

MARKET COMMENTARY



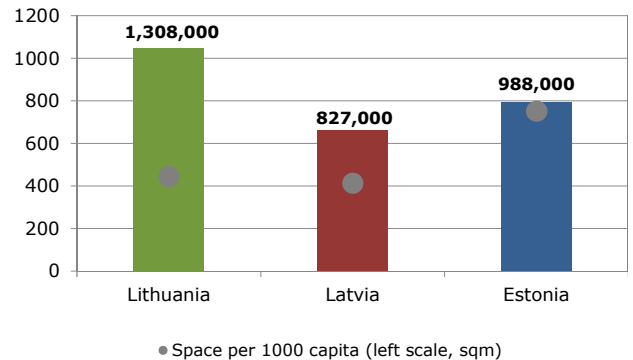
ESTONIA, THE RETAIL PREMISES LEADER, WON'T STOP; MODERATE GROWTH RECORDED IN LITHUANIA, WHILE LATVIAN PROJECTS STILL REMAIN ON PAPER

The stably growing consumption rates in the Baltic States continue to boost development of retail premises both in capital cities and in other regions of the three countries. If we consider distribution of retail area by individual countries and regions, we can see certain trends that are dictated by the number of population and their purchasing power. Traditional shopping centres of regional and local significance are concentrated in the strongest regions and cities of the countries. Evaluation of the overall indicators of the Baltic States shows that Estonia remains the unbeatable leader. If we consider only the shopping centres that offer customers a variety of goods and services (at least 10 different tenants) and are fairly large (at least 4,000 sqm of useful area), the total area amounts to 1,308,000 sqm in Lithuania, 988,000 sqm in Estonia, and 827,000 sqm in Latvia. If we consider retail area per 1,000 residents of the country however, we can see significant differences between the individual Baltic States: in **Estonia**, there are **751 sqm** of retail area per 1,000 residents; this figure is **444 sqm** for Lithuania and **413 sqm** for Latvia.

If we consider the statistics for the largest and most important regions of the countries only, **Harju County** in Estonia (together with Tallinn and other cities) has as much as **1,026 sqm** of retail area per 1,000 residents of the county. Approximately 43% of the Estonian population live in Harju County, and this concentration of shopping centres should therefore not be surprising. On the other hand, approximately 46% of the Latvian population live in **Riga region** (including Riga, Jurmala and other towns), which are offered **691 sqm** of modern retail area. In Vilnius County, which is the largest county in Lithuania with approximately 27% of the country's population, most shopping centres are located in Vilnius. Only a few large shopping centres can be found in Ukmerge and Elektrenai. However, despite being the largest county in Lithuania, **Vilnius County** compared to the main regions of Estonia and Latvia, demonstrates the lowest figure – **652 sqm** of retail area per 1,000 residents.

Estonia, being the leader in terms of supply of retail premises, is leading in terms of retail area per 1,000 residents not only in the most populated county but also in other parts of the country. The abundance of shopping centres is also observed in other cities of the country (Tartu, Narva, Parnu), where modern retail area per 1,000

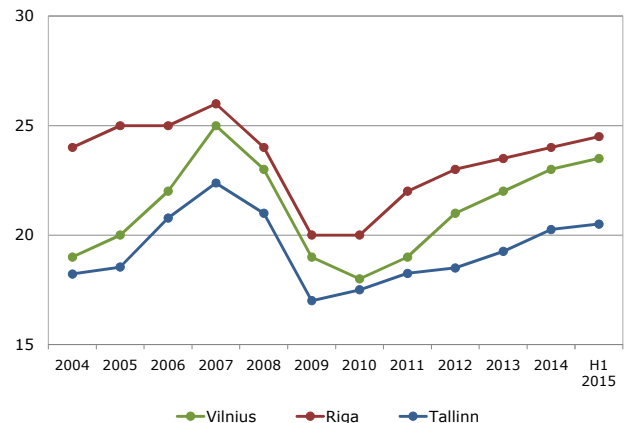
Shopping centre stock
(over 4,000 sqm GLA and over 10 tenants)



