

Vilnius Offices, Q1 2018

Steady demand tightens vacancy, while developers boost the supply pipeline

 Office stock
637,900 sq m

 Completions
6,800 sq m

 Office Take-up
14,900 sq m

 Vacancy
3.1%

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

Figure 1: Modern Office Stock Indicators 2008 – 2017 and Forecast 2018F-2020F



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

KEY POINTS

- Lithuania continues with solid economic growth, which has been fueled by investments and exports. In 2018 GDP growth is forecasted to reach 3.4%.
- Only a single A class project was delivered in Q1 2018, which added 6,800 sq m to the total office stock. Vilnius office stock currently stands at 637,900 sq m.
- The office stock pipeline is impressive for the Vilnius market. If all the projects are delivered according to the plans presented by developers and there are no significant delays, by the end of 2021 Vilnius office stock will climb to over 1 mln sq m.
- Office take-up reached approximately 14,900 sq m, in-line when compared to the previous period.
- The most notable transaction was a pre-lease executed by SEB bank with 10,000 sq m of floor space next to Konstitucijos Ave.
- The total vacancy rate decreased 1.5 p.p. to 3.1% compared to the previous period. The A class office vacancy rate reached the 1.0% level, with B class – 4.4%. The vacancy rate is among the lowest in the region and could decrease even more in the short-term.

ECONOMIC OUTLOOK

Lithuania is observing the most solid growth of the economy for quite a while. In Q4 2017 Lithuania's GDP rose 3.9% compared to the same period in the previous year. The economy was fueled by stronger foreign demand and investment in machinery and equipment. Exports have grown by an impressive 15.2% (y-o-y) and investment by 9.7% (y-o-y). Private consumption has moderated slightly, yet also positively contributed to the economy by growing 3.5% (y-o-y) in the last quarter of 2017. It was negatively affected by increased inflation and a decreasing employment pool due to worsening demographics.

A good economic environment and the demographic situation are improving the conditions for employees. In 2017 Q4 the unemployment rate decreased by 0.9 p.p. to 6.7% (y-o-y), while the labour force decreased by 1.4%. The average salary before taxes has grown 7.8% to 876 EUR/month.

In Q1 2018, the 12-month average inflation rate reached 3.7%. Inflation was pushed up by higher prices in all sectors, yet more notable changes were observed

among services (e.g. hospitality, catering, transport), alcoholic beverages, and food.

In the absence of serious outside disruption, the economy should continue with stable growth, while investments and exports should remain the main economic drivers. The sound financial situation of companies, increasing wages and the good international environment are supporting investment growth. Consequently, improved production capacity and efficiency will underpin export growth. On the other hand, private consumption should continue with moderate growth due to rising incomes, yet it will be negatively affected by the deteriorating employment level.

According to Oxford Economics, economic growth is forecasted to reach 3.4% in 2018, slightly less than the 3.8% recorded in 2017. Exports should grow by 6.1%, investment by 6.6%, and private consumption by 3.4%.

SUPPLY

In Q1 2018, the Vilnius market observed very limited supply of existing office premises. A very tight supply is noted among both A and B class offices. Only a single A class project was delivered in the quarter, which added 6,800 sq m to the total Vilnius office stock. It currently stands at 637,900 sq m.

In 2018, 7 new office projects are expected to be delivered with a total of 55,000 sq m of office area. It is notably less compared to the previous year. The majority of developments to be commissioned in 2018 are already pre-leased. Additionally, most of the projects will be delivered in the second half of the year. With all this combined existing supply may further worsen in the short-term.

On the other hand, in the following 4 years, the office stock pipeline is impressive for the Vilnius market. If all the projects are delivered according to the plans presented by developers, by the end of 2021 Vilnius office stock will climb to over 1 mln sq m. However, it is likely that developers will postpone some of the planned projects.

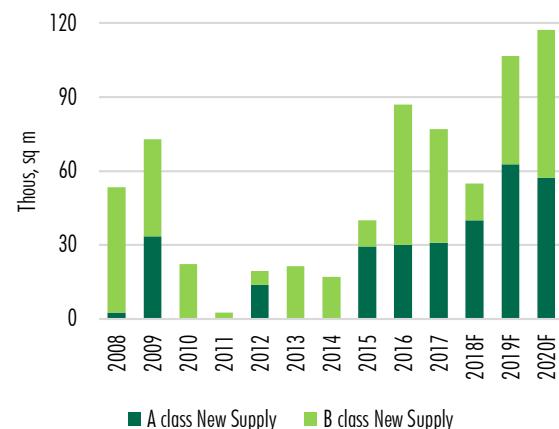
The existing stock by office classes is split 40/60, with a majority attributed to B class. While the future development trend is more in favour of A class offices, the stock proportions are likely to remain similar as some of the older developments are likely to be downgraded to lower class offices.

DEMAND

The growth of the local economy and the improving global environment continue to support sound office demand. Interest from international companies looking to enter Lithuania and from already operating companies to expand or upgrade existing premises remains strong.

