

FIGURES | VILNIUS OFFICES | 2021

# Strong demand indicates resilience and sets recovery path to pre-pandemic level

► 7.1%

Vacancy Rate

▲ 897K

Total stock

▲ 102K

Take-up

▼ 5.25%

Prime Yield

Note: Arrows indicate change from previous year.

## Highlights:

- 2021 brought 7 new office projects which supplemented the Vilnius office market with 107,500 sqm of additional modern space, representing 19% more, compared to the amount of space supplied in 2020.
- There is 185,500 sqm of office space under construction. Of which, 144,000 sqm are expected to be on the market later in 2022.
- 61% of Vilnius office modern stock is environmentally certified, which is already ca. 38% above the EU average.
- Take-up constituted ca. 102,000 sqm in 2021 which reflects a 52% increase, when compared Y-o-Y. Compared to 2019 the take-up ratio returned to pre-pandemic levels.
- The vacancy rate reached 7.1% and it was just 0.1 p.p. lower than in 2020. The vacancy rate in 2021 among A class offices was 4.4%, while B class offices had a higher rate at 9.0%.
- B class rents in 2021 remained stable, while A class upper-level rents have increased slightly in Q3 and are now between 15.0 – 17.0 EUR/sqm/month.

FIGURE 1: Pipeline of main Vilnius projects 2022-2023

No	Development	Class	GLA, sqm	Current status
<b>2022</b>			<b>144,235</b>	
1	Cyber City	B	35,000	Under Construction
2	Core	A	34,950	Under Construction
3	Business Stadium North East	A	16,000	Under Construction
4	Freedom 36	B	14,300	Finished in 2022 Q1
5	BH Meraki	B	8,900	Under Construction
6	Avia Solutions HQ	B	7,700	Under Construction
7	Naujasis Skansenas Z	B	7,220	Finished in 2022 Q1
8	Paupio 50	B	5,860	Under Construction
9	Naujasis Skansenas L	B	5,855	Under Construction
10	Cloud	B	4,850	Under Construction
11	Lietuvos Draudimas HQ	B	3,600	Under Construction
<b>2023</b>			<b>66,320</b>	
12	Artery	A	20,950	Under Construction
13	Flow	A	15,670	Under Construction
14	LJB expansion (S28)	B	10,000	Under Construction
15	O2 Offices	B	7,800	Planned
16	Teltonika HQ	A	6,100	Under Construction
17	Office 100 (II stage)	B	5,800	Planned

Source: CBRE Baltics Research

## Economic Outlook

According to the data of the Lithuanian Department of Statistics, GDP amounted to EUR 55.4 bln at prices in 2021. Compared to 2020, the real GDP change after eliminating the impact of the season and the number of working days was 5.1%. The Bank of Lithuania estimates that the annual change in GDP should be 3.6%.

Contrary to expectations, the spike in inflation in Lithuania is leading to a slight change in population consumption trends in the coming quarters. According to the Lithuanian Department of Statistics inflation was 10.6% higher in December 2021, compared to the same time in 2020. Average annual inflation was 4.7% in 2021 and consumer goods and services prices increased by 1.2% in December compared to November.

