CBRE
Baltics
Part of the CBRE affiliate Network

MARKETVIEW

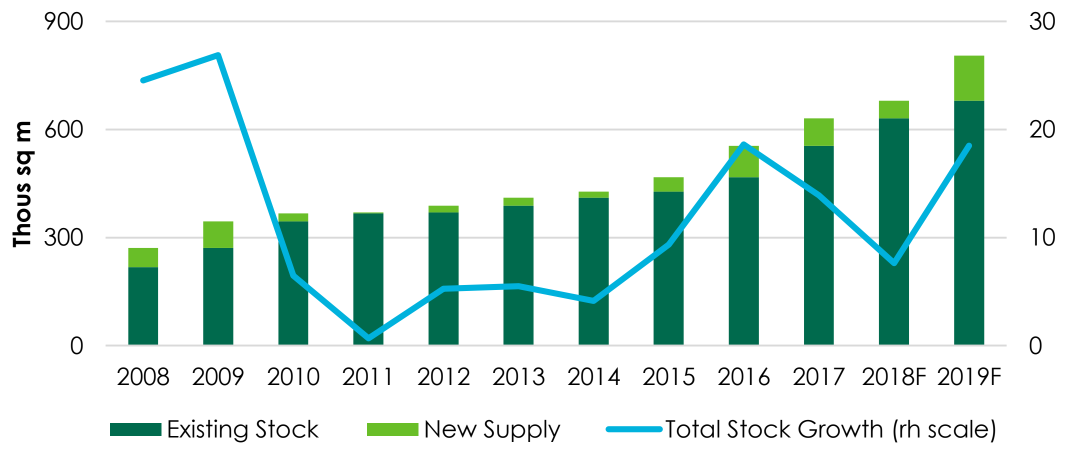
Vilnius Offices, Q4 2017

Strong demand, limited vacancy, and an impressive pipeline ahead

Office stock 631,200 sq m | Completions 3,700 sq m | Office Take-up 14,900 sq m | Vacancy 4.6%

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

Figure 1: Modern Office Stock Indicators 2008 – 2017 and Forecast 2018F-2019F



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

KEY POINTS

- The Lithuanian economy has observed strong growth in 2017. This growth mainly reflects the improving global economic environment.
- Increases in private consumption, commodity prices and taxation have caused higher headline inflation in the country.
- There was a single modern office delivery in 4Q, yet a productive 2017 resulted in a solid y-o-y stock increase of 77,000 sq m or 13.2%.
- In 2018, supply is expected to slow down with seven upcoming projects and approximately 48,100 sq m of new floor space.
- Take-up, which was led by international shared service centres, amounted to 14,900 sq m.
- The vacancy rate marginally decreased and is expected to decline further until 2019.
- Prime A class office rents are currently at 14 – 16.5 EUR and B class at 9 – 13.5 EUR. The levels of rent are expected to increase as a result of more expensive projects in the pipeline.

ECONOMIC OUTLOOK

Lithuania's economy experienced strong growth in 2017. This was mainly because of strong support from improvements in the global economic environment. The country's economy grew by 3.1 % y-o-y in Q3. Increased investment fueled trade in the EU, while a recovery of commodity prices stimulated economic activity in Russia, both serving to increase the trade flows passing through the region. Lithuanian exports y-o-y increased 13.0% in Q3 2017. The improving global environment is expected to continue the trend and contribute to the economic performance in 2018, yet at a slower pace. According to Oxford Economics, economic growth will reach 3.1% in 2018, slightly less than 3.3% in 2017. This year, investment growth should continue to positively impact on economic activity. It is also expected that there are going to be more EU funded investments because of the cyclical nature of the cohesion funds. However, the country is relying more and more on productivity growth to support its economy, as long-lasting net positive emigration and low birth rates have eventually deteriorated the labor pool and contributed to the unemployment rate fall to 7.0%.

On the other hand, the shrinking workforce improves employees' position in the market. The competition for workers, especially highly skilled ones, has intensified and is pushing up the compensation for employees. Consequently, this has a positive impact on private consumption and inflation. The headline rate of inflation in the country has picked up since last year. In 2017 Q4 the average monthly Harmonized Index of Consumer Prices (HICP) was up by 4.1% compared to the same period a year ago. The increase of private consumption, commodity prices, and taxation of selective goods were among the leading driving factors. A price increase was especially notable for fuel, dairy products, and services. Continuing wage growth and the improving international economic situation should support an upward price trend in the near future.

