

Lithuanian Commercial Real Estate

Q4 2012

MARKET COMMENTARY



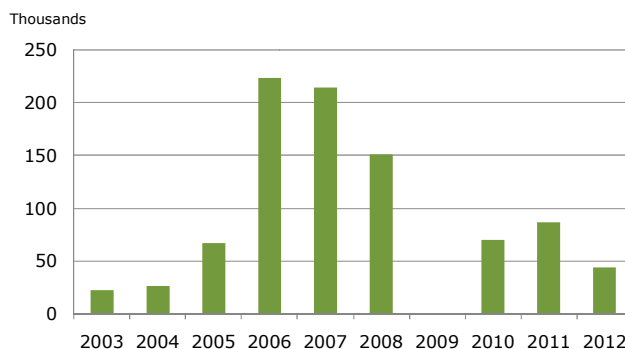
In 2012, the sector of commercial property investment transactions in Lithuania continued to shrink and more modest results were recorded than in the previous years. In 2012, four larger investment deals (in terms of direct, indirect and forced asset acquisitions) were concluded in Lithuania, as a result of which a total area of nearly **44,000 sqm** of modern commercial premises with a total value of **EUR 43 million** were acquired in Lithuania. The total area of the acquired premises is half that of 2011 and the value dropped by 39%. The largest transaction in 2012 was the sale of the Gedimino 9 shopping centre in Vilnius for the second time. The shopping centre was purchased by investment fund East Capital Baltic Property Fund II for an undisclosed sum. The shopping centre was acquired from Ektornet Lithuania SPV 1, a subsidiary of Swedbank, which was the highest bidder at the auction (EUR 23 million plus VAT) at the end of 2011. The geography of investing countries in 2012 remained unchanged, Scandinavian (Swedish, Finnish) and local capital companies (funds) showed the greatest interest in investing in real estate in Lithuania.

Estonia remained the leader in investment transactions in the Baltic States in 2012 where 113.500 sqm of modern commercial property was acquired for EUR 99 million. It is likely that 2013 will see a leap in the investment transaction market of the Baltic States, as BPT Secura fund is ready to sell a further 10 objects for various use in Estonia, Latvia and Lithuania, with a total value of EUR 126 million. The majority of the objects are located in Lithuania (e.g. Europa shopping centre) and successful sales could significantly improve the investment sector indicators.

Only Vilnius saw the development of modern offices in 2012, with 7 new projects being offered on the market. The projects contributed a combined total of 22,900 sqm of office premises for the market and the total usable office space at the end of the year in the capital of Lithuania was **467,000 sqm**. Over the past few years, no major changes have been recorded in the occupancy rate of business centres and since the end of 2010, the office vacancy rate in Vilnius has ranged between 8.5% and 10%. During Q4 of 2012, the office vacancy rate in Vilnius fell from 8.9% to **8.6%**. At the end of 2011, this rate was 8.8%. Despite the drop in vacancies, the total available office space in 2012 increased to **40,200 sqm** in Vilnius and to a certain extent this was influenced by the increased total supply.

Given that in 2010–2012, nine new business centres were built in Vilnius, the current occupancy rate and the recorded positive occupancy trend show quite a good result. However, considering the occupancy of business centres per class, we can see that the best situation is in the top class business centres.

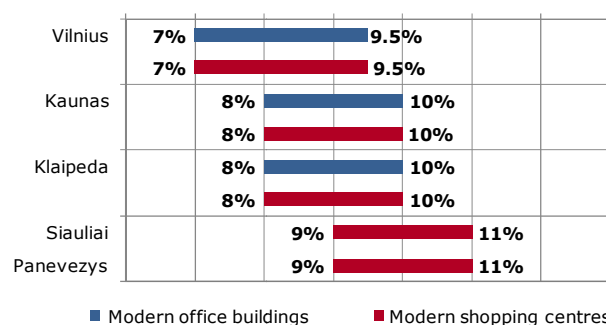
Investment volumes
(purchased modern commercial property in Lithuania, sqm)



Source: Ober-Haus

Data: 2003 - 2012

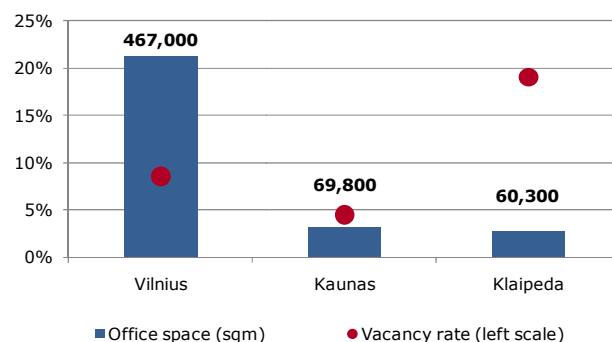
Commercial property yields



Source: Ober-Haus

Data: Q4 2012

Modern office stock and vacancy rate



Source: Ober-Haus

Data: Q4 2012

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At the end of 2012, the vacancies in A class business centres amounted to 5.1% while vacancies in B class business centres were double — at 10.9%. Although the greatest demand in the market remains for B class premises, which are modern and less expensive than A class premises, over the past few years, the supply of B class premises has grown fast and this led to the decline in occupancy. In 2012, 38,400 sqm of office premises were leased in Vilnius business centres or 20.6% more than in 2011. As much as 67% of the total premises leased in 2012 were B class premises.