Source: Ober-Haus

Data: Q2 2015

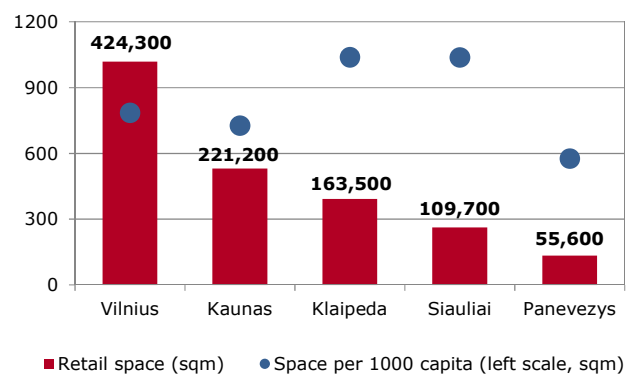
Average rents in shopping centres
(for 150-350 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: 2004 – H1 2015

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



Source: Ober-Haus

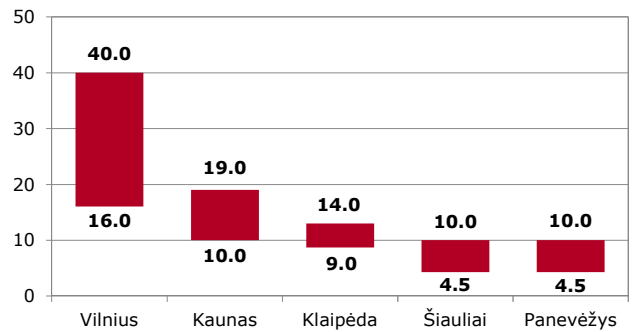
Data: Q2 2015

residents is from 1,000 to 1,700 sqm (Parnu, where this indicator is as high as 1,711 sqm, is the leader). Statistics do not always reflect the actual situation however, since very often cities themselves and the shopping centres available there become sites attracting customers from other regions of the country and foreign tourists. For instance, the Estonian resort town of Parnu is located between Riga and Tallinn and receives numerous visits from the people travelling between the two capitals. The town of Parnu and Parnu County also have many summer houses whose residents during the summer do not have many options and therefore go to the town of Parnu to do their shopping. Although no other shopping centres have been planned in this region, the owners of the available premises can boast stable rents and successfully operating shopping centres.

The supply of retail area per 1,000 residents in the remaining part of Lithuania (with the exclusion of Vilnius County) is considerably lower than the Estonian indicators, although individual cities of the country offer sufficient retail area, which often exceeds Vilnius indicators. For instance, the supply of traditional and other shopping centres per 1,000 residents in Kaunas, Klaipeda and Siauliai is very similar and amounts to approximately 1,000 sqm (this indicator is 946 sqm for Vilnius and 620 sqm for Panevezys). However, the decreasing population in Lithuania only encourages developers to undertake new projects in the major cities of the country, which guarantee sufficient flows of both local and foreign customers. We therefore can see that any major projects are undertaken in the cities of Vilnius and Kaunas only. Nordika shopping centre in Vilnius, which will soon offer over 35,000 sqm of retail area, is being constructed next to IKEA; expansion of DomusPro shopping centre is underway; and construction of a shopping centre with an area of over 5,000 sqm is being completed at the intersection of Gelezinio Vilko ir Zalgirio streets. As regards Kaunas, preparations for the expansion of Mega shopping centre are underway, on completion of which this shopping centre will become the second largest shopping centre in Lithuania. In the other main cities and towns, development of any major shopping centre has stopped since developers do not have any bright expectations as to the purchasing power or rapid increase in rents.