SUPPLY

In the Q4 of 2017, the Vilnius market observed a solid y-o-y office stock increase of 13.9%, which currently stands at a 631,200 sq m. The stocks of both A and B class offices are expanding. However, the supply of A class offices is progressing at an increasing pace, while B class office developments have somewhat slowed. In 2017, the office stock levels increased by 14.3% for A class and 13.6% for B class, equivalent to 30,900 sq m and 46,100 sq m, respectively. In 2018, the trend is anticipated to continue, with office stock expected to increase by 16.8% for A class and 1.7% for B class, or 41,500 sq m and 6,600 sq m, respectively.

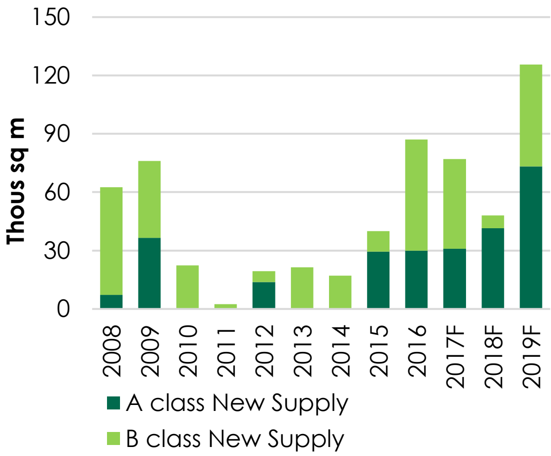
COMPLETIONS

In 2017, 12 new office premises with 77,000 sq m were delivered, which is slightly less than expected due to the delayed openings of some projects that now are supposed to be commissioned in 2018. Most of the projects were delivered before the last quarter when only a single office of 3,700 sq m was opened. This year, supply is expected to slow down with six upcoming projects and approximately 48,100 sq m of new floor space. However, in 2019 completions are planned to shoot to an impressive 125,620 sq m with 11 new office properties currently in the pipeline. Approximately 70% of the area on the pipeline in 2018 and 40% of the pipeline in 2019 is already pre-let.

DEMAND

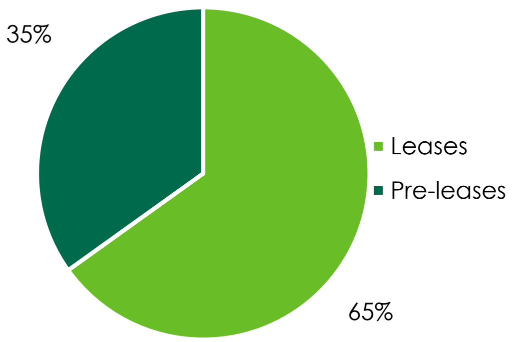
Demand for office space in Vilnius remains robust on the back of the growing local economy and improving global environment. In the Q4 2017, office take-up reached approximately 14,900 sq m, less compared to previous periods but still relatively high according to Vilnius' standards. Among the more notable transactions were Telia with 4,500 sq m of floor space at K29 business centre, Booking.com with 4,200 sq m at Penta, and Cognizant with 3,700 sq m at Link. Booking.com and Cognizant both were represented by CBRE Baltics. Overall, in 2017 modern office take-up comprised around 72,400 sq m, which is an impressive number for the market. Expansions and openings of

Figure 2: Distribution of New Supply by Office Class



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

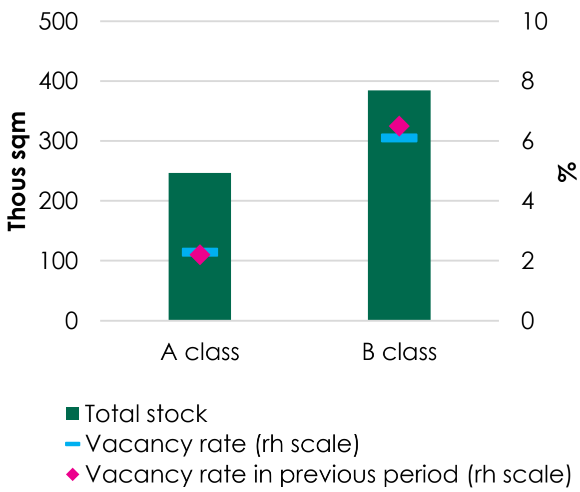
Figure 3: Distribution of Take-Up by Lease Transaction Type, Q4 2017



