CBRE
Baltics
Part of the CBRE affiliate Network

MARKETVIEW

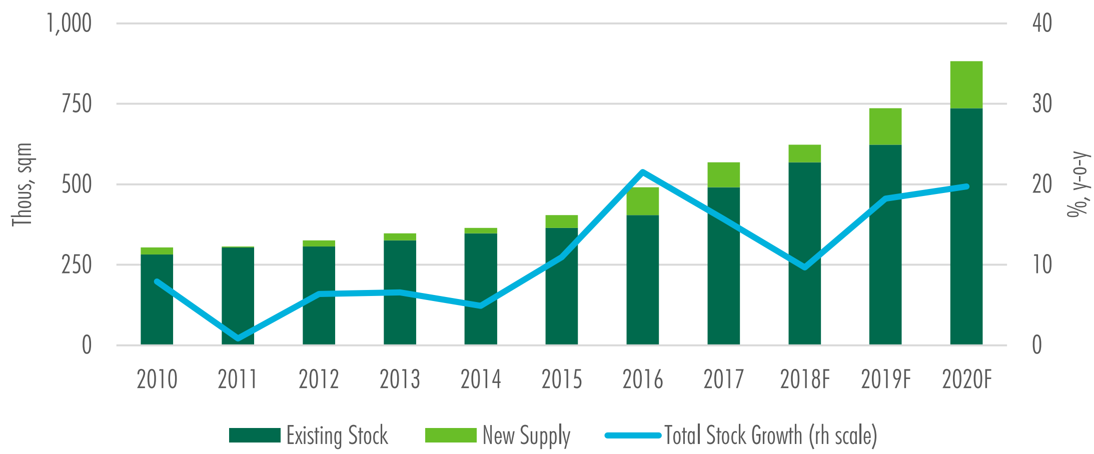
Vilnius Offices, Q2 2018

Office market activity remains steady, with occupancy reaching its peak

Office stock	Completions	Office Take-up	Vacancy
574,900 sq m	*0 sq m*	*6,400 sq m*	*2.6%*

*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; Q2 2018.

KEY POINTS

- The economy continues with a solid growth despite some international disturbances. In Q1 2018 Lithuania's GDP rose by 3.7% .
- No new projects were delivered in the Vilnius market during the observed quarter. Some projects are just about to be completed, but the developers are not rushing until pre-leases for more space have been signed.
- There were no large modern office rent transactions during the period, while smaller transactions totaled to 6,400 sq m.
- Vacancy rate of total modern office stock squeezed from 2.8% in the previous quarter to 2.6%.
- Rental levels remained unchanged compared to the last period. A class rent rates are currently between 14.5 – 17.0 EUR/sq m/month, while the rental range for B class office premises is between 9.5 – 14.0 EUR/sq m/month.
- The Lithuanian investment market observed a notable increase due to several sizeable projects. Office investments constituted 35% of total investment transactions. Market yields remained unchanged for both prime and secondary properties.

ECONOMIC OUTLOOK

Lithuanian economic activity continues with strong growth despite some international disturbances. In Q1 2018 Lithuania's GDP rose by 3.7% compared to the same period in the previous year. The economic growth was broad-based, in Q1 2018 private consumption increased 3.3% (y-o-y), investment 9.1% (y-o-y), and exports 10.4% (y-o-y).Conversely, external uncertainties, including the ones related to the spread of populism, market protectionism, and moves regarding trade tariffs have become more prominent, all of which may have an impact on small open economies such as Lithuania.

Economic growth has been supported the labour conditions in the country. In Q1 2018 the countrywide unemployment rate decreased by 0.8 p.p. to 7.2% (y-o-y). The unemployment in the cities was even lower and reached 5.5% or 0.4% lower compared to the level a year ago. The average salary after taxes has grown by 8.9% (y-o-y) to 695 EUR/month.

Income growth has had a positive impact on inflation. An average 12-month inflation rate was at 3.6% at the end of June. Price increases were observed among all goods and services, except communications. More notable changes were apparent in the transport sector, and the restaurants and hotels sector.

According to the Bank of Lithuania, the forecast of economic growth in 2018 remains unchanged at 3.2%, despite poorer performance at the beginning of the year in some Eurozone countries. Exports are expected to grow by 5.7%, investment by 6.9%, and private consumption by 3.8%.

SUPPLY

In Q2 2018, no new office projects were delivered in the Vilnius market. Some projects are just about to be completed, yet developers are not rushing until pre-leases for more space have been signed. Overall in 2018, 7 new office projects are expected to be delivered (including already finished projects) with a total of 55,000 sq m of office area. This figure is notably less when compared to the previous year. However, the office stock pipeline in the coming years keeps accumulating. There are more than 300,000 sq m of offices with a planned delivery date up until the end of 2020. Additionally, there is approximately 130,000 sq m of planned space with an undetermined delivery date or planned to be delivered after 2020.

