

in real

2017/2018 *ECONOMY AND RE MARKET REPORT*

in partnership with Šiaulių Bankas and law firm COBALT

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Rokas Lukošius

Šiaulių Bankas Analyst, Master of Investment Management. Rokas has many years of experience in analysing financial markets and business finance, he also held the position of the Head of Analysis Department of "Finasta", as well as worked in the real estate and construction / production business for a number of years. He provided consultations on matters regarding company business and finances, wrote a book about investing and is an investor himself for more than 15 years. Rokas is also the author of the educational website www.finansistas.net.

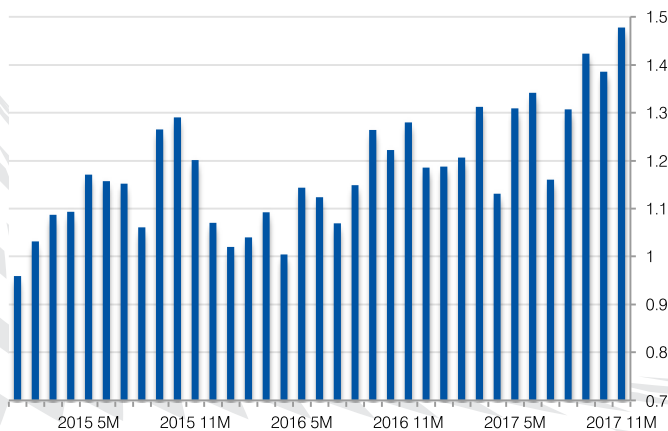


2017 could be described as another successful year for the Lithuanian economy. Successful development of the economy of the European Union as well as the entire world enabled to increase export and attract additional investments. Other indicators of the country were also rather good: unemployment decreased, the industry has increased its production, and the current account balance was adjusted. Slight concern is caused only by continuously growing loans and one of the highest inflation in the European Union.

The growth of the surrounding European markets was the greatest contributor to this success, as these markets took advantage of the stable political environment: results of elections that took place in France and Germany were favourable to the markets, and there were no unexpected surprises from the "Brexit" negotiation process. Rather good results were achieved after these factors were supplemented with the European Central Bank promotion programme: compared to the previous year, GDP increased by 2.5 percent during the third quarter both in the European Union (EU) and the Eurozone.

Such environment was useful to Lithuanian export whose results have noticeably increased in the second half of the year. Even though the number of imported goods was still higher than the number of exported goods, there was an increase in exported services, therefore the country's current account balance

Exports of Lithuanian origin, billion EUR



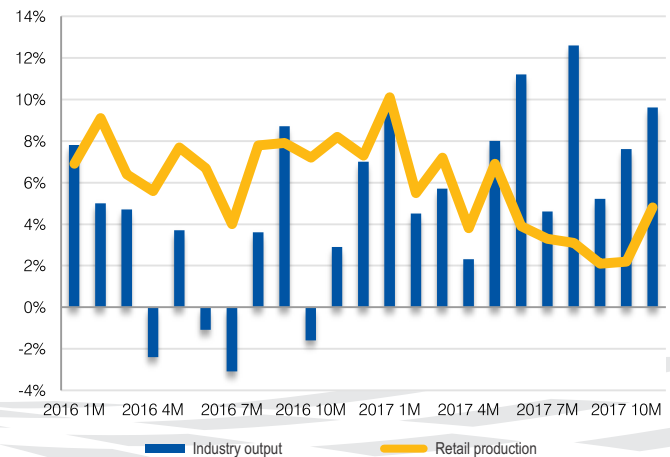
Source: Department of statistics

was positive during the third quarter.

The positive influence of foreign markets was also consolidated by the attraction of foreign capital. Direct foreign investments in Lithuania reached 14.7 billion euros during the third quarter of 2017 and were 8.3 percent higher than a year ago, which is a significant increase compared to several previous years. The entry of investors such as Continental and Booking.com into the Lithuanian market was among the most significant events.

The main results of the Lithuanian economy looked pretty good. In 2017, a particularly good direction was maintained by the country's industry, which was rather unstable in 2016. At that time, retail sale volumes decreased the speed of growth. In part, this data negates the current price and wage spiral provision.

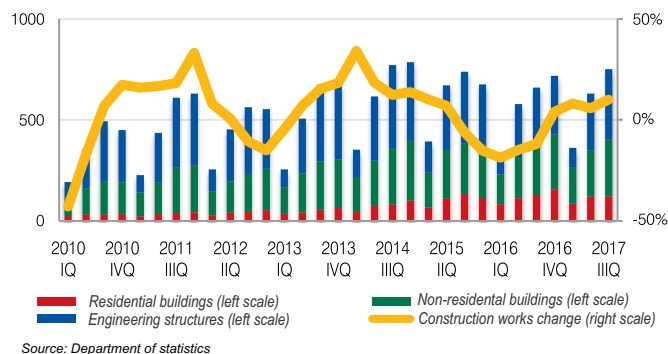
Economic Viability Indicators (annual change)



Source: Department of statistics

Results could have also be determined by the increased level of shopping in foreign countries.

Construction works in Lithuania, billion EUR



Source: Department of statistics

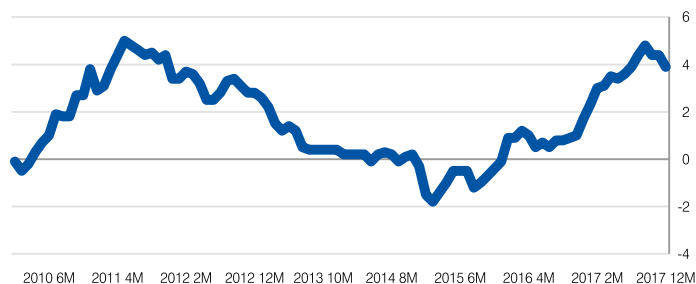
2017 was also a favourable year for the construction industry. During the first three quarters of the year, the volumes of residential building constructions remained on the same level as during the same periods of the previous year. However, the volumes of non-residential building constructions increased by as much as 16 percent during this period. The construction of engineering buildings increased by 12 percent during the first three quarters of the year, while the third quarter was particularly successful. This shows that EU structural funds are already being absorbed in full swing.

