

Remote work coincides with growing supply



*Arrows indicate change from the previous year

Figure 1: SEB Headquarters in Vilnius CBD



Source: CBRE Baltics, 2021.

KEY POINTS

- 2020 brought nine new office projects which supplemented the Vilnius office market with 90,400 sqm of additional modern space, representing 31% more, compared to the amount of space supplied in 2019.
- A record high supply of the modern office space, equivalent to 183,250 sqm has been announced for delivery in 2021 (103% more compared with 2020).
- Currently, A-class offices constitute 45%, while the remaining 55% of total stock is made up of B-class. The announced developments are expected to increase the share of B-class offices, although quite insignificantly.
- In 2020, modern office take-up constituted ca. 67,000 sqm, which was 35% down compared to a year ago. The take-up was severely impacted by the pandemic lockdown measures which led many companies to reevaluate office needs.
- Global Business Services sector firms demanded the most office space, constituting 34% of the total take-up.
- The vacancy rate reached 7.2% which is 2.4 times more than a year ago. The vacancy rate is expected to remain slightly higher with the increasing supply in 2021.
- The rent price range remained similar as in 2019. The rent in 2020 for B-class office premises was between 10.0 – 14.0 EUR/sqm/month, while for a typical A-class office it was between 15.0 – 16.5 EUR/sqm/month.
- Office investments in Lithuania amounted to almost EUR 197 mln which is 46% less than in 2019. Prime office yields settled at 5.5% at the year-end in 2020.

ECONOMIC OUTLOOK

The second wave of the pandemic forced to enter another quarantine, yet less strict compared to the one in the spring. Despite that, the economic activity, especially in catering, leisure, and hospitality, has almost stopped. As the number of average daily confirmed infections climbed to over a thousand in November and December 2020 (while during the first wave the infection figure never reached a hundred), the slower activity of some sectors is likely to continue into 2021.

The impact on Lithuania's economy of the first wave was among the smallest in the EU, and it is reflected in a moderate economic decline given the global circumstances. GDP is forecasted to shrink by 1.7% in 2020 and then bounce back by 3.2% in 2021. Only a comparatively small decrease is expected due to solid private consumption, a strong manufacturing sector and relatively undeveloped tourism sector. The contraction was mostly caused by a decrease in leisure, business to business, transport, hospitality, and catering, as it is difficult to avoid social interactions in the aforementioned activities.

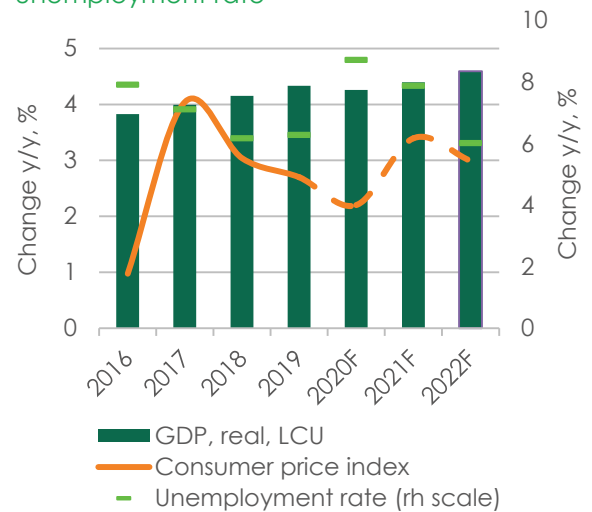
The pandemic has also caused layoffs and lower employment levels in most sectors, except for IT and finance. As a result, the unemployment rate is expected to increase to 8.7% by the end of 2020; in comparison, it was 6.3% a year ago. An increase in the unemployment rate was partially stabilized by governmental subsidies for companies in return for commitments not to lay off employees. Interestingly, the pace of increase in salaries and wages has remained high. The remunerations for workers in the second quarter increased by 8.6% y/y. It is expected to moderate slightly by the end of the year but with growth every quarter.

