

MARKET COMMENTARY

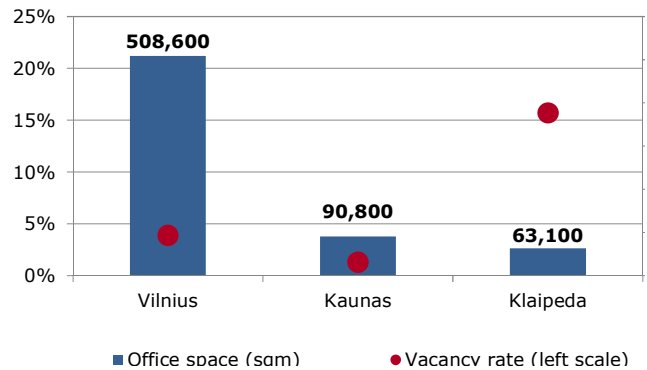


In 2014, investments in commercial real estate in Lithuania grew both rapidly and considerably: both the scope of acquisitions and development (construction) of such properties increased. According to data from Statistics Lithuania, in 2014 the costs of completed work in the field of construction of non-residential buildings in the country amounted to EUR 966 million – an increase of 17.3% compared to 2013. Developers successfully implemented new commercial projects in the main Lithuanian cities and plan to start further construction initiatives.

A new office project was presented in Klaipėda after a 5-year break. Reconstruction of a historical building with a total area of approximately 850 sqm was completed in late 2014 in the central part of the city, in Liepų Street. Office and retail premises are offered for rent in the building (project name: Liepų Offices). Construction of the new administrative building of the new Klaipėda Passenger and Cargo Terminal with a total area of nearly 4,500 sqm was also completed in Klaipėda in 2014. Although some of the office premises in this building are also offered for rent, most of the building is intended for employees of the terminal. Developers of commercial properties in Klaipėda are fairly cautious because demand is limited and the current occupancy rate is still insufficient for starting any major office projects. In any case, in 2014 the total useful area of modern office premises in **Klaipėda** increased to **63,100 sqm** (supply increased by nearly 5%). In the same year, vacancy rate decreased from 16.3% to **15.7%** (the area of vacant premises currently amounts to approximately 9,900 sqm).

The office premises market in Kaunas is gaining a new impetus. Although no new business centres were opened in 2014, the projects envisaged for this year demonstrate the potential and prospects of the city. Currently, the construction of an office building with an area of 3,600 sqm is being completed in Savanorių Avenue. The investor is the telecommunications and real estate development company Mikrovisatos Valda. At least two positive pieces of news likely to give some new energy to the commercial (office) premises sector in Kaunas were announced in early 2015. A company belonging to the SBA concern acquired the Pramprojektas building in K. Donelaičio Street, which after reconstruction will be transformed into an office building with an area of 14,000 sqm. Furthermore, a protocol of intention regarding acquisition of the uncompleted Respublika Hotel

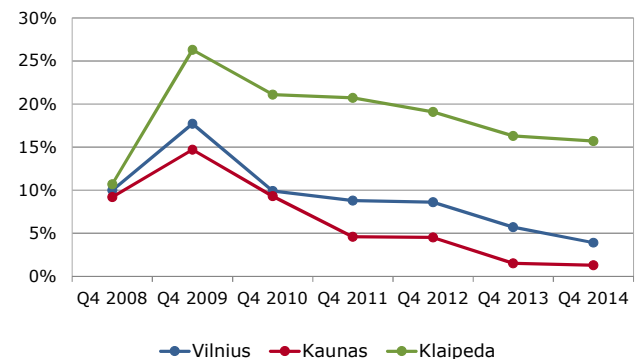
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q4 2014