*Indicates lease transactions in existing buildings

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

Figure 4: Total Stock and Vacancy Distribution by Office Class, Q4 2017

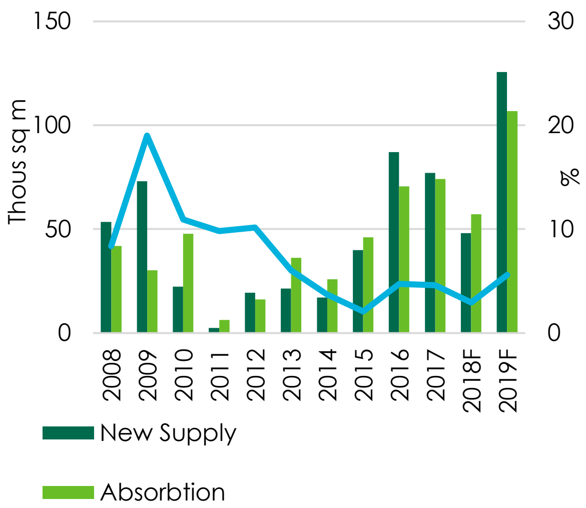


Source: CPB Real Estate Services, part of the CBRE Affiliate Network; January 2018 international shared service centres remain a large demand factor, yet other already present companies are also actively looking to enlarge or upgrade their premises, including state-owned institutions. The Bank of Lithuania has announced that it is searching to rent 2,700 sq m premises until its new headquarters are delivered.

VACANCY

High modern office demand keeps vacancy levels low. The vacancy rate has marginally decreased to 4.6%. Interest from foreign and local companies looking for premises in Lithuania remains considerable. Furthermore, a requirement for modern offices from state-owned enterprises is also picking up, which will contribute to lower vacancies. Therefore, most of the newly opened buildings are four-fifths occupied. In 2018, the vacancy rate could decrease even more, as there will be relatively few new projects to be delivered and most of them will be completed at the end of the year. The vacancy rate should slightly increase in 2019, due to the significant amount of new deliveries planned.

Figure 6: Main Supply and Demand Indicators



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

Figure 5: Pipeline projects 2018

Project	Address	District	Developer	Class	Sq m	Year
Asgaard keys	Ukmerges st	CBD	ASGAARD	A	4,120	2018
LINK	Saltoniskiu st	CBD	Baltijos Gildija	A	8,200	2018
Zveryno Verslo Fabrikas	Saltoniskiu st	Zverynas	ZIA Valda	B	6,600	2018
Radisson	Konstitucijos ave	CBD	Linstow	A	1,300	2018
3 Bures (stage III)	Lvovo st	CBD	East Capital	A	11,000	2018
Business Stadium	Rinktines st	CBD	Hanner	A	16,870	2018
Duetto (stage II)	Spaudos st	Virsuliskes	YIT Kausta	B	8,330	2019
Green Hall (stage III)	Upes str 21	CBD	SBA	A	3,000	2019
S7 (stage II)	Saltoniskiu str	CBD	M.M.M. Projektai	A	15,000	2019
Live Square	Dainavos st	Old town	Eika	A	4,600	2019
Avia solutions HQ	Dariaus ir Gireno st	Naujininkai	Avia solutions	B	15,000	2019
Park town (stage II)	Lvovo st	CBD	MG Valda	A	12,050	2019
Quadrum (stage III)	Konstitucijos ave	CBD	Schage Real Estate	A	13,000	2019
Paupys Project	Aukstaiciu st	Paupys	MG Valda	B	14,000	2019
Baravyko 4	Baravyko st	CBD	Lords LB	A	10,650	2019
U219	Ukmerges st	Seskine	PST Investicijos	B	15,000	2019
S7 (stage III)	Saltoniskiu st	CBD	M.M.M. Projektai	A	15,000	2019
				Total	173,720	

*Zveryno Verslo Fabrikas is being delivered in stages. The table indicates the expected completion of the project.

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

MARKET RENTS

Rent prices have remained relatively stable in the Vilnius office market for a considerable period. 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, tight vacancies in the upcoming quarters and relatively more expensive projects on the pipeline will establish good conditions for higher prices. On the other hand, the presence of well-known international and local companies is highly appreciated by office developers; consequently, companies with a solid background could expect slightly lower prices.

