Vilnius Offices, 2019

Outstanding development activity and insatiable demand sets another record-breaking year

Office stock **682,800 sq m**

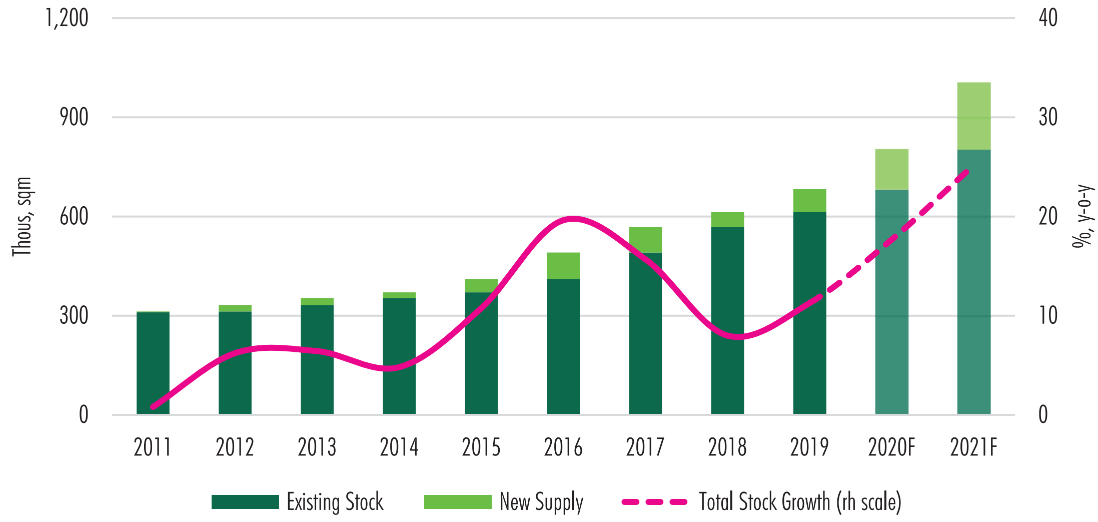
Completions **69,200 sq m (+53%)**

Office take-up **102,600 sq m (+53%)**

Vacancy **3.2% (-1.7 p.p.)**

*Arrows indicate change from the previous year

Figure 1: Modern stock, new supply and stock growth rate 2011 – 2019 with forecast for 2020F-2021F



Note: the end of the indicated year. Forecast is based on announced completion dates of the planned projects.
Source: CBRE Baltics; 2020.

KEY POINTS

- Last year, six new office projects were completed in Vilnius, which provided 69,200 sqm of additional modern office space or 53% more, compared to the amount of space supplied in the previous year.
- There are 258,300 sq m of office space under construction or 67.9% more, compared to the same period a year ago. 113,900 sq m of space has been announced for delivery this year.
- A class offices constitute 46%, while B class offices 54% of total stock. The current pipeline should approximately keep the existing balance.
- In 2019, modern office take-up constituted ca. 102,600 sq m, which was 53% more than a year ago. The existing take-up pace may be difficult to maintain over an extended period.
- IT and Global Business Services sector companies have dominated demand. These industries constituted 38% and 31% respectively of the total take-up.
- The vacancy rate reached 3.2% and was 1.7 p.p. lower than a year ago. The vacancy rate should increase significantly in the upcoming years.
- The rent price range for B class office premises is between 10.0 – 14.0 EUR/sq m/month, while a rent price range for a typical A-class office is currently between 15.0 – 17.0 EUR/sq m/month.
- In 2019, office investments in Vilnius amounted to almost EUR 348 mln. or 18.6% more than a year ago. Prime office yields have settled at 5.8%.

ECONOMIC OUTLOOK

The economic outlook for Lithuania's economy continues to improve at a rapid pace despite disturbances in the global economy, weaker performance by its main trading partners and a broad-based decline in growth momentum. In 2019, the country's GDP was forecast to grow 3.7% or marginally faster than the previous year. Growth was affected by positive migration flows, which increased the labour force in Lithuania. In the coming years, growth is expected to slow down, yet stay above the Euro Area average at 2.5%.