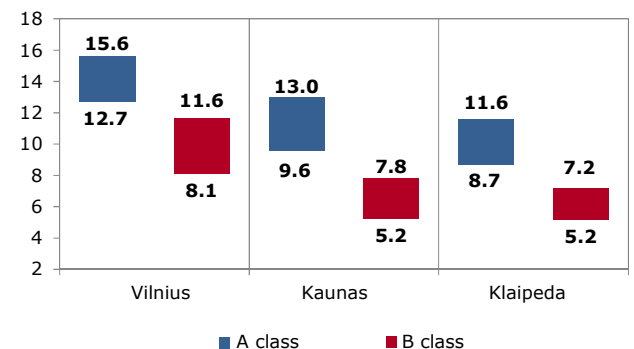
Modern office vacancy rate



Source: Ober-Haus

Data: 2008 - 2014

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



Source: Ober-Haus

Datas: Q4 2014

by local entrepreneurs was signed. The abandoned building and land plot in the central part of the city are likely to be used for the construction of a major office project. The vacancy rate enables developers to plan and start implementing new projects. In the course of 2014, vacancy rate in **Kaunas** decreased from 1.5% to **1.3%**, and the total vacant space at the end of the year was only **1,200 sqm**. Therefore, unlike Vilnius and Klaipėda, Kaunas is currently unable to offer tenants large office space for rent in modern business centres.

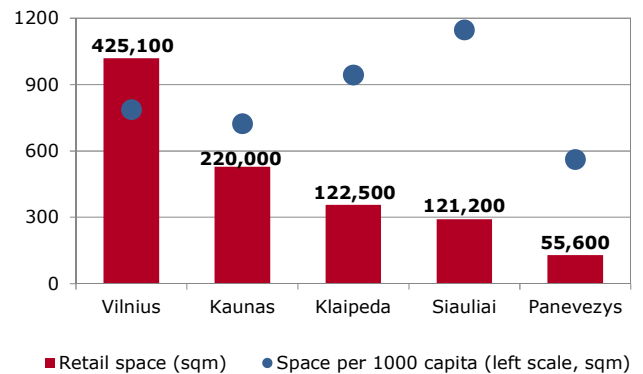
A positive stimulus to the development of business centres was also given by the growing office premise rents not only in Vilnius but also in Kaunas and Klaipėda. In 2014, the greatest growth in rents – 18% – was recorded in top class business centres in **Kaunas**. At the end of 2014, A class offices were offered for **9.6–13.0 EUR/sqm**. The growth of rents of B class offices amounted to **6%** and by the end of the year was **5.2–7.8 EUR/sqm**. Growth in office rents was also recorded in **Klaipėda**: here, the average growth in the course of the year was **8%**. At the end of 2014, office rents in **Klaipėda** were: **8.7–11.6 EUR/sqm** for A class offices and **5.2–7.2 EUR/sqm** for B class offices.

In 2014, Vilnius continued to dictate trends in the development of office buildings. Four new projects with a total area of **25,400 sqm** of office space (GRAND OFFICE, Atea/Sonex Consulting office building, one of the Business Park 4 buildings, and the third Baltic Hearts building) were introduced in the capital city. At the end of 2014, the total useful area of modern offices in Vilnius amounted to **508,600 sqm**. The growing capacities of both local and foreign companies guarantee demand for rapidly developing projects. For instance, by the end of the year the occupancy rate of projects completed in 2014 was over 90%. In the course of the year, the overall office vacancy rate in Vilnius decreased from 5.7% to **3.9%** (by the end of the year, vacancy rate was 0.7% for A class offices and 5.8% for B class offices).

In 2014, **41,500 sqm** of office space was leased in **Vilnius** business centres, which is 3% less compared to 2013 and 8% more compared to 2012. A strong demand for modern offices allowed developers to continue to raise office rents. By the end of the year, rents were **12.7–15.6 EUR/sqm** for A class offices and **8.1–11.6 EUR/sqm** for B class offices, which is **8%** higher than a year ago.

