CBRE Baltics
Part of the CBRE affiliate Network

MARKETVIEW

Vilnius Offices, Q4 2018

Significant take-up and completions led the year to a strong finish

Office stock **612,300 sqm**

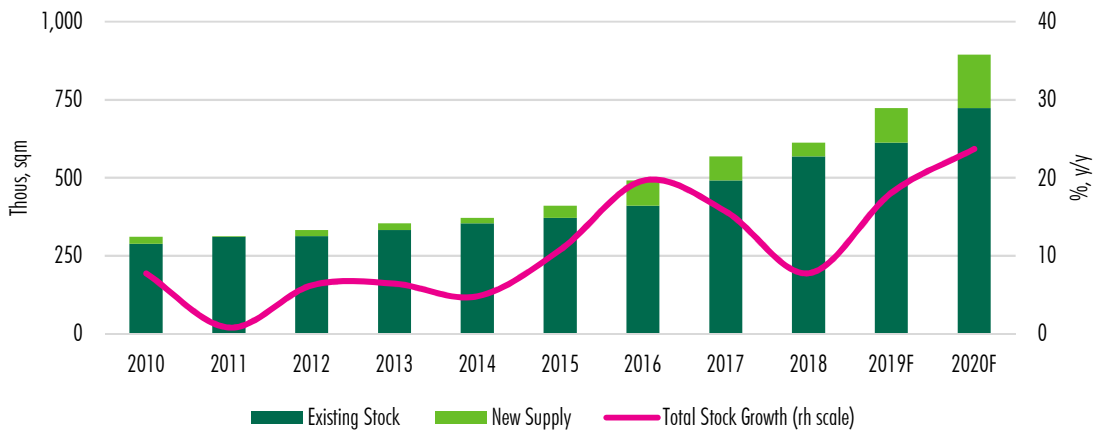
Completions **26,600 sqm**

Office take-up **29,400 sqm**

Vacancy **4.9% (+0.9 p.p.)**

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

Figure 1: Modern stock, new supply, and stock growth rate 2010 – 2018 and forecast for 2019F-2020F



Note: the end of the indicated year.
Source: CBRE Baltics; Q1 2019.

KEY POINTS

- In 2019 and 2020, the country's GDP is expected to grow respectively 2.9% and 2.7%. The forecasts are lower due to higher global economic risks.
- In Q4 2018, two sizeable A class office projects were completed in Vilnius that supplied ca. 26,600 sqm of modern office space. In the next 12 months, the modern office stock should increase by ca. 110,700 sqm or 2.5 times of the stock delivered in 2018.
- In Q4 2018, take-up amounted to ca. 29,400 sqm. The largest transaction was signed by SEB bank, which pre-leased ca. 12,500 sqm at the Nova building in Ozas business district.
- New office deliveries and vacated older premises have led to an increase in the vacancy rate from 4.0% to 4.9% q/q. The A class office vacancy rate reached 7.8%, while the B class figure was recorded at 2.9%.
- A class rent rates currently stand between 14.5 – 17.0 EUR/sqm/month, while the rent price range for B class office premises stands between 9.5 – 14.0 EUR/sqm/month.
- In Q4 2018 the Lithuanian investment market constituted ca. EUR 99 mln of which offices in Vilnius accounted for EUR 30 mln.

ECONOMIC OUTLOOK

In 2018 Lithuania's GDP increased 3.5% compared to 2017. In 2019 the country's GDP is forecasted to grow by 2.9% and in 2020 a mild slowdown to 2.7% is anticipated, reflecting poor economic performance in Europe and increasing global risks. Protectionism driven tariff increases, Brexit, and steeper than planned monetary policy tightening have slightly decreased the forecasted economic growth in Europe and Lithuania.

The country's main economic catalysts will remain strong exports, fixed investments and private consumption. However, relative to past performance, the growth levels of these indicators should moderate.