Robust economic growth continues to support the labour market. In 2019, the unemployment level stayed at 6.4% and was marginally larger than the year before. In the coming years, the unemployment level is expected to decrease to 6.1% (in 2020) and 5.9% (in 2021). In 2019, the average salary after tax reached 797 EUR or 14.6% more y/y. Growth in incomes is pushing prices up slightly, especially in the services sector, which requires more labour input. The average annual inflation rate reached 2.4% and is expected to remain at a similar level in the near future.

SUPPLY

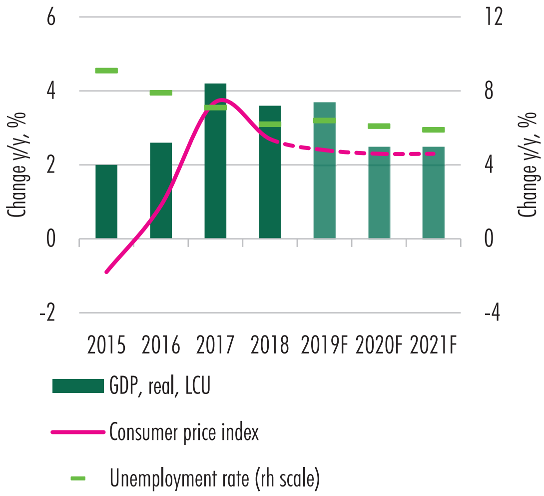
Development activity is clearly on the rise in the Vilnius office market. In 2019, six office projects were completed in Vilnius, which provided 69,200 sqm of modern office space or 53% more compared to the amount of space supplied in the previous year. Completed projects included the second and third stages of S7, Park Town East Hill, the second stage of Duetto, Quadrum South, and Live Square.

The newly built space was quickly absorbed by the market, providing a confidence boost for future developments. Most of the freshly supplied space was pre-leased before commissioning the projects, with less than 2% of new space being available as of today.

Fast absorption fuels new development projects and constructions starts. There are 258,300 sq m of office space under construction already or 67.9% more than the same period a year ago. 113,900 sq m of space have been announced for delivery in 2020. However, despite the extraordinarily large number of developments in the market, ca. 40% of total space under construction is already pre-leased.

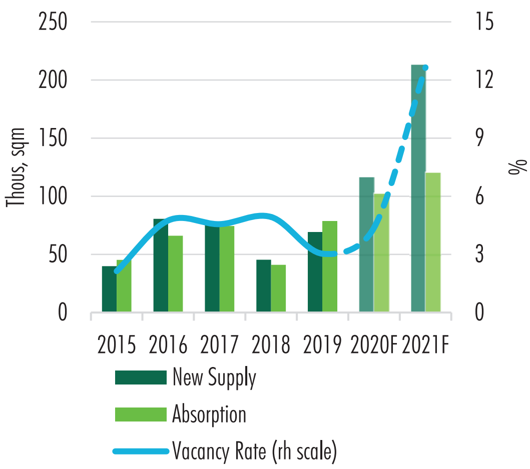
In terms of quality, presently monitored modern office stock is split into roughly similar parts. A class offices constitute 46%, while B class offices 54% of total stock. The current pipeline should approximately keep the existing balance. Most of the office space under