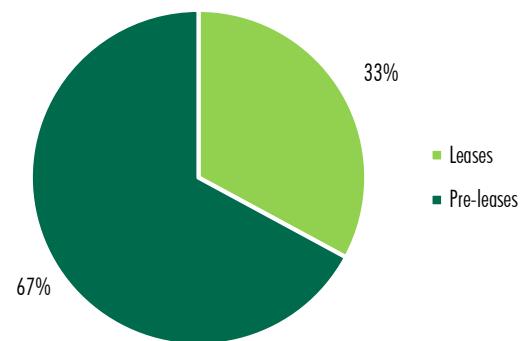
In the Q1 2018, office take-up reached approximately 14,900 sq m, in-line compared to the previous period.

Figure 2: Distribution of New Supply by Office Class



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

Figure 3: Distribution of Take-Up by Lease Transaction Type, Q1 2018



*Indicates lease transactions in existing buildings

Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

Figure 4: Total Stock and Vacancy Distribution by Office Class, Q1 2018



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

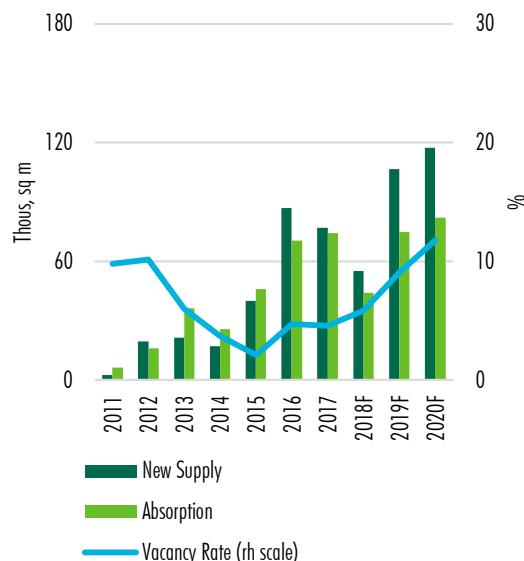
The most notable transaction was a pre-lease executed by SEB bank with 10,000 sq m of floor space at Gedimino Baravyko 4, which is in the CBD next to Konstitucijos Ave. The move will solidify Konstitucijos Ave as the heart of the CBD. By 2020, the Avenue will accommodate the headquarters of all the top 3 Lithuanian banks.

Another notable transaction was also banking related. Bank of Lithuania has taken 2,500 sq m of space at BC City. The central bank is planning to build a new headquarters in one of the locations it currently operates and was looking for temporary premises for some of its staff.

VACANCY

Limited office property completions and steady modern office demand have compressed the vacancy levels to the new lows. In Q1 2018 the total vacancy rate decreased 1.5 p.p. to 3.1% compared to the previous period. The A class office vacancy rate reached the 1.0% level, with B class recorded at 4.4%. The vacancy level is among the lowest in the region and could decrease even more in the short-term. However, at the second half of the year, the trend should revert as more new deliveries are planned.

Figure 6: Main Supply and Demand Indicators



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

Figure 5: Pipeline projects

Project	Address	District	Developer	Sq m	Class	Expected
3 Bures (stage III)	Lvovo st	CBD	Eastnine	11,000	A	2018
Asgaard keys	Ukmerges st	CBD	Asgaard Property	4,120	A	2018
Business Stadium (stage I)	Rinktines st	CBD	Hanner	16,870	A	2018
Duetto (stage II)	Spaudos st	Virsuliskes	YIT Kausta	8,330	B	2018
Radisson	Konstitucijos ave	CBD	Linstow	1,300	A	2018
Zveryno Verslo Fabrikas*	Saltoniskiu st	Zverynas	ZIA Valda	6,600	B	2018
Avia solutions HQ	Dariaus ir Gireno st	Naujininkai	Avia solutions	15,000	B	2019
Green Hall 3	Upes st	CBD	SBA	3,000	A	2019
Live Square	Dainavos st	Old Town	Eika	4,600	A	2019
Park town (stage II)	Lvovo st	CBD	MG Valda	12,050	A	2019
Paupys Project	Aukstaiciu st	Uzupis	MG Valda	14,000	B	2019
Quadrum (stage III)	Konstitucijos ave	CBD	Schage Real Estate	13,000	A	2019
S7 (stage II)	Saltoniskiu st	CBD	M.M.M. Projekta	15,000	A	2019
S7 (stage III)	Saltoniskiu st	CBD	M.M.M. Projekta	15,000	A	2019
U219	Ukmerges st	Seskine	PST Investicijos	15,000	B	2019
Business garden (stage I)	Laisves ave	Lazdynai	Vastint	40,000	B	2020
Business Stadium (stage II)	Rinktines st	CBD	Hanner	20,000	A	2020
Gedimino Baravyko 4	Gedimino Baravyko st	CBD	Lords LB	12,700	A	2020
K18	Konstitucijos ave	CBD	Lords LB	18,600	A	2020
Nova	Gerulaičio st	Ozas park	Technopolis	20,000	B	2020
ST Jacobs	Vasario 16-osios st	Old Town	Lords LB	6,000	A	2020

*Note: the majority of the project is opened, yet some stages are undergoing or planned to undergo a renovation.

Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

In 2019 and 2020 the vacancy rate should increase more notably and relieve the office rental market providing tenants more options to choose from. However, the vacancy rate is projected based on the pipeline provided by developers, which is relatively optimistic. Some delays should be expected, which may adjust office availability accordingly.

MARKET RENTS

A very low vacancy rate has started to impact on rents. For a long time, relatively stable prices have been moving upwards, albeit at a very slow pace. A class rent rates are currently between 14.5 – 17.0 EUR/sq m/month, while the rent price range for B class office premises is between 9.5 – 14.0 EUR/sq m/month. Tight vacancies in the upcoming quarters and relatively more expensive projects in the pipeline should continue the pressure on the rent prices in the short-term. Conversely, the presence of well-known international and local companies, or companies that are ready to wait for built-to-suit projects are highly desired by office developers, which could lead to notably lower prices in some cases.

INVESTMENT AND ACQUISITIONS

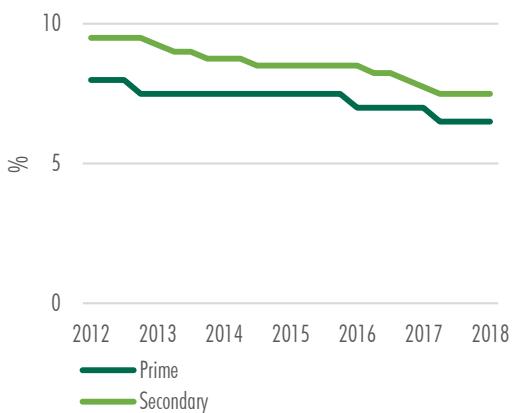
In Q1 2018 the Lithuanian investment market was very calm and there were very few notable transactions. However, there is a strong interest from buyers, thus a small number of transactions could be created by a few projects currently available in the market.

Figure 7: Office rent price ranges



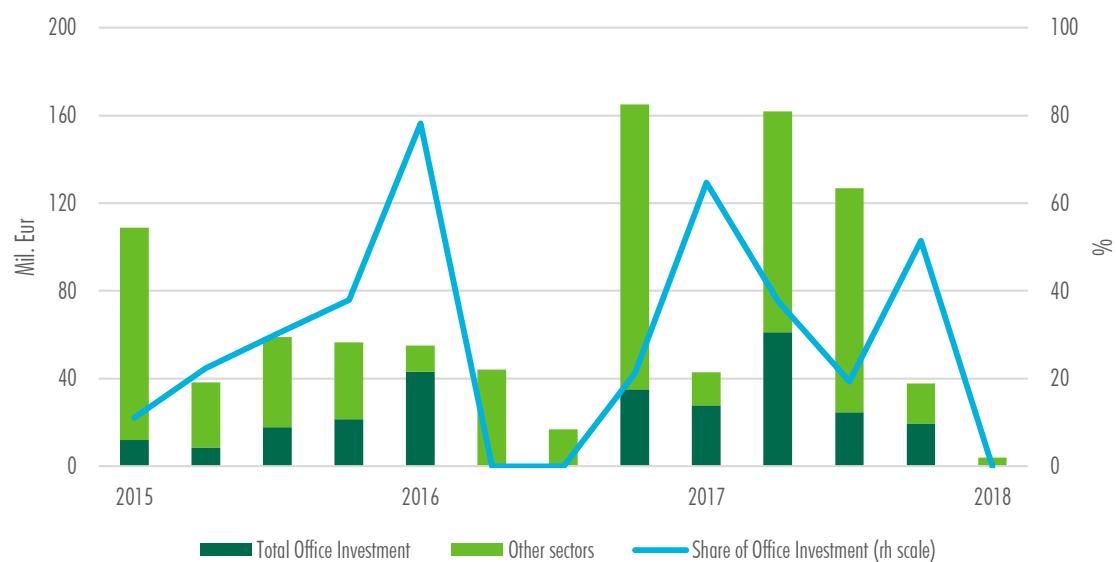
Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

Figure 8: Vilnius office investment yields



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

Figure 9: Investment in Lithuania by quarters



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q1 2018

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.

ABOUT CPB REAL ESTATE SERVICES:

- Part of the **CBRE** Affiliate Network
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- Representative offices in Vilnius and Tallinn
- Headcount – 35 people
- Providing services in:
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 - **Consulting & Research,**
 - **Property Sales,**
 - **Property & Asset Management,**
 - **Tenant Representation,**
 - **Agency Services – Retail, Offices, Industrial & Logistics,**
 - **Financial Services, Accountancy**

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