On the other hand, demographics and the labour market will play a larger negative role in the economy. Long lasting, high emigration flows and low birth rates are transforming into a significant inner economic problem. The labour pool is shrinking, at the same time as squeezing the unemployment rate and increasing wages. In November 2018, a 12-month average unemployment rate reached 6.4% or 0.8 p.p. less when compared to the same period a year ago.

Consequently, higher salaries are fueling private consumption, pushing prices upwards, which are expected to moderate to a healthy level of around 2% in 2019 and 2020.

In 2018, business financing costs in the country slightly increased compared to the period a year ago and continue to be worse when compared to the rest of the Eurozone. Also, in 2018 more banks indicated about further caution in lending for real estate activities, compared to 2017, though this is more related to the residential market. Despite increased costs, the financing terms remain very favourable.

SUPPLY

In Q4 2018, two sizeable A class office projects were completed in Vilnius that supplied ca. 26,600 sqm of modern office space to the market. In the heart of the CBD, the third stage of Bures office campus provided ca. 11,000 sqm of space, which is all occupied by Swedbank and Visma Lietuva. In the expanding part of the CBD, closer to the Oldtown, the first office of Business Stadium was delivered, with ca. 15,600 sqm of space (Business Stadium West).

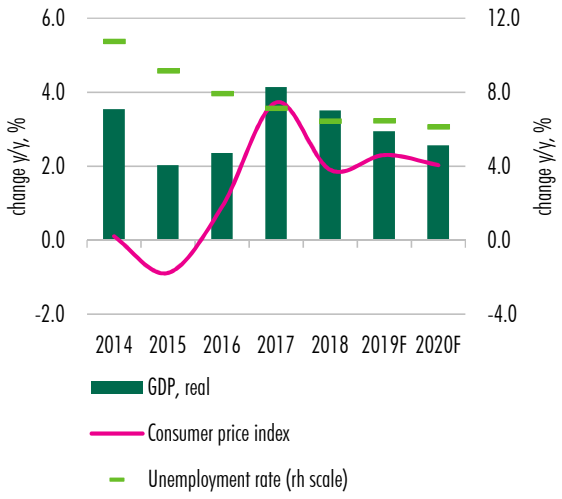
In the next 12 months, the modern office stock is expected to increase by ca. 110,700 sqm (including significant projects planned primarily for owner occupiers) or almost two and a half times the stock delivered in 2018. Concerning office quality, the expected supply will be split in 60/40 into an A and B class, while in the previous year A class completely dominated the supply. More than half of the space to be commissioned in 2019 is already occupied. However, an overall large number of projects combined with existing supply should bring some freedom of choice for tenants at the end of the year.

DEMAND

The last quarter of 2018 was very active in the Vilnius office market. Take-up amounted to ca. 29,400 sqm. During this quarter, close to 80% of take-up was comprised of pre-leases in yet to be built offices. The largest transaction was signed by SEB bank, which pre-leased ca. 12,500 sqm of office space at the Nova building in Ozas business district. The office delivery is scheduled by Technopolis for 2020. The bank will relocate its shared service centre from two current locations nearby, also within the Technopolis campus. Another notable deal was made by the Norwegian chemical company Yara, which pre-leased 4,400 sqm at Park Town (II stage) in the CBD. The company plans to expand its activities in the country and establish a shared service centre.

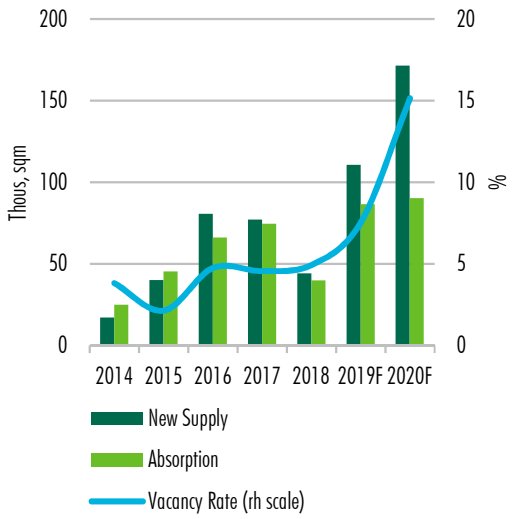
The total yearly take-up amounted to ca. 65,900 sqm and was primarily driven by expansion, relocation, and the new arrival of Global Business Service Centres driven by international companies. It was followed by the finance sector, which mainly involved the above

