CBRE Baltics
Part of the CBRE affiliate Network

MARKETVIEW

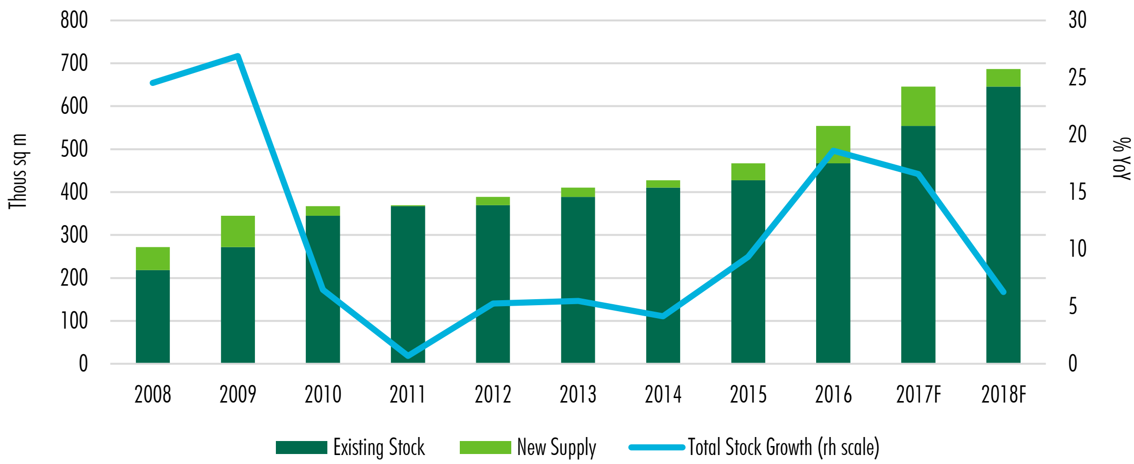
Vilnius Offices, Q3 2017

Strong supply goes hand in hand with strong demand

Office stock	Completions	Office Take-up	Vacancy
627,500 sq m	54,400 sq m	21,600 sq m	4.8%

*Arrows indicate change from the corresponding period in the previous year

Figure 1: Modern Office Stock Indicators 2008 – 2016 and Forecast 2018F



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; September 2017

KEY POINTS

- The economic outlook of the country has improved. Annual growth has been revised upwards and is set to achieve 3.6% for 2017.
- With seven new deliveries, modern office stock in Vilnius currently stands at 627,446 sq m or 7.2% more than a year ago.
- New supply of modern office stock is expected to reach a record 89,410 sq m in 2017.
- Take-up amounted to 21,650 sq m.
- High demand has been in line with a high level of supply, which has led to a stable vacancy rate of 4.8%.
- Rent prices remain stable. Prime A class office rents are currently at 14 – 16.5 EUR and B class at 9 – 13.5 EUR.
- Investment in the Vilnius Office sector for the three quarters of 2017 reached €96.7 million, representing an increase of more than twice when compared with the same period in 2016.
- Investment in the Office sector comprised a share of 32.7% of all investment in Lithuania during first nine months of 2017, with the Retail sector in the leading position with 44.7%.

ECONOMIC OUTLOOK

Improving conditions of the main trading partners and strong local demand has caused the Lithuanian economy to accelerate. In the second quarter GDP growth reached 4.1% and was among the largest in the EU. It is expected that the economy will expand at 3.6% in 2017 and 2.8% in 2018.

Favorable economic expectations and increasing corporate income, combined with a negative net migration, has had a positive impact on unemployment. For the second quarter, compared to the same period a year ago, the unemployment rate decreased by 1p.p. to 7.0% - a level that has not been observed since a peak before the financial crisis. At the same time, the average wage in Vilnius city increased by 10.2% to 957 EUR/month before taxes. However, a substantial part of the increase was caused by a relatively large increase in the minimum wage, which in Lithuania now stands at 380 EUR/month.

Improving economic conditions and increasing household income have also influenced prices. The average 12-month headline inflation rate at the end of the third quarter reached 3%. It is expected to reach 3.4% by the end of the year but is expected to moderate to 2.2% in 2018.

SUPPLY

At the end of the third quarter of 2017, after a solid y-o-y increase of 7.2% (20.2% before stock quality adjustments), total modern office stock in Vilnius currently stands at 627,400 sq m. It is anticipated that by the end of 2017 total office stock should increase by 14 new office premises or 89,400 sq m of new floor space. However, this figure is slightly less than expected, as a result of the delayed openings of some projects, that are now expected to be completed in 2018. In the following year, the pace of new supply will slow, yet remain strong according to Vilnius standards with 5 upcoming projects totaling approximately 40,600 sq m of new floor space.