As far as the labour market and inflation are concerned, labour market data is now much easier to interpret. As befitting for this stage of the economic cycle, unemployment purposefully decreased and its level reached 7 percent toward the end of the year. Average wage before taxes reached 851 euro during the third quarter of the year and was higher by 7 percent than a year ago. The price growth statistics were not so unambiguous. They basically replicated the entire EU inflation tendencies and were noticeably lifted at the beginning of 2017 by the growing prices of energy resources. Nevertheless, in September, a 4.8 percent increase in prices was recorded in Lithuania, when inflation reached only 1.5 percent in the entire Eurozone (highest increase - 2 percent was recorded in February). Within the European Union, such a high price increase in Lithuania can only be compared to Estonia where salaries grew to a much higher level.

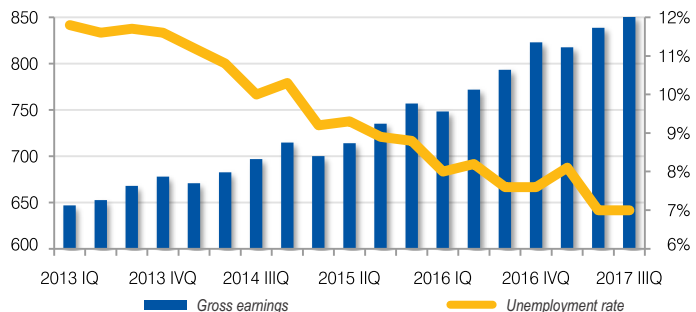
Such growth of the country's economy was not achieved without the help of borrowed capital. Even though real new loans for consumption and other purposes slightly decreased over the first 11 months, however the number of issued housing loans have increased (13 percent), and the value of new loans issued for companies increased by as much as 15 percent during the same period. Even though such debt growth, which is completely natural when evaluating the low interest rate environment and comparing with global standards, does not raise high alarm, however it contributes to the signs of economic heat.

Accordingly, the economic situation was also reflected in GDP growth which comprised 3.4 percent during the third quarter of 2017. When trying to look forward, it is necessary to acknowledge that further development will be influenced by the overall EU economic cycle which will have to be unavoidably adjusted sooner or later, and the completion of the European Central Bank promotion programme, which is planned this year, might contribute to such adjustment. And in the meantime, we should enjoy the continuing feast which, at least in our country, is not too reckless.

Annual inflation in Lithuania

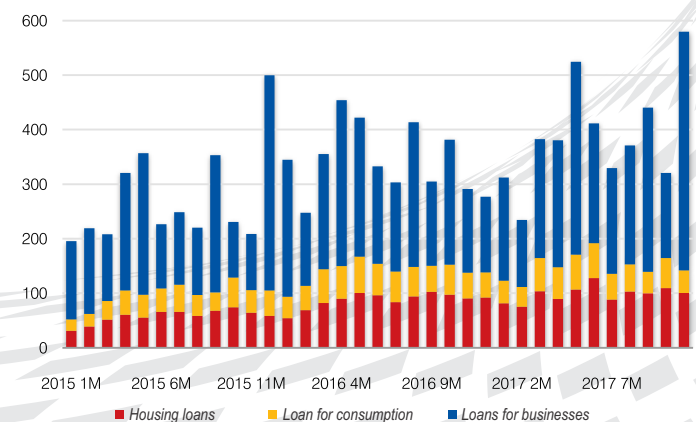


Gross earnings and unemployment rate in Lithuania



Source: Department of statistics

Pure new loans, billion EUR



Source: Bank of Lithuania



Robertas Žulpa

Robert Žulpa has been working as real estate analyst for more than 6 years. Responsible for feasibility studies, project concepts, market research, consulting on real estate issues and drafting financial models of projects. Actively involved in acquiring company assets.



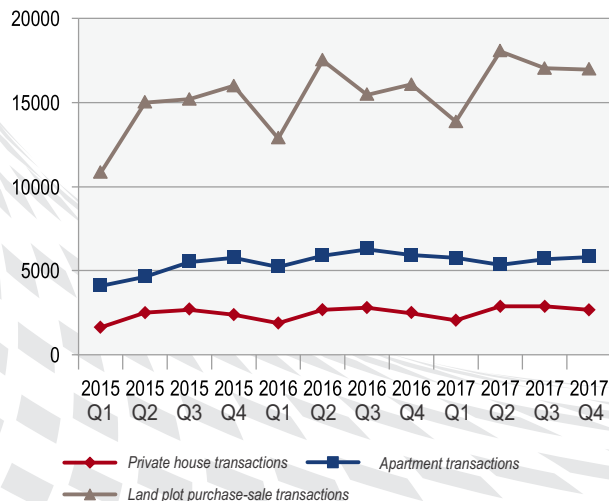
2017 was another year of success for Lithuanian real estate (RE) sector. The market remained active and liquid in all RE segments. Slowing down growth of the number of housing purchase-sale transactions and high activity of developers hindered the rise in prices. Vilnius and Kaunas distinguished for the highest activity in the segments of business centres and logistics. The hotel segment has been growing moderately, yet safely.

HOUSING MARKET OVERVIEW

LITHUANIA

In 2017, the real estate (RE) market in Lithuania remained positive, active and highly liquid. According to the data of the State Enterprise Centre of Registers, 33161 (0.1 percent less) apartment, 10518 (6.9 percent more) private house / townhouse and 65858 (6.2 percent more) land plot purchase-sale transactions were made in Lithuania in 2017.

Apartment, private house and land plot purchase-sale transactions in Lithuania (units)

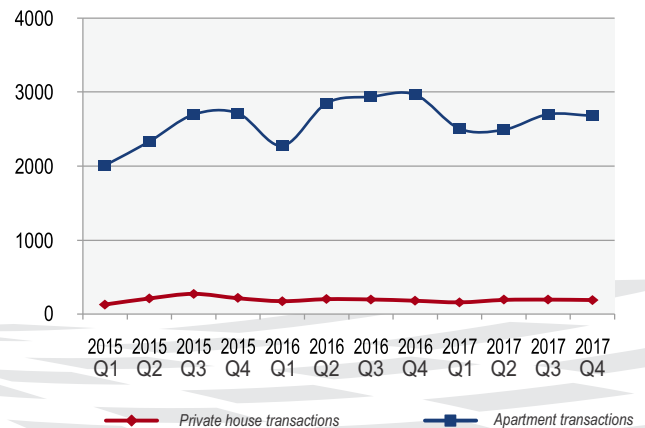


Source: SE Centre of Registers

VILNIUS

After the record year of 2016, the number of transactions decreased both in apartment and private house / townhouse segments. However, the growing population in Vilnius, establishment of new jobs and increasing wages will enable the capital's RE market to maintain high activity, and, perhaps, even maintain moderate growth. According to the data of the State Enterprise Centre of Registers, 10372 (6.0 percent less) apartment and 737 (2.5 percent less) private house / townhouse transactions were made in Vilnius in 2017.