The increase in goods and service prices have moderated slightly. The consumer price index is expected to grow by 1.9% by the end of the year. The largest impact was caused by decreased oil prices reflecting reduced fuel demand and a slower increase in food prices. A decrease in hospitality, tourism, and transport prices also had a significant moderating effect.

SUPPLY

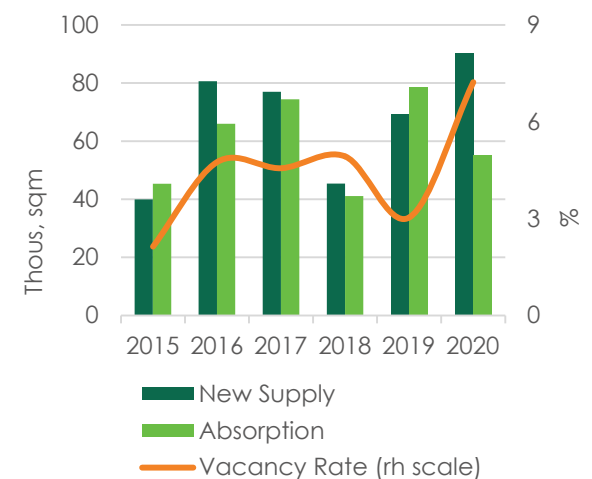
Paradoxically, the record-high number of people who switched to remote working in 2020 coincided simultaneously with the record-high development of new business centers. In total, 90,400 sqm was

Figure 2: GDP growth, inflation, and unemployment rate



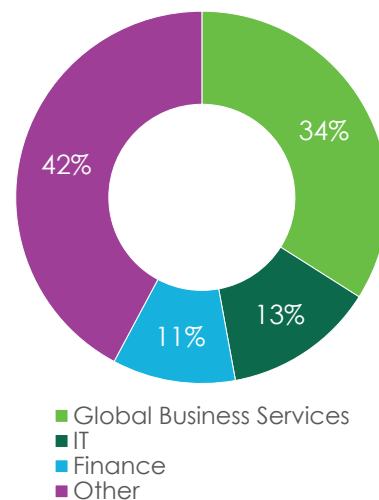
Source: Oxford Economics, CBRE Baltics, 2021.

Figure 3: New supply, absorption, and vacancy rate



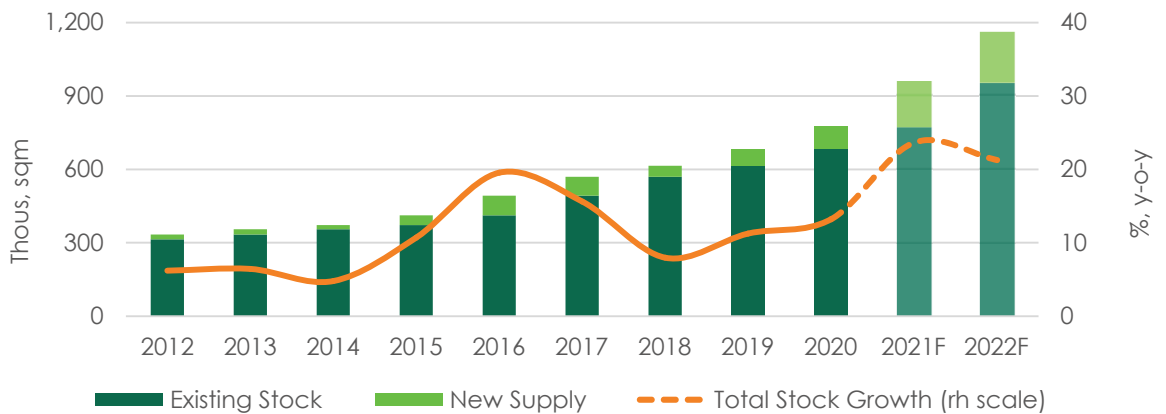
Note: values at end of the year, based on announced project delivery dates.
Source: CBRE Baltics, 2021.

Figure 4: Take-up by sector in 2020



Source: CBRE Baltics, 2021.