Figure 2: GDP growth, inflation, and unemployment rate



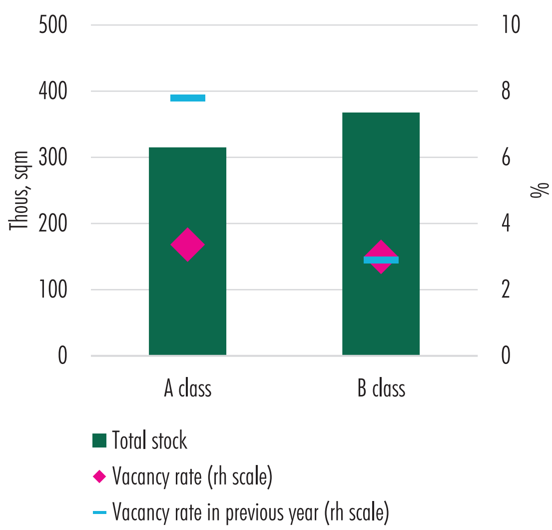
Source: Oxford Economics, CBRE Baltics; 2020.

Figure 3: New supply, absorption, and vacancy rate



Note: values at end of the year, based on announced project delivery dates.
Source: CBRE Baltics; 2020.

Figure 4: Vacancy rate by office class



Source: CBRE Baltics; 2020.

construction is of B class (60%), with the rest comprising of A-class (40%).

As the office market is developing at a faster pace, there are more high-quality offices being established outside ordinary business districts that are better able to accommodate the diverse needs of various occupiers. The range of options is expanding from more economic offices in residential or industrial areas to more exclusive reconstructions in the old town or innovative solutions in the CBD. In addition, the possession of either LEED or BREEAM certificates is becoming the new rule demanded by occupiers and potential investors.

DEMAND

The demand in the Vilnius office market was phenomenal in 2019. Modern office take-up constituted ca. 102,600 sq m, which was 53% more than a year ago. A record-high take-up was achieved by expansion from existing companies, newcomers, and the sign up of occupiers of lower quality or size-limited offices.

Current take-up is set at a relatively high level. A take-up of ca. 20,000 sq m per quarter could be considered a good result for the Vilnius office market and a significantly higher result may be difficult to maintain over an extended period, especially considering that there is a lot of required space pre-agreed, with relocations yet to be done. A smaller part of the take-up is for immediate action by the companies and is based on the future expansion plans of the companies. 36% of the take-up are leases with occupiers being able to move in a short period of time while the rest of it is pre-leases in yet to be commissioned buildings or premises that need serious refurbishing and time to execute it.

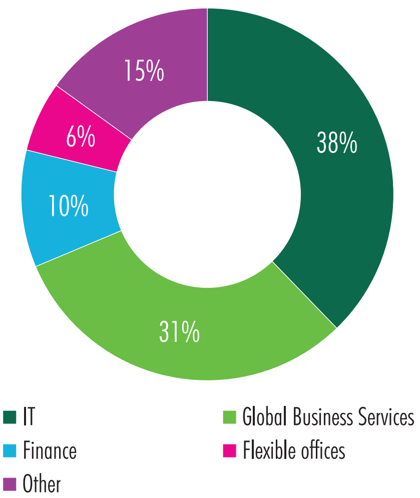
As to size, the typical office for signing up remains similar. In 2019, the median size for an office space to be taken up was 1,270 sq m, just slightly more than a year ago when it was 1,200 sq m. The most significant transactions include Tesonet, a Lithuanian IT company, that signed an agreement for 15,000 sq m to move to the Sparta redevelopment project. Danske Bank executed a pre-leased 13,000 sq m and will fully occupy the fourth stage of the S7 project.

In terms of sectors, IT and Global Business Services sector companies have dominated the market. These industries constituted 38% and 31% respectively of the total take-up. The financial sector and flexible office service providers were also notable clients.

