

Lithuanian Commercial Real Estate

Q2 2013

MARKET COMMENTARY



Lithuanian commercial property investment market is gaining momentum. One more high-value, major transaction was finalised in Q2 2013. This has further improved the indicators in the sector and signals that investors are regaining trust in local markets. In May 2013, Lords LB Baltic Fund III, for an undisclosed price, acquired 100% of the shares of SMI Lietuva and its subsidiaries and 100% of the shares of SMI Latvia. SMI Lietuva and SMI Latvia control 8 shopping centres in Lithuania (in Klaipėda, Šiauliai, Marijampolė and Alytus) and Latvia (in Riga, Liepaja and Jelgava) and a warehouse in Riga. The total area of the acquired shopping centres in Lithuania is nearly 44,000 sqm.

Over the first half of this year, 5 investment deals, with a total investment value of approximately **EUR 124 million**, were finalised in **Lithuania** (these include direct, indirect and forced acquisitions of modern office, retail or warehousing/production premises with a value of over EUR 1.5 million). This is a 193% (nearly threefold) increase compared to the whole of 2012. The total area of properties acquired is **126,500 sqm**.

The market of modern offices continues to grow with a consequent improvement in indicators. Significant positive changes were recorded in Vilnius, where occupancy rates are returning to the pre-crisis level. Over Q2 2013, the vacancy rate in Vilnius decreased from 8.0% to **6.6%**, and the total supply of vacant offices dropped to **30,800 sqm**. The highest vacancy rate is seen in B class business centres, although this year the indicator has been decreasing notably and presently stands at 7.9%. The vacancy rate in A class business centres over the same period decreased to 4.6%. In Q2 2013, a total of **10,350 sqm** of offices were leased in business centres located in **Vilnius**, which is 15% less than the same period last year. B class premises account for as much as 77% of all offices leased (the same distribution was recorded in Q1 2013).

Despite a variety of projects being announced and in progress, the construction of only two new business centres—GAMA and Baltic Hearts (stage II)—will be completed in Vilnius this year. These projects are unlikely to bring any major change to the market as a whole since their total area will account for just 3% of the total current supply (14,000 sqm) and most of the premises have been leased already. It is expected that the new supply of modern offices will show a much greater increase in 2014–2015.

In Q2 2013, the vacancy rate in **Kaunas** decreased to **3.6%**, and the total vacant area is only **2,500 sqm**. **Klaipėda** still has the highest vacancy rate, although a certain decrease—from 17.8% to **17.3%**—was also recorded here. The total vacant area in modern business centres in Klaipėda is **10,400 sqm**.

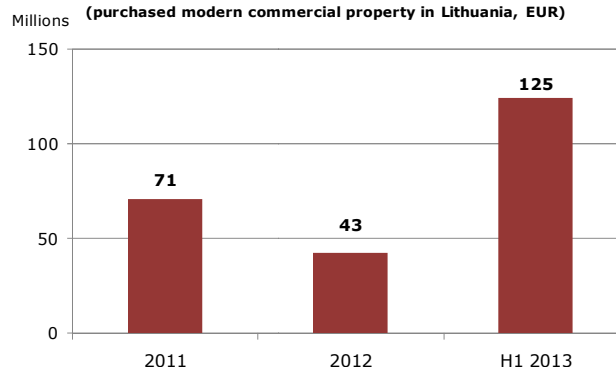
Investment volumes
(purchased modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2003 – Q2 2013

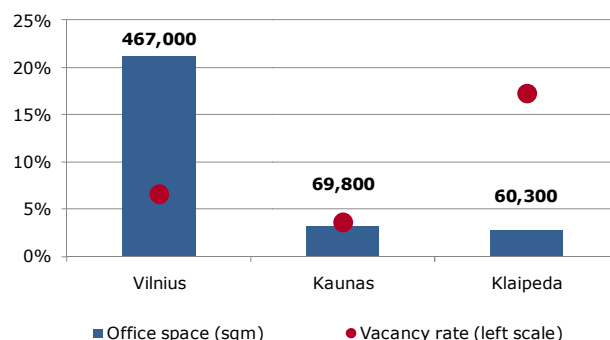
Investment volumes
(purchased modern commercial property in Lithuania, EUR)



Source: Ober-Haus

Data: 2011 – Q2 2013

Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q2 2013

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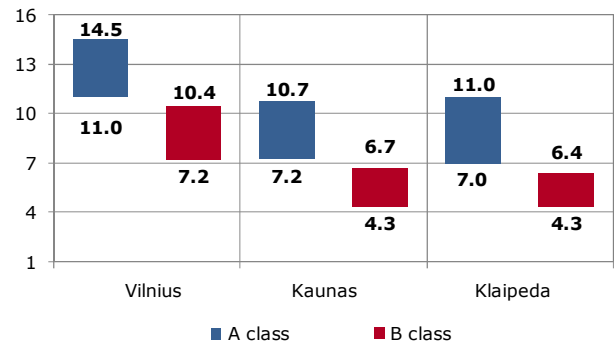
Q2 2013