Figure 2: GDP growth, inflation, and unemployment rate



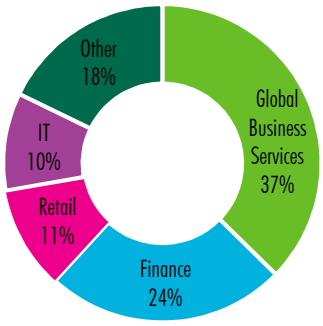
Source: Oxford Economics, CBRE Baltics; Q1 2019.

Figure 3: New supply, absorption, and vacancy rate



Note: based on announced project delivery dates.
Source: CBRE Baltics; Q1 2019.

Figure 4: Take –up in 2018 by occupier activity



Source: CBRE Baltics; Q1 2019.

mentioned transaction by SEB bank.

The interest in modern office space remains very strong from companies already operating and from new entrants to the market. On the other hand, the expansion of global business service activities in Lithuania in the past few years has toughened the competition for employees, limiting the potential for future growth from the current substantial level. Labour market conditions could have influenced some companies to leave the market or abandon their expansion plans. For example, Barclays Global Service Center plans to close its operation centre in Vilnius and outsource some of the activities and employees to HCL Technologies.

VACANCY

In Q4 2018, new office deliveries and vacated older premises have resulted in an increase in the vacancy rate from 4.0% to 4.9%. A class office vacancy rates reached 7.8%, while B class recorded at 2.9%. Considering the significant pipeline ahead, the trend of growing vacant office space should continue for a few years. However, for the moment the vacancy level remains among the lowest in the region.

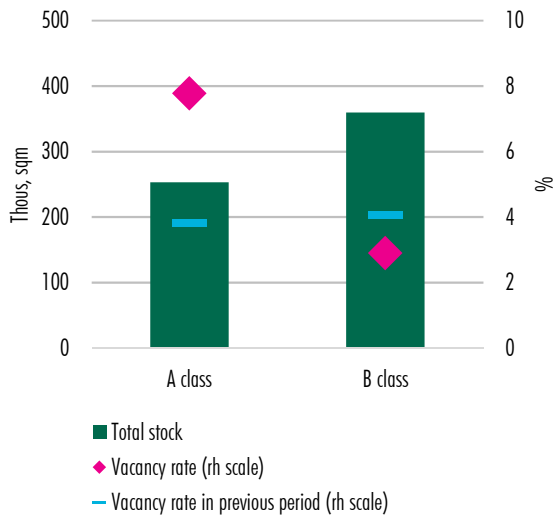
MARKET RENTS

Despite a prolonged low vacancy period, rental levels have remained unchanged compared to the last period. A class rent rates are currently between 14.5 – 17.0 EUR/sqm/month, while the rent price range for B class office premises is between 9.5 – 14.0 EUR/sqm/month. The upcoming completions of buildings currently under construction will likely relieve the upward pressure on rents and rent prices will remain at the current level. Facing higher future supply at the end of the year, landlords will most likely try to offer alternative incentives. Longer rent free periods or larger fit-out contributions probably will be more common to avoid a rent price reduction.

