Property Times
Baltic Office H2 2012

Focus on core locations and new standards

27 February 2013

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Author

Aivar Tomson
Baltic Head of Research
+ 372 6 264 250
aivar.tomson@dtz.ee

Contacts

Magali Marton
Head of CEMEA Research
+ 33 (0)1 49 64 49 54
magali.marton@dtz.com

Hans Vrensen
Global Head of Research
+ 44 (0)20 3296 2159
hans.vrensen@dtz.com

- In terms of economic development, the Baltic States in 2012 outperformed the rest of Europe. The macroeconomic fundamentals of the three countries are expected to strengthen also in the upcoming years. Property yields therefore are subject to marginal decrease, especially in long-term perspective.

- The immediate after-map of the crisis offered plenty of relocation and cost optimization opportunities for tenants. By the end of 2011, these windows of opportunity have closed; in 2012 nonetheless, given the vacancy rates across three Baltic States, office markets still remained fairly affordable for potential occupiers.

- In all three Baltic States, the market is highly polarized in terms of vacancy rates for separate buildings, as well as for core and secondary locations.

- Although in the most demanded locations and/or for the most demanded property standards the first signs of potential supply shortage are already evident, these imbalances are expected to be corrected through the active developments in the pipelines of all three countries.

- Tight competition will keep the rental fees within the same brackets.

Baltic Office H2 2012

Macroeconomic Trends in the Baltic States

Estonia

Estonian economy is in quite a good health, with strengthened domestic demand playing the major role in economic development. Nonetheless, despite promising GDP growth, the uncertainty towards surrounding environment is still evident.

Based on the information presented by the Bank of Estonia and Statistics Estonia, in Q3 2012, GDP increase was 3.5% on a year-on-year basis and 1.6% on a quarterly basis, with construction sector being the largest contributor to the economic growth. According to the Bank of Estonia forecasts (published in December 2012), GDP growth shall round up to 2.9% in 2012, is expected to reach 3.0% in 2013 and 4.0% in 2014.

The year-on-year CPI change meanwhile was 3.7% in Q3 2012. Inflation was mainly caused by the increase in food, housing and fuel prices. According to the Bank of Estonia forecasts, the annual CPI change in 2012 would round up to 4.3%, and is expected to slow down in the upcoming two years, with the forecasted change of 3.6% in 2013 and 2.4% in 2014. Such a deceleration however is only possible with no substantial upward changes in the global fuel prices; another underlying assumption is that global food prices that have heavily increased in 2012 will exhibit a decline within the upcoming two years.

Statistics Estonia informs that the unemployment rate within the population group aged 15-74 years dropped from 10.2% in Q2 2012 to 9.7% in Q3 2012. More than one third of these officially registered unemployed have been unoccupied for more than two years already. Most of the unemployed workforce finds occupancy in construction and industrial sectors, as well as in the sector of seasonal works.

Latvia

In 2012, Latvia, the country famous for its austerity measures, has managed to accomplish something unattained by any other country severely affected by the recent crisis, namely, to maintain its currency exchange rate fixed. On top of that, Latvia’s economy, after shrivelling by more than 20% from its peak, remarkably outperformed the cautious government forecasts for 2012 of 1-2% growth and rose by more than 5% instead, making it the best performer in the 27-nation European Union.

The budget deficit is also down sharply (1.7% from GDP as compared to 4% at the end of 2011); both manufacturing (10.5% growth within a year, more than 35% growth from December 2009) and exports (22.6% growth within a year, as compared to 12.1% annual growth in import rate) are soaring, and already exceed pre-crisis levels.

Annual inflation meanwhile has reached its historical minimum ever since autumn 2010, and averaged at about 1.6% at the end of 2012, coming primarily from globally evident increase in fuel and food prices.

The problems that still persist are those of high unemployment rate (although it is almost twice as low as in Greece or Spain, the rate of 13.5% is still too large) and social inequality. It is worth mentioning that unemployment was relatively high in Latvia ever since the re-establishment of independence; yet during the last eight years (and thus also during the economic boom) it was also higher than that experienced by the closest neighbours, Lithuania and Estonia.