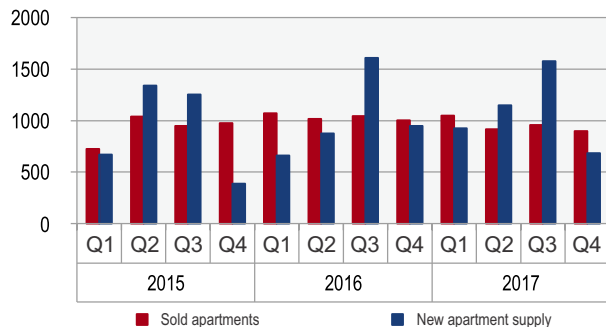
Apartment and private house transactions in Vilnius (units)



Source: SE Centre of Registers

In the primary market, the sales of real estate developers also decreased by 7.7 percent in 2017 – around 3820 new apartments were sold over the year. In 2017, real estate developers in Vilnius were more active than buyers and offered about 4340 apartments to the market, which is around 6.1 percent more than in 2016.

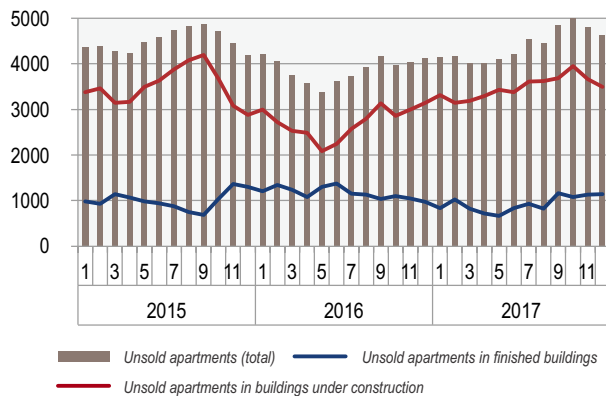
Dynamics of the new supply and sales of apartments in Vilnius (units)



Source: Inreal

Since the new supply of apartments surpassed the demand, the total level of unsold (available and reserved) apartments in the capital increased to around 4640 at the end of 2017.

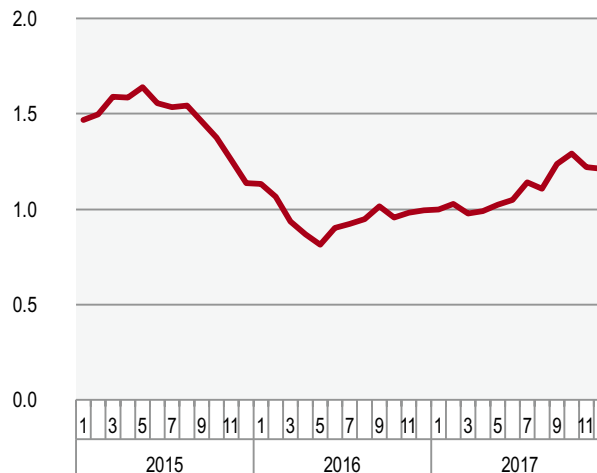
New construction apartments, unsold in Vilnius (units)



Source: Inreal

Due to the high activity of real estate developers and decreased sales, apartment liquidity ratio in Vilnius has fallen from 1.0 at the beginning of the year to 1.2 at the end of the year. Such liquidity ratio means that, if supply-demand indicators do not change, developers in Vilnius may expect to realize the entire current supply of apartments within approximately 1.2 years. On the other hand, this ratio still shows good liquidity in the market and forms relatively favourable conditions for RE developers to take on new projects.

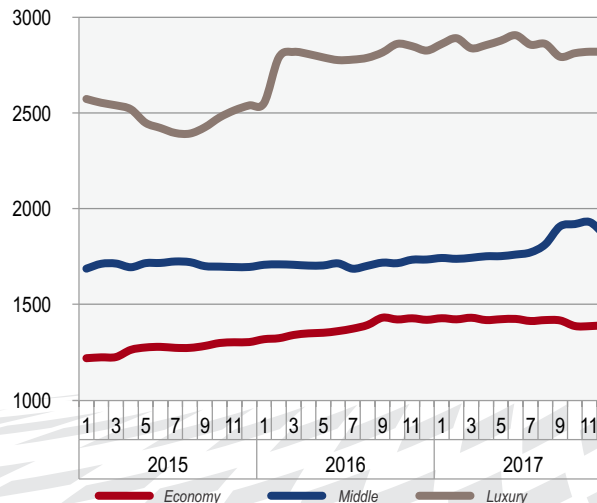
Liquidity rate of new apartments in Vilnius



Source: Inreal

In 2017, the prices of the supply of new apartments in Vilnius changed unevenly in all segments. Prices of the supply of economy class and prestigious class apartments decreased accordingly by 2 and 0.3 percent since the beginning of the year, while at the end of the year prices reached around 1390 EUR/sq. m and 2820 EUR/sq. m. Meanwhile, the prices of the supply of middle-class apartments increased by 7.5 percent and reached around 1865 EUR/sq. m at the end of the year.