While the main Lithuanian and Estonian cities can boast considerable quantities of modern retail area, the main Latvian cities (with the exclusion of Riga) demonstrate modest indicators. The decreasing population and the large concentration of the population in Riga region do not provide developers with any serious development prospects even in fairly large towns. For instance, the quantity of modern retail area per 1,000 residents in Latvia's second, third and fourth largest cities is considerably smaller than, for instance,

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



Source: Ober-Haus

Data: Q2 2015

in Panevezys, which is Lithuania's fifth largest city: 574 sqm in Daugavpils, 380 sqm in Liepaja, and 612 sqm in Jelgava. Even in Riga, which is the largest and most active Latvian region, developers are not rushing to undertake new projects, despite the abundance of potential sites and projects on offer. To date, at least 7 new and development (expansion of existing shopping centres) projects have been presented, which could provide the market with over 200,000 sqm of retail area. It is evident however that developers are not sure as to the successful operation of the new shopping centres; it is therefore likely that in the next few years we will only see expansion of already available, successful shopping centres.

Estonia, the leader in terms of retail area, as well as its capital city Tallinn do not intend to stop. Six shopping centres are currently being developed in Tallinn and its surroundings, which will offer an additional 110,000 sqm of retail area by mid 2017. It should be noted that Estonian developers are only interested in the opportunities offered by the country's largest city and in the construction of modern, new shopping centres there. Estonia justifies its status of the strongest Baltic economy and, if it demonstrates successful development projects, these could give a boost to Latvian and Lithuanian developers. Nevertheless, the quantity of square metres may not be the key indicator, and any further development should only be undertaken following evaluation of the actual purchasing power and prospects in individual regions, cities and towns of the countries.

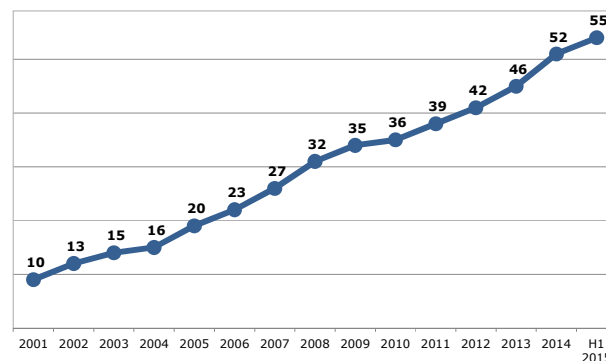
SHARED SERVICE CENTRES FREE DEVELOPERS' VISIONS

It can be stated that new large service centres of international corporations established in Vilnius and the development of already operating well-known companies (e.g. development of new services for foreign markets) have given the office premises market a really strong boost. Seeing the rapidly decreasing quantity of vacant premises in business centres and the growing number of requests for larger premises, developers availed of the opportunities and provided the market with a number of projects. According to data from Invest Lithuania, 55 shared service centres with 11,000 employees are currently operating in Lithuania. Many of these centres continue to expand; plans are to raise the number of people employed there by another 2,000. The number of service centres in Lithuania has grown stably and has increased 5.5 times since 2001. These companies normally have from 7 to 10 sqm of useful office area per employee, which means that 2,000 new employees will require from 15,000 to 20,000 sqm of new useful office area.

Construction of six new business centres will be completed in Vilnius in 2015 alone, and the total useful office area in these business centres will amount to 38,000 sqm. This does not qualify as a major leap in supply however compared to 2008-2009 period when as much as 158,000 sqm of modern office area was offered. The current occupancy rate of business centres is also promising, in particular if we remember the situation 6 or 7 years ago. By the end of 2008, the vacancy rate for office premises was 10%; by the end of 2009, the vacancy rate was nearly 18%, with the area of vacant premises amounting to as much as 75,500 sqm. Yet in 2016 (by the beginning of 2017), Vilnius will certainly have some modern offices to offer – six more new business centres with 100,000 sqm of useful office area will be completed by then.