The commonly held opinion however is that the hardest times are behind. 2013 therefore is expected to be marked with slower, but still one of the highest GDP growth rates in Europe (3-3.8% per year). The average income level, which currently stands at about 60% of EU average (as compared to 30% in 1995), is expected to grow slowly and reach its pre-crisis level, about 711 EUR before taxes. As usual, the income in Riga will be about 15% higher than that in the rest of the country; heavily pronounced segmentation in employment sector will still persist.

The government meanwhile has set the target of meeting Maastricht criteria (inflation not exceeding 2.7%, budget deficit up to 3.0%, debt-to-GDP ratio up to 41.9%) and thus to receive an invitation to join Eurozone in 2013, with the subsequent Euro introduction in early 2014.

Lithuania

Statistics Lithuania informs that in Q3 2012, the real GDP growth was 4.4% on a year-on-year basis. At the same time, the GDP that was produced within the three quarters of 2012 outperformed the same period of 2011 by 3.5%. Central Bank of the Republic of Lithuania meanwhile goes more moderate in its forecasts, and predicts a 3.0% annual GDP growth by the end of 2012, along with the 3.1% increase forecast for 2013 (down from the previous forecast of 3.4%).

Average annual inflation meanwhile stood at 3.2% as of November 2012 (calculated on the basis of HICP, the harmonised index of consumer prices), and is 0.4% down as compared to the annual inflation figure a year ago. The year 2012 is expected to round up with the 3.1% annual inflation rate, as compared to 4.1% figure at the end of 2011. In 2013, the forecasted inflation rate is 2.8%.

The unemployment rate, which stood at 13.3% in Q2 2012, decreased by 1% within a single quarter (12.3% in Q3 2012). The forecasts for the upcoming year are more moderate; by the end of 2013 the unemployment is expected to reach 11.6% figure.

Table 1

Key Macroeconomic Indicators

	Estonia	Latvia	Lithuania
Population (in thousands)	1,340	2,033	3,008
Urban population	65%	68%	67%
Area (thousand km²)	45	65	65
Population density (per km²)	30	31	46
Capital city	Tallinn	Riga	Vilnius
Population in capital cities (thousand)	401	649	534
Currency	EUR	LVL	LTL
Exchange rate (€)	X	0.702804	3.4528
GDP at current prices (bn €, 4Q 2011 - 3Q 2012)	16.8	21.6	32
GDP per capita, at current prices (€, 4Q 2011 - 3Q 2012)	12,503	10,618	10,701
GDP growth (%, 3Q 2012)	3.5	5.3	3.5
Inflation rate (%, 3Q 2012)	3.7	1.7	3.2
Unemployment rate (%, 3Q 2012)	9.7	13.8	12.3

Source: National Statistics, Oxford Economics

Office Market in Estonia

In Estonia, Tallinn as the capital city clearly dominates the office segment, bearing the largest share of the modern office stock, as well as the highest activity on the occupational markets. A well-developed office segment can also be observed in Tartu and Pärnu cities. Smaller urban areas do not have separately standing built-on-purpose office buildings; instead, premises on the ground and upper floors of residential and multi-purpose commercial buildings are occupied as offices.

Tallinn

By the end of 2012, the total area of modern office space in Tallinn amounted to approx. 560,000 sq m.

Historically, office market in Tallinn was mainly concentrated in the city center. However, poor parking possibilities coupled with high rental fees, as well as very limited expansion options along with almost non-existing vacancy rates pushed office developments into areas next to larger roads and crossings outside the city center. Currently, there are four main office districts in Tallinn – City Center, area at Pärnu Road, Ülemiste City area near airport and area next to Mustamäe Road.

The later also hosted two new office developments completed in 2012, *Mehhatroonikum* and *Tehnomeedikum*, attributed to the broader scope of *Tehnopol Technological Park* project. The total area introduced into the market is 20,300 sq m. In addition, 6,000 sq m in the pipeline are also attributed to this area.

The Pipeline

The pipeline for the upcoming two years in Tallinn is quite abundant, and in case all of the projects are introduced into the market, the total modern office stock supply will increase by approximately 20%.

Hence in 2013, the following buildings are expected to be completed: built-to-suit *G4S* office building on Paldiski Road, 8,300 sq m; *Kentmanni* commercial building in central area, 3,400 sq m; *Navigator* project near Tallinn Port, 5,400 sq m; *Statistics Estonia* HQ on Tatari Street, 4,800 sq m. Also in Ülemiste City area, office stock is expected to double with the introduction of 24,000 sq m, 10-storeyd *Triple Tower* office building. The total rentable office space to be introduced into the market in 2013 thus amounts to 50,000 sq m.

