

Lithuanian Commercial Real Estate

Q2 2014

MARKET COMMENTARY



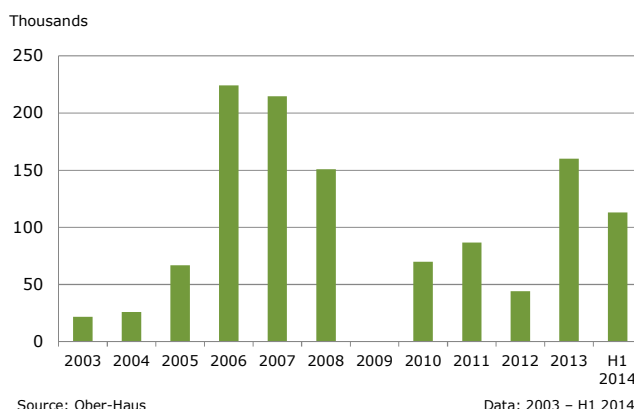
Investments in commercial real estate in Lithuania continue to grow rapidly. According to Ober-Haus, in the first half of 2014, a total of 10 investment transactions were concluded. The total value of the transactions amounted to about **EUR 136 million** and accounted for 113,000 sqm of the total area of modern commercial premises. This is a really good result compared to the previous year when the value of acquisitions over the year totalled EUR 157 million.

According to the amount of money invested, more than 96% (eight investment transactions) was spent in Vilnius. Two real estate investment transactions were concluded in the first half of the year in Kaunas. In terms of the distribution of transactions by asset type, the proportions remained almost identical to those in 2013: 65% of all money was invested in offices, 32% in shopping centres and only 3% in industrial property. So this is the second consecutive year that the trend of greater investment in office space compared to shopping centres can be observed. Between 2001 and 2013, about 60% of all investment was in retail premises and investment in offices accounted for only for about a quarter of all investment. This year's developments were mainly affected by the transaction for the A class business centre Vilnius Verslo Uostas (Vilnius Business Harbour), which is the largest business centre in Lithuania. The Swedish investment company East Capital Explorer acquired the property from Nekilnojamojo Turto Gama for almost EUR 62 million. This transaction was not only the most important in the first half of 2014, but also the fourth largest real estate investment transaction in the history of Lithuania.

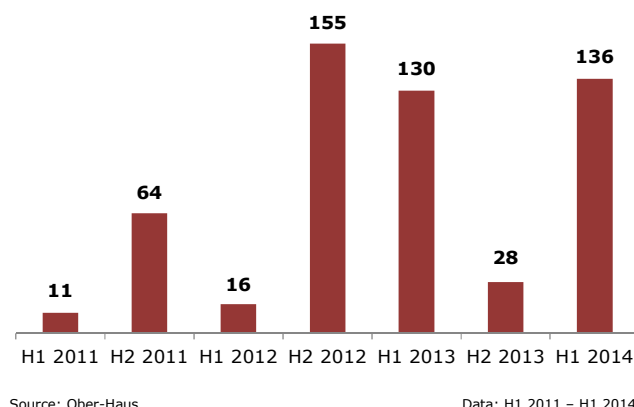
Analysis of the geography of the investors in 2014 did not reveal any surprises. As always, Scandinavian investors (Sweden, Finland and Denmark) have been very active and accounted for 75% of the total investment, the share of Lithuanian investors was 6%, and that of Russian buyers – just 3%. Thus, the Lithuanian market continues to be a strong attraction for our Nordic neighbours; it is unlikely that there will be any changes in the near future.

The yields of real estate investment transactions continue to decline gradually. Currently, investors are prepared to offer a 7.0%–7.5% return for attractive objects – particularly for best business and shopping centres. Less attractive objects usually attract purchase offers of 8.0%–9.0% annual return.

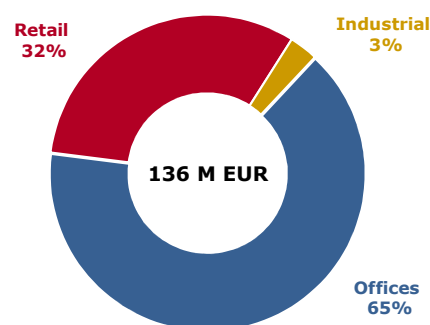
Investment volumes
(purchased modern commercial property in Lithuania, sqm)



Investment volumes
(investments into commercial property in Lithuania, million EUR)