VACANCY

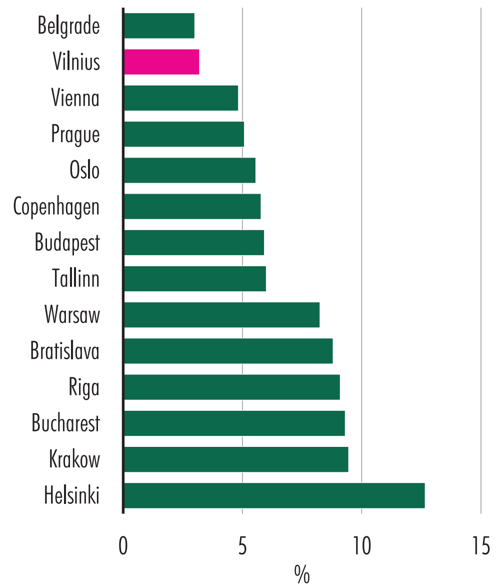
At the end of 2019, available modern office remained scarce. The vacancy rate reached 3.2% and was 1.7 p.p.

Figure 5: Take-up by sector in 2019



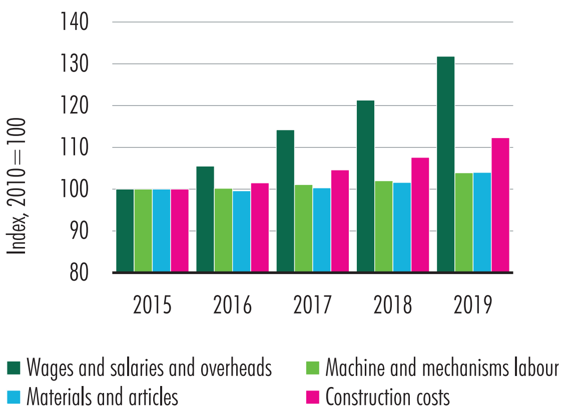
Source: CBRE Baltics; 2020.

Figure 6: Vacancy rate in selected European cities



Source: CBRE Research, CBRE Baltics; 2020.

Figure 7: Construction input prices in Lithuania



Source: Statistics of Lithuania, CBRE Baltics; 2020.

lower than a year ago. The vacancy among A-class offices was 3.4%, while B class offices had a lower rate at 3.0%. The current vacancy rate in the city remains among the lowest in Europe, yet, it is set to increase soon.

Ample office supply in the pipeline and take-up, limited by market size, should increase the vacancy rate significantly in the upcoming years. Part of the agreed take-up is relocation from existing premises. Thus, this should primarily concern low-quality offices that will be the first to sense vacancies and eventually either upgrade, convert or submit to significant discounts.

MARKET RENTS

In 2019, rent prices in the Vilnius market were somewhat more substantial than the previous year. The rent price range for B class office premises was between 10.0 – 14.0 EUR/sq m/month, while the rent price range for a typical A-class office is currently between 15.0 – 17.0 EUR/sq m/month. Occasionally, there are exceptional cases below or above the indicated prices. Developers would like to push up prices due to low vacancy rates and inflating construction prices, caused mostly by a labour price increase. At the same time, the market will face higher office supply and, consequently, occupiers may not be willing to pay higher prices.

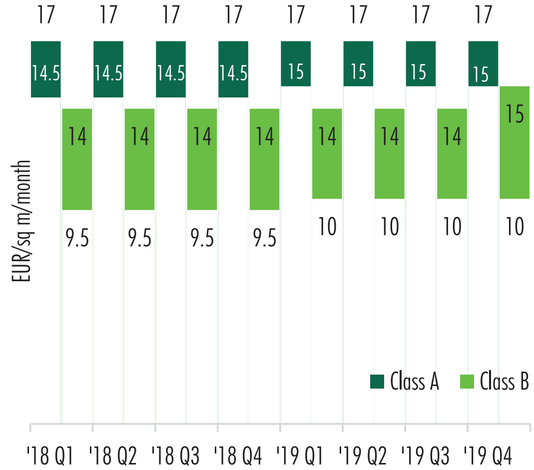
INVESTMENT AND ACQUISITIONS

In 2019, the Lithuanian investment market, including the Vilnius office market, also observed a significant enhancement in investment volume. In 2019, office investments in Vilnius amounted to EUR 347.6 mln. or 18.6% more than a year ago. Prime office yields have firmly settled at a below 6.0% level and currently stands at 5.8%. Overall, office investments in Vilnius constituted 60% of the total investment volume in Lithuania.

