

in real

**REVIEW OF
ECONOMICS AND
RE MARKET**

**Q1, Q2, Q3
OF 2011**



Review prepared in cooperation with AB bank Finasta

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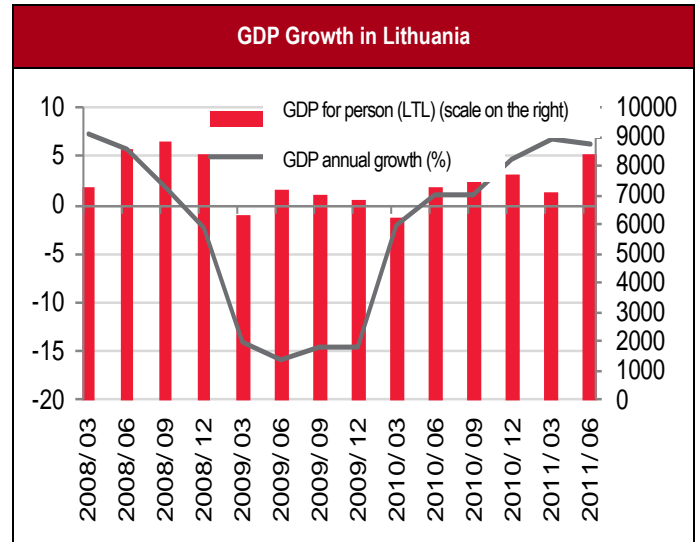
Review of Macroeconomic Situation

The economic recovery in Lithuania after the recession proved to be faster and earlier than it was expected. Contrary to what was predicted in the beginning of previous year, the economics of the country was growing in 2010. The growth has reached 1.3 percent previous year, and during the first quarters of 2011 GDP development continued to exceed the expectations of market participants. During the 1st quarter of 2011 the economics in Lithuania has grown by 6.9 percent, during the 2nd quar. - by 6.3 percent of annual rate and in this way it surpassed the major part of the European countries. The annual growth during these quarters was registered in accordance with all elements of total costs.

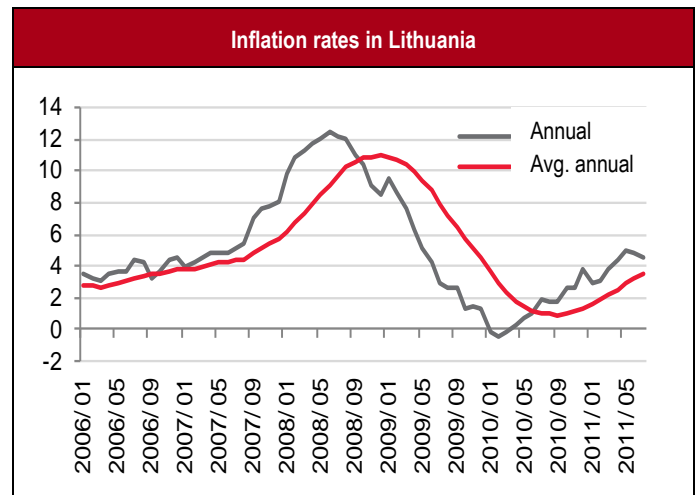
The economic recovery of Lithuania was resulted by the exceptional demand in foreign markets last year. Because of more vivid export markets the sector of industry was the first which has felt the benefits. Only in recent quarters clearer tendencies of growth in economic sectors, related to domestic consumption, began to emerge. Thus it is now possible to speak about more real and better expressed recovery of economics in Lithuania, because the development occurs not only because of the external, but also because of the internal recovery in economics.

During the first half of 2011 the inflation, consistently raising concern, started to recede during the summer months. The situation in global commodity markets made people be particularly concerned in the growth of prices. In comparison with the beginning of the year, the price of oil barrel has grown by a quarter and threatened to undermine the purchasing power of Lithuanian consumers, which was still fragile. The pressure of inflation is subdued at the moment. The mood in global financial markets no longer allows oil prices to return to spring levels. Price decrease of seasonal summer food products also influenced more acceptable development of prices during several previous months. However the end of this year makes people be more careful – the start of heating season, more expensive vegetables can still influence higher prices. However, the prospects in oil prices are favourable yet, because there is no basis in global oil market for them to increase.

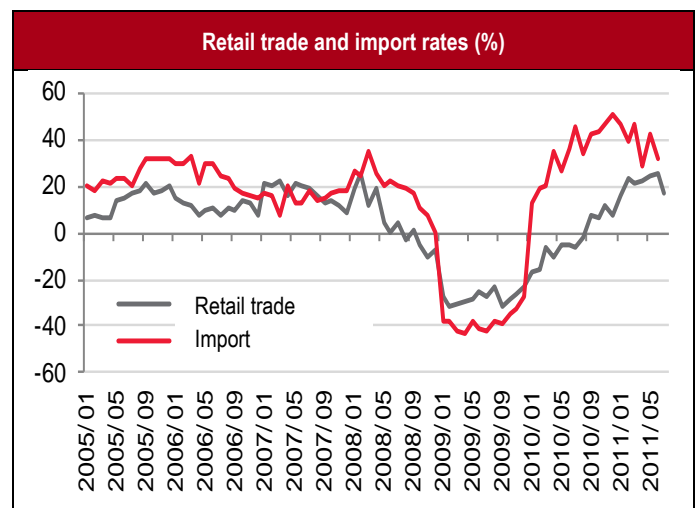
Monthly data show some moderation of economic growth. Both the development of industry and export, the retail trade and import lose the speed. On the one hand it is a welcome process, leading to more balanced economic development. The effects of comparative statistical base starts and it is more difficult to maintain the speed of the development. Thus, the second half of 2011 should have some slower economic growth. On the other hand, the current global status in economics, and particularly of Euro-zone, which is affected by loans, makes people be concerned. If the slowdown in Western economics during the 2nd half of 2011 became more visible, without any doubt, Lithuanian economic entities would feel its influence.



Source: Department of Statistics



Source: Department of Statistics



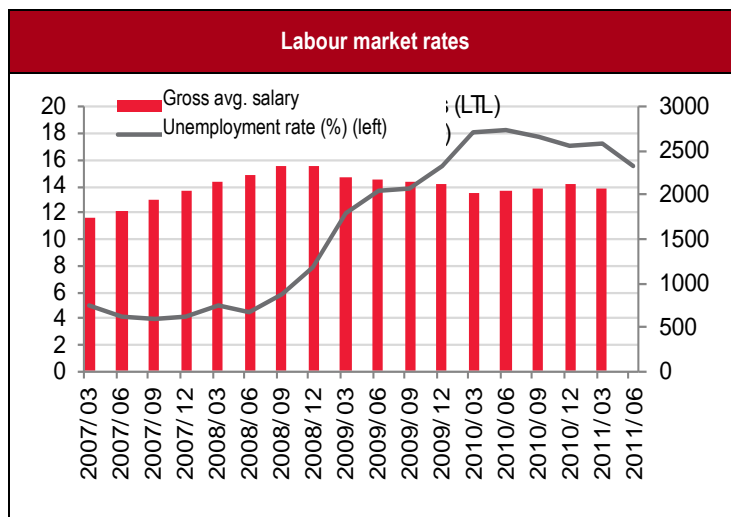
Source: Department of Statistics

We should not forget that the status of domestic consumption is still fragile. Unemployment level in Lithuania in the 2nd quar. has reached 15.6 percent. In comparison with the rush of 2010 (18.3 percent), it has decreased, but it is still high. It has influence on salaries as well – average gross wage of a month has reached 2071.6 LTL in the 1st quar. of 2011. And it was the first time when the annual growth, i.e. 2 percent, was registered after seven quarters have passed. The situation in labour market shows a relatively still high power of the employers when selecting employees. The prospects of decrease in unemployment rate are still questionable, because employers can continuously maintain the costs in a lower level. However the indicator's value may decrease because of higher emigration of labour force and in this way the employment changes not exactly accurately show a real situation in labour market.

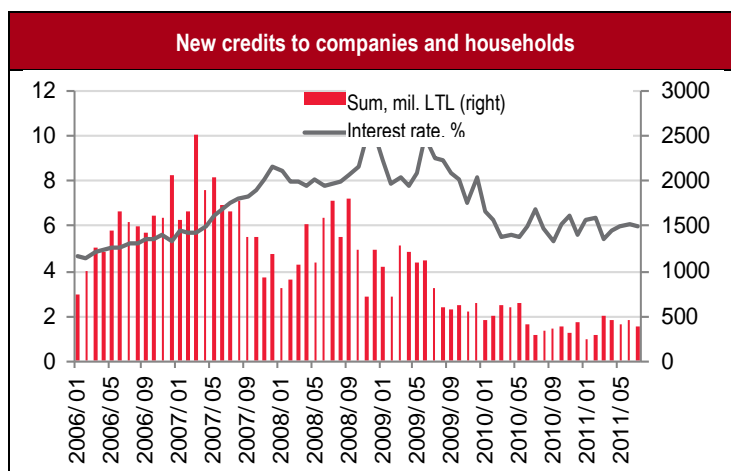
The banks are expected to be more courageous when providing the credits for some time. The numerous bank product advertising allows us expecting this; however the statistics still shows inactivity in the provision of loans. New loans within the first seven months of this year constitute 2.7 billion Litass – it is almost by one quarter less than within the same period of 2010, and almost by 70 percent less than within January-July of 2008. The situation in financial markets within last year was better to attract new funds – banks were able to propose less interest for deposits. Interbank interest rates in Litass do not remind the ones in 2009 and are almost equal to the interests in Euros. Nevertheless, it appears that banks essentially remain careful and select to fund only qualitative projects.

It is expected that economics in Lithuania may grow by 6.0 percent this year. The first half of the year was good, and it provides the reason to expect solid GDP returns during the whole 2011. The second half of 2011 may be a little bit less impressive, because of natural slowdown of development and weaker export in the market during the 2nd half of the year. The uncertainty of 2012 is higher, so foreign economics present a number of risks. In accordance with the basic scenario, the growth of GDP by 4.5 percent is expected, but in case of a worse scenario or a better development of Euro-zone, this prognosis may be adjusted later.