Over Q2 2013, rents for A class offices in **Vilnius** grew on average by 2%; rents for these offices currently stand at **11–14.5 EUR/sqm**. Rents for B class offices remained stable and were **7.2–10.4 EUR/sqm**. Growth in the B class segment was recorded in Kaunas and Klaipėda, where rents increased by an average of 4%. At present, rents for offices in **Kaunas** and **Klaipėda** remain similar: **7.0–11.0 EUR/sqm** for A class offices and **4.3–6.7 EUR/sqm** for B class offices.

The improving performance of companies clearly improves the results of the warehousing premises sector in the main Lithuanian cities. At present, the occupancy rate of modern warehouses in Vilnius, Kaunas and Klaipėda regions is as high as 95–97%. Like last year, positive changes in warehouse rents have been recorded in the main Lithuanian cities this year. In the first half of 2013, rents for both new and old warehouses in Vilnius, Kaunas and Klaipėda regions grew on average by 7–10%. Currently, rents for new warehouses are **3.5–4.9 EUR/sqm** and for old warehouses **1.2–2.9 EUR/sqm** in **Vilnius**. In **Kaunas**, rents are **3.2–4.3 EUR/sqm** for new warehouses and **1.2–2.9 EUR/sqm** for old warehouses; in **Klaipėda** these figures are **2.9–4.3 EUR/sqm** and **1.2–2.3 EUR/sqm** respectively.

Seeing positive changes in the economy as a whole and in the transport and warehousing sectors in particular and considering the success of recently completed projects, developers are increasingly eager to talk about the implementation of new projects, while companies consider development opportunities. Two major projects are currently in progress in the vicinity of Vilnius (next to the Vilnius-Panevėžys highway); these will provide warehouses (a logistics centre for Transekspedicija with a total area of 17,000 sqm and a logistics centre for Arvydo Paslaugos with a total area of 8,500 sqm). Entafarma, Hörmann Lietuva, Wurth Lietuva, and Rhenus Svoris have also announced development plans and investments in new logistics centres in Vilnius County (some have already started). These projects may be completed by as early as 2014. DHL plans to build a shipment terminal at Vilnius airport. Kaunas airport has also been proposed as a future shipment terminal. DHL investments in Lithuania will amount to approximately EUR 2.9 million, and 150 new jobs will be created. Lithuanian Post has announced plans to move its letter and parcel-sorting centre from Vilnius to Kaunas. Plans are to move to a new logistics centre with an area of 10,000 sqm next to the Vilnius-Kaunas highway by 2015. Vlantana, a logistics services company, this year started construction of warehouses with a total area of 15,000 sqm in the vicinity of Klaipėda (Vilnius- Klaipėda highway). SC Klaipėda Stevedoring Company (KLASCO) plans to invest over EUR 14 million this year in the development of a new terminal and construction of a warehouse at Klaipėda seaport. These projects, which are either in progress or being planned, show that most of them are intended for companies' own needs and only some of the premises will be offered on the market.

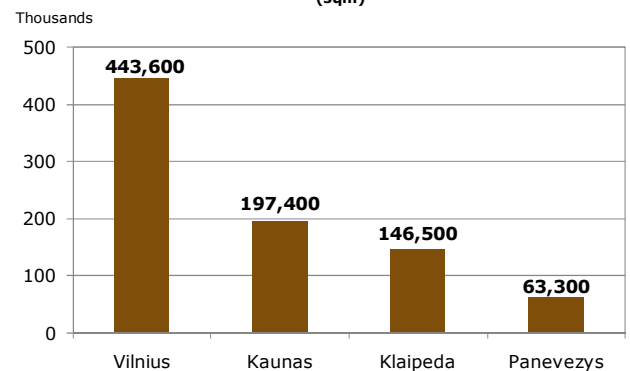
Modern office rents
(EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q2 2013

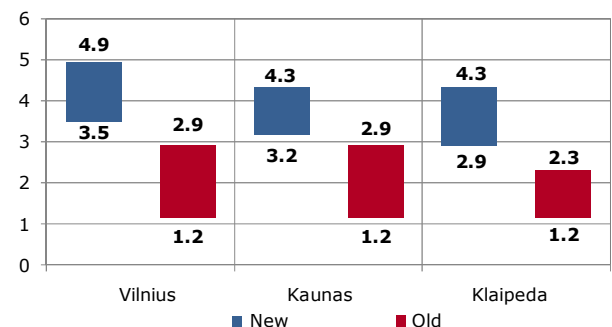
Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q2 2013

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



Source: Ober-Haus

Data: Q2 2013

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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