

# VILNIUS OFFICE OUTLOOK

NEWSEC

2020 Q1



LVOVO Business centre to be anchored by Telia Global Services Lithuania

# VILNIUS OFFICE MARKET REMAINS STRONG IN THE FIRST QUARTER. WHAT IS NEXT?

## HIGHLIGHTS

- Towards the end of 2019, the Covid-19 virus emerged in China. Since then, the virus has spread rapidly, with close to a million cases worldwide by the end of Q1 2020. Many countries have been significantly impacted by the virus, with the number of confirmed cases rising steadily. Lithuania is not an exception.
- The economy of Lithuania grew 3.9% in 2019, marking a third straight year of similar strength. At the end of Q1 2020, though, all previous economic forecasts became history. The Bank of Lithuania now foresees three possible scenarios. Under the most likely one, a U-shaped course with at least 2-3 quarters of recession, it projects an 11.4% drop in GDP in 2020 and growth of 9.7% in 2021.
- The unemployment rate in Lithuania averaged 6.3% in late 2019. The Bank of Lithuania sees unemployment rising to 12.5% in 2020 and then declining to 9.1% in 2021.
- The average monthly wage has been growing at a nearly double-digit rate for the last few years along with rising employment levels. Gross monthly wages are expected to decline by 2.6% in 2020, though, and increase by 2% in 2021.
- The ongoing spread of Covid-19 in the country is likely to impact property markets. Quarantine was declared in Lithuania on March 16. Since then, most employees with office jobs have been

**37,000 sqm**  
Office take-up rose to a  
record in 2020 Q1

**From 3.4% to 2.5%**  
Vacancy declined

**9 new projects**  
Planned in 2020

**270,000 sqm**  
New supply under  
construction

working remotely. The office segment, however, is expected to be the most resilient, as the workforce is eager to return to the office environment as soon as possible.

- No new deliveries were seen in Vilnius during Q1 2020. Total office supply was unchanged as all deliveries for this year were planned in Q2-Q4.
- Annual supply growth of 16% is forecast this year, with nearly 115,000 sqm of new supply in 2020. Of the planned space, only about 2.5% may be postponed until 2021, having only a minor impact on the market.
- Take-up remained strong in Q1 2020, at 37,000 sqm in total. There were new major lease deals, a drop in small-scale vacancies and preleasing of development projects. The quarter's largest office lease transactions included Telia Global Services Lithuania's lease of 7,000 sqm at the LVOVO office building and Western Union's lease of 3,500 sqm at the Technopolis Campus. Relocations of Citadele Bank and KPMG Baltics also involved significant deals.
- Vacancies remained at a record low as the total vacancy rate decreased from 3.4% to 2.5% in Q1 2020. New supply planned for 2020 is 61% pre-leased. The average vacancy rate is forecast to rise to 8% during 2020 as large development volumes are seen causing increased competition between landlords. In 2021, the rate is likely to increase further,

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to levels of 10% or higher, with a more pronounced impact on older projects and non-core locations.

- Average rental rates remained stable in all classes and might not be affected in the long run by current events. For new leases or extensions, though, it is a good time to negotiate. A decrease in effective rents is expected due to changes in the transaction structure.
- The public sector is on the move, expected to absorb at least 20,000-25,000 sqm in multiple deals this year and next.
- Coworking spaces face challenges. Due to the specifics of their business model, operators may face business continuity challenges in the short run.
- The architecture of lease transactions will become even more complex. Lease-term structuring, expansion steps, rent-free periods, landlord contributions to fit-out, and other important lease transaction details will be essential. Previous market standards will be redesigned.
- Tenant contributions for fit-out might decrease in the short run. Due to lower construction costs, landlords' share might need to increase to remain competitive.

## SUPPLY

At the end of Q1 2020, the total office stock in Vilnius was 724,100 sqm. New office supply of 89,000 sqm made it a record year for Vilnius in 2019. No new

projects were delivered in Q1 2020. There are currently about 300,000 sqm of office space in the development pipeline. Hence the total stock might surpass 1 million sqm before 2022. Construction activity is being spurred by low availability in a time of high occupier demand. It is difficult to find a well-established and experienced developer that does not have an office project development in its portfolio or plans. Technopolis, Vastint, Lords LB, Hanner, Darnu Group and others will soon be managing new developments and older ones at the same time. Class B+ projects will start to dominate in the second half of 2020. For the second year in a row, new supply is being dominated by the development of properties in the central business district, thus mainly class A buildings. Starting from the second half of 2020, however, the new supply scales will tilt to the other side and class B+ projects, away from the city centre though in highly attractive alternative locations, will dominate. The new wave of class B+ supply will be of higher quality. A+ energy class, usually BREEAM or LEED certified, flexible layout solutions, parking, extensive amenities and additional services for tenants - these and similar advantages show that a competitive class B+ is emerging.

