

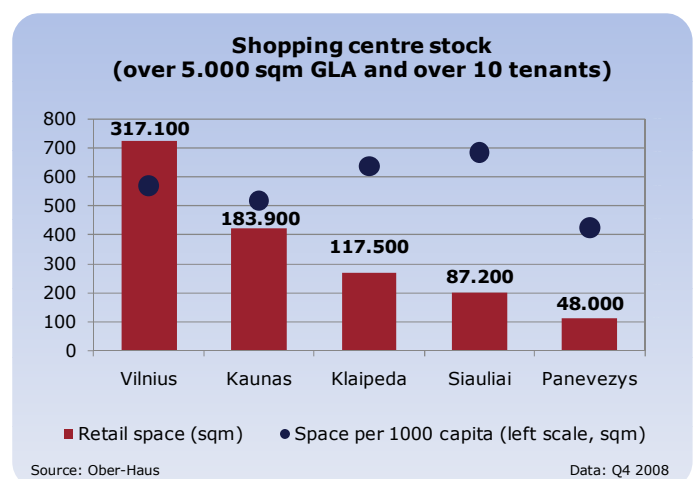
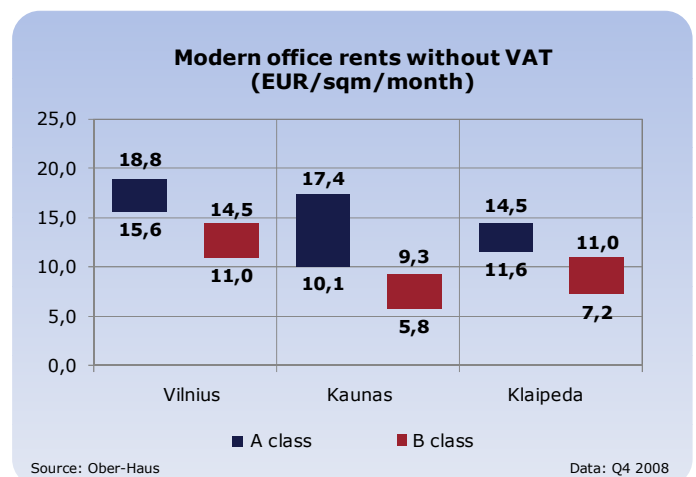
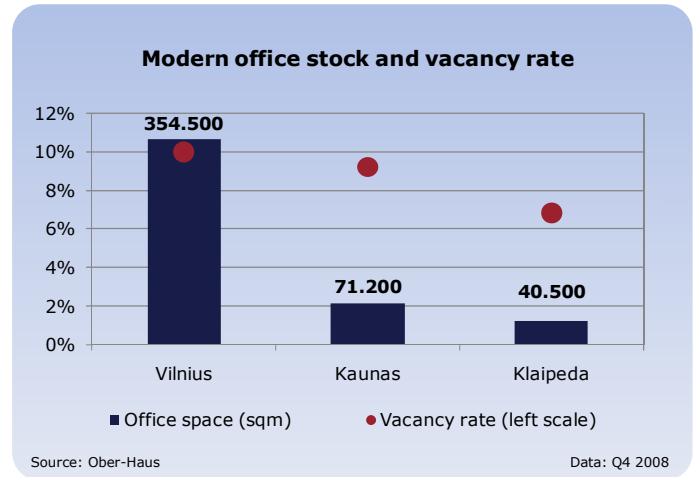
MARKET COMMENTARY

The raging financial crisis and increasingly worsening economic forecasts for Lithuania and countries all over the world have led to major changes in the Lithuanian market of commercial premises and forced people to look at its future prospects from another angle. Although until recently the market of commercial premises was considered an alternative to the market of residential premises, which has experienced a sharp fall, the overall results for 2008, especially the end of the year, showed that the Lithuanian market of commercial premises also failed to withstand the country's economic and financial downturn.

The worsening economic situation in Lithuania, a significantly reduced flow of bank loans to businesses, and less than favourable forecasts for the future had a negative impact on the demand for commercial premises in all segments of this market. At the end of 2008, the demand for office, warehouse, and retail premises was sinking.

The market for offices experienced the greatest changes in 2008. Owners of this type of premises are now forced to contend with drastically reduced demand and fierce internal competition. The greatest changes took place in the **Vilnius** market of office premises, which grew by a whopping **32%** in 2008, i.e. the market was offered **85,700 m²** of new office premises. Such a sudden increase considerably magnified the number of vacant premises, which went up from **1%** at the beginning of the year to **10%** in December 2008. These changes influenced the rents of office premises, which returned to the level of 2007. According to information provided by Ober-Haus Real Estate Advisors, the rents of Class A offices fell approximately **7%** and the rents of Class B offices dropped **12%** in 2008. In **Kaunas**, the downward correction in the lease price is on average **9%** for Class A offices and **14%** for Class B offices, whereas in **Klaipėda** it reaches **6%** and **14%** respectively.