INVESTMENT AND ACQUISITIONS

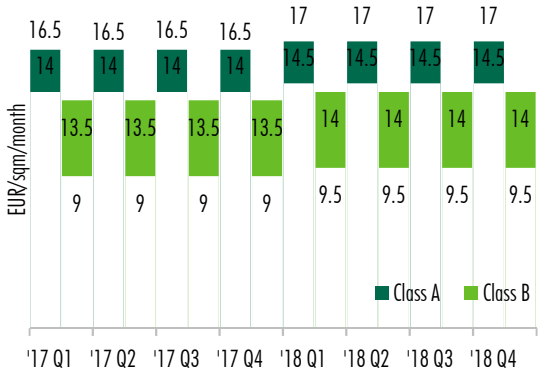
In Q4 2018 the Lithuanian investment market volume amounted to ca. EUR 99 mln, of which offices in Vilnius accounted for more than 30%. Currently, the prime yield in the Vilnius office market stands at 6.25%, with secondary at 7.25%. The most notable transaction was a sales agreement of the soon to be opened and almost fully leased office Duetto II. Baltic Horizon Fund agreed to purchase the office from the developer YIT Kausta for ca. EUR 18.3 mln at 7.1% entry yield. The two companies have already collaborated in the past, when the former acquired Duetto I office in 2017.

Figure 5: Stock and vacancy rates of quarter Q4 and Q3 of 2018 by office class



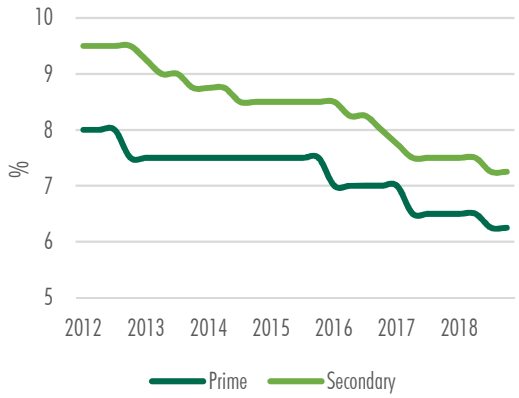
Source: CBRE Baltics; Q1 2019.

Figure 6: Rent price ranges by office class



Source: CBRE Baltics; Q1 2019.