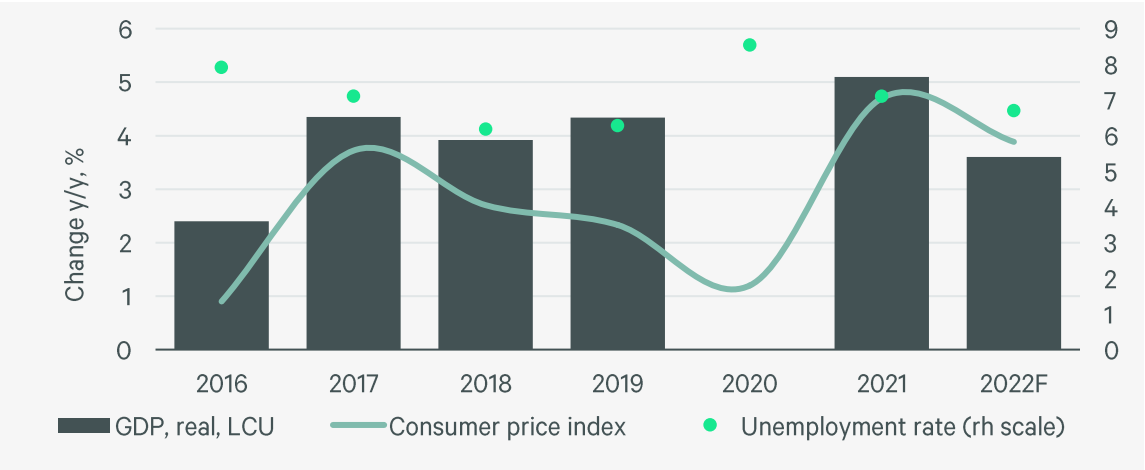
The situation on the labour market has steadily improved in 2021. In the last quarter of last year, the unemployment rate in Lithuania was 7.0%, which is 2.0% points lower than in the same period in 2020. According to the Bank of Lithuania's forecasts, the unemployment rate is expected to fall to 6.7% in 2022.

## Supply

Development activity is clearly increasing in the Vilnius office market. In 2021 Q4 the overall office stock reached 897 500 sqm. Compared to the same quarter in 2020, this is almost 14% more. Regarding the quality of the existing business centres, A-class offices constitute 42%, while B-class offices represent the remaining 58% of the total stock.

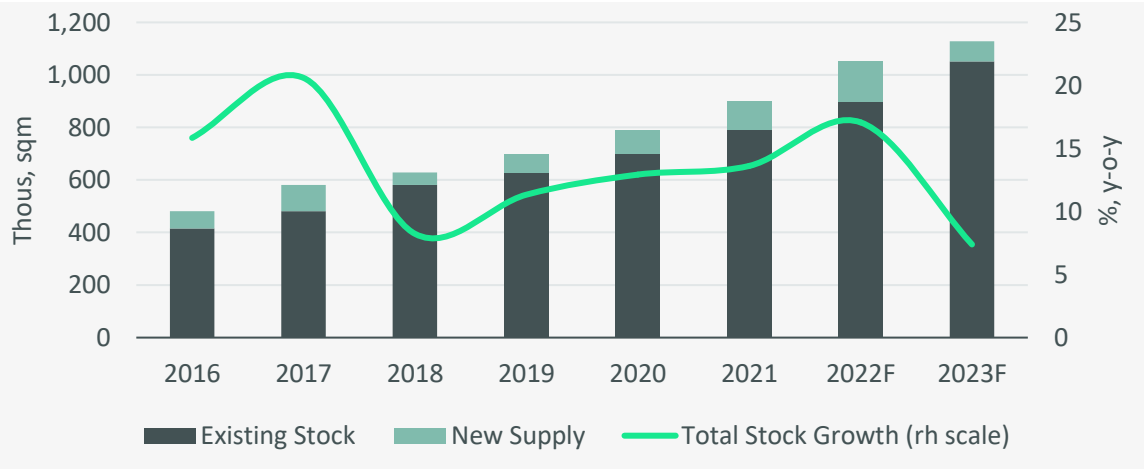
In 2021, 7 office projects were completed, adding 107,500 sqm to the Vilnius office market. 19% more compared to the amount of space supplied in the previous year. The most sizeable delivery over 2021 belonged to the commissioning of *Business Garden (I stage)*, by Vastint. The B-Class business centre brought ca. 40,000 sqm. Other significant completions included *Lvovo 37* by *Lords LB* and *Nova* by *Technopolis*.