Average prices of apartments under classes in Vilnius (EUR/ sq. m)

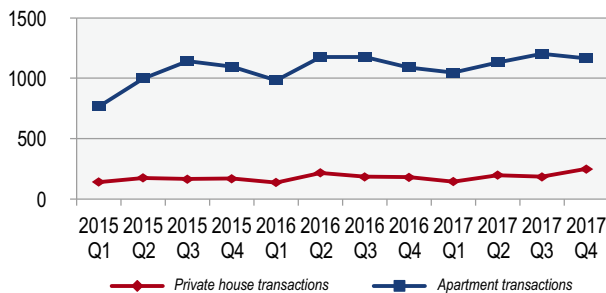


Source: Inreal

KAUNAS

In 2017, the number of transactions in Kaunas increased both in the apartment and in the private house / townhouse segments. On the other hand, this does not mean that the "ceilings" of demand were reached in Kaunas. Currently, new business centres and factories are actively developed in Kaunas, and well paid new jobs are created, therefore this will act as a housing market catalyst in the near future and it is very likely that this will have a positive impact on the growth of the entire RE sector. According to the data of the State Enterprise Centre of Registers, 4547 (2.8 percent more) apartment and 771 (8.0 percent more) private house / townhouse purchase-sale transactions were made in Kaunas in 2017.

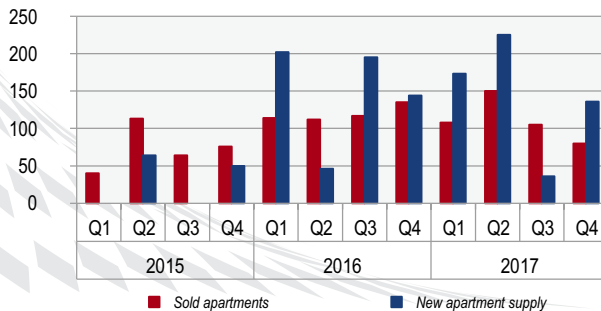
Apartment and private house transactions in Kaunas (units)



Source: SE Centre of Registers

Due to a weak fourth quarter of 2017 in the new apartment segment, around 440 apartments were sold in Kaunas during the year, which is 7.3 percent less than a year ago. Real estate developers in Kaunas were also more passive than a year ago and offered 570 – 2.9 percent less new apartments to the market.

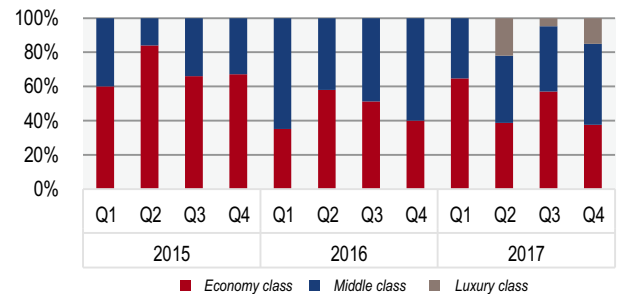
Dynamics of the new supply and sales of apartments in Kaunas (units)



Source: Inreal

Kaunas market supply is mostly comprised of middle segment apartments, however the largest part of sales was comprised of cheaper economy segment apartments.

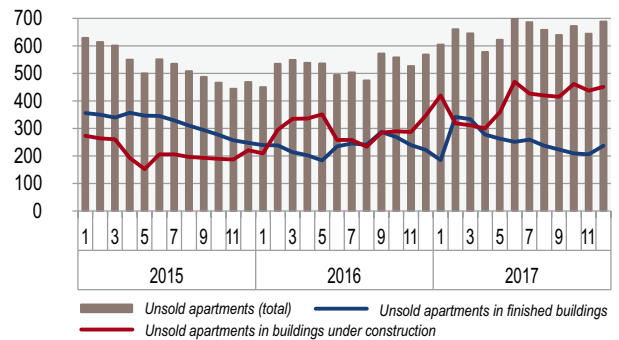
Apartment sales under classes (percent)



Source: Inreal

The new supply of housing that appeared in 2017 surpassed the sales of new apartments, therefore the total level of unsold (available and reserved) apartments in Kaunas increased to around 690 apartments at the end of the year.

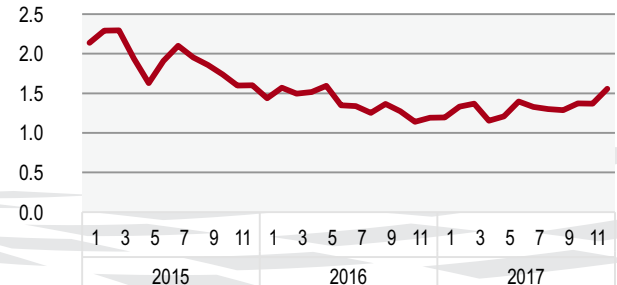
New construction apartments, unsold in Kaunas (units)



Source: Inreal

In 2017, the balance of supply and demand changed rather significantly, therefore the liquidity ratio of new apartments in Kaunas calculated by Inreal has fallen from 1.2 to 1.6 during the year.

Liquidity rate of new apartments in Kaunas

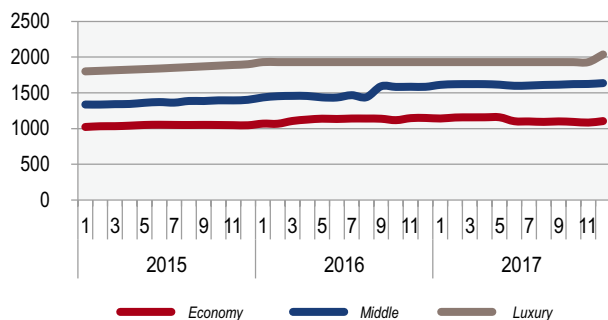


Source: Inreal

Kaunas market mostly offers middle-class and economy class apartments. Accordingly, the sales of these segments were the highest in 2017.

In 2017, the prices of the supply of new apartments in Kaunas changed unevenly in all segments. Prices of the supply of middle-class and prestigious class apartments increased accordingly by 3.3 and 5.5 percent since the beginning of the year, while at the end of the year prices reached around 1640 EUR/sq. m and 2040 EUR/sq. m. Meanwhile, the prices of the supply of economy class apartments decreased by 3.8 percent since the beginning of the year and reached around 1100 EUR/sq. m by the end of the year.