The projects announced for 2014 are office building on 157 Sõpruse Street, Mustamäe area, 2,800 sq m, *Digitalu* located in *Tehnopol Technological Park* sized 6,000 sq m and 4,800 sq m office project on Hallivanamehe Street, on the periphery of the city centre. The total rentable office space to be introduced into the market in 2014 thus amounts to 14,200 sq m.

One of the most ambitious projects in the pipeline, promising to deliver 40,400 sq m of rentable space in two towers, shall be located on Maakri Street, CBD, between *Swissotel* and *Radisson SAS* hotels. Actual development timeline of this project is yet unknown.

Map 1

Major office areas in Tallinn

Source: DTZ Research

Table 2

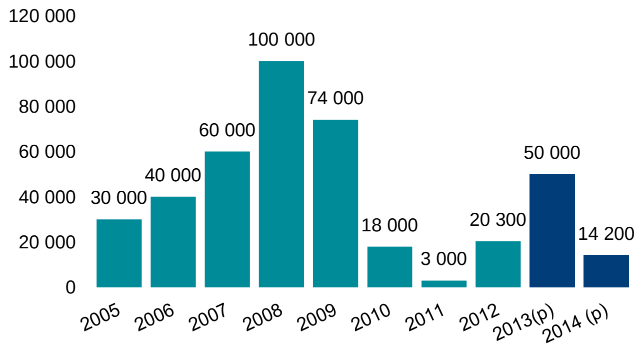
Major office areas in Tallinn

No on the map	Name of area
P1	Area in City Centre, including CBD
P2	Area at Mustamäe Road
P3	Järve-Tondi area
P4	Ülemiste area

Source: DTZ Research

Figure 1

Office new supply in Tallinn, gross area (sq m)



Source: DTZ Research

Demand

The highest occupier demand is for 100-300 sq m premises, located either in CBD or next to a major city road outside city centre. For a successful lease transaction, important factors are easy accessibility, sufficient parking possibilities, and professional building management.

In general, occupier demand is expected to be satisfied with the new office stock to be introduced in 2013. Speculative development in Ülemiste City nonetheless is expected to face a more prolonged leasing period.

Rental fees

On average, the rents remained stable throughout 2012; rent caps nonetheless are being slightly pushed upwards.

Therefore, while prime rents for existing buildings stay in 14.0-15.0 €/sq m/month brackets, new developments in the city centre that are expected to be completed in 2013 are already offered for 14.0-17.0 €/sq m/month.

Table 3

Rental fees in Tallinn, €/ sq m/ month

	A+	A	B	C	2013
City centre	12-15	8-12	5-8	-	→
Suburban areas	-	5-8	4-6	3-4	→

Source: DTZ Research

Vacancy

Buildings located in CBD and a few highly demanded office buildings in close vicinity to the city centre enjoy full occupancy, whereas vacancy rates for certain office buildings in suburban areas range between 10-15%. Overall, the average vacancy rate in modern office buildings across the city currently stands at around 10%.

The older (C-class) office buildings meanwhile are gradually loosing their positions on the rental market; vacancy rates for such buildings are only increasing from year to year, whereas buildings themselves are in need of major renovation works.

Investment transactions

Tallinn office market in 2012 was also quite rich in investment transactions; all in all, three buildings changed their owners, whereas total volume of transactions amount to 21.95 M EUR.

Hence in June 2012, locally owned *Capital Mill* acquired 90% of the shares in the newly developed *Mehhatroonikum* building, located in *Tehnopol*, the Science and Business area of Tallinn. The transaction was completed for 8 M EUR.

In August 2012, Norwegian capital based *Kawe Group* acquired the *Baltika Quarter*, HQ of the clothing manufacturer *Baltika*, for 13 M EUR. While transaction yield was not disclosed, approximate calculations pinpoint towards 8.0-8.5% level.

In October 2012, *ECE Capital* of Austrian origin acquired vacant office building on Pärnu Street for 0.95 M EUR. The building used to be occupied by the Police and Border Guard Board.

Pärnu

The main business districts in Pärnu are city centre and its close surroundings, Papiniidu district, Ülejõe district, and the area between Tallinna Street and Jannseni Street. These districts accommodate not only office buildings, but also other types of commercial properties.