## DEMAND

A new record annual take-up was set

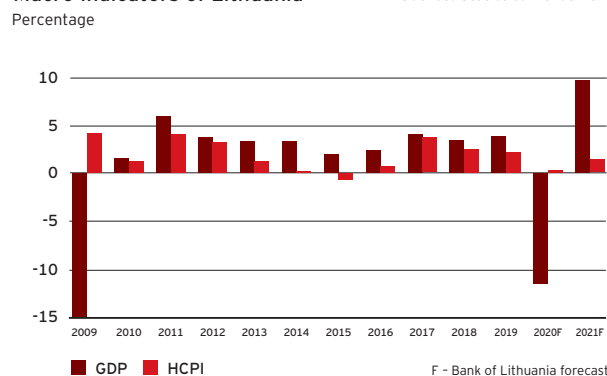
in 2019, with transactions totalling 115,000 sqm. The largest tenants and significant new entrants were Tesonet, Danske Bank, Swedbank, Bentley Systems, Dana Lithuania, McKesson, Moody's, Revolut, AmerisourceBergen, Fjord Bank and others. In addition to international companies, many local companies relocated and expanded, which shows that the industry is maturing as well as diversifying. In Q1 2020, total take-up was above 37,000 sqm. The largest tenants were Telia, Western Union, KPMG, Rail Baltica, Mambu and others. Newsec has observed that premises opening in 2020 show pre-lease rates of more than 60%. The market practice of pre-leases for new, modern buildings under development has been in place for several years now. Such high take-up is above expectations and landlords should expect a decrease in pre-lease take-up in future due to increasing competition.

## VACANCY

In Q1 2020, the average vacancy rate decreased from 3.4% to 2.5%. The rate remains extremely low. Vacancies in existing office buildings are almost non-existent, though given that a significant share of the new developments is speculative, the low vacancy rates are not limiting the choices for tenants that have planned their office needs properly in advance.

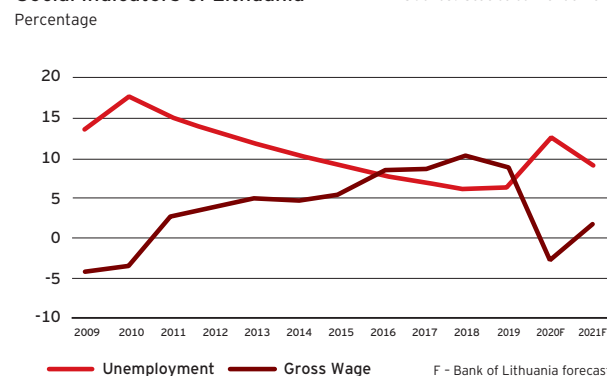
## Macro Indicators of Lithuania

Source: Statistics Lithuania



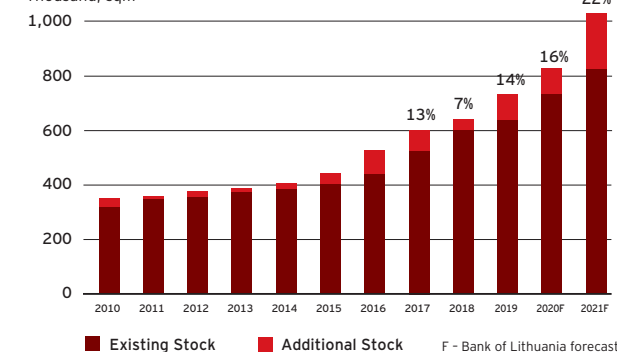
## Social Indicators of Lithuania

Source: Statistics Lithuania



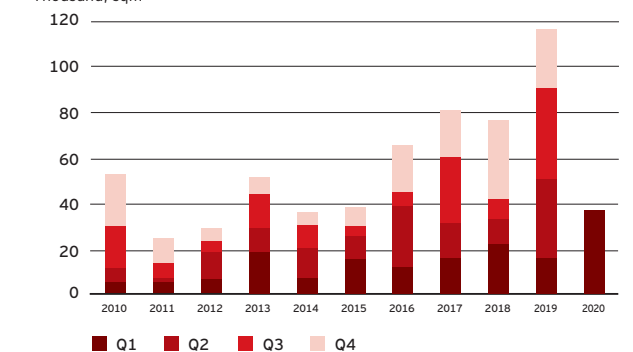
## Office Stock

Thousand, sqm



## Take-up

Thousand, sqm





# VILNIUS OFFICE MARKET

The vacancy rate for class A office premises has decreased from 3.1% to 2%. The vacancy rate for class B office buildings has decreased slightly, from 3.6% to 2.9%. The low vacancy rate in this segment over the past few years has prompted the development of new class B premises in the city as well as on the outskirts. The rate is forecast to increase in 2020 as large class B office centres start operating and the tenants change their location.