FIGURE 2: GDP growth, inflation and unemployment rate



Source: CBRE Baltics Research, Bank of Lithuania, Statistics Lithuania

FIGURE 3: Modern stock, new Supply and stock growth rate



Source: CBRE Baltics Research

Fast absorption fuels new development projects. There is 201,500 sqm of office space under construction and significant volumes in pre-final planning stages. Of these, 144,000 sqm is expected to be on the market later this year. However, despite the large number of developments in the market, ca. 51% of total space under construction is already pre-leased. The largest office building (15,670 sqm) launched in 2021 belongs to Eika, which announced the start of the *Flow BC*. Last year, most of the projects were completed on schedule. There should not be any major delays in the pipeline, assuming there are no major changes in the market.

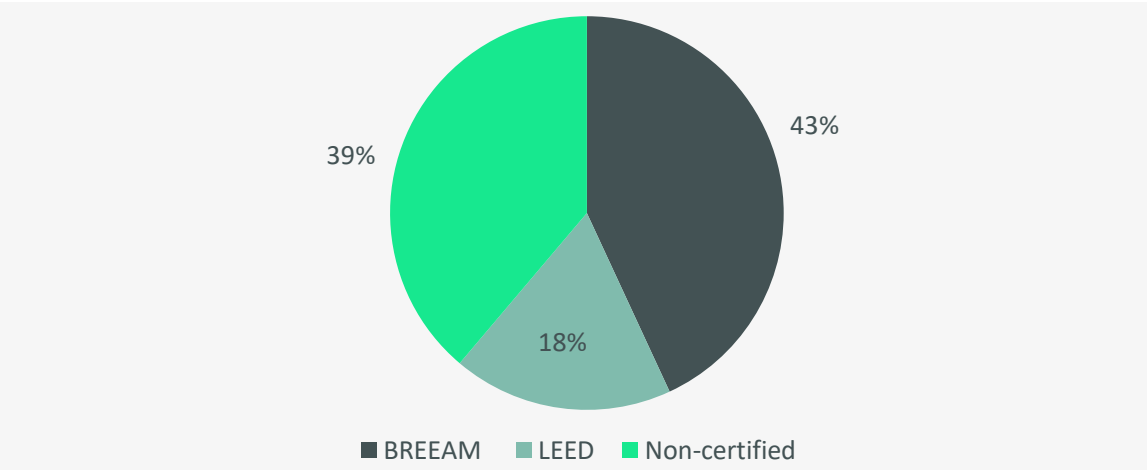
Environmentally certified office buildings have become a larger component of the market over the past five years. Based on that, it becomes an important argument for potential tenants when choosing an office. Today in Vilnius 61% of office modern stock is environmentally certified, which is ca. 38% above EU average.

## Demand

Despite the prevailing pandemic situation in 2021, demand in the Vilnius office market was high. Overall, the take-up constituted ca. 102,000 sqm in 2021 which reflects a 52% increase compared to last year. The take-up ratio, compared to 2019, can be said to have returned to pre-pandemic levels. The biggest lease agreement was signed with company Girtaka logistics taking up 14,300 sqm. in the Freedom 36 business centre. Other large leases include Dexcom signing ca. 6,000 sqm in Business Stadium North-East and ISM University of Management and Economic signing ca. 5,400 sqm in G7.