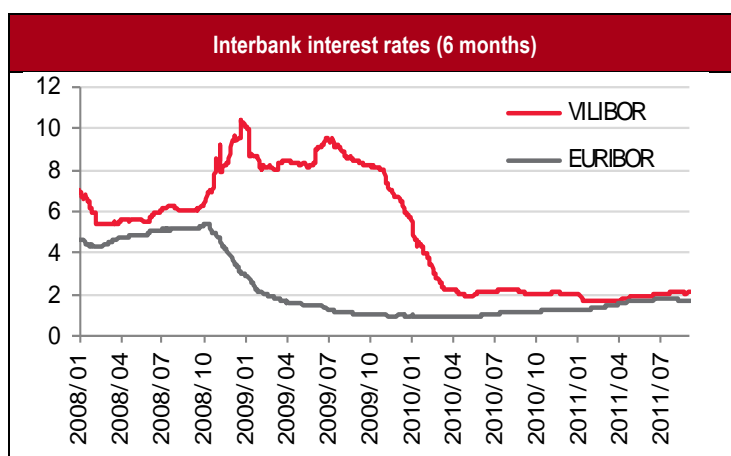
Average annual inflation, reaching 3.5 percent in July, can still accelerate in 2011 and reach 4.5 percent. It will be influenced by stronger tendencies of inflation during the first half of 2011, and by still possible increase of prices in the very end of the year. In 2012 the presumptions for prices to grow, because of foreign economics, should be weaker, so average annual inflation should decrease up to 4.0 percent.



Source: Department of Statistics



Source: Lithuanian Bank



Source: Lithuanian Bank

	2010	2011 beg.	2012 beg.
GDP	1.3%	6.0%	4.5%
Inflation (avg. annual)	1.3%	4.5%	4.0%

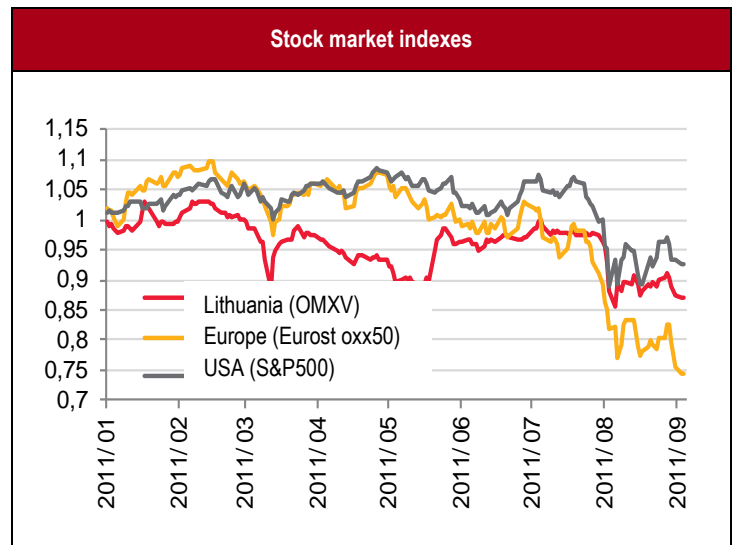
Source: prospects of the Department of Statistics of the Republic of Lithuania and Finasta

Financial Market Status

Threats, concerning the future of economics, have become prevalent in global financial market in summer. Governmental fiscal stimulus programmes had finished, and large debts do not allow having new expenses. Euro-zone is in public financial crisis, USA is afraid of economic recession, and the arsenal of political measures is almost exploited. It is understandable that without any stimulus of public policy remained, the economic growth should slow down, and it is possible that we will see a weaker second half of the year.

In case of such circumstances in global and Lithuanian stock market, index curves in July went down. The index of stock prices in Vilnius OMXV had lost more than 11 percent of its price until September. The USA S&P 500 index within the previous period decreased by 13 percent and the Western Europe Eurostoxx-50 – by 25 percent.

The slowdown of economic growth was not unexpected by the economists. However, the reaction particularly expressed by markets can automatically cause a more visible economic slowdown. It is likely, that until the end of this year stocks can remain not a very attractive measure for a long-term investment. Instead of this, the investors will be more likely to purchase property of a more safe property class. This is also confirmed by the fact that the security standard of the price of gold is reaching the heights in prices almost every day and since the beginning of the year it has increased about 30 percent. The investors, still avoiding the risks, are more likely to choose bonds as well, particularly bonds or treasury bills of stable Western economics. This is confirmed by their shrivelled yield: a 10 year yield of securities of the Government of Germany is reaching historical lows at the moment, i.e. 1.8 percent, 0.4 percent yield is required for one year bonds. It is true that uncertainty and possible significant variations, resulted by it, can influence speculative flows between stocks and property class of a low risk, however current economic circumstances is still full of challenges. As long as the mood in global financial markets remains unfavourable to cover them, it is almost impossible that we will see more significantly positive changes in the market of stocks in Lithuania. The latter usually follows the trends dictated by Western markets. Additionally, the slowing economic development of our major partner – Euro-zone – would influence Lithuanian economics, and this is an unfavourable message for the value of stocks of listed companies.



*Note: values of indicators of 31 12 2010 are equated to 1.

Sources: The Department of Statistics of the Republic of Lithuania, Bloomberg, and Finasta



The review of microeconomic situation in Lithuania was prepared in cooperation with AB Bank Finasta.

Accommodation Market Review

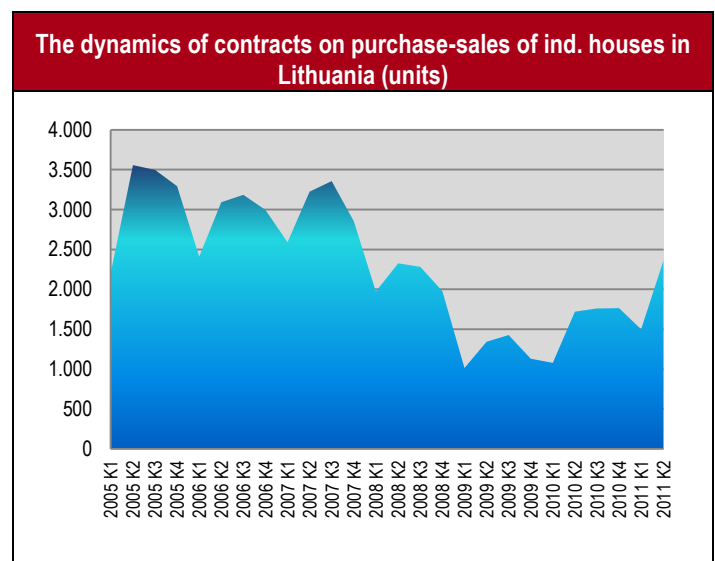
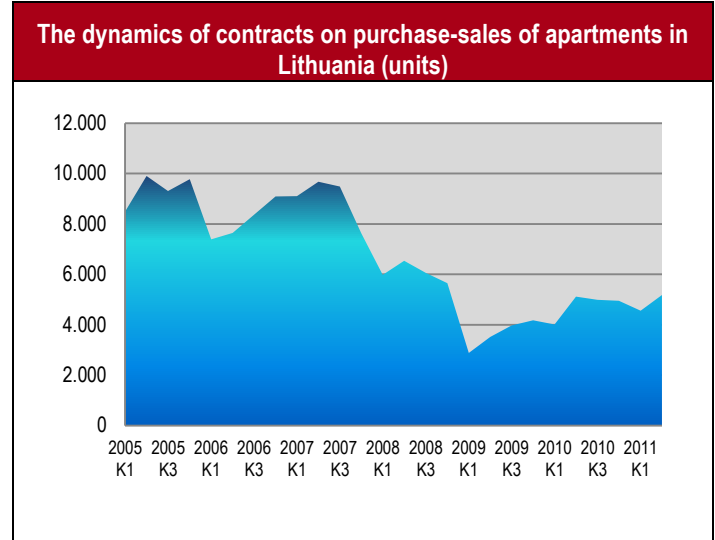
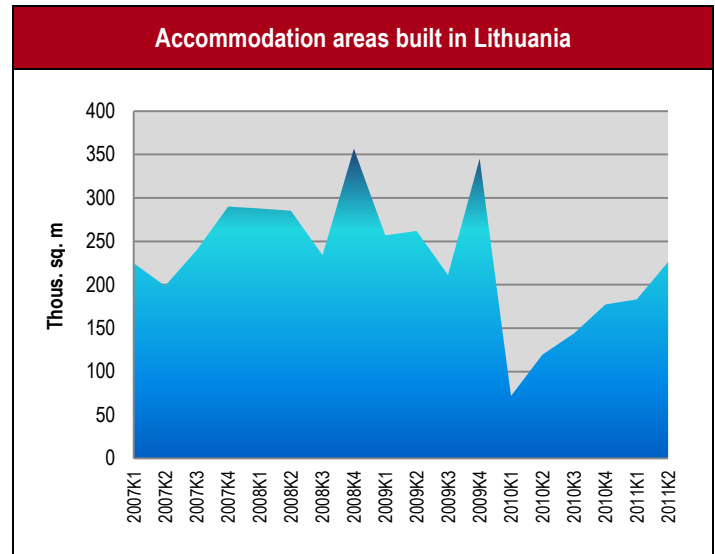
The construction volumes of residential buildings (in accordance with the useful area built) in Lithuania maintains the tendency of growing, and in comparison with the lowest point (the first quarter of 2010) the area of residential buildings is constructed by 3 times more. However, in comparison with the results of economic growth, the construction volumes are almost 1.5 times less. It should not surprise the participants of market, because since the economic recession, the people are more careful when assessing their financial prospects and more carefully invest into new accommodation place, and the developers of real estate usually construct in such volumes, which are sufficient to satisfy the demand occurred, and without many obligations to financial institutions.

When analysing the construction works in the largest cities of Lithuania, it is possible to state that the highest decrease in quantities of constructions occurs in Vilnius City – it differs by 4 times from the results of economic growth. However, the most active recovery of construction of residential buildings is observed in Vilnius. While, quietly slow recovery of construction of residential buildings is observed in Kaunas and Klaipėda.

The major influence on residential building sector is created by demand, recovering after the economic recession. In accordance with data of the Centre of Registers, 5182 contracts on apartment purchase-sales were registered during the second quarter of 2011. In comparison with the corresponding period of 2010, the number of contracts increased by 1.4 percent. While in comparison with the second quarter of 2009 (the worst during the economic crisis), the number of contracts increased by 47 percent. This significant increase of contracts can be explained by the effect of a low comparative base, because the quantity of registered contracts within the second quarter of 2011 and the corresponding period of 2010 were higher only by 1.4 percent. Thus, in 2011 it is expected that the number of purchase-sales contracts will reasonably increase.

The trend of increase in number is also observed in the sector of individual houses: in comparison of the first half of 2011 and the corresponding period in 2010, the number of contracts has increased by 38 percent. The number of contracts in Lithuania has particularly increased during the second quarter of 2011. However, the results of forthcoming months should indicate whether it has been a single growth or a sign of recovery of individual houses market.