Two large office transactions boosted the investment market. A German real estate investment company, Deka Immobilien Investment, has acquired the Quadrum office complex for an announced EUR 156.1 mln from Schage Real Estate, a developer of Norwegian origin. The complex at the centre of the CBD is almost entirely let to multiple clients, with the anchor tenant being Luminor bank.

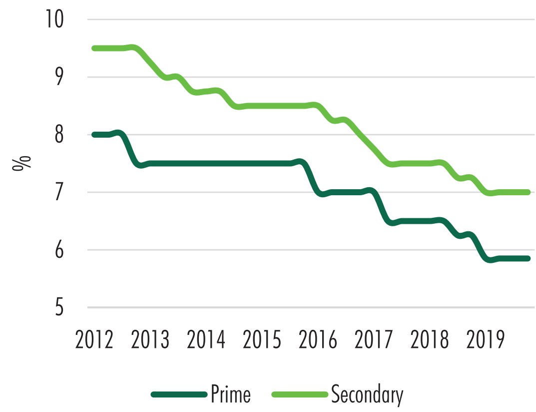
Another significant transaction was executed by Swedish real estate company, Eastnine, which purchased three stages of the S7 project from a Lithuanian development company, M.M.M. projektai, for EUR 128.3 mln. at 5.8% yield. The S7 complex constitutes 3 standing office buildings at the boundary of the Vilnius CBD, single let to Danske bank and Telia. The fourth stage is currently under construction and pre-let to Danske Bank.

Figure 8: Rent price ranges by office class



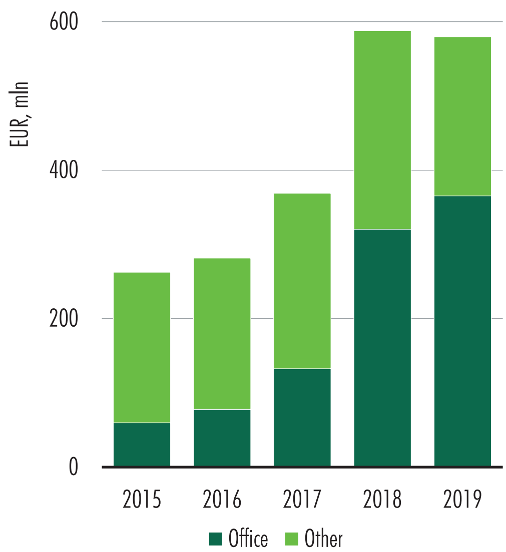
Source: CBRE Baltics; 2020.

Figure 9: Office investment yields



Source: CBRE Baltics; 2020.

Figure 10: Office and other commercial real estate investment volume in Lithuania