Investment distribution by real estate sectors in Lithuania



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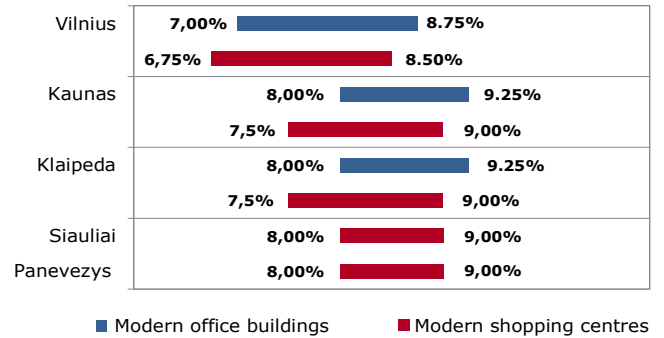
Today, there are several major objects for sale on the market, among them the Europa shopping centre and the North Star business centre. Ober-Haus estimates that the combined total for all property currently on the market is about EUR 90 million. It is very likely that the majority of these objects will be sold this year. This means that the results of the second half of the year will continue to improve the year's figures. However, it is unlikely that 2014 will be a record year in Lithuania and surpass the figures for 2007 and 2008 when the yearly value of transactions was over EUR 260 million. But it is still possible that this year will be one of the most successful years in the Lithuanian commercial investment market.

We can now see that newly opened larger business centres change the overall vacancy indicators of the sector. In Q2 2014, the Grand Office business centre with a total office area of 9,200 sqm opened in Vilnius. Most of the space (70%) in this business centre is leased and the remaining amount contributed to the increase in the vacancy rate in the market. The vacancy rate in Q2 2014 in Vilnius increased from 4.6% to **5.2%**, while the overall vacant space in the market increased to **25,600 sqm**. A growth in vacancies was recorded in both A and B class business centres. At the end of Q2 2014, vacancies in A class business centres accounted for 2.8% (5,300 sqm) and 6.7% (20,300 sqm) in B class offices. During the first half of the year a total of **17,000 sqm** was leased in business centres in **Vilnius** or 7% less than in the same period of 2013. The newly opened business centres offer excellent location and quality opportunities and encourage the migration of tenants between different projects. It is likely that business centres which are currently under construction and will soon open will not only increase market activity, but will also contribute to the growing amount of vacant office space in the market.

In Kaunas, vacancy rates in Q2 2014 increased slightly from 1.4% to **1.5%** and at the end of the quarter there was a total of over **1,300 sqm** vacant space. **In Klaipėda**, vacancy rates remain the highest of Lithuanian cities, but a consistent decrease in vacancies has been recorded. In Q2 2014, the vacancy rate fell from 14.8% to **14.4%**. Presently there are approximately **9,000 sqm** of vacant space in Klaipėda business centres.

In Q2 2014, office rents have remained stable in Vilnius. A class office rents in **Vilnius** range from **12.0** to **15.0 EUR/sqm** and B class – **7.8–11.0 EUR/sqm**.

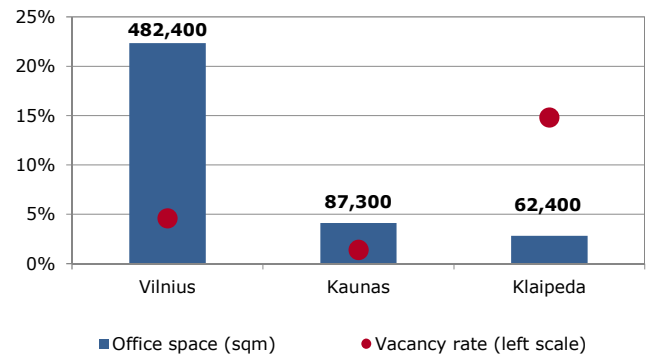
Commercial property yields



Source: Ober-Haus

Data: Q2 2014

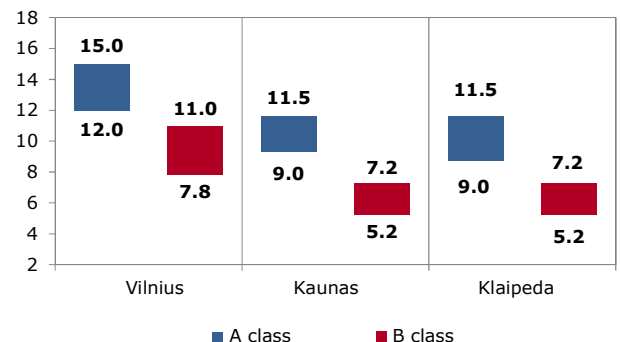
Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q2 2014