Average prices of apartments under classes in Kaunas (EUR/ sq. m)

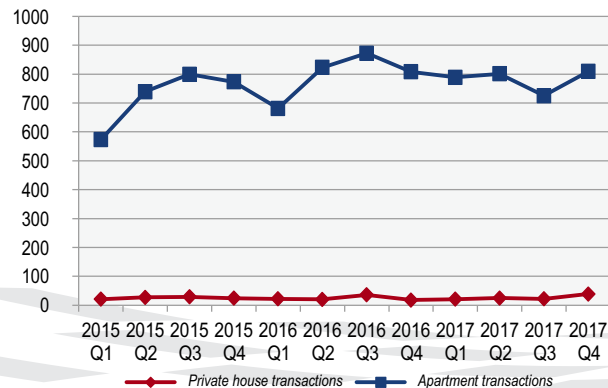


Source: Inreal

KLAIPĖDA

Klaipėda market also remained highly active in 2017. According to the data of the State Enterprise Centre of Registers, 3124 (2.0 percent less) apartment and 107 (11.5 percent more) private house / townhouse purchase-sale transactions were made in Klaipėda in 2017.

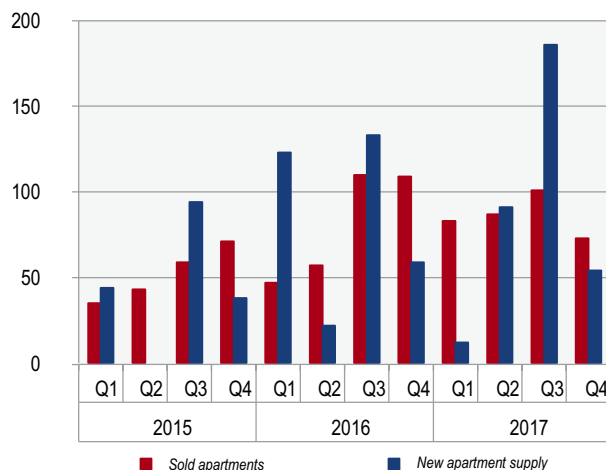
Apartment and private house transactions in Klaipėda (units)



Source: SE Centre of Registers

In 2017, the new apartment market in Klaipėda was much more active than a year ago – 344 apartments were sold, i.e. 6.5 percent more than a year ago. Developers were as active as the buyers and offered 343 apartments to the market which is 1.8 percent more than in 2016.

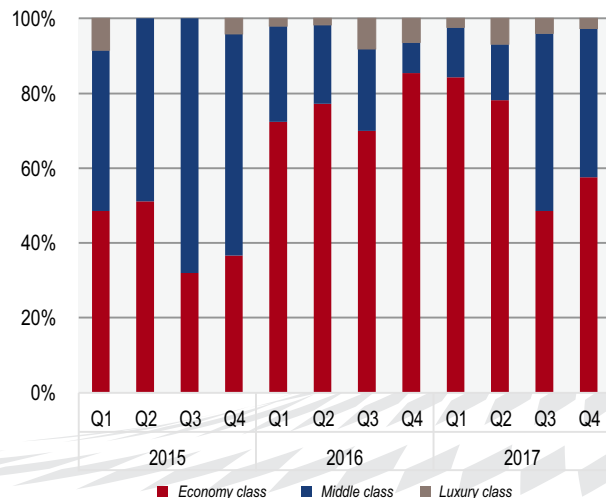
Dynamics of the new supply and sales of apartments in Klaipėda (units)



Source: Inreal

In 2017, Klaipėda market was mostly comprised of economy segment apartments. Accordingly, the sales of this segment comprised the largest part of new apartment sales.

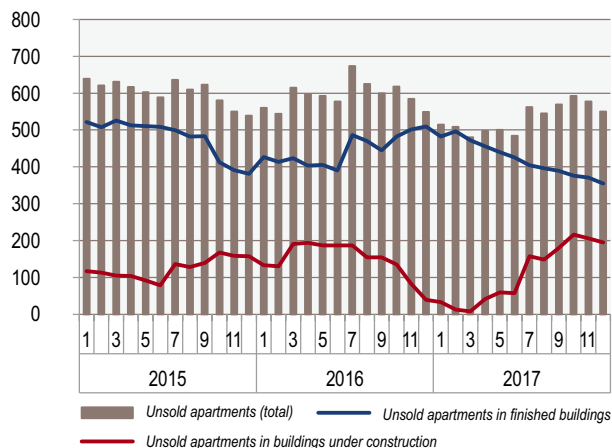
Apartment sales under classes (percent)



Source: Inreal

The total number of unsold (available and reserved) newly built apartments in Klaipėda reached 550 apartments at the end of 2017.

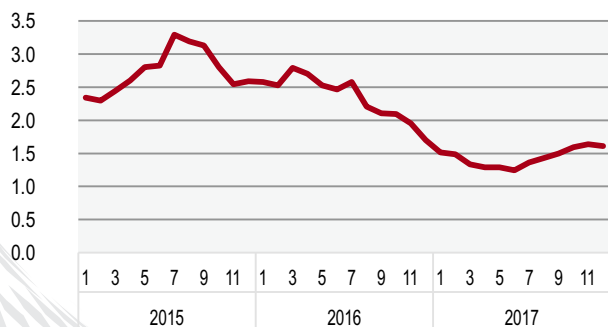
New construction apartments, unsold in Klaipėda (units)



Source: Inreal

In 2017, the balance of supply and demand changed insignificantly, therefore the liquidity ratio of apartments in Klaipėda calculated by Inreal was the same at the end of 2017 as at the beginning of the year and reached 1.6.

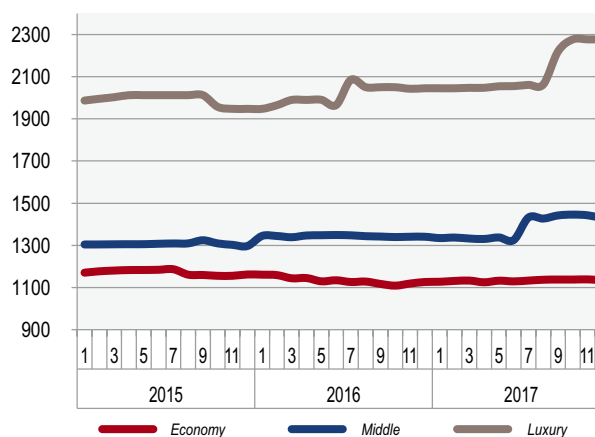
Liquidity rate of new apartments in Klaipėda



Source: Inreal

In 2017, the prices of the supply of new apartments in Klaipėda increased in all segments. The prices of economy class apartments averaged at around 1135 EUR/sq. m and increased by 0.7 percent since the beginning of the year. The prices of middle-class apartments averaged at around 1430 EUR/sq. m and increased by 6.6 percent since the beginning of the year. The prices of prestigious class apartments averaged at around 2280 EUR/sq. m and increased by 11.3 percent since the beginning of the year.