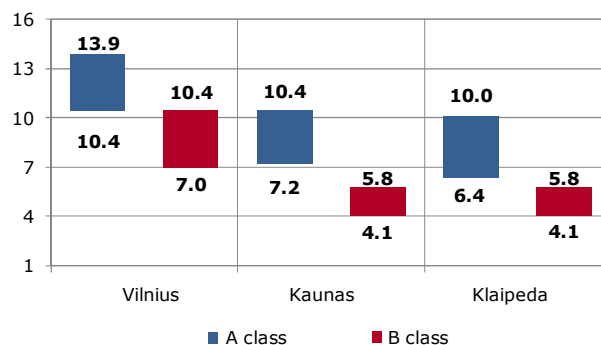
The lowest office vacancy rate remains in **Kaunas** where the total modern office vacancy rate in 2012 decreased from 4.6% to **4.5%** and the amount of vacant offices at the end of the year was **3,100 sqm**. However, Kaunas still fails to get the attention of more decisive developers. The rather low level of rents and the unpredictable demand for office space determine that only individual projects for own needs are developed (e.g. the Senukai office building that is nearing completion). During the same period, in **Klaipėda**, the vacancy rate dropped from 20.7% to **19.1%** and in 2012 totalled **11,500 sqm** of vacant space in currently available business centres. No new business centres have been built in Klaipėda since the end of 2009.

In 2012, office rents increased only in **Kaunas**, (with an average rise of **5%**). The best occupancy rates and the lack of new projects led to positive price changes in this second largest city in Lithuania. Rents in Vilnius in 2012 remained essentially unchanged and in **Klaipėda** a decrease of **3%** was observed. Currently, rents of A class offices range from **10.4 to 13.9 EUR/sqm**, B class — **7.0-10.4 EUR/sqm**. In **Kaunas**, A class office rents are **7.2-10.4 EUR/sqm** and in **Klaipėda** — **6.4-10.0 EUR/sqm**. B class office rents in these two cities remain the same — at **4.1-5.8 EUR/sqm**.

In 2012, further positive changes in the retail trade, which had a direct effect on the retail trade premises sector, were recorded. According to the Department of Statistics of Lithuania, in 2012, retail trade turnover (except for motor vehicles and motorcycles) increased by 4.5% compared with 2011. The largest annual growth was recorded in the retail of second-hand items (24.3%), textiles, clothing and footwear (16.1%), and specialised audio and video equipment, recording equipment, metal products, paint and glass, electrical household appliances, furniture and lighting equipment (12.3%). The turnover of businesses operating in the catering and beverage area in 2012 increased by 10.3%.

The improving results of trade companies provided additional stimulus for retail sector premises. A further increase in rents was recorded in the shopping streets of major Lithuanian cities. **Vilnius** saw the highest growth in rents — an average of **15%** for such premises in 2012.

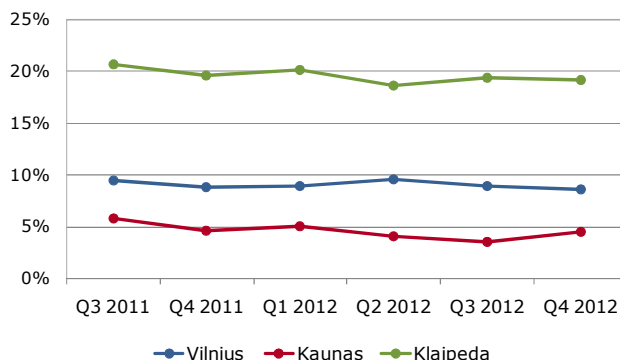
Modern office rents
(EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2012