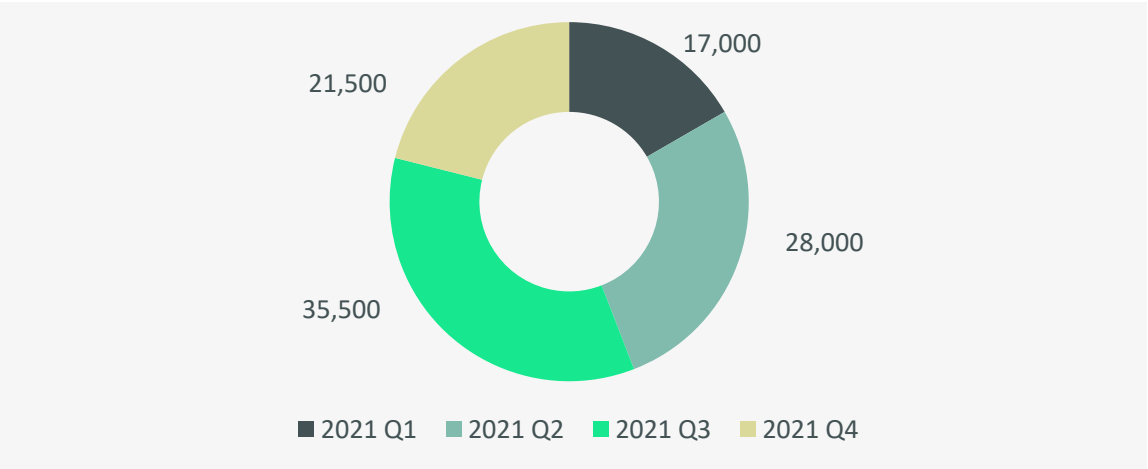
In terms of sectors, IT and Technologies companies have dominated the market. These industries have constituted 14% and 12% respectively of annual take-up. The client demand from financial and logistics sectors was also notable. The take-up rate also shows that the majority of tenants were more likely to choose A-Class offices. In 2021, 57% of tenants were inclined to choose A-Class offices. A similar share was recorded in 2020 – 59%.

FIGURE 4: Sustainability certification in Vilnius



Source: CBRE Baltics Research

FIGURE 5: Take-up in Vilnius 2021



Source: CBRE Baltics Research

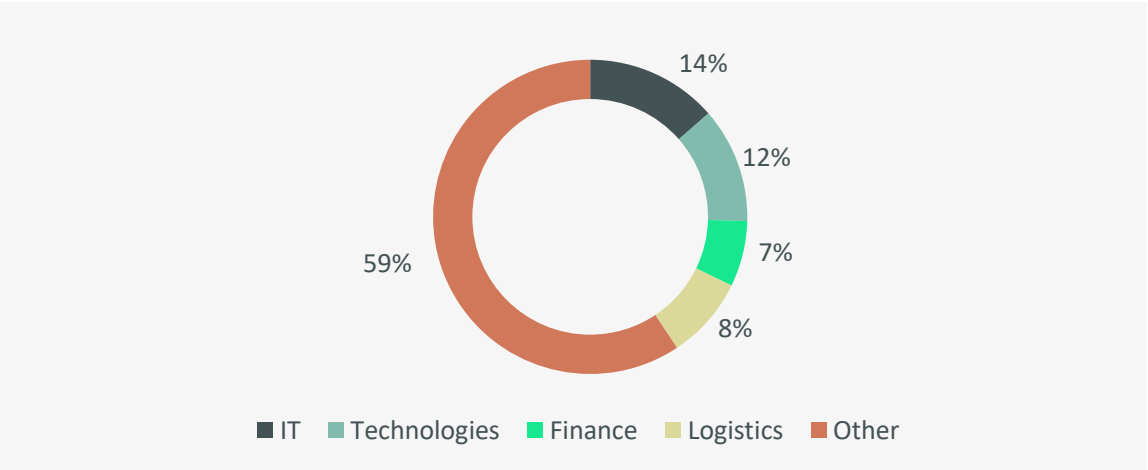
During the pandemic, companies were looking for the right formula for optimizing space and were focused on the best strategy for moving forward. This is also reflected in the rental data - the typical office size is declining. In 2019, the median size for office space to be taken up was 1270 sqm, while in 2020 – 1000 sqm and in 2021 it was 700 sqm. This only indicates that changes are happening and landlords will have to adjust. There is no doubt that the hybrid work model is changing the demand structure and will influence the average leasing transaction size in the future.

Developers of new buildings are become more interested in carrying out the building certification and using it as an additional advantage over competitors, highlighting the benefits of the project for the occupier or its users. According 2021 data, 55% of take-up was recorded in office buildings with BREEAM and LEED sustainability certificates. A similar result was recorded in 2020 - 59%. In the context of the ESG, office buildings with sustainability certificates will only increase their market share.