In 2014, the volumes of retail trade in Lithuania grew more rapidly compared to 2012–2013. According to data from Statistics Lithuania, in 2014 the retail trade turnover (with the exclusion of trade in motor

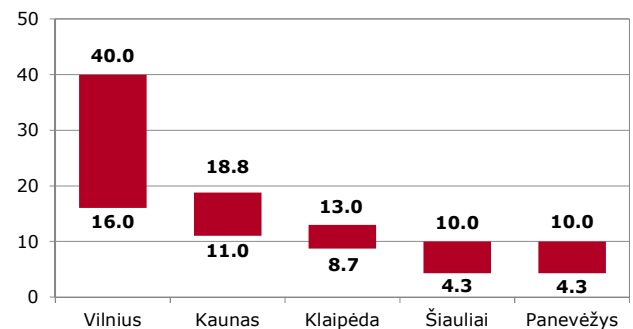
Shopping centre stock
(over 5,000 sqm GLA and over 10 tenants)



Source: Ober-Haus

Data: Q4 2014

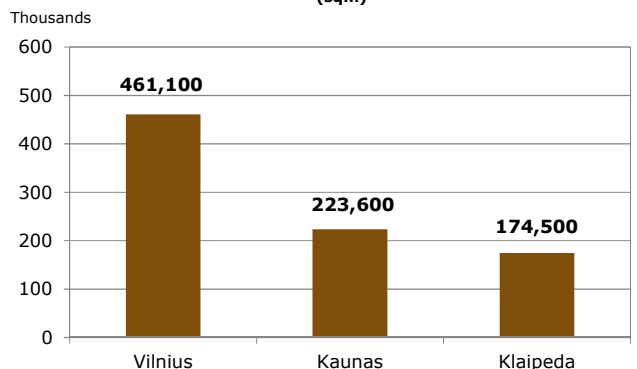
Main retail streets rents
(for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2014

Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q4 2014

Lithuanian Commercial Real Estate MARKET COMMENTARY

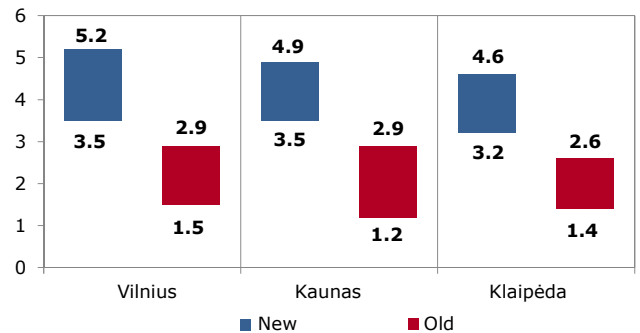
Q4 2014

vehicles and motorcycles) grew by 5.6% compared to 2013. The maximum growth was recorded in the following trade sectors: audio and video equipment, recordings, metal goods, dyes and glass products, electric household appliances, furniture, and lighting equipment (10.9%) as well as textiles, clothing and footwear (8.7%). The turnover of companies engaged in catering and supply of drinks in 2014 grew by 6.5%.

In 2014, four larger shopping centres with a total useful area of 30,100 sqm were opened in major Lithuanian cities. In the first half of 2014, two new shopping centres were opened in the capital city: Domus Pro (stage I) and Prisma (with a total area of 16,500 sqm). By the end of 2014, there were 24 traditional shopping centres (with a useful area of at least 5,000 sqm) in **Vilnius**. The total useful area of these 24 shopping centres amounted to **425,100 sqm** (788 sqm per thousand Vilnius residents). In 2014, a shopping centre with a total area of 7,400 sqm was opened in Savanorių Avenue in Kaunas and Luizė shopping centre with a total area of 6,200 sqm was opened in Klaipėda. Panevėžys has also received some new investments: in early 2015, the renovated and expanded RYO shopping centre (previously known as Babilonas) was opened. By the end of 2014, the total useful area of shopping centres in **Kaunas** was **220,000 sqm** (724 sqm per thousand Kaunas residents). This figure was **148,500 sqm** for **Klaipėda** (944 sqm per thousand residents of the city), **121,200 sqm** for Šiauliai (1.148 sqm per thousand residents of the city), and **54,100 sqm** for Panevėžys (562 sqm per thousand residents of the city). In 2015–2016, any major changes in the retail premise market are likely to be recorded in Vilnius and Kaunas only, where a couple of large-scale projects (Nordika shopping centre and expansion of Mega shopping centre) will be completed.