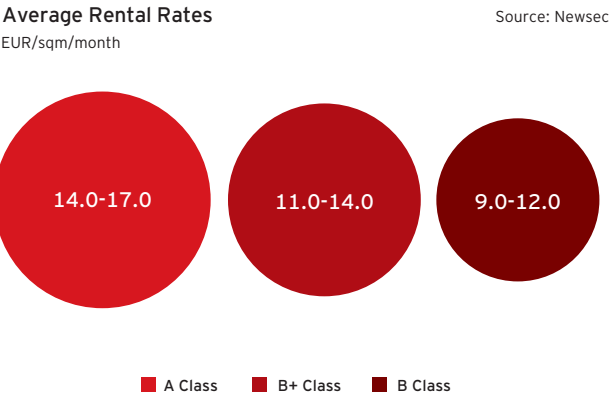
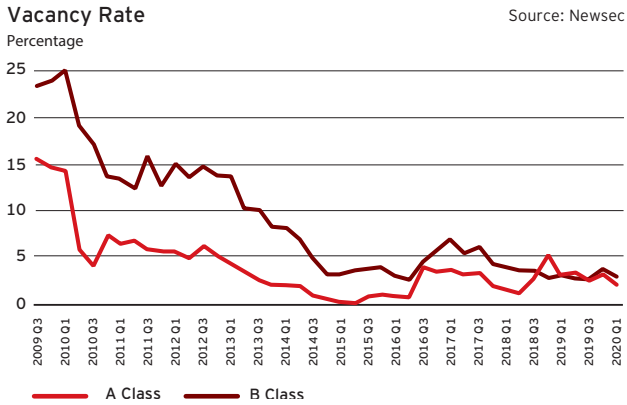
### RENTAL RATES

Average class A and class B rental rates remained the same over the first quarter of 2020. Rents for projects under development are higher than the current average. Rental rates for class A premises differ by 3% compared to older/existing buildings and those for class B by nearly 20%, reflecting the emergence of an attractive B+ segment. Asking rents for class A premises range from 14.5 to 17 EUR/sqm/month. In class B+, rents range from 11 to 14 EUR/sqm/month. Lower class B segment prices remain in the range of 9-12 EUR/sqm/month. Considering the supply that is already planned, Newsec sees no opportunity for a significant increase in rental prices, though an increase in line with annual indexation is likely.

### OFFICE DEVELOPMENT IN VILNIUS IN 2019-2021

	Developer/Owner	Project	GLA, sqm
<b>2019</b>			<b>89,000</b>
1	YIT Lietuva/Baltic Horizon	Duetto II	8,300
2	GALIO GROUP/Eastnine	Saltoniskiu 7, stage II	15,000
3	EIKA	Live Square	6,800
4	Darnu Group	Park Town East Hill	14,800
5	GALIO GROUP/Eastnine	Saltoniskiu 7, stage III	15,000
6	Schage/Deka Immobilien	Quadrum South	11,000
7	IREC	Tower	6,100
8	DG Avia	Avia Solutions Group HQ	12,000
<b>2020</b>			<b>114,900</b>
9	Urban Inventors	Green Hall 3	2,800
10	PST	U219	15,000
11	Hanner	Business Stadium North	16,200
12	Darnu Group	Paupys	16,700
13	Lords LB	SEB HQ	12,500
14	GALIO GROUP	WAVE	9,700
15	Vilbra	Uptown Park	12,500
16	Invalida PK	Zalgirio94	2,800
17	Technopolis	Technopolis NOVA	26,700
<b>2021</b>			<b>187,400</b>
18	Lords LB	LVOVO	15,600
19	Skraidenis	Office 100	9,500
20	Baltic Horizon Fund	BH Meraki	15,000
21	Vastint	Business Garden Vilnius I	40,000
22	GALIO GROUP	Saltoniskiu 7, stage IV	13,000
23	Asis	U126	30,000
24	Transmedos Projektai	Jasinskio 14	9,500
25	GALIO GROUP	Freedom 36	14,500
26	YIT Lietuva	Naujasis Skansenas/Zalgirio 112	7,200
27	YIT Lietuva	Naujasis Skansenas/Linkmenu 17A	6,000
28	Capital Mill	Pilaites 24	19,000
29	YIT Lietuva	Sky Office	8,600
<b>TOTAL 2019-2021</b>			<b>391,300</b>