A notable amount of the new planned space is in the areas bordering the CBD and when finished it will extend this district. The areas around the core CBD are rapidly developing due to multiple new projects close to the Saltoniskiu/Zveryno roundabout and around Rinktines Str. These projects, together with the ones in the core CBD, will constitute the majority of the planned new space deliveries. Other notable locations are Oldtown and Lazdynai. While Oldtown is generally attractive for business with a few projects in the pipeline, the latter location is rather unusual. Lazdynai, a peripheral dormitory district of Vilnius, is about to benefit from a large office development, which should provide circa 40,000 sq m until 2020. Overall, the project is expected to have circa 60,000 sq m of space, which is a very significant amount for the Vilnius market.

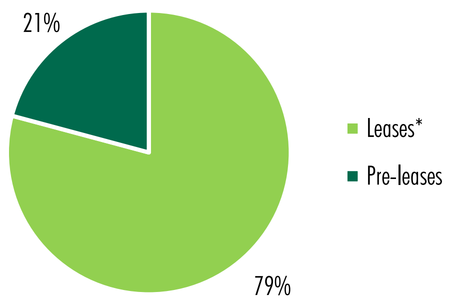
DEMAND

Q2 2018 was a rather calm quarter in terms of office demand. There were no significant publicly announced modern office rent transactions during the period, while smaller transactions totaled to 6,400 sq m. Consequently, take-up was almost half the figure recorded in the previous period. Still the interest in modern office space remains strong from foreign, as well as local companies.

VACANCY

In Q2 2018, the absence of new office deliveries slightly squeezed the vacancy rate of modern office stock from

Figure 2: Distribution of Take-Up by Lease Transaction Type, Q2 2018



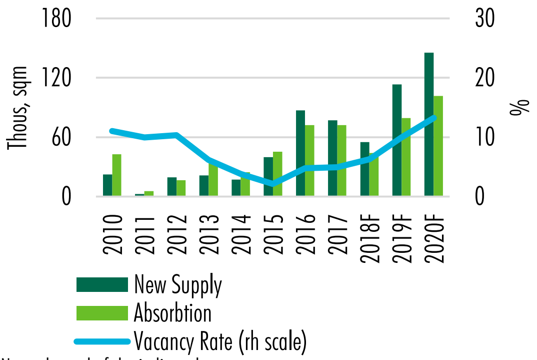
*Indicates lease transactions in existing buildings

Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q2 2018.

MODERN OFFICE STOCK ADJUSTMENTS

- After a regular review of modern Vilnius office stock, the observed list has been adjusted. The adjustments for some offices were made due to a newly attributed quality class. The quality class of some buildings changed as a result of aging, limited maintenance investment, or an increase in standards.
- Five A class buildings or circa 31,000 sq m were downgraded from A to B class. Seven buildings or circa 57,000 sq m were removed from the Vilnius modern office watch list. In total, the A class offices stock constitutes circa 222,000 sq m floor space, and B class – circa 359,000 sq m floor space.

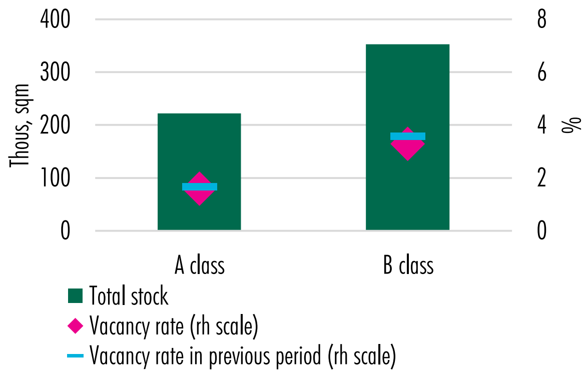
Figure 3: Main Supply and Demand Indicators



Note: the end of the indicated year.

Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q2 2018.

Figure 4: Total Stock and Vacancy Distribution by Office Class, Q2 2018



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q2 2018.

2.8% compared to 2.6% in the previous period (from 3.1% to 2.8% before the stock adjustment). The A class office vacancy rate compared to the previous period slightly increased from 1.2% to 1.6% (from 1.0% to 1.7% before the stock adjustment). The B class office vacancy rate decreased from 3.7% to 3.2% (from 4.4% to 3.6% before adjustments). The vacancy rate is exceptionally low, thus it is unlikely to remain at the current level for a longer time period. New office deliveries that will start in the second half of the year should relieve the tension and reverse the downward trend of the vacancy rate.