In mid 2015, the vacancy rate for office premises in **Vilnius** was **4.4%**, with the quantity of vacant premises amounting to 23,050 sqm. It should be noted that currently new office premises are quickly booked already at the construction stage, and any leap in the quantity of vacant premises is recorded in exceptional cases only. For instance, in Q1 2015, construction of an office building next to Ukmerges Street was completed (this building remained vacant for a long time). Invalda Privatus Kapitalas, the new owner that acquired the building from Siauliu bank, quickly completed the fit-out of the building and presented it to the market (Vertingis building was later sold to the Swedish investment company Nordic & Baltic Property Group), for which reason it was vacant in Q1 2015 and the supply of vacant premises in Vilnius increased from 3.9% (end of 2014) to 4.9% (end of Q1 2015). Business centres with extended development

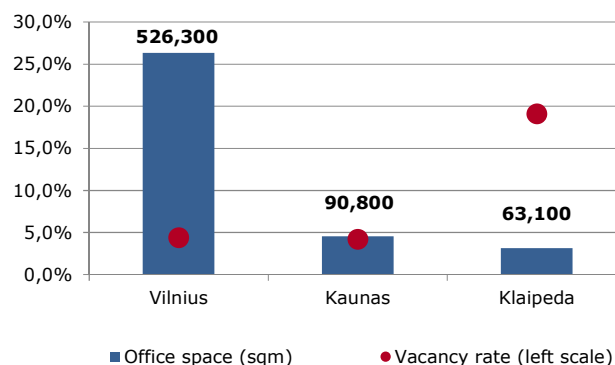
Number of shared service centers in Lithuania



Source: Invest Lithuania

Data: 2001 – H1 2015

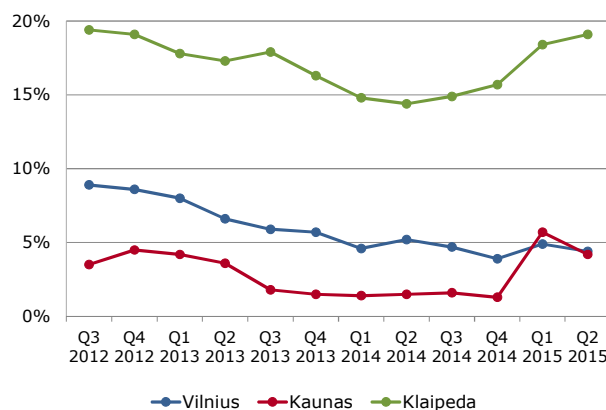
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q2 2015

Modern office vacancy rate



Source: Ober-Haus

Data: Q3 2012 – Q2 2015

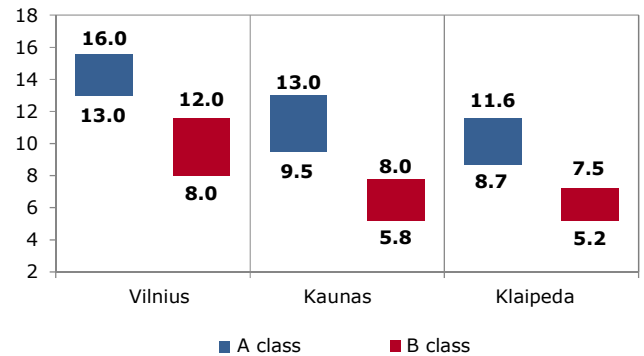
deadlines have sufficient time for finding tenants before construction is completed. Some buildings open with some premises still vacant, but some non-typical examples – fully leased buildings in the middle of construction (for instance, UNIQ business centre) – are also available.

Establishment of service centres is a reason for success not only for Vilnius but also for Kaunas. Companies such as Callcredit, Intermedix, Nielsen & Nielsen, and Bentley Systems have already established their service centres in Lithuania’s second largest city, Kaunas. Rapid establishment of service centres in Kaunas is prevented by lack of modern offices. Kaunas was unable and remains unable to offer large, modern, rationally organised premises for such service centres, which means that some investors chose Vilnius. In Lithuania, the two largest cities are normally considered for establishing service centres – they can offer a sufficient quantity of qualified labour force, a good infrastructure, and a variety of modern office premises. Often, not only the location of the future service centre is taken into account, but also the opportunities to develop the service centre in the future are considered. Development of service centres is normally planned in stages, and it is therefore important how an operating service centre can expand (in the same building, or in buildings to be constructed in the vicinity, or in a different location in the city). It is evident that the supply of available and planned office projects in Kaunas is very poor (compared to Vilnius), which means that it is considerably more difficult for Kaunas to attract new investors.