The total amount of modern office space in Pärnu is approx. 50,000 sq m. Only 20% of this space is located in built-on-purpose office buildings, constructed between 1998-2003. The rest is distributed among built-to-suit premises and top floors of multi-purpose commercial buildings.

Table 4

Rental fees in Pärnu, €/ sq m/ month

	A	B	C	2013
City centre	6,0 – 10,0	3,0 – 5,0	-	→
Suburban areas	4,5 – 7,0	2,5 – 3,0	1,0 – 2,5	↘

Source: DTZ Research

In 2008-2009, office rental fees in Pärnu were adjusted downwards by as much as 30%, and have only marginally increased ever since.

As a result, within the recent years, the majority of the completed lease transactions were relocation deals, with occupiers optimizing on the quality of the office space. Hence older buildings are gradually abandoned, and their occupancy rates are already close to zero. Average vacancy rates for A-class premises are between 10-15%, whereas vacancy rates for B-class premises are between 15-25%.

Tartu

Office properties in Tartu are mostly clustered in the city centre and its close surroundings, as well as in Karlova, Veeriku, Ropka districts, and *Ropka Industrial Park*.

The last new development, *Krause* commercial building (5,600 sq m), was introduced into the market back in 2010, whereas the following years saw only reconstruction activities. Hence the former Postal Office (6,800 sq m) was reconstructed into *Playtech* office building, renovation works began in the 7,500 sq m large office buildings *Emajõe* commercial centre in 2011 and currently accommodates Swedbank as anchor tenant. In 2012, there was no new activity in development segment.

Emajõe commercial centre, as well as modern buildings in its immediate proximity, currently also have the highest rental fees (10-12 €/sq m/month). The lowest rental rates (3 €/sq m/month) depend less on the location and more on the access and parking possibilities, as well as on the overall quality of a building and premises. Suburban properties nonetheless still struggle with their occupancy rates.

Overall, the market is still ill balanced, with vacancy rates generally ranging between 10-25%. Higher vacancy rates are not only in less demanded properties, but also in the buildings that were recently reconstructed (ex. property on Teguri Street).

Table 5

Rental fees in Tartu, €/ sq m/ month

	A	B	C	2013
City centre	10,0	6,3	5,0	↗
Suburban areas	6,0	3,8	3,0	→

Source: DTZ Research

Forecasts for 2013

- For the existing and well established properties, the upcoming year will be stable, with no substantial changes in occupancy rates;
- Given rather extensive development pipeline in Tallinn, the average vacancy throughout the city will temporarily increase. The riskiest speculative project is *Triple Tower* in Ülemiste City, which is expected to face a rather prolonged leasing period;
- The extensive development pipeline will also keep the rents within the current brackets;
- Prime yields are expected to decrease slightly, mainly due to strengthening macroeconomic fundamentals of the country.

Office Market in Latvia

From the macroeconomic perspective, the biggest challenge for Latvia that still persists is that of unemployment.

A closer scrutiny into the figures nonetheless suggests certain signs of improvement. In Q3 2012, the official unemployment rate in Latvia was 13.8%, which is the lowest figure within the last three and a half years, as well as slightly lower figure as compared to the one in the beginning of 1999, when Latvia was recovering from the previous serious economic crisis. As the researches performed by the Central Bank of Latvia suggest, the lion share of this figure comes from the structural unemployment component, the problem that persists for at least 18 years already, and that can only be solved through effective structural policy actions, targeted at particular population groups, country regions, etc.

At the same time, in Q3 2012, Latvia was the first country among EU member states in terms of job creation rate, while non-accelerating inflation rate of unemployment (NAIRU) was broadly flat. In terms of newly established small enterprises in 2011-2012, the country is outperforming, on an annual basis, 2005-2007.

Job market composition figures point towards gradual reconfiguration of the job market in Latvia. On one hand, the number of workplaces in both finance and insurance and real estate industry (excluding construction) are decreasing; on the other hand, such industries as information technologies and communications as well as professional services exhibit double-digit annual growth in the number of workplaces occupied. As far as professional services are concerned, the highest development is in consulting, legal, and accounting services, followed by advertising and market research as well as scientific and technical services.

All of the above creates certain preconditions for the development of the office segment, which in Latvia, is predominantly concentrated in Riga.