The stocks of both A and B class offices are expanding, however, until recently the stock growth was primarily driven by new developments of B class offices, constituting a slightly larger part of the new stock supply. However, the supply of A class offices is progressing at an increasing pace, while B class office development is slowing, resulting in a trend change in the third quarter of 2017; the direction is expected to remain the same in 2018, when approximately 59% of newly added stock should be A class offices.

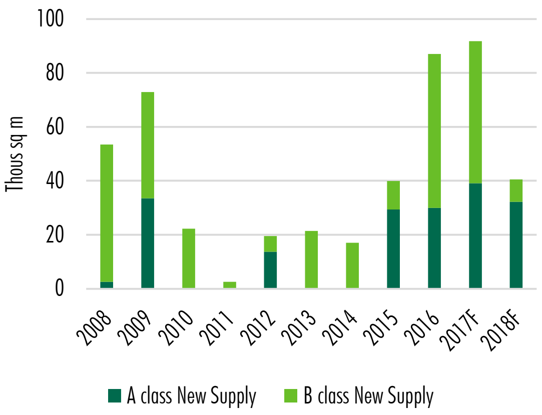
COMPLETIONS

Q3 2017 should be noted for the large number of projects completed according to Vilnius standards. Eight new office projects or 54,400 sq m of modern office floor space was added to the existing stock. All four A class offices (Green Hall 2, S7, Narbuto 5, Park Town 1) were built in a new part of an expanding CBD close to Gelezinio Vilko St. In the past few years the area was extensively redeveloped and now contains around 40% of the A class office space in the CBD. The remaining schemes (Eleven, L25A, Penta - all of which are B class) are located across the city. The notable Penta office is the largest new completion with 13,800 sq m and is located in the Ozas business district in the northern part of the city.

DEMAND

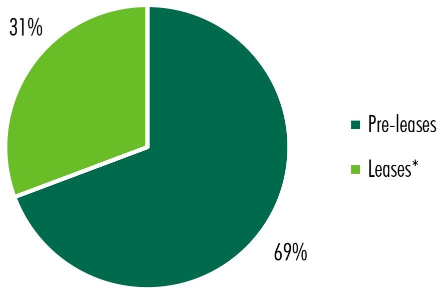
The demand for office space in Vilnius has remained high. Despite considerable office take-up in previous periods, the third quarter was marked by high take-up yet again with 21,650 sq m. The expansion of existing foreign-owned Shared Service Centers and IT companies has been leading the demand growth. Furthermore, some local companies have moved to newer premises or have been consolidating their scattered employees under a single roof. Additionally, economic growth and a positive outlook have stimulated the hiring process. The aggregated amount of private sector employees in IT, finance, real estate and administrative activities in Lithuania, most of whom are concentrated in Vilnius, went up by approximately 5% y-o-y. As a result, absorption of the new office stock was just in line with the new office supply in Vilnius, resulting in the vacancy rate remaining at the same level.

Figure 2: Distribution of New Supply by Office Class



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q3 2017

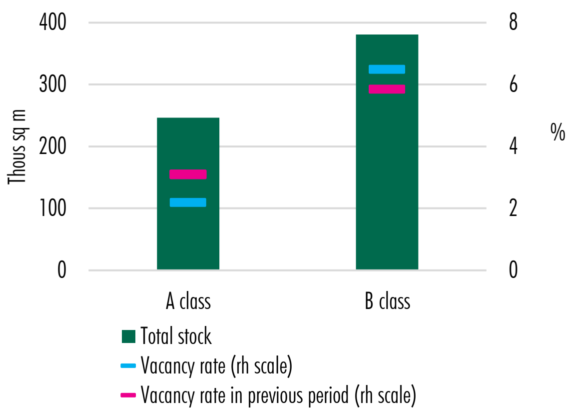
Figure 3: Distribution of Take-Up by Lease Transaction Type, Q3 2017



*Indicates lease transactions in existing buildings

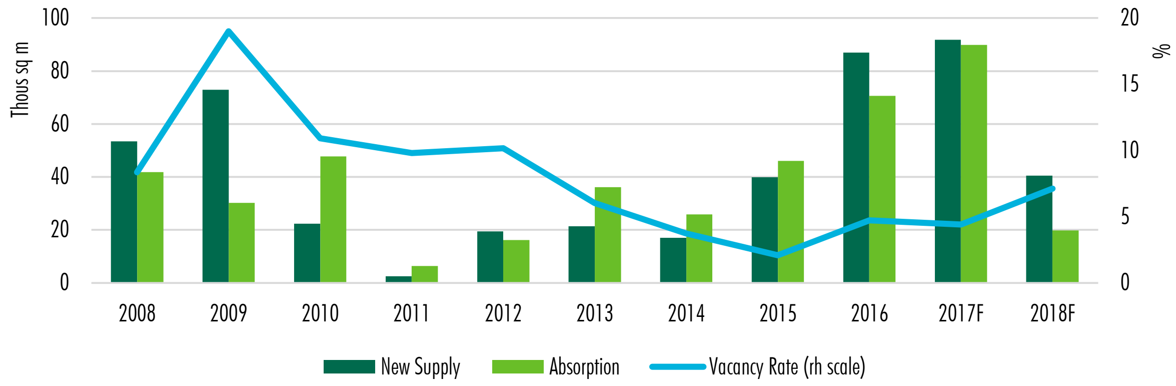
Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q3 2017