Source: Newsec



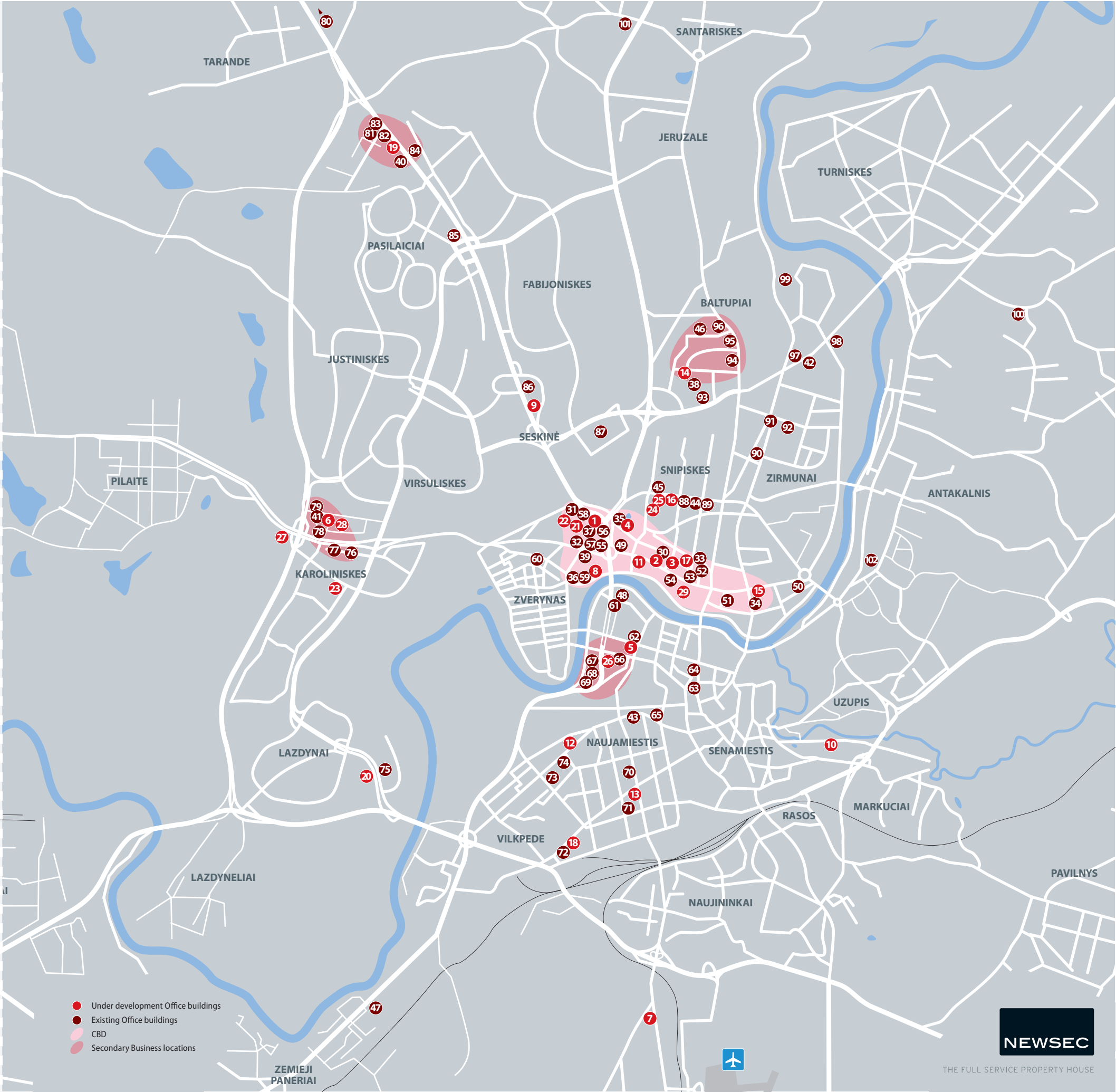
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OFFICE BUILDINGS IN VILNIUS