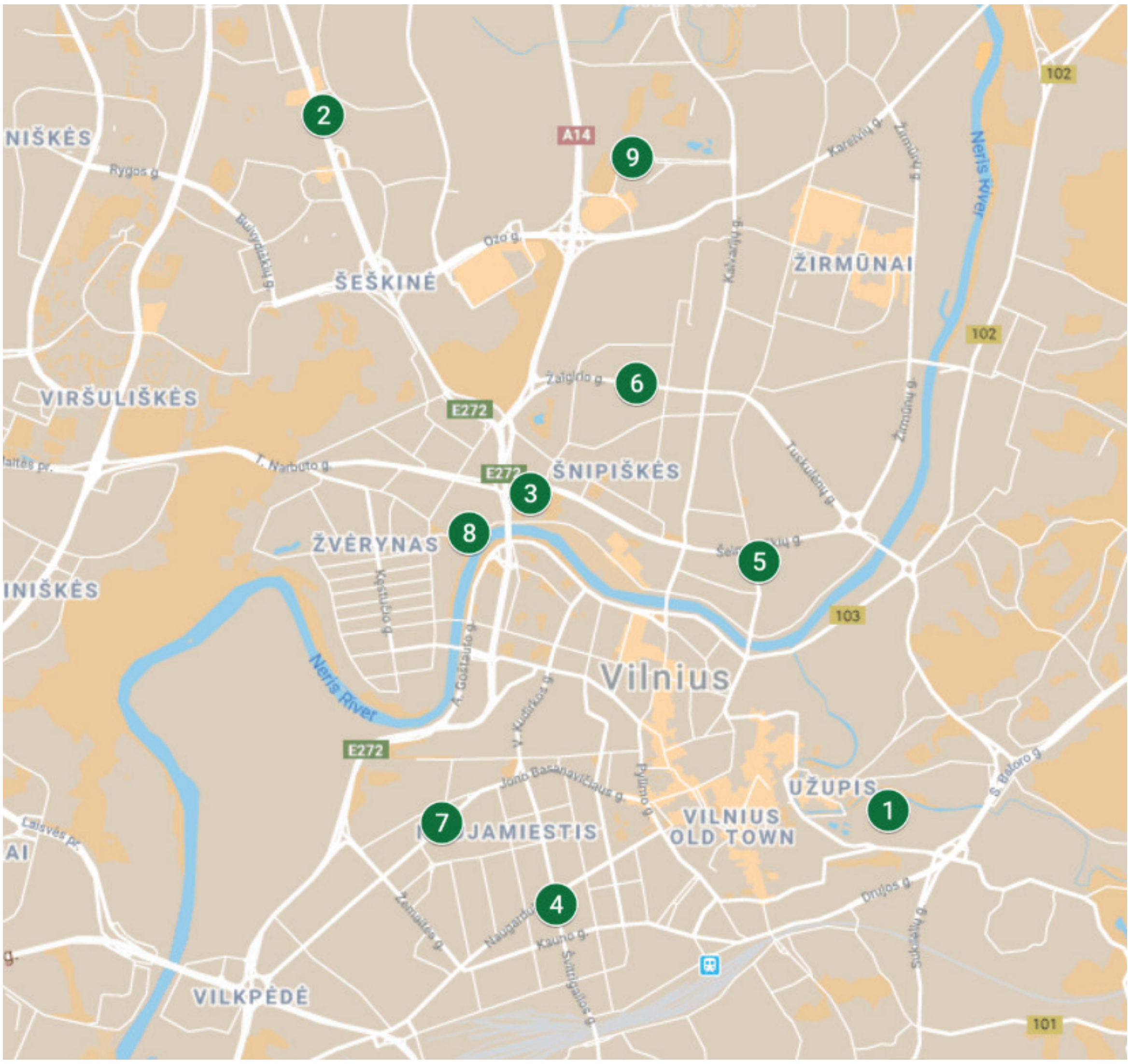
Source: CBRE Baltics; 2020.

Figure 11: Projects announced to be completed in 2020*

No	Project	Street	Landlord	Year of expected completion	Class	GLA, sq m
1	Paupys	Aukstaiciu	Darnu Group	2020	B	15,000
2	U219	Ukmerges	PST Investicijos	2020	B	16,000
3	SEB HQ	Gedimino Baravyko	Lords LB	2020	A	12,700
4	Uptown park	Svitrigailos	Vilbra	2020	B	12,000
5	Business Stadium North	Rinktines	Hanner	2020	A	16,207
6	Zalgirio 94	Zalgirio	Inreal	2020	B	2,951
7	Wave	Savanoriu	M.M.M. projektai	2020	B	9,700
8	Green Hall 3	Upes	SBA	2020	A	2,850
9	Nova	Vito Gerulaicio	Technopolis	2020	B	26,470
					Total	113,900

Source: CBRE Baltics; 2020.

Figure 12: Projects announced to be completed in 2020 according to numbering in the table above



*Mixed-use and projects planned primarily for owner occupation are not included.
Source: CBRE Baltics; 2020.

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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 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.

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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