Existing supply

By the end of 2012, the total stock of modern office space in Riga amounted to almost 530,000 sq m, of which only 20% were A-grade offices; nearly 80% of these A-grade office premises are built-to-suit banking headquarters.

In terms of geographical subdivision, 17% of the existing modern office space is accounted for the Central Business District (CBD), with additional 20% located in closer and more remote periphery of the city centre, usually next to major city roads. Skanstes Street district, although also falling within the city centre periphery group, deserves a separate mentioning here, since this area developed very rapidly within the last seven years and currently holds almost 30% of the whole modern office stock situated in Riga.

Skanstes Street area also hosts the only speculative new development completed within the last few years, *Jupiter Business Centre*, currently being introduced into the market and offering 7,200 sq m of leasable B-grade office space distributed over 14 floors.

The second office development that was commissioned in 2012 is the energy-efficient ‘test drive’ by the major developer of industrial parks, *NIP Properties,* offering around 1,000 sqm of leasable area on the outskirts of Riga city, within the territory of *Riga Industrial Park*.

Vacancy rates, rental fees, and occupier demand

Although window of opportunity for negotiating better lease agreement terms has closed in 2011, the market still remains fairly affordable for potential occupiers, with the vacancy rates for B-class office space rounding up the year at around 10.5% (a 4% drop as compared to 2011). It should be duly noted, however, that B-class office segment is highly polarized in terms of locations of the buildings; hence those located in CBD enjoy as low as 3-5% vacancy rates, whereas some of the buildings located in sleeping districts of the city or in more distant centre periphery areas struggle with 20% vacancies. Some of the B-class office buildings were repossessed by the banks during the crisis, and are still on hold with zero or close to zero occupancies and very limited possibilities to find potential tenants.

Since the majority of A-class premises are built-to-suit buildings, the vacancy rates in this segment amounts only to 3% (a 3% drop as compared to 2011, which by far and large is attributed to the relocation of *IF* insurance company to the building of *Citadele* bank).

Table 6

Average vacancy in Riga, %

	A	B	2013
Established office districts	3-5	5-10	↘
Other	-	15-20	↘

Source: DTZ Research

The rental rates remained stable in between the years 2011 and 2012, as well as throughout 2012, and depending on the location, amount to 9-15 EUR/sq m for A-class premises, 6-12 EUR/sq m for B1-class premises, and 5-8 EUR/sq m for B2-class premises.

Table 7

Average rent level in Riga, €/ sq m/ month

	A	B	2013
Established office districts	9-15	6-12	↗
Other	-	5-8	→

Source: DTZ Research

Notwithstanding, occupier demand is mostly focused on established office districts, whereas buildings that fall outside these areas are usually chosen for very subjective, enterprise-specific reasons.

Hence CBD, which is the most demanded district among providers of the majority of professional services due to highly developed commercial infrastructure and immediate vicinity to the most important governmental institutions (such as State Revenue Service, Enterprise Register, Investment and Development Agency of Latvia, etc.) has already quite pronounced shortage of supply of 300-500 sq m areas set within a single floor of a building.

The pipeline

The pipeline for the upcoming few years by far and large can be broken down into three segments.

Segment one incorporates large-scale office development projects that do not comply with the terms of current geographical subdivision of the office market in Riga. Within this group, two projects are currently in the process of active construction. The first is *Z-Towers* building, initiated back in 2006, frozen for a few years during the crisis, and currently progressing towards completion in 2014. The project incorporates two towers, 25,000 sq m each; one tower has a letter of intent with *Sheraton Hotel Riga,* whereas the second tower is a purely speculative A-class office development with no premises being yet pre-leased. Given that the area demanded by occupiers in Riga hardly ever exceeds 1,000 sq m, the project is an extremely risky undertaking; therefore, alternative options of use (ex., residential) are considered while still in the construction process.

The second active large-scale office development in Riga is the 1st stage of mixed-use *Ezerparks* complex (developer *New Europe Real Estate*), which is located in Mezaparks, the district that historically was more famous as a luxury residential area rather than active business district. Recent large-scale developments in the city infrastructure nonetheless introduced also this area into the commercial landscape.