No	Project Name	Address, street
Openings of 2019		
1	Saltoniskiu 7, stage II & III	Saltoniskiu str. 7
2	Quadrum South	Konstitucijos ave. 21B
3	Tower	Konstitucijos ave. 15
4	Park Town East Hill	Lvovo str. 101
5	Live Square	Gedimino ave. 44A
6	Duetto II	Spaudos str. 6
7	Avia Solutions Group HQ	Dariaus ir Gireno st. 21A
Openings of 2020		
8	Green Hall 3	Upes str. 21
9	U219	Ukmerges str. 219
10	Paupys	Aukstaiciu str. 7
11	SEB HQ	Konstitucijos ave. 24
12	WAVE	Savanoriu ave. 5
13	Uptown Park	Svitrigailos str. 13
14	Technopolis NOVA	V. Gerulaicio str. 18
15	Business Stadium North	Rinktines str. 5
16	Zalgirio 94	Zalgirio str. 94
Openings of 2021 and later		
17	LVOVO	Lvovo str. 37
18	Office 100	Paneriu str. 49
19	BH Meraki	Ukmerges str. 310
20	Business Garden Vilnius, stage I	Laisves ave. 10
21	Saltoniskiu 7, stage IV	Saltoniskiu str. 7
22	U126	Ukmerges str. 126
23	Freedom 36	Laisves ave. 36
24	Naujasis Skansenas I	Zalgirio str. 112
25	Naujasis Skansenas II	Linkmenu str. 17A
26	Jasinkio 14	J. Jasinskio str. 14
27	Pilaites 24	Pilaites ave. 24
28	Sky Office	Spaudos str. 7
29	K18B	Konstitucijos ave. 18B
Office buildings of 2018 and earlier		
30	Quadrum Business City	Konstitucijos ave. 21, 21C
31	Asgaard Keys	Ukmerges str. 124
32	Link	Saltoniskiu str. 9B
33	3 Bures III	Giedraiciu str. 3
34	Business Stadium West	Rinktines str. 5
35	Park Town West Hill	Lvovo str. 105
36	Green Hall 2	Upes str. 21
37	Saltoniskiu 7 I & II	Saltoniskiu str. 7
38	Technopolis PENTA	Ozo str. 12A
39	Narbuto 5	Narbuto str. 5
40	Domus Pro	Bieliumu str. 1
41	Duetto I	Spaudos str. 8
42	Eleven	Kareiviu str. 11
43	B Nordic 26	J. Basanaviciaus str. 26
44	City	Zalgirio str. 90
45	135	Zalgirio str. 135
46	Technopolis DELTA	J. Balckonio str. 9
47	Highway	Savanoriu ave. 178A
48	Uniq	A. Gostauto str. 12A
49	k29	Konstitucijos ave. 29
50	Premium	Sporto str. 18
51	IBC (International Business Centre)	Seimyniskiu str. 3A, 3, 1A / A. Juozapaviciaus str. 6/2
52	3 Bures	Lvovo str. 25
53	Europa	Konstitucijos ave. 7
54	Swedbank HQ	Konstitucijos ave. 20A
55	GV18A	Gelezinio Vilko str. 18A
56	Danske Bank	Saltoniskiu str. 2
57	Saltoniskiu 10C	Saltoniskiu str. 10C
58	Baltic Hearts	Ukmerges str. 120
59	Green Hall	Upes str. 21
60	Marenta Business Centre	Kestucio str. 65
61	Vertas	Gyneju str. 16
62	Merchants' Club	Gedimino ave. 35
63	Plaza 31/1	Vilniaus str. 31 / Islandijos str. 1
64	Business Centre 2000	Jogailos str. 4
65	Basanaviciaus 15	J. Basanaviciaus str. 15
66	BC 12	J. Jasinskio str. 12
67	MG Baltic	J. Jasinskio str. 16, 16A, 16B, 16C
68	Eika Business Centre	A. Gostauto str. 40A, 40B
69	G40	A. Gostauto str. 40
70	Business Centre Svitrigailos 11B	Svitrigailos str. 11B, 11H, 11M
71	Vytenio 46	Vytenio str. 46
72	Skraidenis	Naugarduko str. 100, 102
73	LJB	Savanoriu ave. 28
74	Evita	Savanoriu ave. 18
75	L3	Laisves ave. 3
76	JIN&JAN	Menulio str. 7, 11
77	Trapecija	Pilaites ave. 16
78	Atea	J. Rutkausko str. 6
79	Grand Office	Virsuliskiu ln. 34
80	Orange Office	Senasis Ukmerges rd. 4
81	Trio	Perkunkiemio str. 3, 5, 7
82	Business Park Four	Perkunkiemio str. 2, 4, 6
83	One	Ukmerges str. 322
84	Kamane	Ukmerges str. 369A
85	Sostena	Ukmerges str. 280
86	Evolution	Ukmerges str. 223
87	Akropolis Business Centre	Ozo str. 25
88	BH-92	Zalgirio str. 92
89	Zalgirio Business Centre	Zalgirio str. 88
90	North Star	Ulonu str. 2
91	Ulonu Business Centre	Verkiu str. 25C / J. Galvydzio str. 1
92	Domus Centre	P. Lukso str. 32
93	Ozo Business Centre	Ozo str. 10A
94	Technopolis ALFA	V. Gerulaicio str. 1
95	Technopolis BETA	J. Balckonio str. 3
96	Technopolis GAMA	Kalvariju str. 204
97	NCBC	Kareiviu str. 6
98	Eta	Zirmunu str. 107
99	Zirmunu Business Centre	Zirmunu str. 139
100	Sunrise Valley	Sauletekio al. 15
101	VITP	Mokslininku str. 2A
102	Vilnius Tech Park	Antakalnio str. 17