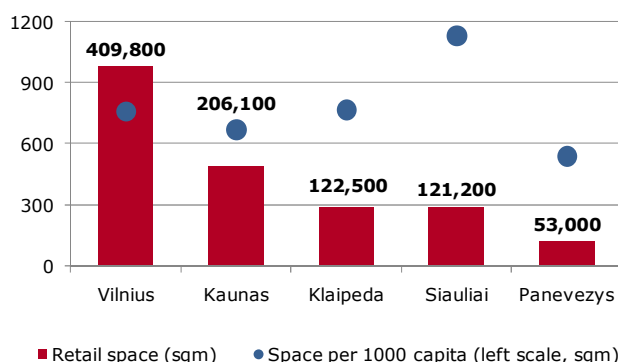
Modern office vacancy rate



Source: Ober-Haus

Data: Q4 2012

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



Source: Ober-Haus

Data: Q4 2012

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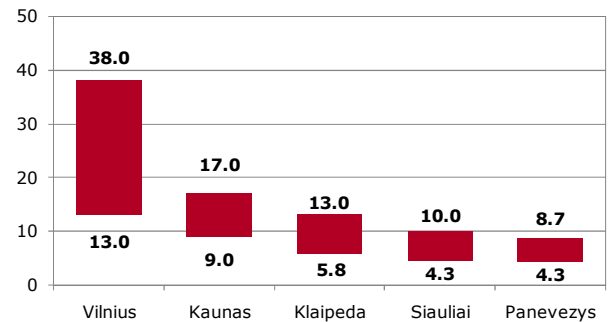
In other Lithuanian cities, the price change was not so fast and, depending on the city, growth of up to 5% was recorded. Rents for medium size (about 100-300 sqm) retail trade premises in the main shopping streets of **Vilnius** currently stand at about **13.0-38.0 EUR/sqm**, in **Kaunas** — **9.0-17.0 EUR/sqm**, in **Klaipėda** — **5.8-13.0 EUR/sqm**, and in **Šiauliai** and **Panevėžys** — **4.3-10.0 EUR/sqm**.

The year 2012 could not boast an abundance of large new retail premises projects. As in previous years, investment was directed to the development of specialised food or other supermarket centres. Large food store chains continued to open new smaller and medium-size (up to 4,000 sqm) shopping centres in major cities of Lithuania. The largest new shopping centre in 2012 was opened in Kaunas — at the end of the year, the PRISMA shopping centre of over 11,000 sqm opened on Jonava Street. This is the second shopping centre of this chain in Kaunas. Šiauliai saw the opening of a 4,200 sqm PROMO Cash & Carry wholesale store. Lytagra, the agricultural machinery, metals and building materials chain, opened two new shopping centres in Šiauliai and Marijampolė.

In 2012, the operating major shopping centres continued to increase their turnover and rents. Depending on the city and the shopping centre, rents increased by **5-15%**. Current occupancy of shopping centre is very high and allows its owners to negotiate with existing tenants or to replace them with new ones who are willing to pay a higher rent. For example at the end of 2012, the overall vacancy rate in **Vilnius** shopping centres was only **3.2%** and as many as 65% of the overall shopping centres were fully occupied. The news about the appearance of new brands in Lithuania injected optimism in the retail sector premises market. For example, the Swedish retail clothing chain H&M will open 5 shops in Vilnius, Klaipėda and Šiauliai shopping centres in 2013-2014.

In 2012, the warehousing premises sector continued to show improvement. Significant changes were recorded in **Vilnius region** where rents for new warehousing premises rose on average by **8%** in 2012 and the vacancy rate of modern warehousing premises decreased from 6.1% to **3.0%**. In Kaunas and Klaipėda regions rents remained stable, while the vacancy rate at the end of 2012 was only 2-4%. In **Vilnius** today, newly built warehousing premises are available for rent at **3.2-4.6 EUR/sqm**, older ones — at **1.2-2.6 EUR/sqm**. In **Kaunas and Klaipėda**, rents for new warehouses range between **2.9 and 4.1 EUR/sqm** and older ones — **1.2-2.3 EUR/sqm**.

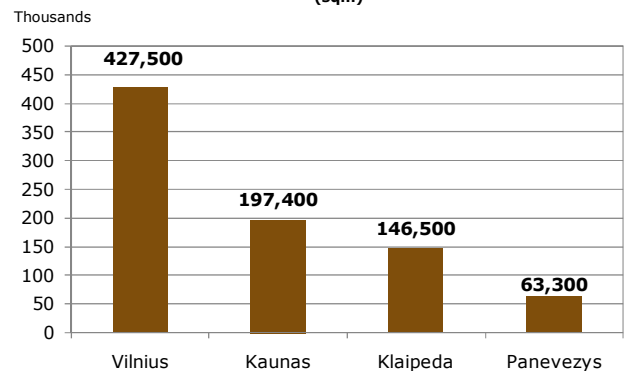
Main retail streets rents
(for 100 - 300 sqm, EUR/sqm/month, without VAT)



Source: Ober-Haus

Data: Q4 2012

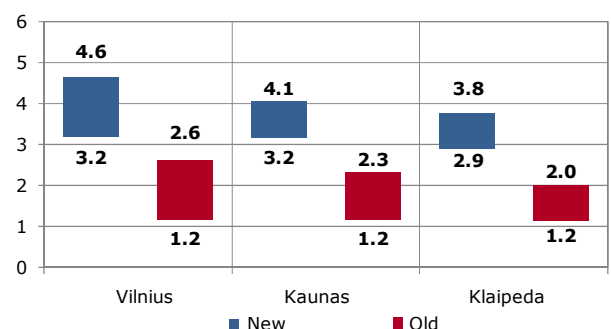
Modern warehouse stock
(sqm)



Source: Ober-Haus

Data: Q4 2012

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



Source: Ober-Haus

Data: Q4 2012

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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