At the end of 2008, optimism petered out in the retail sector as well since the results of enterprises began showing signs of marked decline (*according to data from the Lithuanian Department of Statistics, retail trade turnover went down 7.5%*). Growing supply and shrinking demand for retail space is beginning to affect the rents of retail premises. Although the reduction in rents in attractive shopping centres was almost imperceptible in 2008, rents in the retail streets of cities have already dropped approximately **10–15%**.

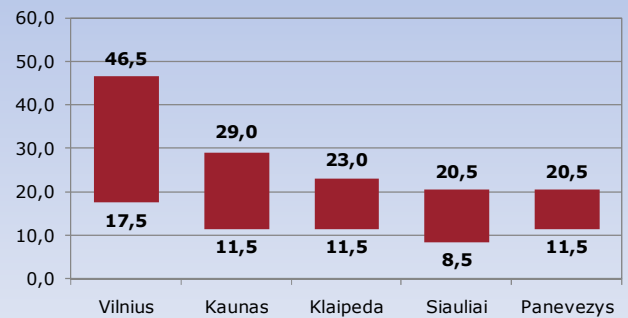


The leading position in the market of retail premises continues to belong to the city of **Šiauliai**, where there are **686 m²** of shopping centre space for lease per 1,000 population. After the opening of an *Akropolis* shopping centre in 2009, Šiauliai will further solidify its position as a leader in the market of retail premises, and the expansion of retail spaces in this city will most likely come to an end.

Unlike the sectors of office or retail premises, the market of warehouse premises has been less sluggish and much quicker to adapt to market changes. Usually projects are launched when a specific tenant or a buyer has already been found. These factors caused this real estate segment to remain stable in 2008. Worsening results for transportation and logistics enterprises will however have a significant influence both the vacancy rate and rents of warehouse premises in the near future.

To summarise the situation in the last quarter of 2008 and in an attempt to forecast market trends for 2009, it can be stated that 2009 will be one of the toughest years for real estate owners throughout the entire history of the development of the Lithuanian real estate market, but it will open a lot of possibilities for potential real estate buyers and tenants to choose premises at extremely attractive prices. It is therefore probable that in 2009 both the sale and rents of office premises may drop further by approximately **10–20%** from the current price level while the reduction in prices for retail and warehouse premises should be somewhat milder and reach about **5–15%**.

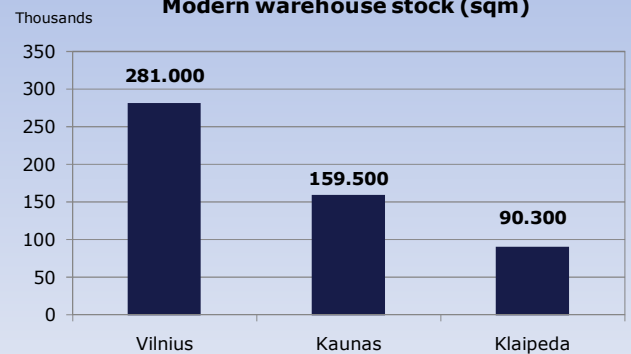
Main retail streets rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q4 2008

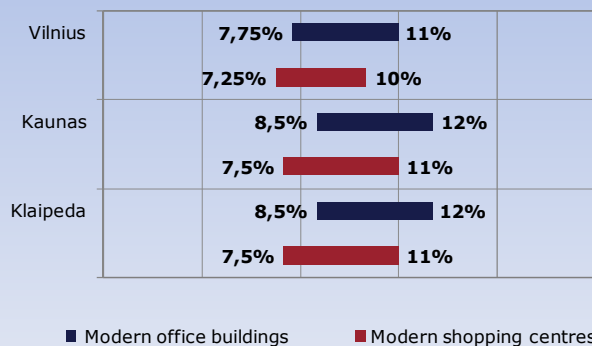
Modern warehouse stock (sqm)



Source: Ober-Haus

Data: Q4 2008

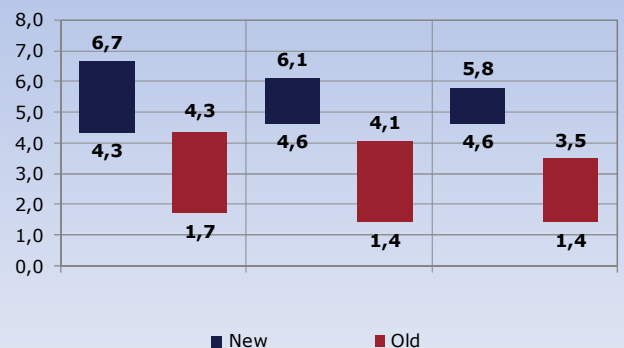
Commercial property yields



Source: Ober-Haus

Data: Q4 2008

Warehouse rents without VAT (EUR/sqm/month)



Source: Ober-Haus

Data: Q4 2008

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 UAB Ober-Haus real estate market analysts.

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