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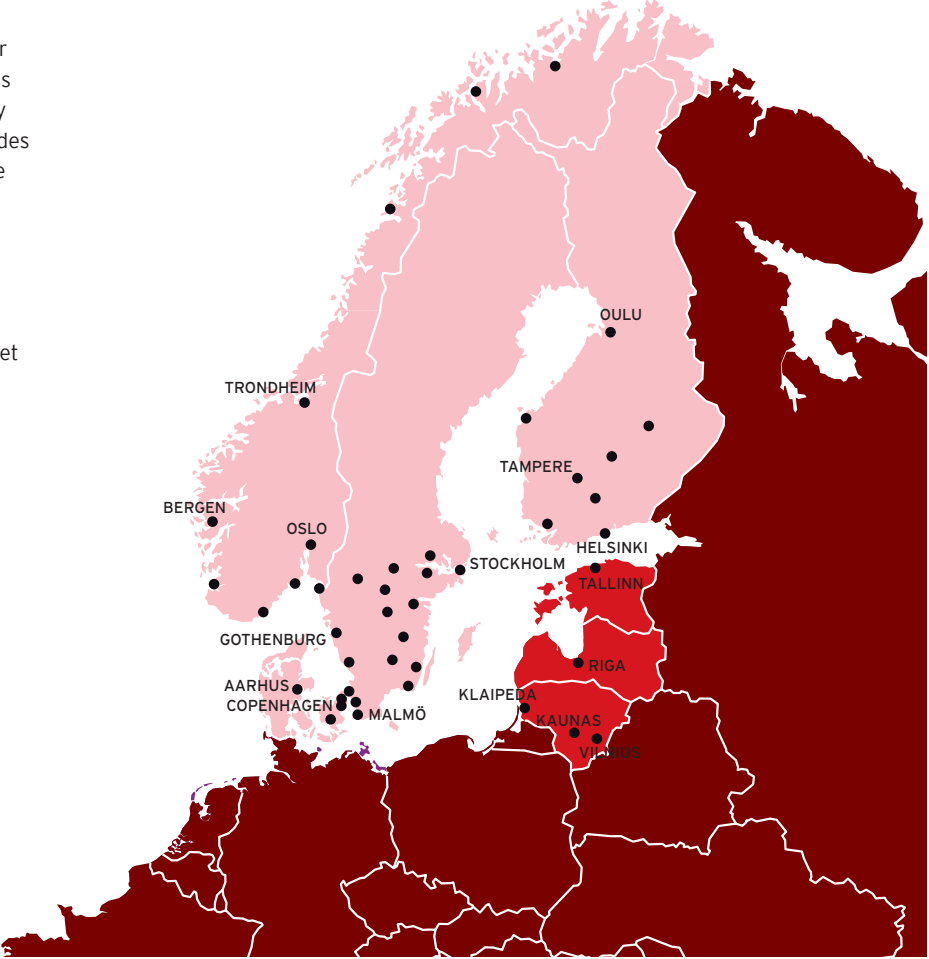
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Baltic Office Outlook,  
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Tallinn Office Outlook,  
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Riga Office Outlook,  
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Kaunas Office Outlook,  
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Newsec Property Outlook,  
Autumn 2019



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