## Vacancy

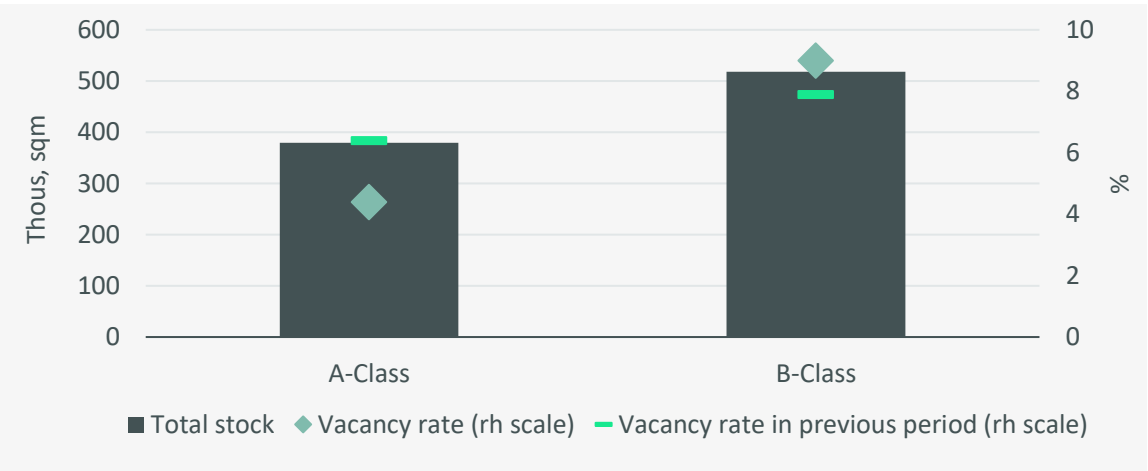
At the end of 2021 the vacancy rate reached 7.1% and it was nearly the same as in 2020. Last year, the vacancy rate among A class offices was 4.4%, while B class offices had a higher rate at 9.0%. The vacancy rate during 2021 was mainly supported by B class or secondary business centres. 2022 will be a record year with its office projects being completed, so vacancies are expected to increase. Also, observing the tendency that the demand for smaller office premises is consistently growing, it can be predicted that this will also affect the vacancy rate in Vilnius.

FIGURE 6: Take-up by sector 2021



Source: CBRE Baltics Research

FIGURE 7: Vacancy rate by office class



Source: CBRE Baltics Research

## Market rents

In 2021 rents were fairly stable. Only at the beginning of the year a slight decrease in the upper-level price range for A-Class was recorded, which was mainly caused by pandemic-related uncertainties. The price range for the B-Class office premises remained between 10.0 – 14.0 EUR/sqm/month, while the rent price range for an A-Class offices were between 15.0 – 17.0 EUR/sqm/month. However, rents will increase slightly due to rising construction costs in the market and inflation.