Average prices of apartments under classes in Klaipėda (EUR/ sq. m)

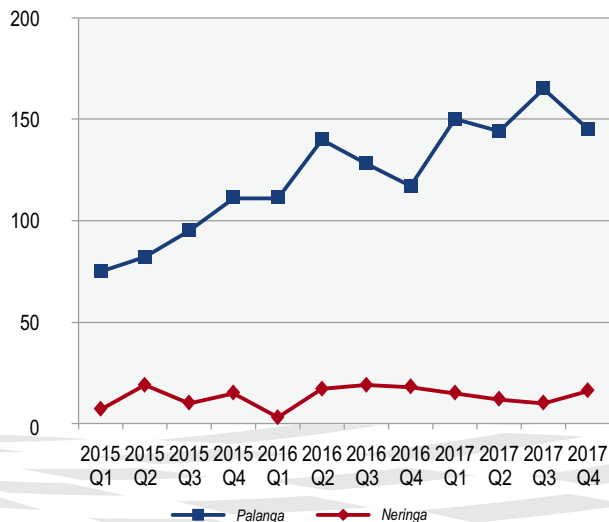


Source: Inreal

PALANGA AND NERINGA

A stable growth of transactions was observed in Palanga over the last three years. According to the data of the State Enterprise Centre of Registers, 604 (21.8 percent more) apartment purchase-sale transactions were made in Palanga in 2017. Meanwhile, compared to last year, the RE market was not so active in Neringa during 2017. 53 (7.0 percent less) apartment purchase-sale transactions were made in Neringa over the year.

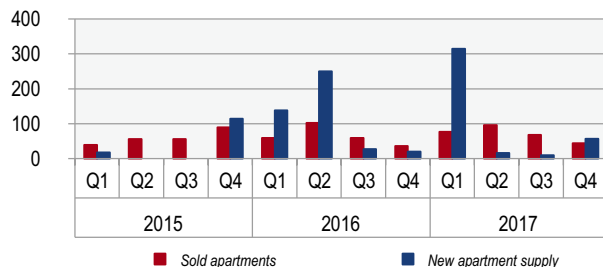
Apartment transactions in Palanga and Neringa (units)



Source: SE Centre of Registers

RE market activity in Palanga in 2017 was also present in the primary market where 285 apartments were sold, which is 11.3 percent more than a year ago. Real estate developers were more active than the buyers and supplied 398 new apartments to the market, however this was 8.5 percent less than in 2016.

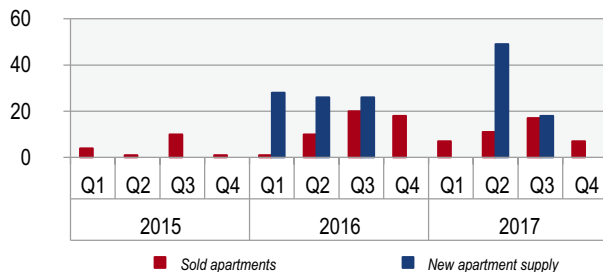
Dynamics of the new supply and sales of apartments in Neringa (units)



Source: Inreal

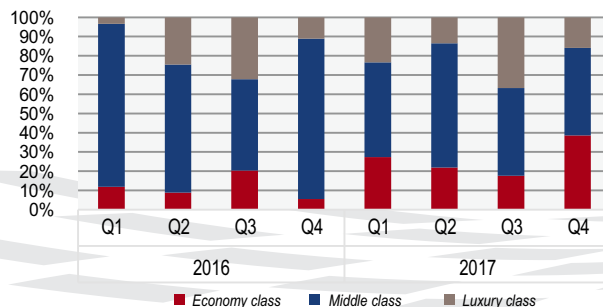
Buyers of new apartments in Neringa were less active than a year ago – 42 apartments were sold, which is 14.3 percent less than in 2016. Real estate developers were also more passive and offered 67 new apartments, i.e. 16.3 percent less than a year ago.

Dynamics of the new supply and sales of apartments in Neringa (units)



Source: Inreal

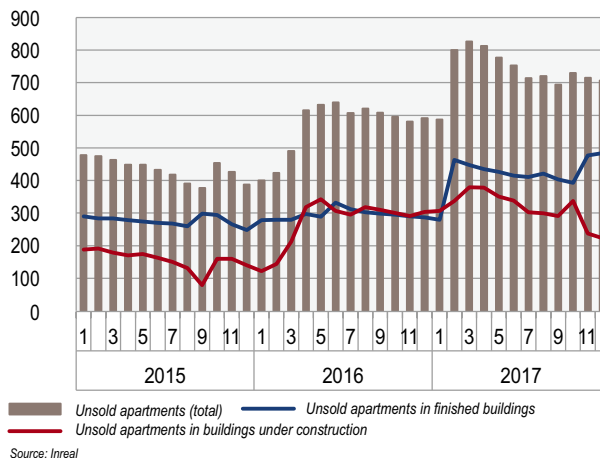
Apartment sales under classes in Palanga (percent)



Source: Inreal

The difference between the newly emerging supply and sales in Palanga was rather clear in 2017, therefore the total level of unsold apartments in the resort increased by 19.6 percent over the year to around 710 unsold (available and reserved) new apartments by the end of 2017.

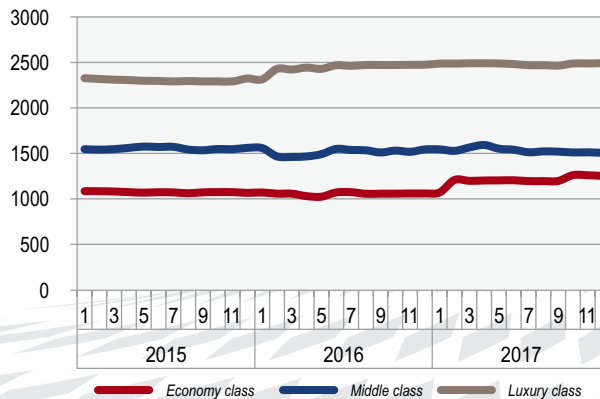
New construction apartments, unsold in Palanga (units)



Source: Inreal

In 2017, the prices of the supply of new apartments in Palanga changed unevenly in all segments. Prices of the supply of economy class and prestigious class apartments increased accordingly by 18.1 and 0.7 percent since the beginning of the year, while at the end of the year prices reached around 1250 EUR/sq. m and 2490 EUR/sq. m. Meanwhile, the prices of the supply of middle-class apartments decreased by 2.5 percent since the beginning of the year and reached around 1500 EUR/sq. m at the end of the year.