Figure 7: Office rent price ranges

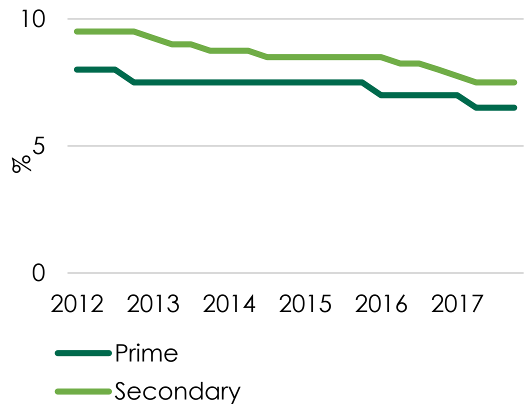
Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q4 2017

INVESTMENT AND ACQUISITIONS

In Q4 2017 the Lithuanian investment market was relatively calm with only a handful publicly disclosed property acquisitions. Office investments constituted slightly more than half of all property investments just below EUR 20 mln. Office investment yields have remained unchanged for both prime and secondary office properties.

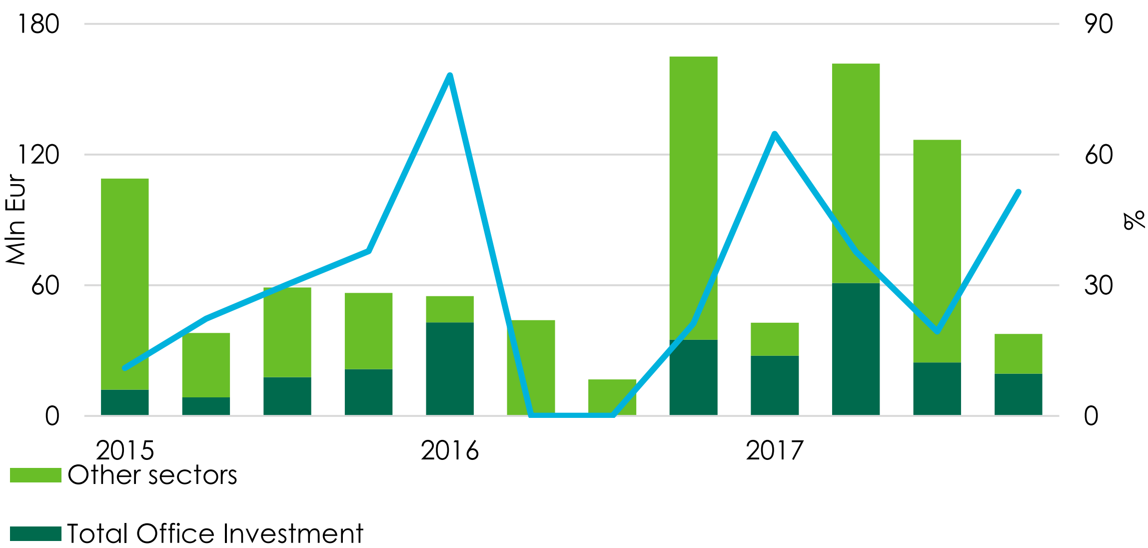
Real estate developer Eika has sold a fully multi-let office project "135" to the Lithuanian based Capitalica Baltic Real Estate Fund I. Real estate developer YIT also sold an office building in Kaunas for the Lithuanian based Orion RE Income Fund I. Overall, 2017 was marked with a relatively high number of office transactions for the Lithuanian market. There were significant acquisitions made by real estate funds that obtained such properties as Penta, Vertas and Duetto I in Vilnius and B66 in Kaunas. Also a few older offices changed hands as a result of companies planning to move to new premises.

Figure 8: Vilnius office investment yields



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

Figure 9: Investment in Lithuania by quarters



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q4 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.

ABOUT CPB REAL ESTATE SERVICES:

- Part of the **CBRE** Affiliate Network
- Headquartered in Riga, Latvia from 2011
- Representative offices in Vilnius and Tallinn
- Headcount – 32 people
- Providing services in:
  - **Valuation,**
  - **Consulting & Research,**
  - **Property Sales,**
  - **Property & Asset Management,**
  - **Tenant Representation,**
  - **Agency Services – Retail, Offices, Industrial & Logistics,**
  - **Financial Services, Accountancy**

CONTACTS

Ignas Gostautas
Senior Analyst | Research & Consulting
M +370 694 88318
ignas.gostautas@cbre.lt

Vineta Vigupe
Head of Research & Consulting | Baltics
M +371 291 62408
vineta.vigupe@cbre.lv

Denis Rein
Senior Consultant | Advisory & Transaction Services
M +370 698 51716
denis.rein@cbre.lt

OFFICE IN VILNIUS
QUADRUM Baltic Business Centre
Konstitucijos pr.21A, LT-08130
Vilnius, Lithuania

To learn more about CBRE Research, or to access the additional research reports, please visit the Global Research Gateway at: www.cbre.com/researchgateway.