There have been no significant changes in the real estate market in Lithuania since 2009, when the activity of this sector had been the lowest. There occur more rationalism and economic logics in the market, when land is purchased to meet the targeted needs, and not for the speculation purposes.



Within the first three quarters of 2011, 11 residential purpose projects were started or resumed in Vilnius. The latter has added 989 new apartments to the primary market of apartments in Vilnius City. The result of intensified investments in this sector was that it was the first time when the increase in supply was registered within three years. In comparison of the first quarter of 2011 with the previous quarter, the number of apartments available in Vilnius increased by 30 percent, up to approximately 1600.

When analysing the results of contracts in primary apartment market in Vilnius, it is possible to state that an average of about 110 apartments in the capital are distributed in a month by real estate developers. The volumes of such contracts in the primary market constitute 23 percent of all contracts on accommodation. Such volumes of contracts have remained since the beginning of 2010, and do not get clearer tendency yet. While in the primary market the average prices of apartments remain stable with minimum variations into positive and negative side. However, in the second half of the year the trend has been noticed that some developers started to raise the prices of apartments, which are demanded the most and belonging to the most recent projects. In comparison with earlier projects built, the average price in the latter was 5-7 percent higher. While, the prices of apartments in older projects (which have been finished a year ago or earlier) were decreased in order to realise the apartments with lack of liquidity. Such different decisions of companies influenced the stability of average of apartment prices, although a minimum prospect of increase in prices is observed in new projects.

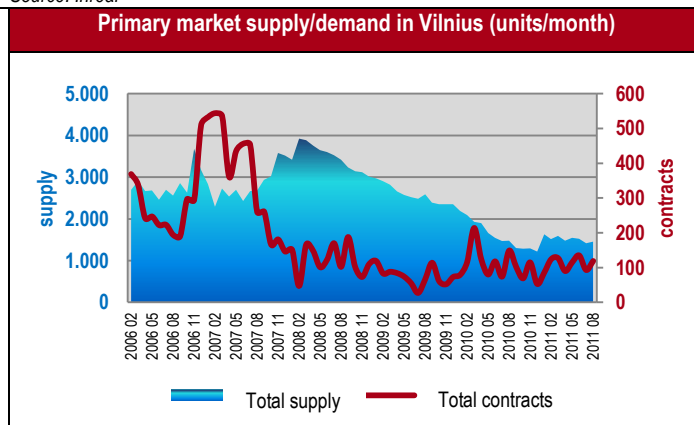
When analysing the classes, it is observed that the major part of contracts are concluded in the sector of economic class. The latter comprise no less than a half of all contracts concluded. While people purchase apartments of middle and luxury class much less. However, the supply of the latter is less, thus paying attention to the existing relative supply the proportions in every sector remain similar.

The number of contracts in the sector of individual houses has a tendency to grow. During the second quarter of 2011 the quantity of contracts concluded has reached the volumes, existing before the crisis. The results of the forthcoming months should indicate whether it has been a single growth or a sign of recovery of individual houses market. In comparison with the lowest point, which had occurred 1-2 years ago, the prices have increased approximately by 10-15 percent.

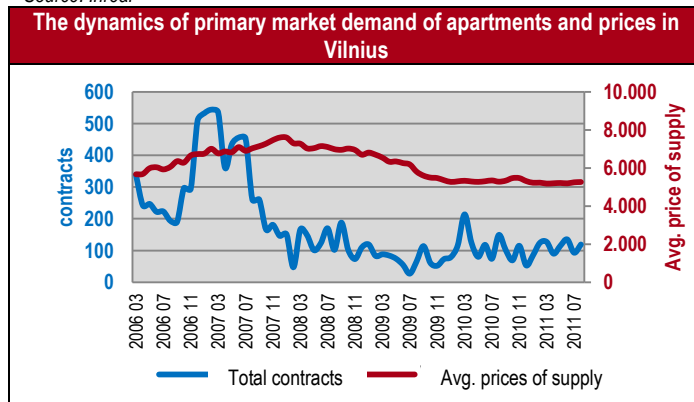
The highest number of contracts in Real estate market in Vilnius is concluded in the sector of agriculture and accommodation market. Meanwhile, the market in other sectors remains active a little – there are only several contracts concluded within a month.

The projects of tenement houses started in Vilnius in 2011		
Project	Developer	Number of flats
Elniakampio namai	Invalda NTV	17
Santariškių namai	EIKA	30
Nauji butai Pilaitėje	EIKA	113
Bajorų kalvos	HANNER	114
Antakalnio Terasos	MG Valda	181
Žirmūnų namai	MG Valda	108
Zvėryno vartai	Lonvita	19
Riešuto namai	Solo House	33
Lvovo g./ Linkmenų g.	Statybų gausa	41
Veikmės apartamentai	Veikmė	89
VII kvartalas Pilaitėje	Vilmesta	46
Konarskio butai	Vilbra	90
Eitminų g. 18	Anreka	108
Total:		989

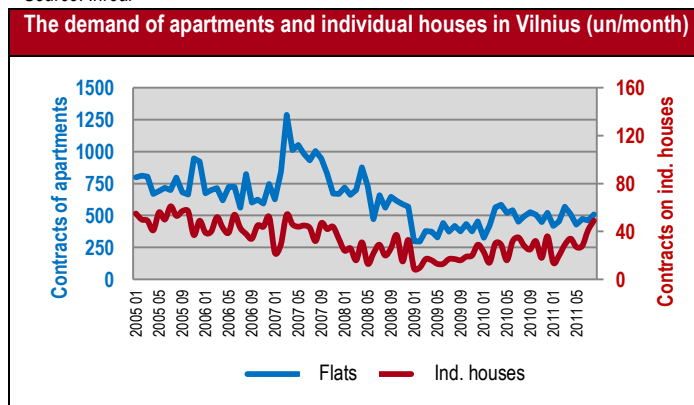
Source: Inreal



Source: Inreal



Source: Inreal



Source: Centre of Registers

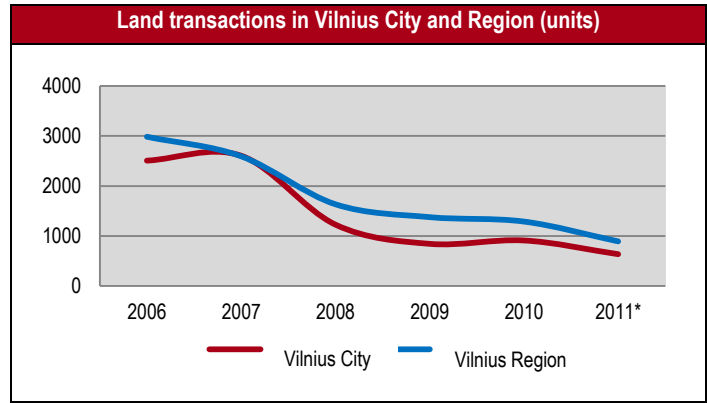
The most popular house holding land areas in residential segment are with a plot of 8-15 Ares, at a distance of 12-14 km from the Centre, in directions to Pilaitė, Ukmergė, Molėtai, Pavilnys, and Nemenčinė. During a year, the prices of residential land areas have increased approximately by 10 percent. However the major part of the contracts is concluded in the segment of agricultural land areas. The most marketable areas are huge arrays for economic activity, meanwhile smaller agricultural lands have remained active a little.

It is possible that soon the newly emerging housing supply is likely to stabilize the prices of apartments of economic and middle classes, thus people should not expect the increase of prices in the nearest future. The level of prices of luxury class apartments should be stabilized by decreasing supply and developing economic situation in Lithuania. Upon the clearer situation in housing market people should expect more courageous actions from investors and customers.

Within the first three quarters of 2011, 9 residential purpose projects were started or resumed in Kaunas. The latter have added 211 new apartments to the primary market of apartments in Kaunas, contrary to Vilnius, the supply does not receive the tendency of increase – the stabilisation of supply quantity is observed. During the first quarter there were 400 apartments available in the primary market in Kaunas – it is about 3 times less than during the economic peak period. Similar quantity of supply has remained during the second and the third quarters.

Low supply in the market and respectively limited option influenced low results in sales. In 2011 the developers of real estate in Kaunas distributed about 16 apartments within a month. That is, average of approximately 7 percent of all contracts on apartments – it is much less than the proportion in Vilnius. That is, the proportion is 2 times less than in Vilnius. The above mentioned volumes in Kaunas have remained since the end of 2010 and do not receive any clearer tendency yet.

The major part of contracts was concluded in the sector of middle class. During the first quarter of 2011 the level of total primary apartment market prices has increased by 4.3 percent. However, during the third quarter of 2011 the average price of apartments in primary market supply decreased by 3.1 percent. Such variations in prices may be explained by the small primary apartment market in Kaunas and by the fact that each apartment removed from supply has a significant impact on average of total prices. However, the average price of apartment in primary market during the longer period is remaining almost the same.

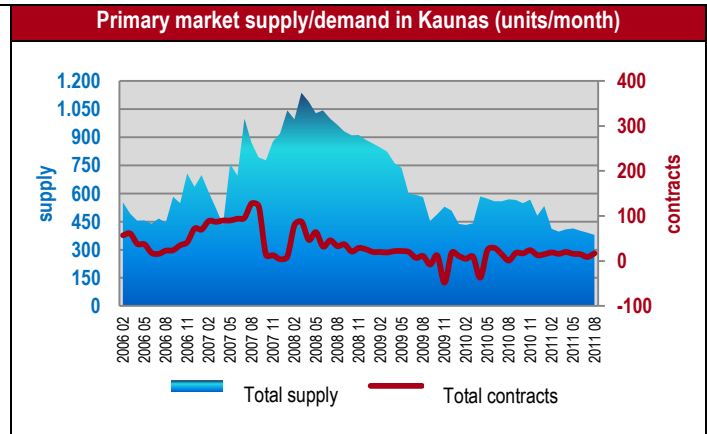


* Data for nine months of 2011 only

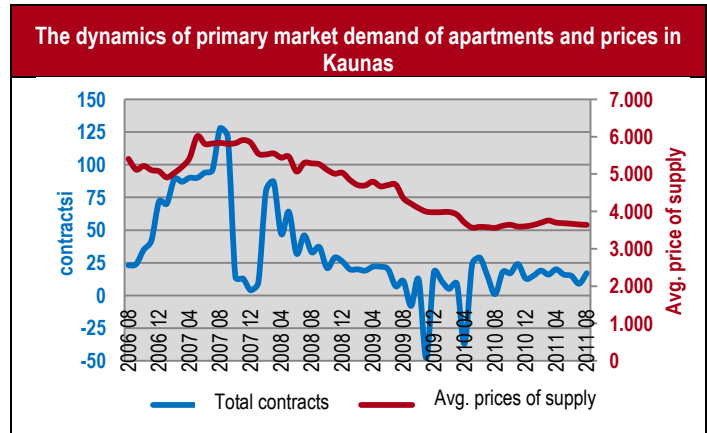
Source: Centre of Registers

Project	Developer	Number of flats
Svajonių alėja	Centromera	15
Šilo namai	YIT Kausta	40
Kaštono namas	AVADI	20
Naujoji Freda	Fizinis asmuo	12
Šilainių valda	Rainvest	24
Druskininkų g. 9	Karolmeda	12
Aleksoto vilos	Fizinis asmuo	50
Užliedžiai, Kauno raj.	Litesta	20
Užliedžiai, Kauno raj.	Litesta	18
Total:		211

Source: Inreal



Source: Inreal



Source: Centre of Registers

The number in the sector of individual houses remains stable – i.e. about 35 objects in a month, and it does not receive clearer tendency yet. Usually people were looking for individual houses with an area of 150-200 square metres, and the price of which did not exceed 250-300 thousand Lit. The customers were usually looking for houses in the suburbs of Kaunas or in the micro regions, which are closer to the centre of Kaunas.