Figure 5: Modern stock, new supply and stock growth rate 2011 – 2020 with forecast for 2021F-2022F



Note: the end of the indicated year. Forecast is based on announced completion dates of the planned projects.

Source: CBRE Baltics, 2021.

brought into Vilnius office market supply compared to 69,200 sqm of modern office space supplied in 2019 which reflects the growth of 31%. In 2020 nine new office projects were finalized and delivered to the Vilnius market. The biggest in size commissioned project was Business Stadium North developed by Hanner which supplemented Vilnius CBD with an additional 16,200 sqm of leasable space.

The culminating number of new developments may lead to the view that the Vilnius office market has already reached a peak and will slowly enter the contraction stage. However, the quick pace of new developments and an even higher number of projects in the development pipeline indicate that the culmination is yet to come. Based on the current development pace, existing building plans and the fact that commissions of some projects have been delayed, 2021 is expected to bring an unprecedentedly high supplement of ca. 183,250 sqm to the Vilnius office stock (103% rise from 2020). Regarding the quality of the existing business centers, A-class offices constitute 45%, while B-class offices represent the remaining 55% of the total stock. Pipeline projects are also more focused towards B-class. Several delivered projects in 2020 have implemented building sustainability standards to create the long-term appeal for international corporations. For example, the SEB Headquarters has achieved BREEAM International 2016 New Construction Outstanding Certification, while U219 reached BREEAM New Construction Very Good score. Location preferences have also been shaped. Only 30% of the new commissions were delivered in the CBD, while other projects were scattered across the city. The expansion of pipeline projects is also observed to continue this trend.

DEMAND

Leasing demand has witnessed the severe impact of lockdown measures. This year has focused landlords' attention on the likelihood of the downside risk which has been avoided by many modern business centers' developers in Vilnius for quite a while.

Even under such a negative sentiment for offices caused by the pandemic, ca. 22,500 sqm was leased or pre-leased in the last quarter. Overall, the annual take-up metric has reached almost 67,000 sqm and on the year-end basis, the take-up levels worsened, being almost 35% down in comparison with 2019. The biggest lease agreement was signed with an international money transference company Western Union Processing Lithuania which was already based in Technopolis campus and expanded by another 15,000 sqm in Gama Business Center becoming the sole tenant in that building. Another sizeable deal was signed in Business Garden development where the public energetics company Ignitis pre-leased 10,500 sqm.

The outbreak of Covid-19 brought a longer-term structural impact on the role of offices in the Vilnius market, as well. We are currently witnessing a dramatic acceleration in downsizing since many companies found it convenient and economically efficient to consider the forced experiment in home-based working as a longer-term strategy to organize the workplace.

The trend for open space offices without the constant workplace appeared in summer and may be considered more seriously before leasing office space in the future. In addition, such changes as more square meters for a worker, additional attention to facilities cleaning, more partitions among workplaces,

MARKETVIEW VILNIUS OFFICES

employees' rotation and automatic, touch-free sensors are only a few things which will be prioritized in the future leases. Offices are expected to remain crucial for such activities as organizing meetings, training new employees and brainstorming in a group. Hence, the office concept will not disappear, but might, however, be altered and adapted to the new reality.

VACANCY

The vacancy rate has risen to 7.2% at the end of 2020. Even though the vacancy rate has increased almost 2.4 times since the end of 2019, it remains relatively low in the context of other European cities. Such a significant increase may be associated not only with the Covid-19 related remote working trend, but also with the abundant supply in the market and some companies' relocations to more modern office buildings. The vacancy rate in A-class business centres was 6.4%, while the metric has been considerably higher among B-class offices and stood at the level of 7.9%.