Average prices of apartments under classes in Palanga (EUR/ sq. m)

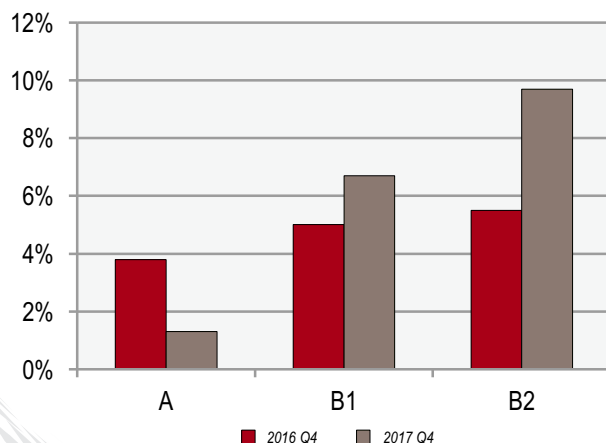


Source: Inreal

BUSINESS CENTRE MARKET OVERVIEW

Usually, Vilnius is the most active in the business centre sector and the year of 2017 was no exception – 10 new business centres were opened in the capital over the year, which added around 79000 sq. m to the market. Despite the fact that the pace of development is very high, the demand for modern business centres remained strong in the capital and absorbed almost the entire newly available area. During 2017, the overall vacancy rate in Vilnius increased from 4.8 percent to 5.4 percent. The overall vacancy growth was mostly influenced by growth in B1 and B2 segments of available areas, where vacant space comprised 6.7 percent and 9.7 percent accordingly at the end of the year. Meanwhile, the available A class office areas comprised only 1.3 percent. Over the next two years, around 130000 sq. m of leasable space will be added to Vilnius market. It is very likely that at least part of the new business centres will not be leased on the opening day, therefore the vacancy level may increase up to 7-9 percent or even more at the end of 2018 or at the beginning of 2019. It is obvious that conditions for new business centres to rise in Vilnius will be increasingly less favourable.

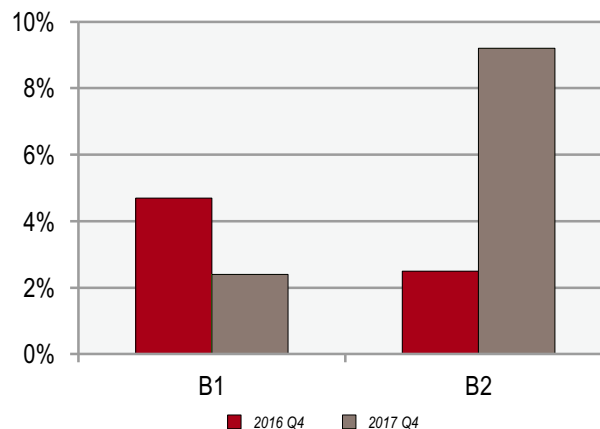
Dynamics of vacancies in Vilnius business centres under classes



Source: Inreal

In 2017, 7 new business centres were opened in Kaunas which offered around 37500 sq. m of leasable space. At the end of the year, the vacant space indicator in the temporary capital increased by almost 2 percent, compared to the same period in 2016, and reached 5.9 percent. Vacant space decreased in B1 segment which comprised 2.4 percent at the end of the year. Meanwhile, the B2 segment vacancy indicator jumped to 9.2 percent. Over the next two years, 60000 sq. m of leasable space will be added to Kaunas market, therefore the vacancy level may grow up to 8-12 percent by the end of 2018.

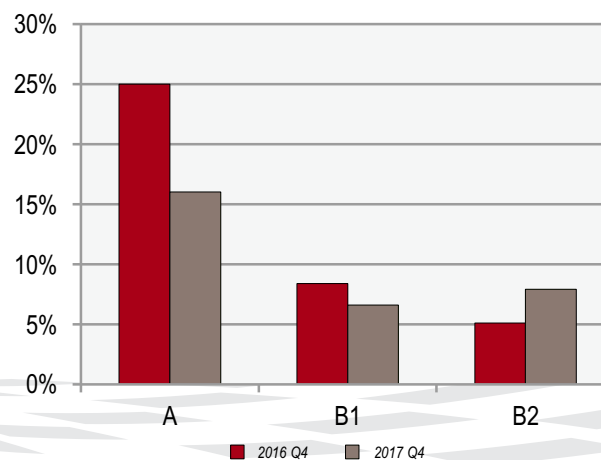
Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

At the end of 2017, the overall vacancy level in the port city reached 9.9 percent and decreased by 2.0 percent since the end of the year. In 2017, there was opened one new business centre in Klaipėda market which offered 2 500 sq. m of leasable space to the market. Conditions are currently not favourable for new business centres to emerge in the port city, therefore there is no information on new business centres which might be developed in the near future.

Dynamics of vacancies in Klaipėda business centres under classes



Source: Inreal

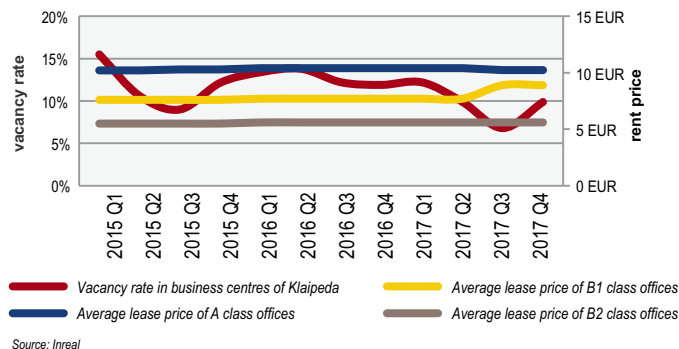
Lease prices in Vilnius remained stable in 2017. The rapidly growing supply of leasable space increased competition between lessors and softened the potential rise in prices. Currently, the average lease prices of class A offices reach 14-17 EUR/sq. m, B1 – 10-14 EUR/sq. m, B2 – 6.5-10 EUR/sq. m.