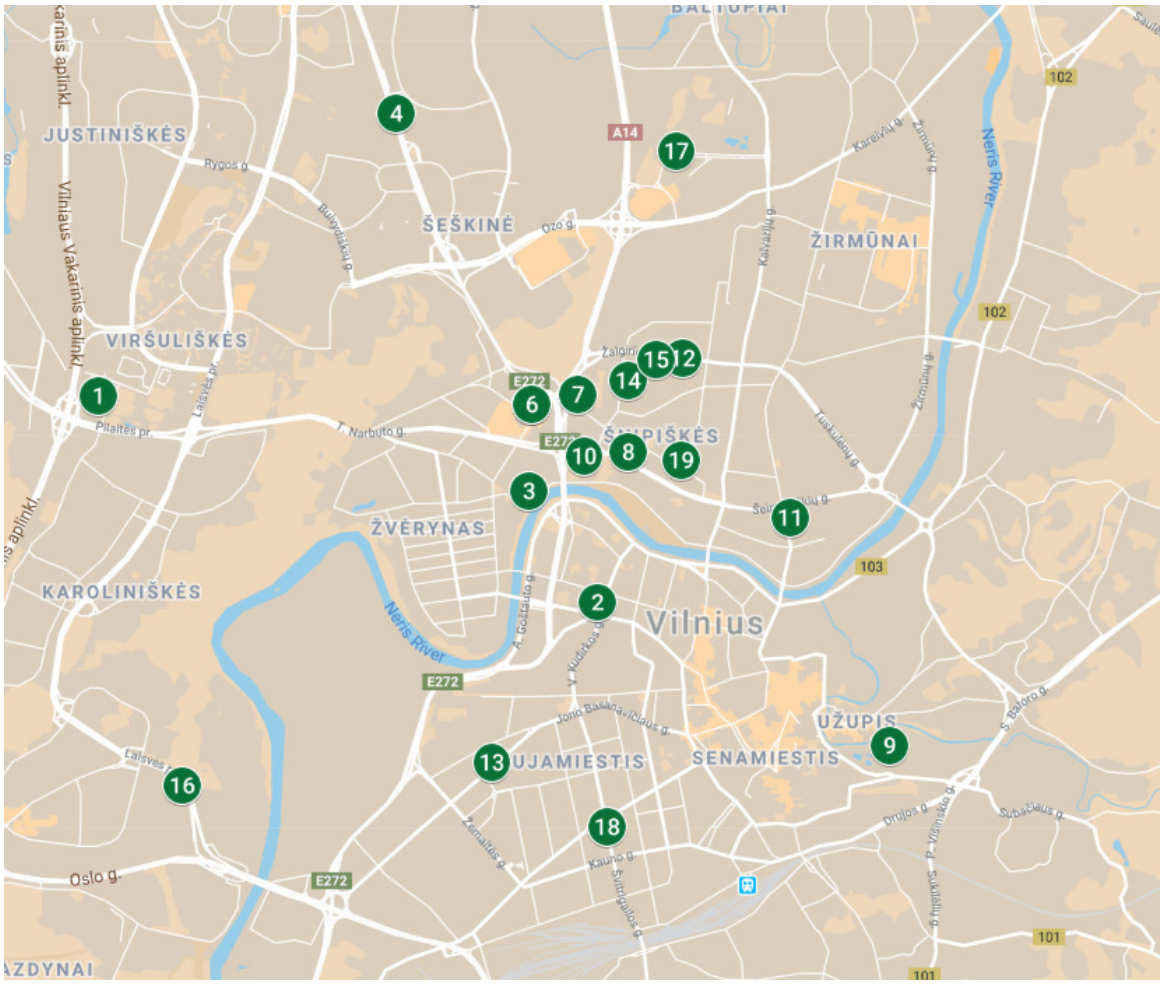
Figure 7: Office investment yields



Source: CBRE Baltics; Q1 2019.

Figure 8: Project pipeline list and map*

No.	Project	Street	District	Developer	GLA, sqm	Class	Expected
1	Duetto II	Spaudos	Virsuliskes	YIT Kausta	8,330	B	2019
2	Live Square	Dainavos	Center	Eika	6,400	A	2019
3	Green Hall III	Upes	CBD	SBA	2,850	A	2019
4	U219	Ukmerges	Seskine	PST Investicijos	15,000	B	2019
5	S7 II	Saltoniskiu	CBD	MMM Projektai	16,000	A	2019
6	S7 III	Saltoniskiu	CBD	MMM Projektai	14,000	A	2019
7	Park Town East Hill	Lvovo	CBD	Darnu Group	14,800	A	2019
8	Quadrum South	Konstitucijos ave	CBD	Schage Real Estate	11,000	A	2019
9	Paupys	Aukstaiciu	Paupys	Darnu Group	15,000	B	2020
10	Gedimino Baravyko 4	Gedimino Baravyko	CBD	Lords LB	12,700	A	2020
11	Business Stadium North	Rinktines	CBD	Hanner	16,000	A	2020
12	Rudnios Verslo Centras	Zalgirio	Snipiskes	Inreal	3,100	B	2020
13	Savanoriu 5	Savanoriu	Naujamiestis	MMM Projektai	9,700	B	2020
14	Linkmenu 17a	Linkmenu	Snipiskes	YIT Kausta	5,860	B	2020
15	Zalgirio 112	Zalgirio	Snipiskes	YIT Kausta	7,350	B	2020
16	Business Garden I	Laisves ave	Lazdynai	Vastint	40,000	B	2020
17	Nova	Gerulaicio	Ozas	Technopolis	26,470	B	2020
18	Uptown Park	Svitrigailos	Naujamiestis	Vilbra	12,000	B	2020
19	Lvovo 37	Lvovo	CBD	Lords LB	15,160	B	2020
				Total	**251,720**		



*Mixed-use and projects planned primarily for owner occupation are not included.
Source: CBRE Baltics; Q1 2019.

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.

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