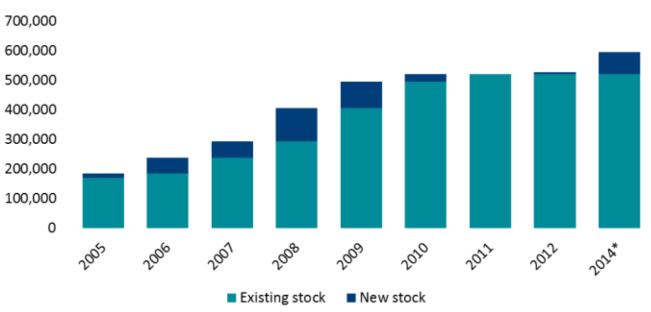
The 1st stage of *Ezerparks* development project is expected to be completed in 2014, and shall introduce 50,000 sq m of office space into the market along with 38,000 sq m of residential areas. Given that 80% of the office area is pre-leased to the State Revenue Service (which currently is located in the city centre and enjoys quite a high number of business visitors on a daily basis), the project will definitely make an impact on the current landscape of Riga business districts.

Segment 2 incorporates a few small-scale development, reconstruction, and refurbishment projects in CBD that are expected to benefit from the already existing mismatch between supply and demand in this particular sub-location. The major restriction on new development activity in this segment comes from the very limited supply of empty land plots available in the city centre; the area nonetheless offers plenty of options for reconstruction.

Segment 3 incorporates built-to-suit, mostly small-scale development projects in different parts of the city, locations for which are chosen based on enterprise-specific reasons. Although such developments are usually very small, and within a broader office segment context come hardly noticed, they do have a restricting impact on the scope of occupational markets.

Figure 2

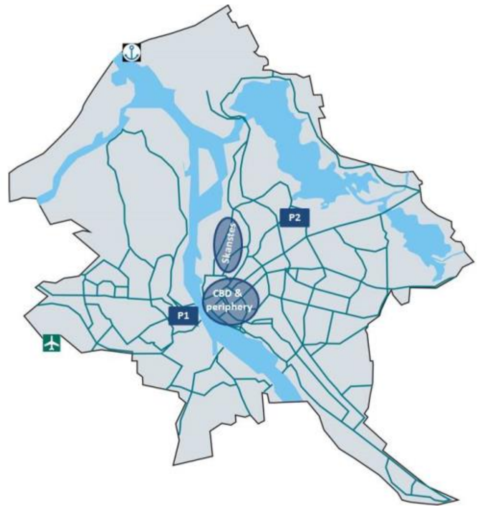
Office space dynamics in Riga, GLA sq m



Source: DTZ Research

Map 2

Main Office Districts in Riga



Source: DTZ Research

Table 8

Active large-scale office developments in Riga

No on the map	Name of office buildings	Address	Total project area, sq m	Office GLA, sq m	Date	Quality
P1	Z-Towers	9A Daugavgrivas Street	50,000	25,000	2014	A
P2	Ezerparks „Pilsēta pilsētā“	Kisezera Street	88,000	50,000	2014	A
	Total		**138,000**	**75,000**		

Source: DTZ Research

Forecasts for 2013

- In general, the rental fees for B-class offices are expected to remain within the same brackets, with a further decrease in vacancy rates of up to 3-4% per year, in line with the economic growth of the country. In certain locations (CBD in particular), there is a tendency of marginal upwards pressure on rents due to emergent supply scarcity in certain segments;
- The office market landscape across city is not expected to change substantially in 2013, however, will be reconfigured with the active development projects to be completed in 2014;
- Windows of opportunity are open for investors who are ready to undertake risks that generally are correctable through leasing, re-development, management and/or recapitalization.

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Office Market in Lithuania

Vilnius

By the end of 2012, the total area of modern office space in Vilnius amounted to approx. 372,000 sq m, of which almost one third are A+ and A class premises, primarily distributed between Business Triangle (11% of the total office stock) and New City Centre (17% of the total office stock) districts. B-class office buildings stretch along major city roads outside city center, namely, Ukmerges Street, Kalvariju Street, and Pilaites Avenue. One more B-class business cluster is located in Naujamiestis city district.

If compared against the end of 2011, the total supply of modern office space in Vilnius increased by 5%, or 19,000 sq m, distributed between the following two buildings: *Ulonu* business center in the Northern part of the city and 1st stage of *Baltic Heart* project, located on Ukmerges Street, in close proximity to the New City Centre.