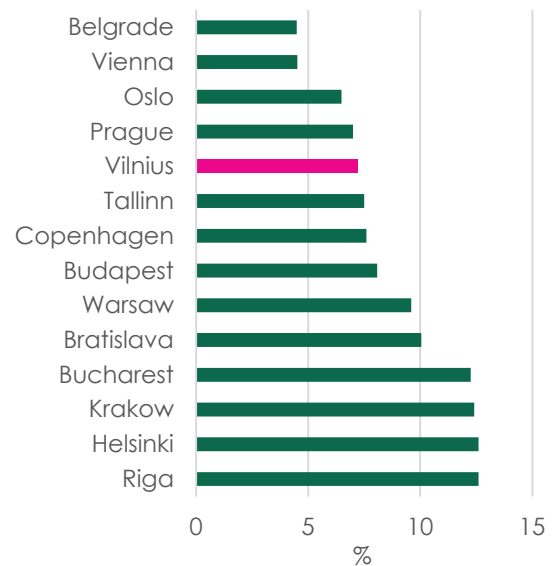
The upcoming record-high supply of new stock in 2021 is expected to worsen the vacancy situation in Vilnius and continue the trend of rising vacancies. Also, given the volatile operating environment and the changing role of offices, new tenants might be discouraged to lease sizeable office space causing the vacancy rate to increase further.

MARKET RENTS

Throughout 2020, rental prices in the Vilnius office market stood at approximately the same level as in the previous year. The price range for the B-class office premises remained between 10.0 – 14.0 EUR/sqm/month, while the rent price range for an A-class office was between 15.0 – 16.5 EUR/sqm/month.

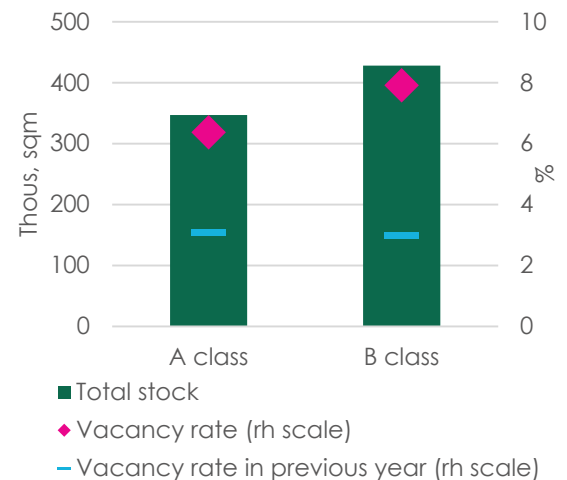
The slight decrease in the upper-level price range for A-class offices and the overall price level stability is mainly influenced by the pandemic-related uncertainty. Given the major vulnerability and volatility in the market, tenants are seeking for more flexible lease contracts with decent rental levels. Likewise, landlords who lost revenue from tenants' downsizing decisions or contract breaks are willing to negotiate prices in order to generate at least some cash flow from empty premises. At the same time, the market will face even higher office supply in 2021 and, consequently, occupiers may not be willing to pay higher rents.

Figure 6: Vacancy rate in selected European cities 2020



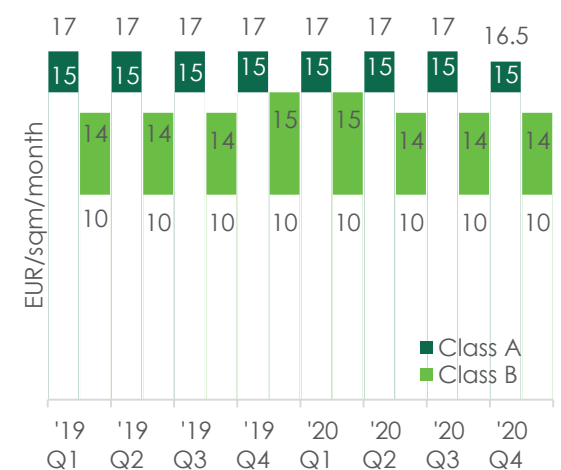
Note: the data for Vilnius, Riga and Tallinn represent Q4 2020 observations. Other cities are reported as of Q3 2020.
Source: CBRE Research, CBRE Baltics, 2021.

Figure 7: Vacancy rate by office class



Source: CBRE Baltics, 2021.

Figure 8: Rent price ranges by office class



Source: CBRE Baltics, 2021.