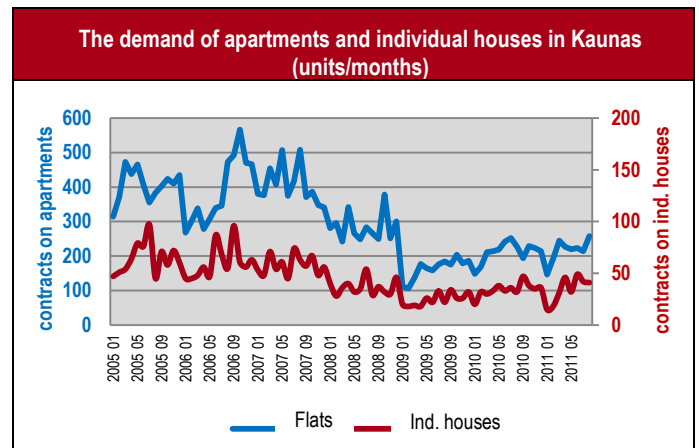
The volumes of land transactions in Kaunas stabilized as well. The most popular land remains agricultural land, especially in Kaunas Region, where the number of contracts concluded makes 3 times more than in the city. The trends of prices remained similar to Vilnius – within a year the prices of residential land areas increased approximately by 10-20 percent.

Several consecutive quarters the stabilisation period of contracts on apartments and average supply price is observed in Kaunas primary market. It is possible that the prices of older and less successful projects will slightly decrease, while there is no tendency of decrease in prices of new projects, thus the people should not expect lower prices of apartments. In the nearest future the number of contracts and new supplies, which could satisfy expectations of potential buyers the most, should increase.

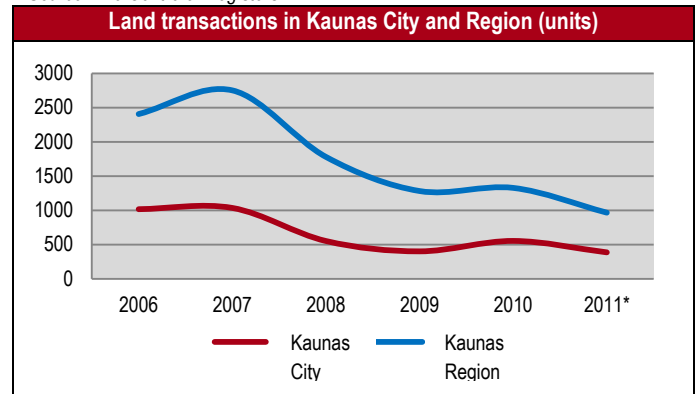
Within the first three quarters of 2011, there were no residential building projects started in Klaipėda. Currently, there is only one construction of tenement in Dragūnai quarter, and the developers of remaining part of the city try to sell the remains.

In contrast to Kaunas or Vilnius, there was no clearer tendency of changes in supply in Klaipėda. The level of supply has remained the same for several years, i.e. about 600-700. However, the number of apartments available in Klaipėda primary market has decreased to 500. A slight decrease of supply in Klaipėda could be explained by stable sales and the lack of new projects. At the average, the developers of real estate in the seaport have distributed about 15 apartments in a month, i.e. approximately 8 percent of all contracts on apartments. Such volumes of contracts have remained since the beginning of 2010, and do not receive any clearer tendency yet. It is possible that the supply will increase again in the nearest future because of new projects, which will occur in the primary market.

When analysing the tendencies of changes in average supply prices, it is possible to state that the level of prices in Klaipėda, as well as in Kaunas and Vilnius, remains stable with minimum variation into positive and negative side. During the first quarter of 2011, in comparison with the previous quarter, the average of prices in primary market has increased by 1.1 percent. While the average of apartment prices in the third quarter has decreased by 0.5 percent.

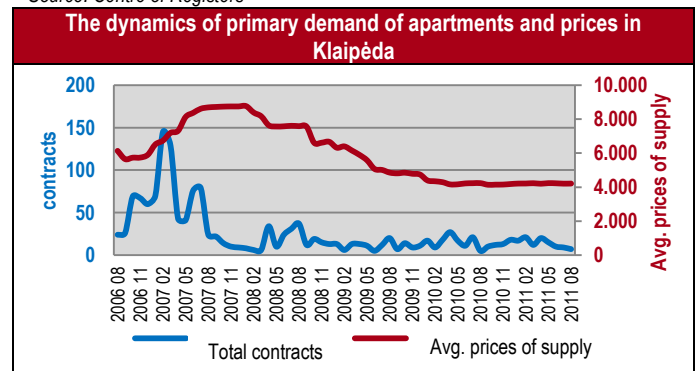


Source: The Centre of Registers

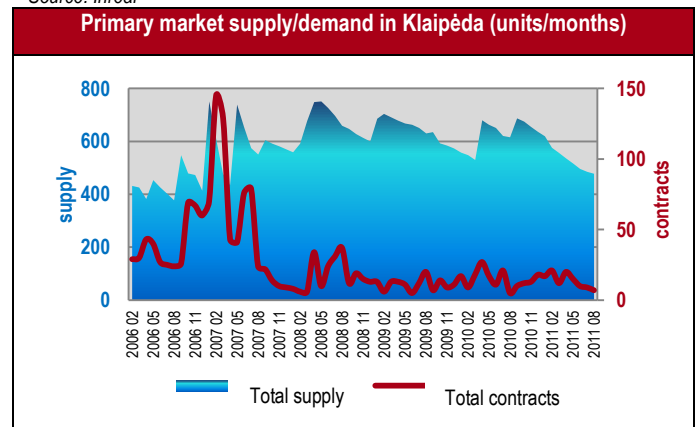


* Data for nine months of 2011 only

Source: Centre of Registers



Source: Inreal

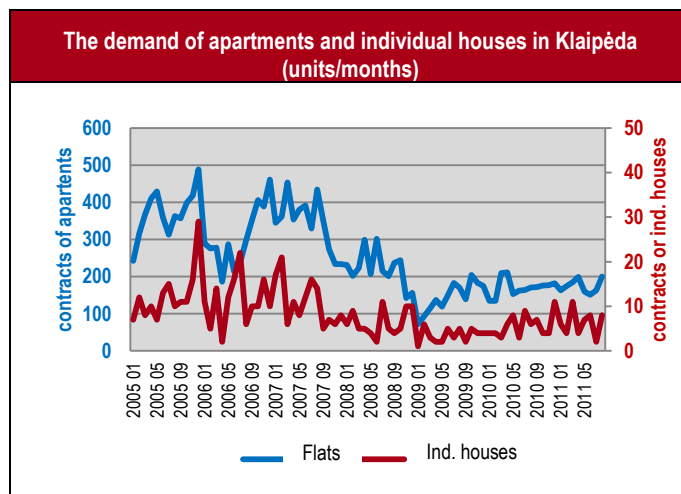


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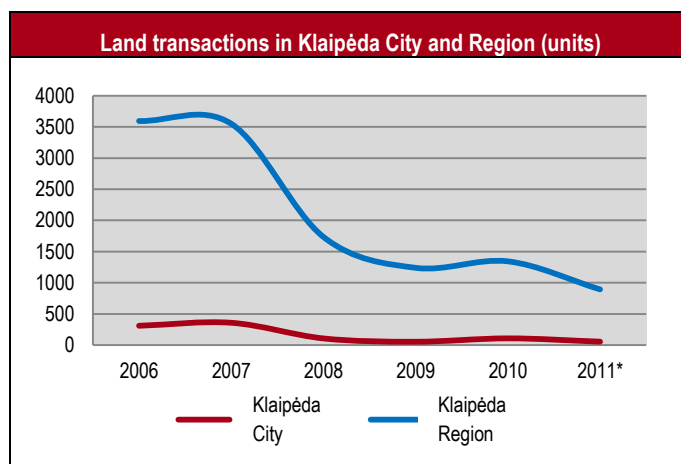
The number of purchase-sales contracts in the sector of individual houses has remained particularly low – there were up to 10 contracts concluded in a month. Market remains almost inactive. There are no objective reasons for vitality to occur, thus it is possible that the current situation should not change in the nearest future.

Klaipėda real estate market is exclusive in the fact that there are almost no transactions in the territory of the city. Meanwhile, there are several times more contracts concluded in Klaipėda Region. The most popular land areas remain the land for agriculture. The trends of prices of the latter had almost no differences from other large cities – the price of residential land areas have increased by 10-15 percent. However, the increase of prices registered is considered as a single rebound from the lowest point, thus the volumes of transactions and average prices would remain stable in the nearest future.

If the economics in Lithuania will preserve the growth rates predicted, the number of contracts, concerning housing, should increase and the entire accommodation market should become more active in Klaipėda. However, we will have to wait for the increase in prices. It is possible that in the nearest future the prices of apartments in Klaipėda should remain stable, because the developers of real estate will not increase the prices in order to sell them, and new projects should be started, focusing on the currently existing level of prices.



Source: Inreal



* Data for nine months of 2011 only

Source: Centre of Registers

Trends in primary housing market			
	Level of apartment prices in primary market	The number of contracts	Quantity of supply
Vilnius	↗	↗	↗
Kaunas	→	↗	↗
Klaipėda	→	↗	↗

Business Centres Market Review

The economics of Lithuania, showing the signs of recovery in 2011, had a positive influence on the market of business centres in all largest cities of Lithuania. However, this recovery is mostly noticeable in the capital. The increasing financial indicators of companies, the creation of new jobs, and the development of demand of modern offices had the major influence on this. In response to an improving situation in this sector, the developers of real estate decided to initiate or resume the projects of office construction. However, more active construction works are implemented only in the capital.