MARKET RENTS

Rental levels have remained unchanged compared to the last period. 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. On the one hand, rents are pressured by potential tenants that have limited possibilities to choose from among the existing properties; on the other hand, time is on the tenants' side and there are plenty of options for companies that are willing to sign a larger pre-lease, especially for built-to-suit projects.

INVESTMENT AND ACQUISITIONS

In Q2 2018 the Lithuanian investment market observed a notable increase due to several sizeable transactions. Office investments constituted 35% of total investment transactions. The market yields remained unchanged for both prime and secondary properties.

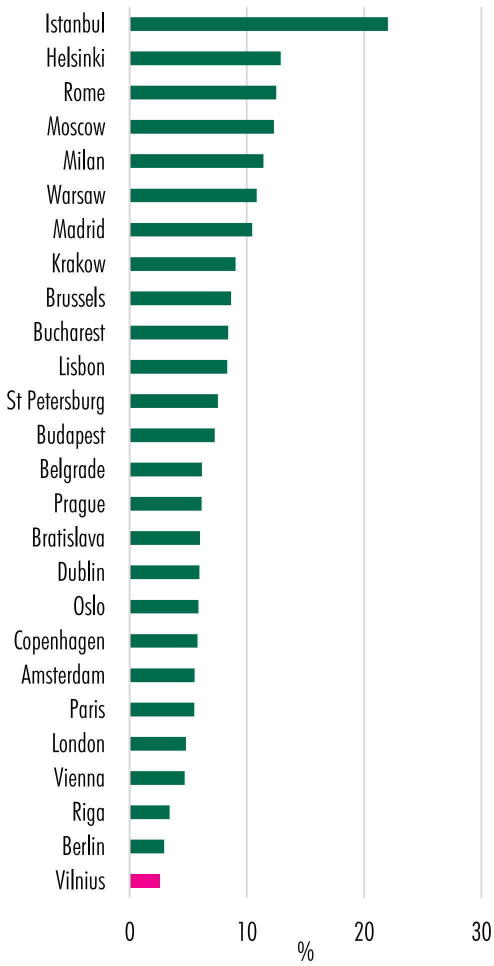
"LIM Verslo trikampio NT fondas" (the fund name indicates that it was created for the executed transaction) acquired a portfolio of 4 properties totaling 28,000 sq m with a primary use of offices from MG Valda. The value of the transaction is unknown, yet the fund size was announced to be circa 60 mln EUR. However, some of the fund shareholders are related with MG Valda, thus this may not necessary be considered as a true market transaction.

State-owned energy operator "Lietuvos Energija" has sold its headquarters in the centre of Vilnius, as the company has plans to move their central office to a more remote location. Real estate fund "Lords LB Baltic Fund IV" agreed to acquire the property for 23.9 mln EUR in a public auction.

Estonian real estate fund "EfTEN Real Estate Fund III AS" has purchased the Evolution office building in Seskines district. The purchaser announced that if fully occupied the yield would be 8%. Currently, the building, delivered in 2009, is 86% occupied.

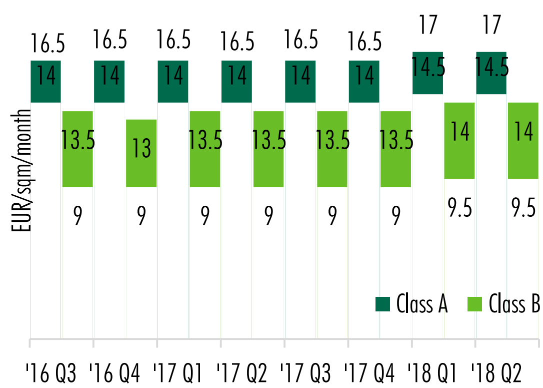
The interest in completing transactions is shown from both sides of the table, however, a relative lack of transactions results from a price mismatch. While there are multiple cash-rich buyers looking around the market, landlords are seeking to receive relatively tight yields.