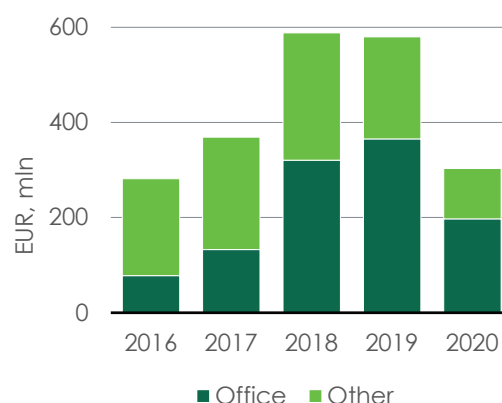
INVESTMENT & TRANSACTIONS

Investment relating to office buildings has been relatively mildly affected by the pandemic crisis. The total office investment volume in Lithuania constituted ca. EUR 197 mln, 46% less compared to the year-end of 2019. 94% of all office transactions took place in Vilnius and accounted ca. EUR 183 mln. Overall, office investment volume constituted 65% of the total transactions in Lithuania.

The Vilnius office market has become more and more attractive not only to local investors but also to sizeable international asset management funds. In 2020, the most notable deal was signed in Q4 between the Lithuanian investment company Lords LB and the Luxembourg based REInvest AM for the acquisition of the SEB Headquarters. The purchase price or yield have not been disclosed publicly for the ca. 13,000 sqm size building commissioned in Q3 2020. Another sizeable transaction with a foreign purchaser in the market was the acquisition of the second Park Town phase. The building was transacted by Darnu Group to an Estonian investor Zenith AM for ca. EUR 43 mln.

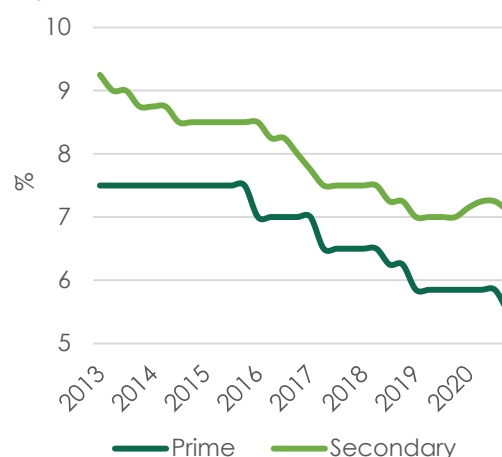
The prime office yield has only been slightly impacted by the pandemic. It decreased, reflecting recent transaction activity, and stood at 5.5% as of Q4 2020. Meanwhile, the yield for the secondary offices has compressed slightly and was equivalent to 7.10% at the year-end 2020.

Figure 9: Office and other commercial real estate investment volume in Lithuania



Source: CBRE Baltics, 2021.

Figure 10: Office investment yields



Source: CBRE Baltics, 2021.

Figure 11: Projects announced to be completed in 2021*

No	Project	Street	Landlord	Year of expected completion	Class	GLA, sqm
1	BH Meraki	Ukmerges	Baltic Horizon Fund	2021	B	15,900
2	Seskines Sodai	Seskines sodu	Buvis	2021	B	2,400
3	Lvovo 37	Lvovo	Lords LB	2021	A	15,160
4	Cloud	Kalvariju	Projektai ir statyba	2021	B	4,850
5	Nova	Vito Gerulaicio	Technopolis	2021	B	26,470
6	S7 IV	Saltoniskiu	Galio Group	2021	A	12,500
7	Office 100	Naugarduko	Skraidenis	2021	B	9,500
8	Business Garden (I stage)	Laisves	Vastint	2021	B	40,000
9	Freedom 36	Laisves	Galio Group	2021	B	14,300
10	Naujasis Skansenas Ž	Zalgirio	YIT Kausta	2021	B	7,220
11	Core	Ukmerges	Baltijos Gildija	2021	A	34,950
Total						183,250

Source: CBRE Baltics, 2021

*Mixed-use and projects planned primarily for owner occupation are not included.

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 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 at 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.

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