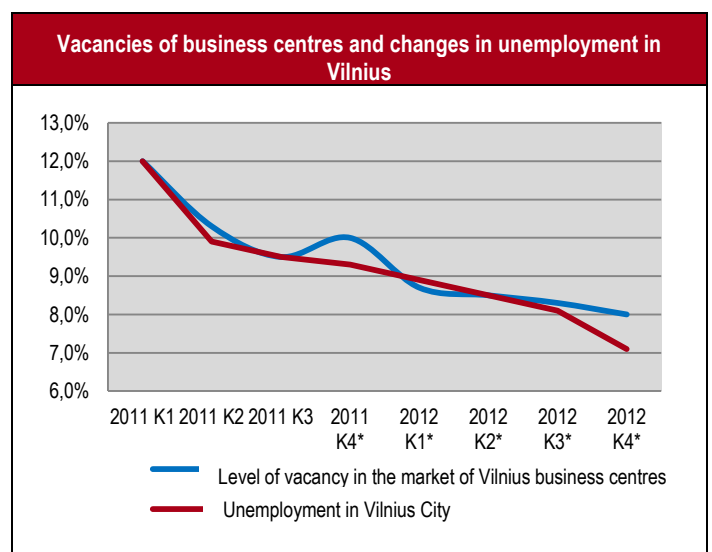
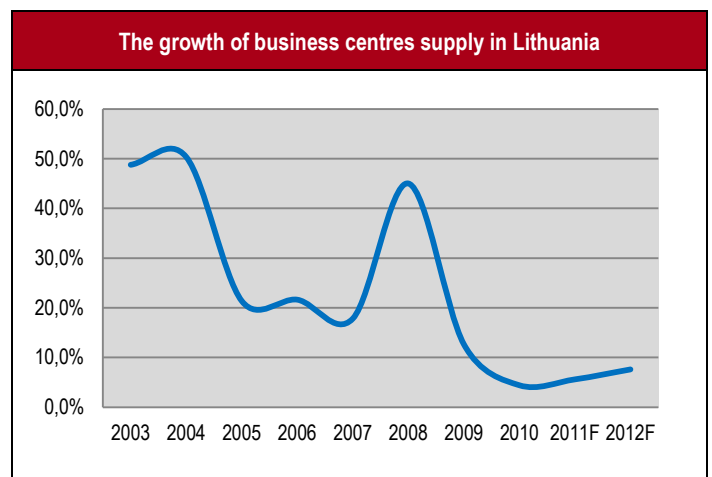
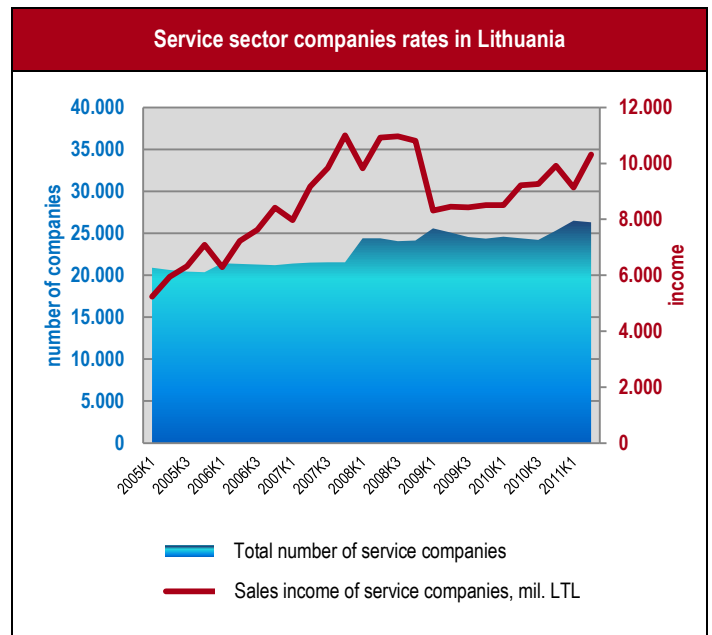
Within the first three quarters of this year one little business centre was opened in Vilnius in Naujamiestis. It complemented modern office area by 2,250 sq. m. of lease area. Currently 5 projects of business centres, which should complement office market by 29,200 sq. m. in total, are being implemented as well. It is also possible that the construction works of projects, that were cancelled earlier, can be resumed in the nearest future. When analysing the projects under development and expected to be implemented, the tendency occurs that the developers of real estate intend to invest into the construction of little business centres. Whereas, the projects of larger business centres are postponed for the better future trying to avoid the financial risks, caused by insufficient demand.

Within several years the increase of demand by 5-6 percent in the capital is reached every year, i.e. the average of new area for lease built is 20,000-25,000 sq. m. It is noticed that the volumes of new projects receive trends of increase, thus it is expected that the increase in supply of offices should reach 7-8 percent in the nearest future.

When analysing the rates of vacancy, positive trends within the first three quarters of 2010 are noticed: the level of approximately 14 percent of areas available in the end of 2010 has decreased by approximately 10 percent in the third quarter of 2011. It is possible that in case of positive tendencies, vacancy should decrease more in the nearest future.

Total rate of prices of offices in Vilnius have got a trend of increase, which was mostly affected by new tenants. They are to pay approximately 15-20 percent more than the existing clients of business centres, who are secured from the increase of prices by the lease contracts concluded earlier.

When analysing the classes of offices, it is possible to state that the least vacancy (7 percent) during the first quarter of 2011 was in the class of modern offices, i.e. in the sector of Class A business centres. While the situation in the sector of Class B1 and Class B2 is less favourable. In the end of 2010 the vacancy of Class B1 business centres has reached 10 percent, and in case of B2 about 26 percent of areas have been available.



During the first three quarters of 2011, the number of areas available has decreased correspondingly to 7 percent and 20 percent. However total indicator of areas available in the sector of Class-B business centres in Vilnius has remained slightly higher than 10 percent.

An insignificant trend of increase was noticed in lease prices of modern offices in Vilnius in 2011. Avg. lease price of Class A business centres in the third quarter reached 38-50 LTL/sq. m., Class B1 – 30-40 LTL/sq. m., and B2 – 22-30 LTL/sq. m. In accordance with the correlation of modern business centres lease and GDP change, it is possible to expect that the yield of lease of Class A offices should increase by GDP growth rate, thus in order the market could reach the level existed before the crisis, it will need no less than 2-3 years.

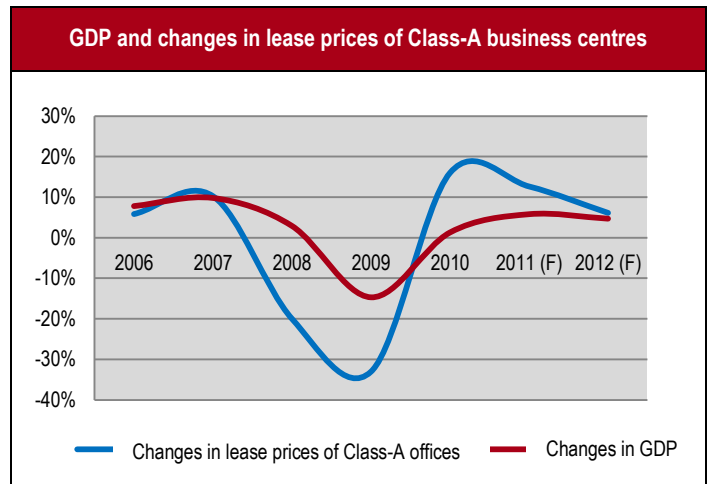
Investment market during the first three quarters of 2011 continued to remain inactive as a result of the difference between customers and sellers' expectations. Vulnerability of this sector, which has occurred during the economic crisis, encourages foreign investors to expect higher rates of profitability. The profitability rate, demanded by investors is 8-9 percent, however, in recognition of the fact that lease prices have decreased by 30 percent, the real profitability rate reaches 11-12 percent, and this does not satisfy the sellers. While, in case of lower lease prices and higher profitability rate, contracts on sales are financially unprofitable during economic development as well, thus the owners of property refuse to sell their objects. Whereas the prospects of economics and real estate of Lithuania remains vague, we should not expect recovery in investment market of business centres.

It is too early to consider the market of Kaunas business centres as being recovering. Whereas vacancies within the first quarters of 2011 were decreasing, as well as in the capital, however, lease prices have changed at a minimum. In the end of 2010 in Kaunas total office vacancy rate reached approximately 17 percent. When economics in Lithuania started to recover, the number of vacancies reached 8.6 percent in Kaunas within the third quarter of 2011, while avg. lease prices in sector of Class B1 business centres during the latter quarter were 22-35 LTL/sq. m., and B2 – 18-25 LTL/sq. m.

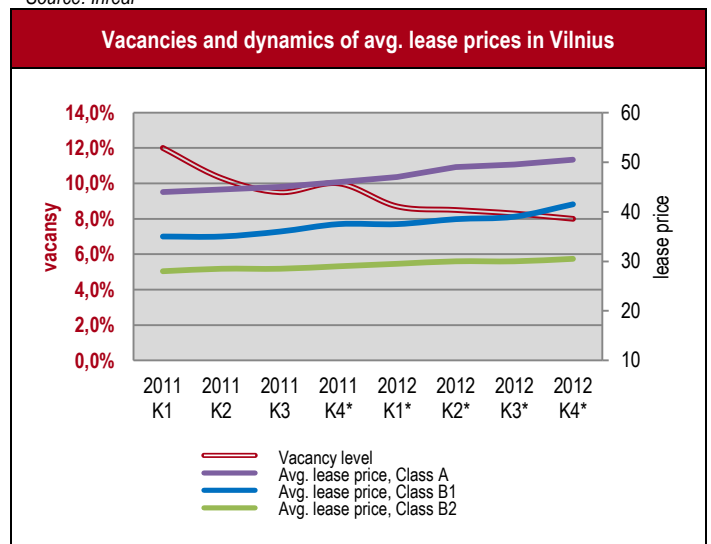
There are no new projects of business centres being under construction in Kaunas, except the multifunctional building in Laivės Avenue – Merkurijus, where a part of it will be provided for offices (about 8000 sq. m.).