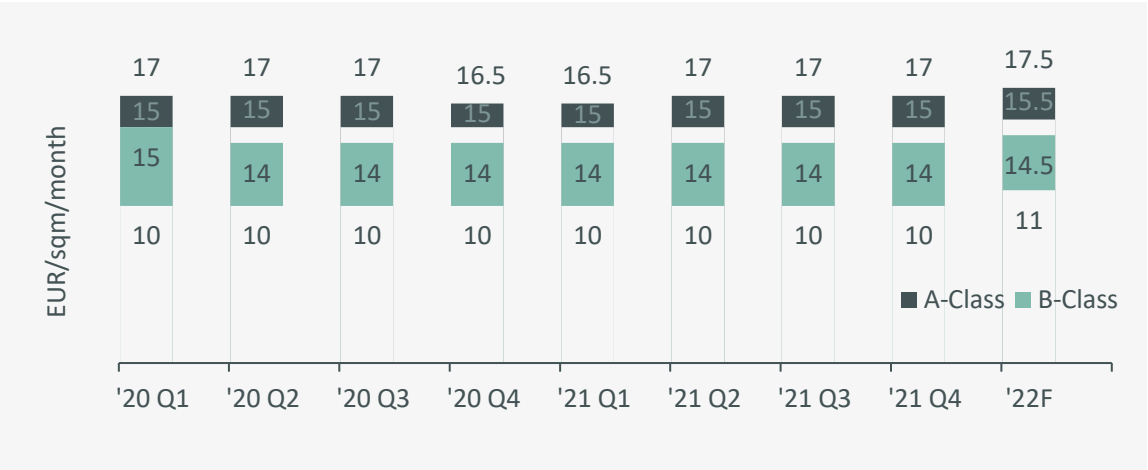
## Investment & Transactions

The total office investment volume in Lithuania constituted ca. EUR 128 mln 35% less compared to the year-end of 2020. More than 86% of office investment value was generated in Vilnius.

The first half of 2021 was marked by an impressive transaction when *Eastnine* purchased two office buildings in the Baltics from the international real estate company Vastint – one of which is the prime LEED-certified Uniq Business Center.

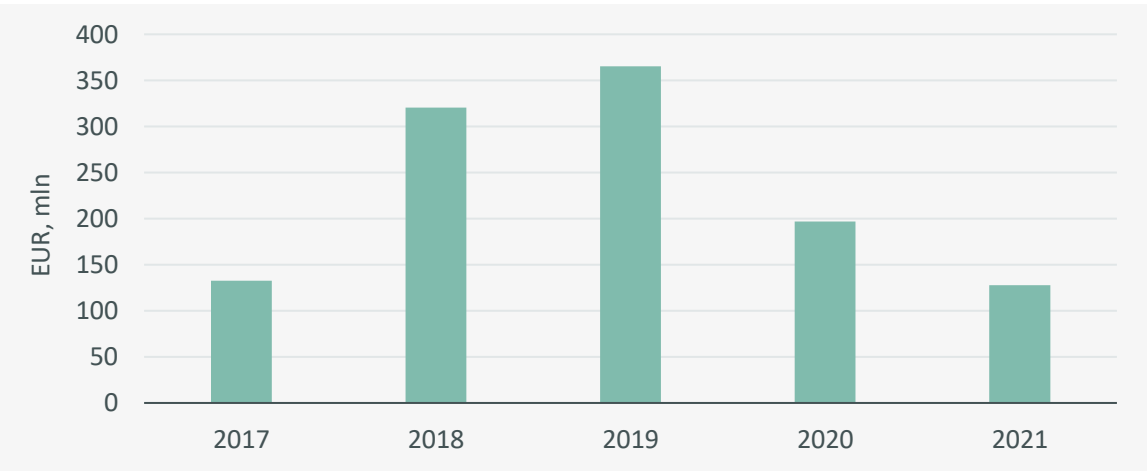
Nevertheless, the year was accompanied by three more impressive transactions. Swedish *East Capital Real Estate Fund* bought *Naujas Skansenas Z* business centre from YIT Lietuva. The fund, based on the principles of green investment established by Estonian investment company Eften Capital, bought the former headquarters of Danske Bank in Vilnius. It was the second largest transaction in 2021. Meanwhile, the largest transaction was recorded in December, when *Eastnine* acquired an *Uptown Park* office building for EUR 40 mln.

FIGURE 8: Rent ranges by office class



Source: CBRE Baltics Research

FIGURE 9: Office investment volume in Lithuania



Source: CBRE Baltics Research



Market Area Overview



VILNIUS OFFICE

Green Hall 2  
Upes street 23,  
Vilnius, Lithuania, LT-08128

RIGA OFFICE

Z1  
Zala Street 1,  
Riga, Latvia, LV-1010

TALLINN OFFICE

Workland Maakri  
4th floor, Maakri 19-1,  
Tallinn, Estonia, EE-10145

Contacts

Denis Rein

Associate Director  
+370 6 985 1716  
denis.rein@cbre.lt

PovilasŠvogžlys, PhD

Senior Market Analyst  
+370 6 255 2212  
povilas.povilas@cbre.lt

Andrius Radiul

Senior Investment Analyst  
+370 6 208 1273  
andrius.radiul@cbre.lt

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