The pipeline for 2013-2015 promises a further 15%, or 56,600 sq m increase in the supply in Vilnius. More than 80% of this forecasted new supply is attributed to two A-class office buildings; new contribution to the B-class sub-segment comes from one office building on Kalvariju Street (see table 10).

Since the first eco-friendly *Green Hall* office building proved to be an international success, its owner, *SBA* holding, is planning on building 8,000 sq m neighborhood property of at least the same quality. Development timeline is yet unknown.

Demand

Since the majority of A-class office properties have almost reached their natural vacancy levels, certain potential occupiers are already forced into considering better quality B-class office premises, which certainly served as an impetus for the development projects in the pipeline. In B-class sub-segment, the highest demand is for the properties in close proximity to city centre in general and Business Triangle district in particular.

The largest lease transaction on the market in 2012 was concluded with the main provider of postal services in Lithuania, *Lietuvos Pastas,* who moved into 5,000 sq m premises in Business Triangle district.

Rental levels

Rental fees remained stable throughout 2012, and range from 5 €/sq m/month in B-class sub-segment up to 14.5 €/sq m/month for A-class premises.

Table 9

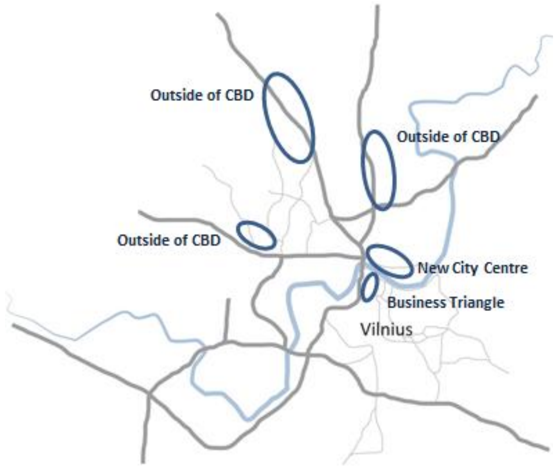
Average rent level in Vilnius, €/ sq m/ month

	A	B	C	2013
Vilnius city centre (CBD)	11-14	7-9	-	→
Suburb	-	5-7	2-4	→

Source: DTZ Research

Map 3

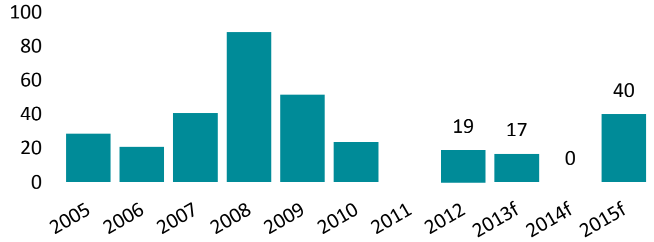
Office Districts in Vilnius



Source: DTZ Research

Figure 3

New office space in Vilnius, GLA



Source: DTZ Research

Table 10

New office developments in Vilnius

Name of office buildings	Address	Total project area, sq m	Office GLA, sq m	Date	Quality
GAMA	Kalvarijų St., Vilnius	13,000	10,000	2013	B
Baltic Hearts (II, III stages)	Ukmerges St. 120, Vilnius	7,000	6,600	2013	A
Quadrum	Konstitucijos Ave. 21, Vilnius	70,000	40,000	2015	A
Total		**90,000**	**56,600**		

Source: DTZ Research

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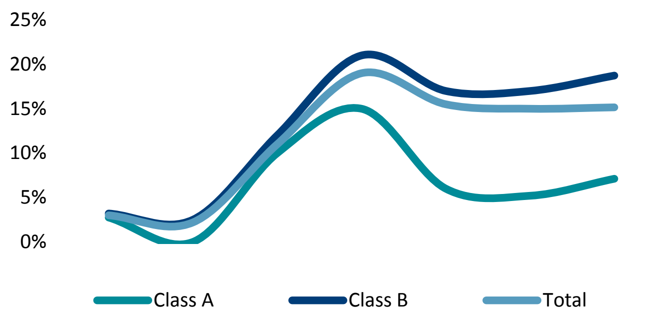
Vacancy

While the total supply grew by 5%, the average vacancy rate across both A- and B-class properties increased by 1% and reached 15% in 2012. When broken into sub-segments, A-class average vacancy rate is 7% (a 2% increase from 2011), whereas B-class average vacancy rate reaches 19%, yet varies between 7-30% across separate buildings.