Figure 5: Office vacancy rate in selected European cities



Note: All vacancy rates, , except Vilnius, recorded in Q1 2018.
Source: CBRE, CPB Real Estate Services, part of the CBRE Affiliate Network; Q2 2018

Figure 6: Office rent price ranges



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q2 2018

Figure 7: Investment in Lithuania by quarters

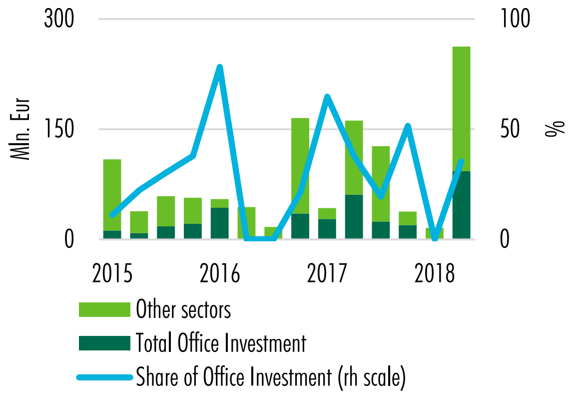
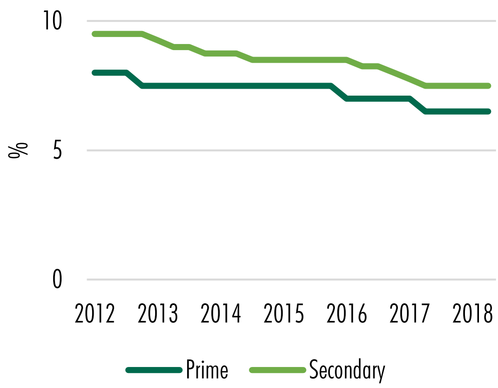


Figure 8: Vilnius office investment yields



Source: CPB Real Estate Services, part of the CBRE Affiliate Network; Q2 2018.

Figure 9: Pipeline projects

Project	Address	District	Developer	Sq m	Class	Expected
3 Bures (III stage)	Lvovo	CBD	Eastnine	11,000	A	2018
Asgaard keys	Ukmerges	CBD	Asgaard Property	4,100	A	2018
Business Stadium (I stage)	Rinktines	CBD	Hanner	16,900	A	2018
Duetto (stage II)	Spaudos	Virsuliskes	YIT Kausta	8,300	B	2018
Radisson	Konstitucijos	CBD	Linstow	1,300	A	2018
Zveryno Verslo Fabrikas*	Saltoniskiu	Zverynas	ZIA Valda	6,600	B	2018
Avia solutions HQ	Dariaus ir Gireno	Naujininkai	Avia solutions	15,000	B	2019
Citus HQ	Seliu	Zverynas	Citus	2,500	B	2019
Green Hall (III stage)	Upes	CBD	SBA	2,850	A	2019
Inhus Group	Zariju	Paneriai	Inhus Group	4,300	B	2019
Live Square	Dainavos	Oldtown	Eika	4,600	A	2019
Park town (stage II)	Lvovo	CBD	MG Valda	12,050	A	2019
Paupys Project	Aukstaiciu	Paupys	MG Valda	14,000	B	2019
Quadrum (stage III)	Konstitucijos	CBD	Schage Real Estate	13,000	A	2019
S7 (stage II)	Saltoniskiu	CBD	M.M.M. projektai	15,000	A	2019
S7 (stage III)	Saltoniskiu	CBD	M.M.M. projektai	15,000	A	2019
U219	Ukmerges	Seskine	PST Investicijos	15,000	B	2019
Business garden (I stage)	Laisves	Lazdynai	Vastint	40,000	B	2020
Business Stadium (II stage)	Rinktines	Lazdynai	Hanner	20,000	A	2020
Gedimino Baravyko 4	Gedimino Baravyko	CBD	Lords LB	12,700	A	2020
K18	Konstitucijos	CBD	Lords LB	18,600	A	2020
Lietuvos bankas HQ	Zirmunu	Zirmunai	Lietuvos bankas	6,000	B	2020
Nova	Gerulaicio	Ozas park	Technopolis	20,000	B	2020
Savanoriu 5	Savanoriu	Newtown	M.M.M. projektai	9,000	B	2020
Sporto 16	Sporto	Zirmunai	Evolis	3,000	B	2020
ST Jacobs	Vasario 16-osios	Oldtown	Lords LB	6,000	A	2020
VNO business park	Vikingu	Airport district	VPH	10,100	B	2020
			Total	**306,900**		

*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; Q2 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 the 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 – 35 people
- Providing services in:
  - Valuation,
  - Consulting & Research,
  - Property Sales,
  - Property & Asset Management,
  - Tenant Representation,
  - Agency Services – Retail, Offices, Industrial & Logistics,
  - Financial Services, Accountancy
  - Landlord/Investor representation

CONTACTS

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

Arturs Lezdins
Head of Research & Valuation Services | Baltics
M +371 29499781
arturs.lezdins@cbre.lv

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

OFFICE IN VILNIUS
Green Hall 2 BC
Upes str. 23,
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.