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



Source: Ober-Haus

Data: Q2 2014

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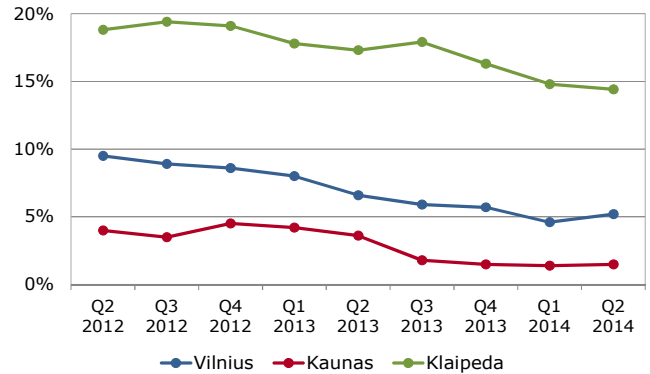
Meanwhile, in **Kaunas** and **Klaipėda**, office rents over the period increased by 4–5% on average and now A class office premises are renting for **9.0–11.5 EUR/sqm** and B class – for **5.2–7.2 EUR/sqm**.

Retail property developers and tenants are trying to exploit the growing consumption habits of the population and leave no vacancies in strategically convenient locations. Two larger shopping centres were opened in the western part of Vilnius during Q2 2014: Prisma has opened shopping centre with total area of 10,000 sqm in the residential district of Viršuliškės and the Norfa shopping centre of 5,000 sqm total area opened in the residential district of Pilaitė. It should be noted that these shopping centres were sold to unknown investors, which once again proves that this segment remains very attractive for investment. Construction or preparation for development of at least two more larger shopping centres in Vilnius is underway: Rimi shopping centre in Linkmenų Street and a shopping centre next to the IKEA shopping centre in Žirnių St.

Meanwhile construction has started on a new shopping centre with an area of 7,400 sqm in Kaunas (anchor tenant – Rimi) and the managers of Mega shopping centre are getting ready for expansion of this shopping centre. The considerably expanded retail trade area will accommodate not only smaller tenants, but also the largest sports and fitness centre in the Baltic States and the Swedish retail clothing chain H&M. Klaipėda saw the opening of the new 6,200 sqm Luizė shopping centre in the northern part of the city, intended for the residents of that part of the city.

The remaining interest in individual retail premises in the main shopping streets of the cities and rather rapidly declining vacancies continue to increase rents. According Ober-Haus, in Q2 2014 rents in **Kaunas**, **Klaipėda** and **Panevėžys** increased by 5–7%. Currently, the rents for average size (about 100–300 sqm) retail premises in the main shopping streets of **Vilnius** are around **16.0–40.0 EUR/sqm**, in **Kaunas** – **10.0–19.0 EUR/sqm**, in **Klaipėda** – **9.0–13.0 EUR/sqm**, and in **Šiauliai** and **Panevėžys** – **5.2–10.0 EUR/sqm**.

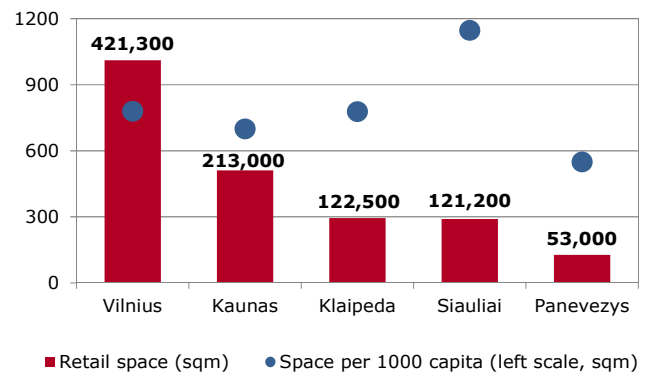
Modern office vacancy rate



Source: Ober-Haus

Data: Q2 2012 – Q2 2014

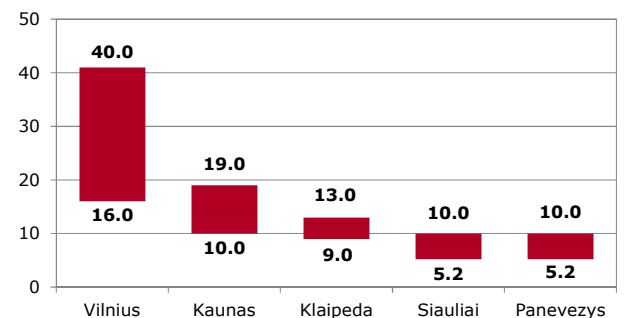
Shopping centre stock (over 5,000 sqm GLA and over 10 tenants)



Source: Ober-Haus

Data: Q2 2014

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



Source: Ober-Haus

Data: Q2 2014

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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