The vacancy rates in old, C-class office buildings ranges between 20-30%, and given the extensive pipeline, can only increase in the upcoming years.

Figure 4

Vacancy rate in Vilnius



Source: DTZ Research

Kaunas

By the end of 2012, the total area of modern office space in Kaunas amounted to approx. 35,400 sq m. While there were no new completions in 2012, the upcoming year is expected to bring the commissioning of a built-to-suit *Senukai* (major DIY retailer) administrative building (17,000 sq m).

The highest locally-generated demand is for 20-50 sq m premises; the supply of that type of space is already limited. Kaunas office market is also in demand among international tenants; the biggest lease transaction in 2012 was completed with UK-based *Callcredit Information Group,* who settled on 2,000 sq m area in *Zalgiris Arena* building.

The rents remained stable throughout the year, and range between 4.3-10 €/sq m/month. Vacancy rates vary between 7-20% across separate buildings.

Klaipeda

By the end of 2012, the total area of modern office space in Klaipeda amounted to approx. 45,200 sq m. There were no new additions in 2012; none are expected in 2013 either.

When compared with other major cities, Klaipeda office market is marked with the highest vacancy rates, ranging between 10-20% across separate buildings. The rental rates in high quality business centres range from 5.8-10.0 €/sq m/month, whereas office premises in economy class centres are leased at 2.9-5.8 €/sq m/month.

Panevezys and Siauliai

Panevezys and Siauliai are secondary cities in country's office landscape, primarily populated by converted office premises that usually comply with B-class standards. In both cities, the highest demand is for 30-50 sq m areas. In Siauliai, the premises are leased at 6.0-8.0 €/sq m/month in city centre and at 3.0-5.0 €/sq m/month in suburban areas. In Panevezys, rental rates usually fall into a narrower range of 3.5-6.0 €/sq m/month.

Forecasts for 2013

- Given richly-populated development pipeline in Vilnius, rents will remain within the same brackets, whereas average vacancy rate will be pushed upwards;
- Vacancy rates for well-established properties will hardly be affected;
- Prime yields will remain stable;
- The year will also be stable with vacancies decreasing in line with economic development for other than Vilnius cities.

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Occupier Perspective

Updates on occupational markets from an occupier perspective, with commentary, analysis, charts and data.

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Obligations of Occupation Asia Pacific 2012
Obligations of Occupation EMEA 2012

Property Times

Regular updates on occupational markets from a landlord perspective, with commentary, charts, data and forecasts. Coverage includes Asia Pacific, Bangkok, Beijing, Berlin, Brisbane, Bristol, Brussels, Budapest, Central London, Chengdu, Chongqing, Dalian, Edinburgh, Europe, Frankfurt, Glasgow, Guangzhou, Hangzhou, Ho Chi Minh City, Hong Kong, India, Jakarta, Japan, Kuala Lumpur, Luxembourg, Madrid, Manchester, Melbourne, Milan, Nanjing, Newcastle, Paris, Poland, Prague, Qingdao, Rome, Seoul, Shanghai, Shenyang, Shenzhen, Singapore, Stockholm, Sydney, Taipei, Tianjin, Ukraine, Warsaw, Wuhan, Xian.

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DTZ Research

Contacts

DTZ Baltic

Tambet Tiits
Managing Director
Phone: +372 626 4250
Email: tambet.tiits@dtz.ee

Estonia

Aivar Roosik
Director, Development
Phone: +372 626 4250
Email: aivar.roosik@dtz.ee

Peeter Prisk
Director, Property Management
Phone: +372 442 0700
Email: peeter.prisk@dtz.ee

Latvia

Andris Juršāns
Director, Latvian office
Phone: +371 6 724 4811
Email: andris.jursans@dtz.lv

Jurga Kupstyte
Project Manager
Phone: +371 6 724 4811
Email: jurga.kupstyte@dtz.lv

Lithuania

Valdemaras Ivaško
Director, Valuation & Consulting
Phone: +370 5 210 0252
Email: valdemaras.ivasko@dtz.lt

Jurgita Banytė
Property Expert
Phone: +370 5 210 0254
Email: jurgita.banyte@dtz.lt

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a UGL company