Figure 4: Total Stock and Vacancy Distribution by Office Class, Q3 2017



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; September 2017

Figure 5: Main Supply and Demand Indicators



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; September 2017

VACANCY

A high level of demand was in line with high supply, which led to a stable vacancy rate of 4.8%. Companies are actively searching for new office premises and signing pre-lease agreements, therefore most of the newly opened buildings are occupied. However, vacancies have increased due to an unusually large number of newly completed buildings. 81% of the total office floor space in all 7 new projects completed in the third quarter of 2017 has been occupied. With more upcoming projects to be completed by the end of the year, the vacancy rate could move slightly upwards.

MARKET RENTS

Rent prices have remained stable in the Vilnius office market for over a year now. A class rent rates are currently between 14.0 – 16.5 EUR/sq m/month with 9.0 – 13.5 EUR/sq m/month for B class office premises. However, the presence of well-known international and local companies is highly appreciated by office developers, therefore actual rental rates in pre-lease agreements are usually lower. The market is observing increasing new office supply, which creates a downward pressure on the level of asking rents, especially for lower quality offices. On the other hand, demand is being supported by international companies that are expanding or are relocating their operations to Lithuania. Moreover, the demand for modern offices from local companies is also picking up, especially from state-controlled businesses. As a result, rent levels remain stable.

OFFICE TRANSACTIONS

After a distinguished first half of the year when multiple newly built offices changed hands in the Vilnius office market, the third quarter was notable with only a few transactions. Telecommunication service provider "Telia Lietuva" sold its assets in Sevcenkos St. and Muitines St. for EUR 4.34 million at auction. Chinese-owned "Alsana" acquired the headquarters of the bankrupt "Snoras" bank in Vivulskio St. for EUR 5 million. Fashion retailer "Apranga" has sold its headquarters and warehouse in Kirtimu St. for EUR 6.05 million to real estate developer "Ogmios group" and is planning to move to a new location in Ukmerges St.

By the end of 2017, the market should observe a sale of the administrative offices of the state-controlled energy group "Lietuvos Energija". The group expects to receive EUR 36.7 million from the sale; furthermore, there are several ongoing investment transactions to be completed by the end of 2017.

Figure 6: Pipeline projects Q4 2017-2018

Project	Address	District	Developer	Sq m	Class	Expected
Link	Saltoniskiu St 9B	Zverynas BD*	Baltijos Gildija	8,200	A	2017
Zveryno Verslo Fabrikas	Saltoniskiu St 29	Zverynas	ZIA Valda	6,600	B	2017
Domus Pro	Ukmerges St 124	Pasilaiciai	TK Development	3,700	B	2017
Asgaard keys	Ukmergės St 124	Zverynas BD*	Asgaard Property	4,200	A	2018
Duetto 2	Spaudos St 8	Viršuliškės	YIT Kausta	8,300	B	2018
3 Bures (third tower)	Lvovo St 25	CBD	Eastnine	11,000	A	2018
Business Stadium	Rinktines St 3	BD*	Hanner	15,500	A	2018
Radisson Blu	Konstitucijos ave	CBD	Linstow	1,600	A	2018

*BD notes a formed business district with a concentration of several office buildings
Source: CPB Real Estate Services, part of the CBRE Affiliate Network; September 2017

RESEARCH DEFINITIONS

Total Modern Stock – represents the total completed class A and B space (occupied or vacant) in the private and public sector at the survey date. Includes owner occupied (OO) space.

Vacant Space – represents the total net rentable floor space in existing properties, which is physically vacant and being actively marketed as at the survey date.

Vacancy Rate - represents the percentage ratio of total Vacant Space to Modern Total Stock.

Take-Up – Represents the total floor space, including renewals, known to have been pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

Prime Rent – Represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location), of the highest quality and specification and the best location in a market at the survey date. The Prime Rent should reflect the level of which relevant transactions are being completed in the market at the time. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

Absorption – represents the change in occupied stock within a market during the survey period.

Net Effective Rent – represents a rent that would be achieved, less the incentives paid by the owner. The average net effective rent for a market is the market net base rent less incentives which are amortised over the term of lease.

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    - Consulting & Research,
    - Property Sales,
    - Property & Asset Management,
    - Tenant Representation,
    - Agency Services – Retail, Offices, Industrial & Logistics.

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