Recently, the wish of large tenants (more than 1 thousand sq. m.) to change old premises, incompatible with comfortable working conditions, into more spacious premises and of higher quality is noticed in the market of Kaunas. Unfortunately, there is almost no supply in Kaunas, which complies with tenants' needs. The disadvantage occurring the most frequently in the existing business centres is an insufficient area for parking. While it is unprofitable for developers to build new business centres because

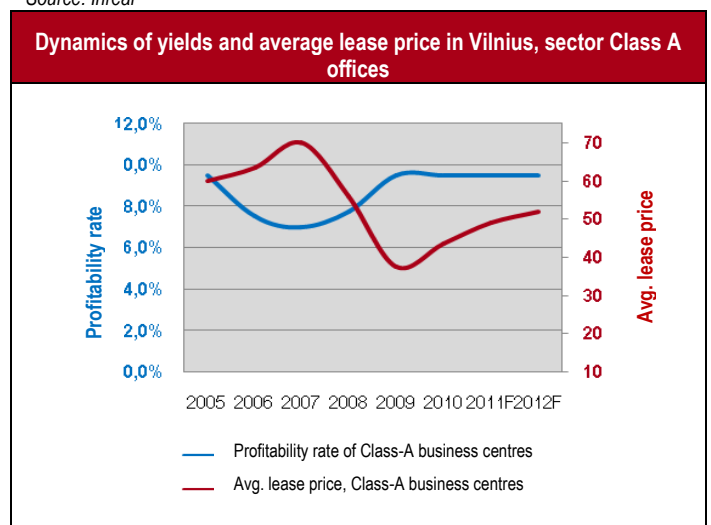
of low lease prices. Because of this reason, office lease contracts of small premises (up to 50 sq. m.) were mostly concluded in 2011. The premises of more than 200 sq. m. were marketable as well.



Source: Inreal



Source: Inreal



Source: Inreal, Department of Statistics

The rates of business centres in Klaipėda are the worst in all three cities. A much larger area of modern offices has been built in the seaport than in Kaunas during the economic development, thus many vacancies have occurred in this sector during the period of recession – total vacancy rate had reached even 27 percent. However, within the third quarter of 2011, this indicator has already decreased to 15.9 percent.

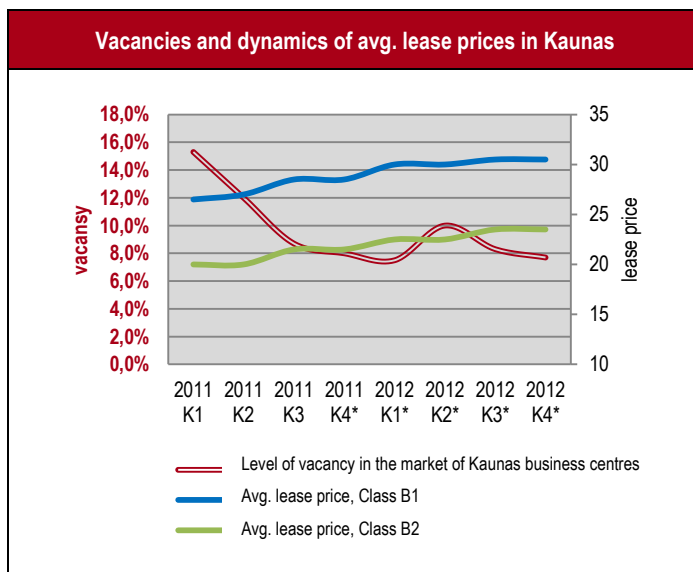
As a result of decreasing vacancy, insignificant increase of lease prices was noticed. It was possible to lease Class A business centres for LTL/sq. m., Class B1 – for 22-30 LTL/sq. m. and Class B2 – for 10-20 LTL/sq. m.

It is noticed that the year of construction of business centres is not so important for potential tenants in Klaipėda. The most important indicator for them is the level of premises. Because of this reason and due to the high section of premises in the market, the potential tenants visit almost every business centre in order to find the premises complying with their needs and corresponding quality. They pay attention to the price and try to negotiate.

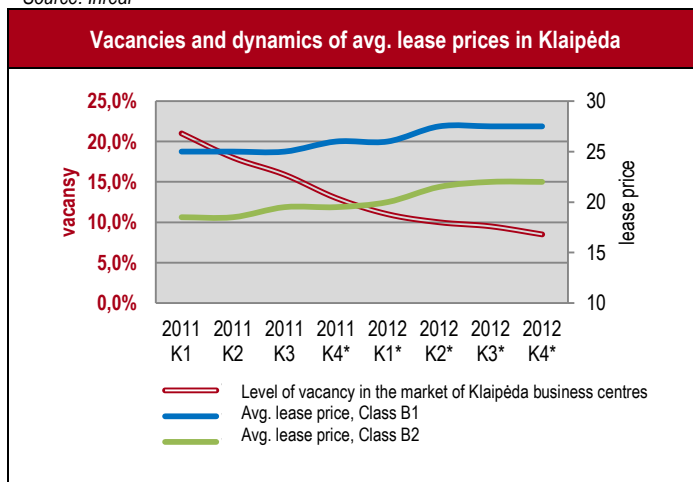
The most popular offices for lease are from 160 sq. m. up to 230 sq. m. The tenants usually seek to conclude short-term lease contracts.

The development of business centres in Klaipėda is relatively weak. The situation in the market does not encourage the developers to start new projects: the current rate of prices, the quantity of vacancies, and the increasing prices of construction can not economically justify the success of future projects.

The investment market in Kaunas and in Klaipėda almost does not exist. First of all, because of the fact that the market of business centres is too small; it is almost impossible to create projects appropriate for foreign investors. For this reason, foreign investors usually bypass those cities and are interested only in business centres in Vilnius. Thus, it is possible that the market of business centres in Kaunas and Klaipėda will remain inactive in the nearest future. It would be possible to expect the recovery of investment market in Vilnius, when lease prices reach the rate, which had existed before the crisis.



Source: Inreal



Source: Inreal

Office Market Trends				
	Lease prices	Number of Contracts	Quantity of demand	Vacancy
Vilnius	↗	↗	↗	↘
Kaunas	→	↗	↗	↘
Klaipėda	→	→	→	↘

Shopping Centres Market Review

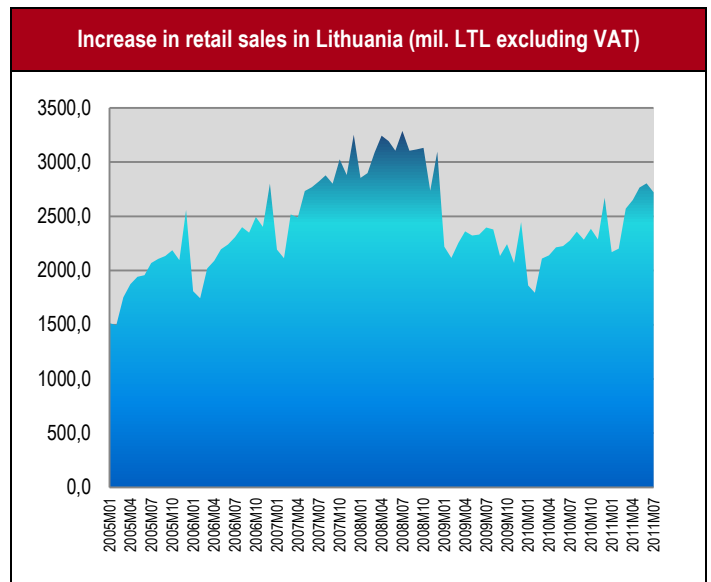
Retail trade market is gradually recovering, and market-leading companies register consistently increasing sales. In accordance with data of The Department of Statistics of the Republic of Lithuania, retail trade (except trade of motor vehicles, motorcycle and car fuel) turnover in January-July of 2011, in comparison with the corresponding period in 2010, has increased by 9.1 percent. However the volumes of retail trade in January-July of 2011 is still lower by 17.6 percent, in comparison with the corresponding period in 2008.

In 2011 not fully recovered consumption did not encourage active development of commercial sector. Large trade networks were implementing only a reasonable development and strengthened their positions in market by targeted investments. The major part of new shopping centres is opened in smaller towns of the country or in the developing micro regions of cities, where they are provided for small local markets.

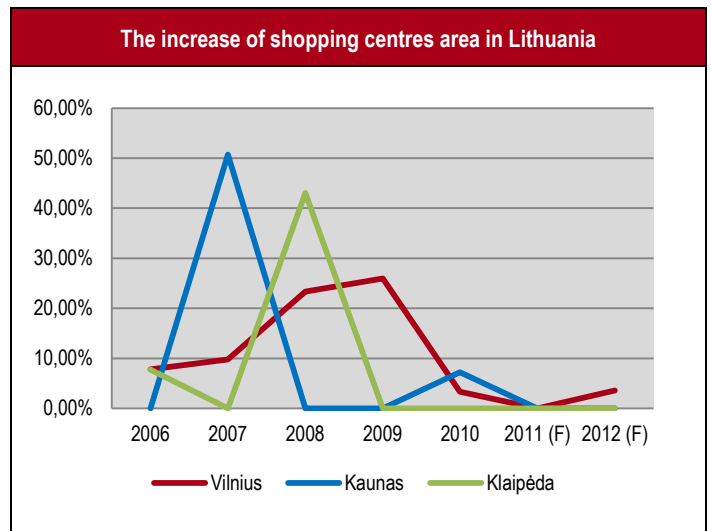
The largest shops, belonging to trade networks, which have been opened this year, are two *Maxima XX* supermarkets in Vilnius, *Norfa XXL* in Kaunas, and *RIMI Hypermarket* in Panevėžys. However, these supermarkets are still small shopping centres: the total area of these supermarkets does not exceed 3 thousand sq. m. It is expected to open 7 new *Maxima* shops, 15 *Norfa* shops, 15 renewed and 9 new *IKI* (including *Ikiukas* and *Cento*) shops, and 3 reconstructed and expanded *Rimi* shops during 2011.

Currently, only one large project on retail trade sector is being implemented – *Merkurijus* in Kaunas City. *Homburg Merkurijus*, foreign capital company implementing the project, is building a multifunctional building with an area of 28 thousand sq. m., the first three floors will be used for commercial activities, and the remaining four – for residential apartments. The useful space of commercial part of the complex is expected to be of 4 thousand sq. m. *Merkurijus* is expected to be finished in the end of 2012.

As the retail trade turnover and domestic consumption have just started recovering, more new and large shopping centres are not being built in any of the cities of Lithuania.