Low vacancy rates for office premises were recorded in **Kaunas** once again. Although in Q1 2015 this indicator grew from 1.3% to 5.7%, in Q2 2015 it dropped to **4.2%**. In early 2015, Mikrovisatos Valda, a telecommunications and real estate development company, completed construction of a business centre with a total area of 3,600 sqm in Savanoriu Avenue, but the rate at which premises in this building were leased was not as rapid as expected, for which reason the vacancy rate in early 2015 went up. The overall vacancy rate in Kaunas is currently somewhat above 3,800 sqm, but the premises located in different office buildings can hardly attract tenants looking for large premises. At present, preparations for implementing a major office project in Kaunas are underway. A company belonging to the SBA concern acquired the Pramprojektas building located in K. Donelaicio Street, on completion of reconstruction of which the market will receive at least 10,000 sqm of top-quality offices. Completion of this key project will show whether Kaunas is attractive for companies looking for large premises or not.

As far as **Klaipeda** is concerned, the office vacancy rate continues to remain very high; by the end of Q2 2015, it was 19.1%. Since

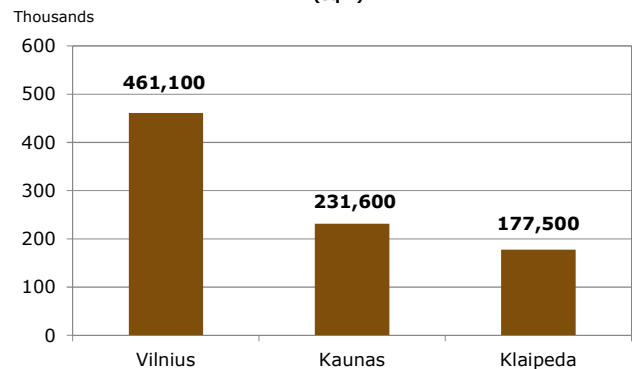
Modern office rents
(EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q2 2015

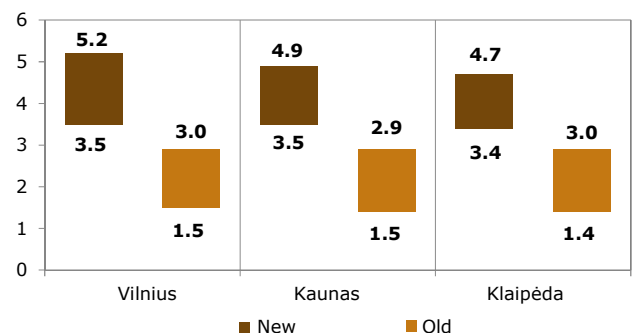
Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q2 2015

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



Source: Ober-Haus

Data: Q2 2015

Klaipeda is unable to attract service centres, the available premises are normally occupied by growing local companies. The high vacancy rate (compared to Vilnius and Kaunas) demonstrates that Klaipeda finds it hard to attract foreign and local companies. The situation with most business centres is not that simple because the largest share of vacant premises accounts for Vite business centre. The large modern business centre (over 10,000 sqm of office area), which was opened in 2009, to date has some vacant premises. This means that implementation of projects is possible in this city, too. Reconstruction of a small building in Liepu Street (Liepu Offices) offering office premises was also completed in late 2014. Reconstruction of a building in Minijos Street is also underway, on completion of which in early 2016 approximately 2,000 sqm will be offered for rent.

A minor yet consistent growth in office rents continues in the main cities of the country. In the first half of 2015, rents for modern office premises in Vilnius, Kaunas and Klaipeda increased by approximately 1-2%. At present, rents for class A offices in **Vilnius** are at **13.0-16.0 Eur/sqm**, for class B premises – **8.0-12.0 Eur/sqm**. In **Kaunas**, rents for class A offices are at **9.5-13.0 Eur/sqm**, and in **Klaipeda** – at approximately **8.7-11.6 Eur/sqm**. Class B offices in Kaunas are offered for **5.8-8.0 Eur/sqm**, in **Klaipeda** – for **5.2-7.5 Eur/sqm**.



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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