaining business centres offer a number of vacant areas, though most building owners can only provide small premises in one place. In over half of the business centres (53%), premises with an area of up to 500 sqm are available. Vacant premises with an area of 500 to 2,000 sqm can be found in 29% of business centres, and only seven (18%) business centres can offer premises of 2,000 to 5,000 sqm. This can become a major problem for large companies wishing to quickly find and move to large premises. In most cases, this is virtually impossible because the key requirements of large tenants may include not only the quality and location of premises or rent rate but also certain requirements for the area per floor.

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



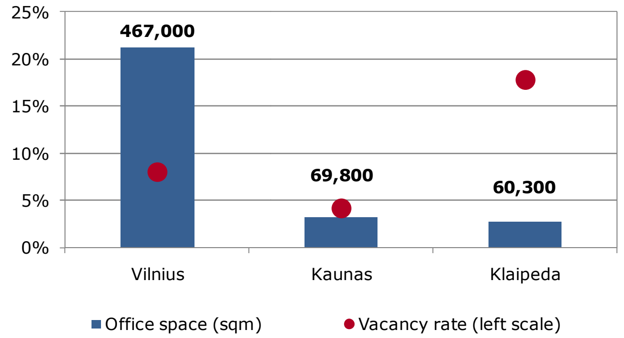
Source: Ober-Haus Data: 2003 – Q1 2013

Investment volumes
(purchased modern commercial property, EUR)



Source: Ober-Haus Data: 2010 – Q1 2013

Modern office stock and vacancy rate



Source: Ober-Haus Data: Q1 2013

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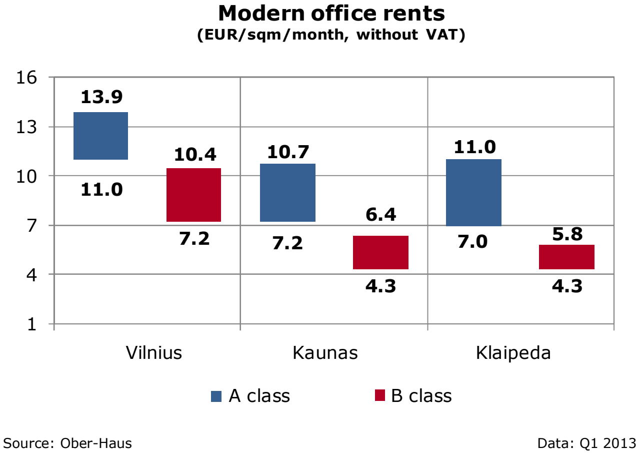
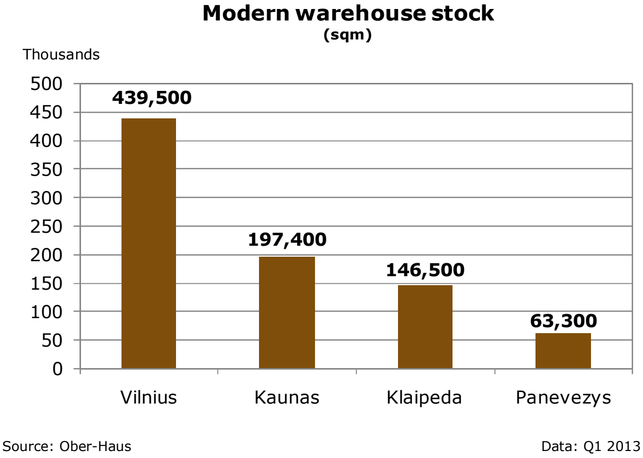
The vacancy rate in Q1 2013 in **Kaunas** decreased to **4.2%**, while the total vacant area was only **2,950 sqm**. The highest vacancy rate was once again recorded in **Klaipėda**, although a decrease from 19.1% to **17.8%** was also recorded here. The total vacant area of modern offices in Klaipėda was **10,750 sqm**.

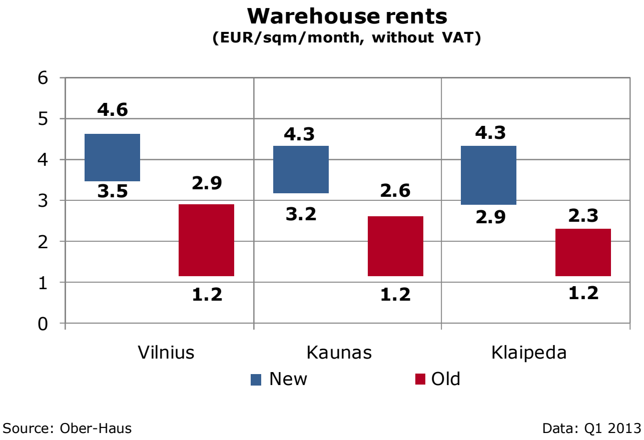
The decreasing rate of vacant premises results in certain changes in rents. In Q1 2013, rents in Vilnius, Kaunas and Klaipėda rose by 2–6%. Rents in Vilnius vary from **11** to **13.9 EUR/sqm** for A class offices and from **7.2** to **10.4 EUR/sqm** for B class offices. Rents in **Kaunas** and **Klaipėda** remained similar: **7.0–11 EUR/sqm** for A class and **4.3–6.4 EUR/sqm** for B class offices. In view of the growing occupancy rates of business centres and increasing rents, developers are not only getting ready to commence new projects but are actually implementing some of them. The construction of four business centres (GAMA; Baltic Hearts – II stage; Quadrum – I stage; and Grand Office) is currently in progress in Vilnius. After these are completed (in 2013–2015), the market will have another 42,000 sqm of modern offices. The construction of the Senukai administrative building in Kaunas is nearing completion and plans are to reconstruct the company's old building and put it on the market.

Positive changes in the rents of warehousing premises in the main Lithuanian cities have been recorded once again. In Q1 2013, the rents of both old and new warehouses in **Vilnius, Kaunas** and **Klaipėda regions** on average grew by **5–10%**. Current rents for new warehouses in Vilnius are **3.5–4.6 EUR/sqm**; rents for old warehouses are **1.2–2.9 EUR/sqm**. In **Kaunas**, rents are **3.2–4.3 EUR/sqm** for new warehouses and **1.2–2.6 EUR/sqm** for old warehouses. In **Klaipėda**, these rents are **2.9–4.3 EUR/sqm** and **1.2–2.3 EUR/sqm** respectively.

The main reason for the growth in rents is the decreasing quantity of vacant premises in the market, which results not only from an increased demand but also from the shortage of new projects. Only one new project was completed in Vilnius this year. Ogmios Group signed a contract to construct a new warehouse with a total area of 14,000 sqm in Paneriai; at the beginning of this year, the Humana clothes sorting centre began to use this building. Regardless of the increased demand for new premises, developers and project financers are reluctant to take risks and start developing any major projects prior to finding a tenant or buyer. In the meantime, performance indicators of companies that are the primary users of premises of this type continue to improve. According to data from the Lithuanian Department of Statistics, in 2012, income from services typical of warehousing and transport activities rocketed by nearly 38% (sales income of warehousing and storage companies alone grew by over 26%). If similar performance improvement rates of warehousing and transport companies are also recorded in later periods, developers are likely to demonstrate a more confident attitude towards the prospects of new projects.







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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