In 2014, the greatest growth in retail space rents in the main retail streets was recorded in **Kaunas (14%)**. The average growth in rents in Vilnius, Klaipėda and Panevėžys was 3–7%. A minor decrease in the rents (-1%) was recorded in Šiauliai. By the end of the year, rents of medium-sized retail premises (approximately 100–300 sqm) in the main streets in **Vilnius** were approximately **16.0–40.0 EUR/sqm**. This figure was **11.0–18.8 EUR/sqm** in **Kaunas**, **8.7–13.0 EUR/sqm** in **Klaipėda**, and **4.3–10.0 EUR/sqm** in **Šiauliai** and **Panevėžys**. If we consider the prospects of the main Lithuanian cities and the tenant activity rate, we can see that Vilnius and Kaunas retail streets that attract sufficient customer flows receive most attention from tenants. Streets in Klaipėda, Šiauliai or Panevėžys cannot boast high customer flows, for which reason even fairly low

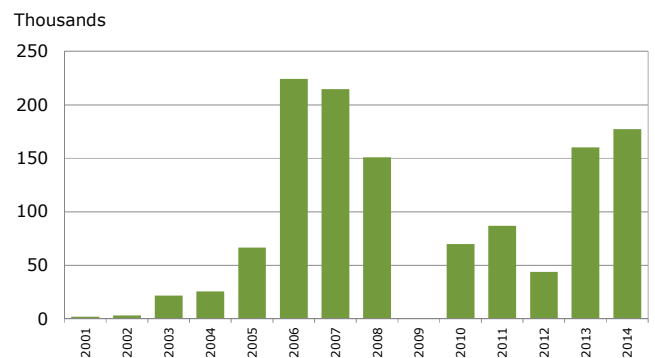
Warehouse rents
(EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2014

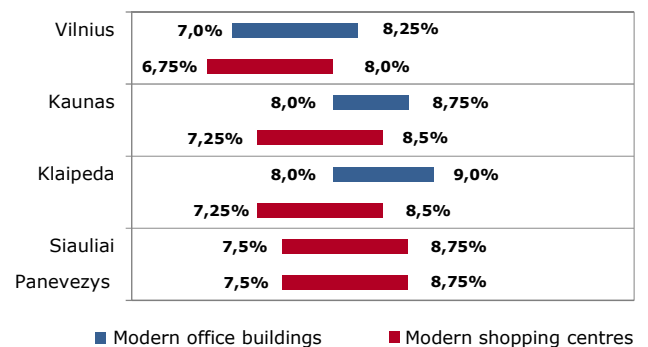
Investment volumes
(modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2001 – 2014

Commercial property yields



Source: Ober-Haus

Data: Q4 2014

rents do not attract any considerable attention of traders. We will therefore continue to see the widening gap between retail space rents in the main streets of Vilnius and Kaunas and the other regions.

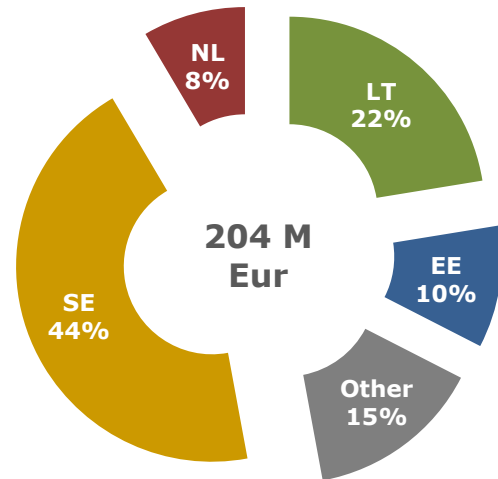
Although the total sales revenue of companies engaged in the provision of warehousing and transport services in Lithuania continued to grow in 2014, certain signs of decrease in the revenue have been recorded for companies that are only engaged in warehousing and storage services. According to data from Statistics Lithuania, in 2014 revenue from warehousing and transport services increased by 7.1%, but sales revenue of companies engaged in warehousing and storage services only decreased by 32.4%. The transport and warehousing sector is sensitive not only to local changes but also to changes abroad. Russian countersanctions effected Lithuanian food producers, transport service providers, and the warehousing sector. Major problems may be encountered by companies that use warehouses intended for the sorting and storage of products intended for the Russian market. However, a fairly strong demand within Lithuania is likely to help the warehousing premise sector to retain stable performance indicators.