Source: Department of Statistics

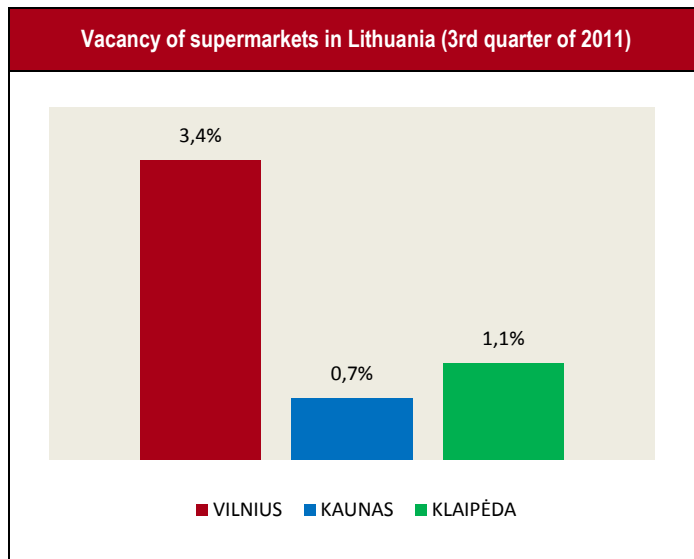


Source: Inreal

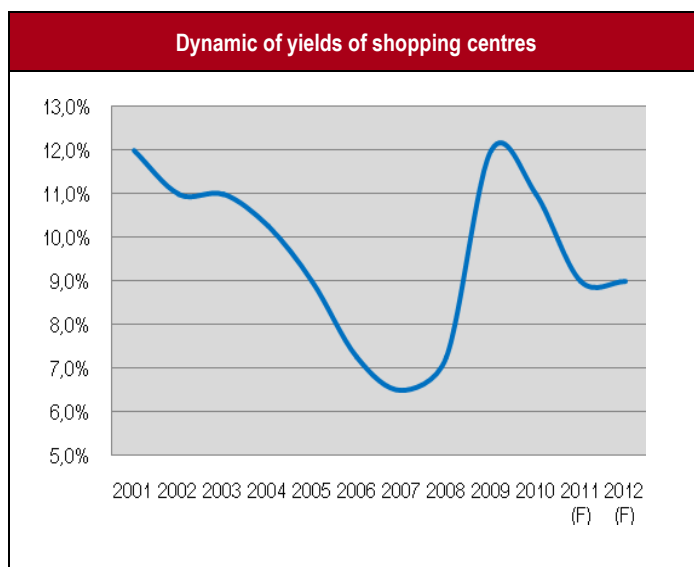
The domestic consumption, recovering in 2011, firstly encouraged the development of clothing, footwear, haberdashery, perfumery and boutique shops, cafes and bars as well, because during the economic crisis such type businesses in particular were mostly affected by drastic decline of consumption. The abovementioned tenants' activity in 2011 caused the fact that the most popular commercial premises were the premises of medium-size area, i.e. 100-200 sq. m. These trends are noticeable in Vilnius, Kaunas, and Klaipėda. A particular attention to commercial premises, provided for catering business, was increasing in summer of 2011, not only as a reason of season, but also because of the expected European Men Basketball Championship. The demand, which had increased, significantly reduced the supply of such premises in the centres and Old Towns of cities. However, the long-term prospect of new businesses established will become clear after the championship.

While analysing the rates of vacancy and lease prices, it is possible to state that the sector of supermarkets in the cities of Lithuania is recovering after the recession incurred. There are almost no vacant premises in main shopping centres, as a result of the highest customers' flow rate. Currently, the managers of shopping centres may allow themselves selecting the tenants, complying with the conceptions of objects. However, commercial objects, built in hinterlands, specialized and less interesting shopping centres for visitors, still are not able to commend such trend. The latter receives less customers' flow, thus the rate of vacancy there is higher. During the third quarter of 2011, vacancy in shopping centres in 2011 in Vilnius has been 3.4 percent, in Kaunas – approximately 0.7 percent, and in Klaipėda – approximately 1.1 percent. Upon the statistical analysis of lease prices, it is possible to state that sales market has returned in 2011, thus average lease prices were adjusted in favour of owners of shopping centres. However, it should be expected that average lease prices will become stable, because the prospects of domestic consumption recovery remain uncertain.

The investment market as in other sectors remained inactive in 2011. The major part of shopping centres had lost the status of an attractive, money-generating investment object when the economic recession has started, as a result of reduced lease prices, exceptions provided to tenants, and conclusion of short-term contracts. In 2011 the improvement of situation is noticed, but slow rates of recovery in this sector do not guarantee new investment contracts in the nearest future.



Source: Inreal



Source: Inreal

Shopping Centres Market Trends				
	Lease prices	Number of contracts	Quantity of supply	Vacancy
Vilnius	↗	→	→	↘
Kaunas	→	→	↗	→
Klaipėda	→	→	→	→

Logistic Centres Market Review

Despite of a sudden recession of industry in the end of 2008 – in the beginning of 2009, the participants of market managed to adapt quickly to the situation changed, by optimizing costs and finding new markets of export. In 2010, the recovery of this sector has already started, and is still continuing. During the second quarter of 2011, industry confidence index increased from negative to positive. However during the third quarter the latter had become negative, as a result of gloomier economic prospects in foreign markets.

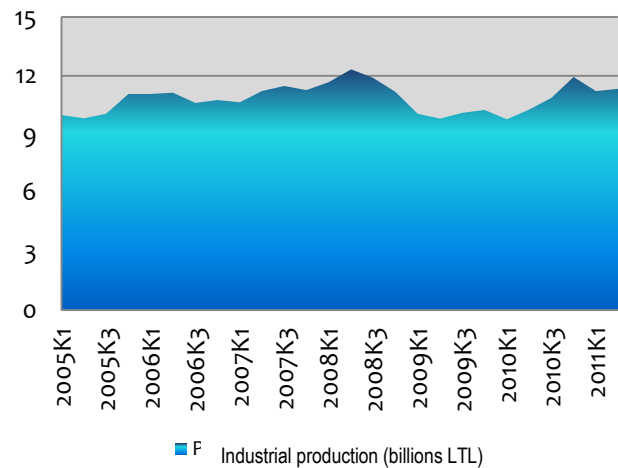
Nevertheless, in early 2011, the recovering Lithuanian industry had a positive impact on transport and storage sectors: the number of bankruptcy procedures was reduced; new projects occurred in the market of storage lease, the number of lease contracts increased, the rates of vacancy of logistic centres were decreasing, and average lease prices slightly increased.

The sector of storage and production premises is developed the most in Vilnius. The major part of such projects, provided for lease, is concentrated in the capital. While only several objects participate in lease market in Kaunas – many storage projects are provided for personal use. The number of logistic centres for lease in Klaipėda is two times larger than in Kaunas, and in the remaining cities of the country, the storage market is low developed.

This year, there have been two logistic centres, provided for lease market, built in Vilnius – Class A warehouse of JSC *Transimeksa* with an area of 12500 sq. m. (Žemieji Paneriai), and the centre of polyvalent production and storage of *Swedbank* subsidiary company SC *Ektornet* with an area of 8500 sq. m. Currently, the business park *Airport Business Park* (Dariaus ir Girėno Str., near Vilnius International Airport) of SC *Ogmios centras* is in the 3rd stage of construction, which is expected to be finished in the second quarter of 2012. It is expected to build premises with an area of 7300 sq. m., provided for storage. Total size of the business park is 30000 sq. m., 19400 sq. m. of which is provided for storage. This year one more new project is going to be developed – the business park *Trilogija* developed by JSC *Homburg Lentvaris* (Aukštieji Paneriai). Within the 1st stage of construction, which is provided to be finished in the second half of 2012, it is expected to build a warehouse with an area of 7570 sq. m. The estimated total size of the business park within three stages is 20000 sq. m.

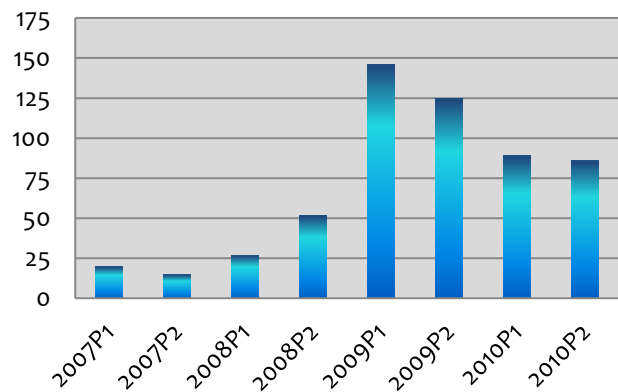
Logistic centres are established at the initiative of not only private investors. This year in January the detailed plan of Vilnius Public Logistic Centre has been prepared (Eišiškių pl., Pagiriai).

Industrial production in Lithuania (without VAT and excise duty)



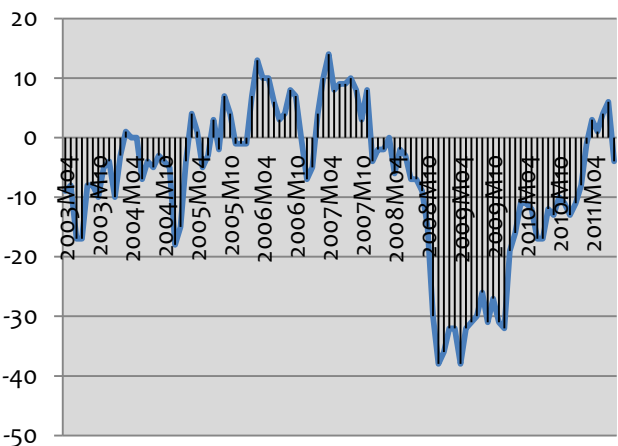
Source: Department of Statistics

The number of bankruptcy proceedings initiated in sector of transport and storage in Lithuania (units)



Source: Department of Statistics

Industry confidence index (%)



Source: Department of Statistics

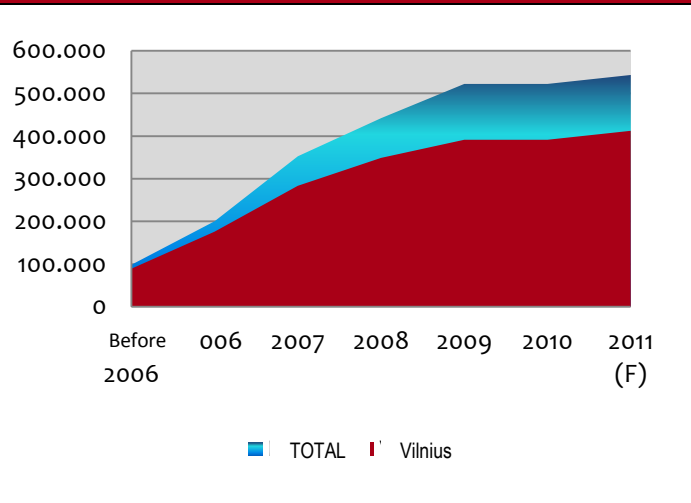
The establishers of Vilnius Public Logistic Centre (PLC) are SC *Lietuvos geležinkeliai* and Vilnius City Municipality. The development of the project is expected to be of three stages. The 1st stage is expected to be implemented in the territory of 53.5 ha until 2013, during which it is planned to build an intermodal terminal of containers, customs, and logistic warehouses.

Despite the abovementioned projects, already under the development, new objects or the development of the existing ones is expected. The 2nd stage of development of *Vilijos Business Park* (Vilijos Str., Aukštieji Paneriai) of SC *Ogmios centras* should be mentioned, during which there is an opportunity to build a warehouse with an area of 10000 sq. m. One more similar project is planned in the northern part of Vilnius City, in Ukmergės pl. – there is an opportunity to build a warehouse with an area up to 12000 sq. m.

The development plans of earlier logistic centres in Vilnius are caused by recovering demand and correspondingly decreasing rate of vacancy of warehouses. During the first quarter of 2011 there have been 20000 sq. m. of vacant modern storage premises in the capital. In comparison with the end of 2010, vacancy has decreased by one fifth and represented 5 percent of all supply in the market. However, the occurrence of new projects caused the fact that in the second quarter of 2011 vacancy rate has decreased up to 6.5 percent, and in the third quarter vacancy rate decreased up to 6 percent. The vacancy rate of storage premises in Kaunas has remained the same, about 5 percent. While the vacancy rate of storage premises in Klaipėda in 2011, has remained the highest of all cities in Lithuania. Vacancy rate in the seaport in the first quarter of 2011 has reached approximately 17 percent, while in the third quarter it decreased up to approximately 9 percent. The trends, observed in Vilnius and Kaunas, indicate the demand of new storage premises, occurring in the market.

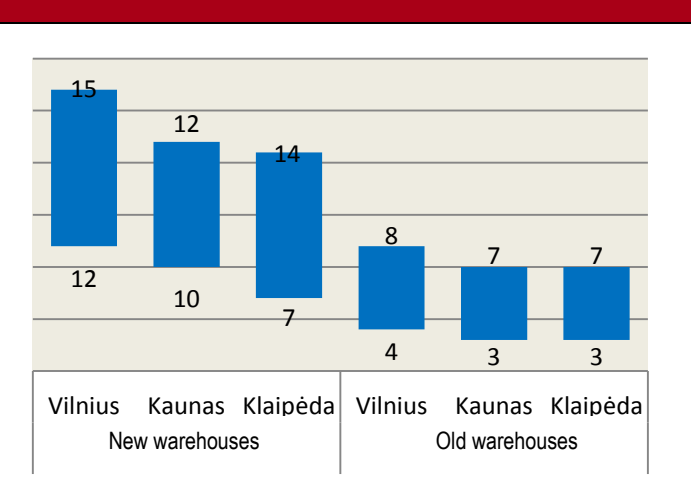
However, despite of the recovery observed in the market of modern logistic centres, it is too early to talk about the prospects of increase in lease prices. When the market in Vilnius has started to recover, lease prices have increased by 10-15 percent, in comparison with the lowest prices in 2009, however, currently it does not gain more clear and more stable trend. Storage premises in modern logistic centres, existing in strategically attractive places, are leased for 12-15 LTL/sq. m (excluding VAT). While concerning the most recent projects (which have been finished this year or they are still under the development) the premises are more expensive – the prices reach up to 18 LTL/sq. m. The prices in old warehouses are 4-8 LTL/sq. m.

The development of modern logistic centres provided for lease market in Lithuania (sq. m)



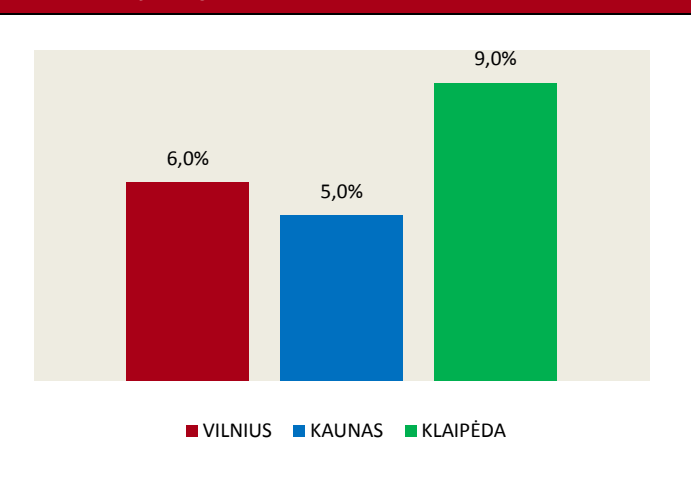
Source: Inreal

Avg. Lease price of storage premises, 3rd quarter of 2011 (LTL/sq. m.)



Source: Inreal

Vacancy of logistic centres in Lithuania, 3rd quarter of 2011

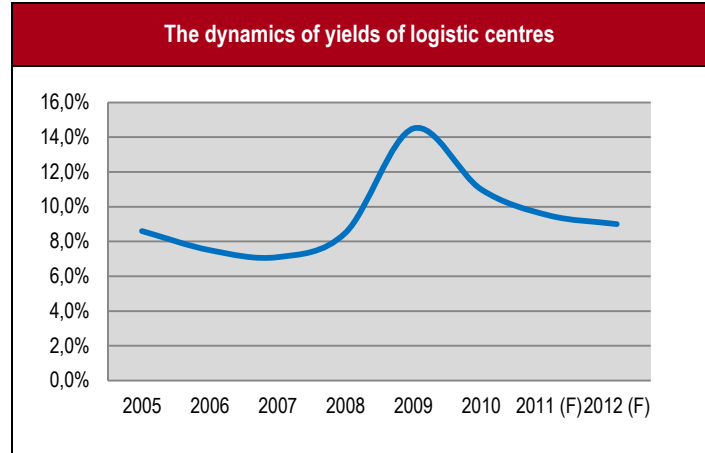


Source: Inreal

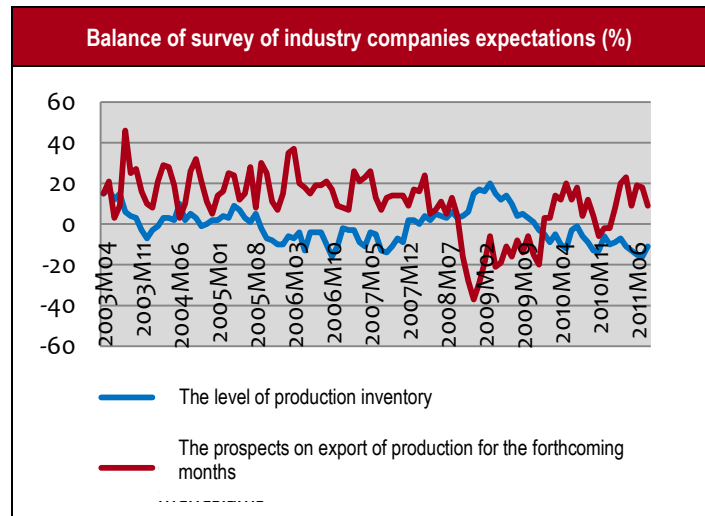
Only several objects take part in the storage market in Kaunas, thus the statistic reliability is questionable. On the other hand, in accordance with data existing, it is possible to state that even though the prices in storage market in Kaunas have remained stable, the vacancy rate has significantly decreased. Avg. lease price of new warehouses was 10-12 LTL/sq. m., and of the old ones – 3-7 LTL/sq. m. Avg. lease prices in Klaipėda have remained stable, but vacancy had a tendency of decrease. In 2011 new warehouses were leased for avg. 7-14 LTL/sq. m., and the old ones – for 3-7 LTL/sq. m.

New contracts were registered only in Vilnius and Kaunas in 2011. There were only several contracts, and the sums of contracts are not published. When analysing the latter contracts of logistic centres, the trend that the objects lease are repurchased by the tenants occurs. It is particularly relevant in Kaunas. For this reason the number of projects in lease market has decreased in the temporary capital. While foreign investors are still careful with real estate market in Lithuania and do not hurry to take decisions concerning investments.

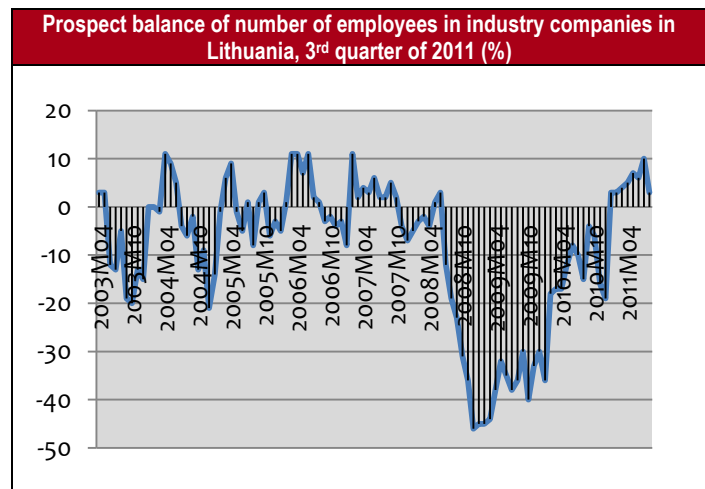
Despite the fact that the sector of storage gains trends of development, it is still too early to expect fast and significant growth, because global economic processes and risks related to them may have the corresponding influence. A part of countries suffering from loans are the main export partners of Lithuania, thus the economic crisis occurring there, could have impact on the economics of Lithuania, correspondingly, the market of storage and production premises. Nevertheless, according to the data of surveys, performed by the Department of Statistics, the participants of market expect that the volumes of export will increase in the nearest future or will remain stable (total balance of the respondents is positive), and the level of inventory will remain sufficient (the major part of respondents think that the level of inventory is insufficient), thus the possibility of negative prospects is minimal at least for the nearest future.



Source: Inreal



Source: Department of Statistics



Source: Department of Statistics

Storage Market Trends				
	Lease prices	Number of contracts	Quantity of demand	Vacancy
Vilnius	→	→	↗	→
Kaunas	→	↘	→	↘
Klaipėda	→	→	→	↘