In 2014, nine new warehousing projects with a total warehousing area of approximately **80,000 sqm** were completed in **Vilnius, Kaunas** and **Klaipėda regions**. The largest share of these projects, which were implemented by Transekspedicija, Autoverslas, Hormann Lietuva, Entafarma, Limedika, Sanitex, Osama, Vlantana, and AD REM, are not intended for lease but rather for the companies' own needs.

Since only a few warehousing projects were introduced in the market recently (for the market needs) and the vacancy rate is low, rents continued to grow in the course of 2014. Rents of new warehouses in **Vilnius, Kaunas** and **Klaipėda regions** increased by **4–8%**. In Vilnius, new warehouses are offered for **3.5–5.2 EUR/sqm**, while old warehouses – for **1.5–2.9 EUR/sqm**. This figure is **3.5–4.9 EUR/sqm** for new warehouses and **1.2–2.9 EUR/sqm** for old warehouses in **Kaunas**, and **3.2–4.6 EUR/sqm** for new warehouses and **1.4–2.6 EUR/sqm** for old warehouses in **Klaipėda**.

In 2014, record figures were once again recorded in the Lithuanian market for investment commercial real estate. In the course of the year, 18 investment deals were finalised in Lithuania, under which nearly **177,200 sqm** of total area of modern commercial buildings (office, retail, warehousing, and production premises) were acquired. The total value of the property acquired amounted to **EUR 204 million**, which is a 30% increase compared to 2013. The largest

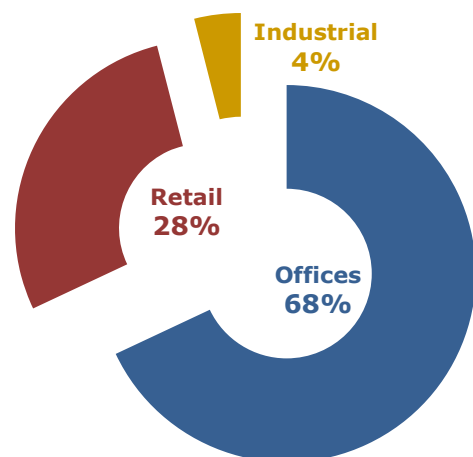
Commercial investment volumes in Lithuania
(by country)



Source: Ober-Haus

Data: 2014

Investment distribution by real estate sectors in Lithuania



Source: Ober-Haus

Data: 2014

investment flows went to the office and retail segments: 68% of the investments went to office premises and 28% of the investments went to retail premises. Investments in warehousing and production premises amounted to 4%. The largest share of the investments was provided by Swedish capital companies (44%), which acquired 3 business centre projects in Vilnius, while 22% of the investments accounted for companies and funds registered in Lithuania. Commercial premises also attracted the attention of companies registered in other countries (Estonia, the Netherlands, Finland, Denmark, Russia, and the USA).

Both the decreasing yields of commercial properties and the number of deals signal Lithuania's increasing attractiveness for both local and foreign investors. In 2014, the investment

yields in commercial properties in the main Lithuanian cities on average dropped by 25 bps and, depending on the region, amounted to **7.0–8.75%** for offices and shopping centres and from **8.5%** in warehousing projects. New market participants also serve as evidence of the trust vested in our region. A major investment contract involving a 112,000 sqm sized real estate portfolio in the Baltic States and Poland was announced in early 2015. Partners Group, a Switzerland-based international investment company, invested EUR 163 million in this portfolio. This was the company's first acquisition in the Baltic region. The increasing number of investors from different geographical locations is a good sign for the entire real estate market.



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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