New business centres in Kaunas market slightly increased the prices and the current average lease prices of B1 offices reach 9-14 EUR/sq. m, B2 – 6-9 EUR/sq. m.

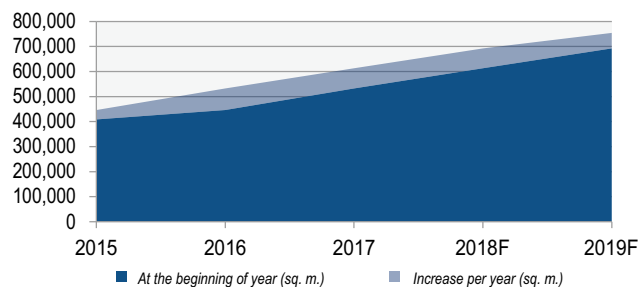
In 2017, the vacancy level in Klaipėda decreased in all of the segments, however there are still too much available spaces in the port city in order to consider a rise in the lease prices. Currently, the average lease prices of class A offices in Klaipėda reach 9-13 EUR/sq. m, B1 – 7-9 EUR/sq. m, B2 – 5-8 EUR/sq. m.

It is likely that the rapidly growing competition in Vilnius and Kaunas during 2018 will prevent lease prices from rising, while in some segments, particularly in older B2 class offices, lease price may even slightly decrease. Since the situation in Klaipėda remains the same, the lease prices of modern offices should remain stable.

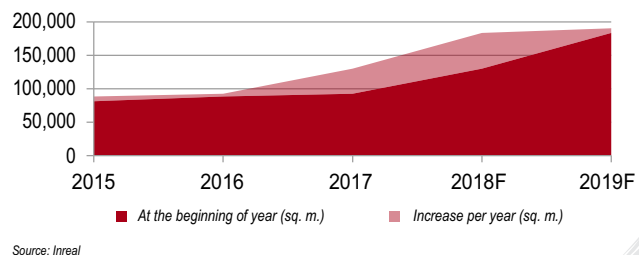
Dynamics of lease prices and vacancies in Klaipėda business centres



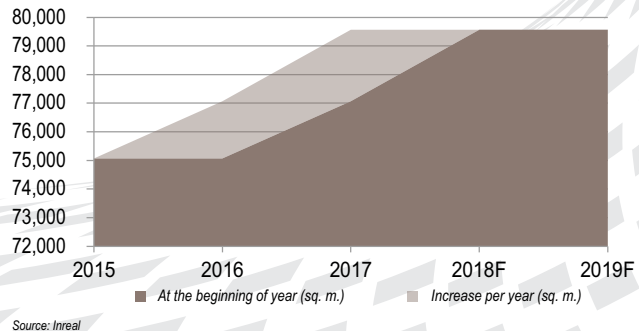
Expansion of modern business centres in Vilnius, sq. m



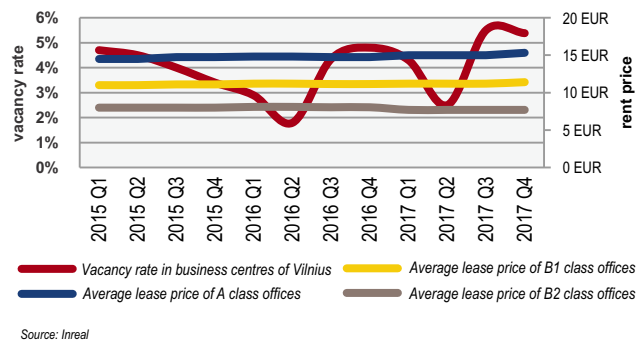
Expansion of modern business centres in Kaunas, sq. m



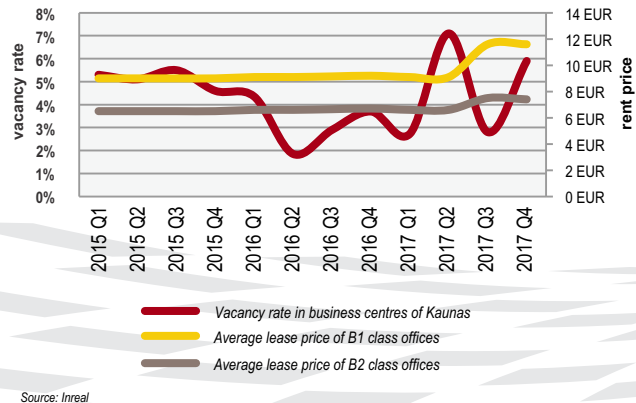
Expansion of modern business centers in Klaipėda, sq. m



Dynamics of lease prices and vacancies in Vilnius business centres



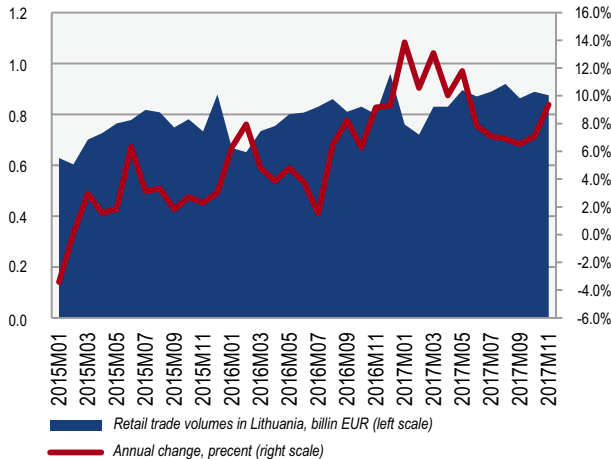
Dynamics of lease prices and vacancies in Kaunas business centres



SHOPPING CENTRE MARKET OVERVIEW

Retail trade volumes in Lithuania increased by 9.4 percent over 2017, compared to the same period of the previous year. Retail trade volumes have been increasing at a similar pace for several years now, excluding the first month of 2015 when a suspension in operational activities was observed in most of the sectors, including retail trade, after the introduction of the euro.

Retail trade volumes in Lithuania, billion EUR



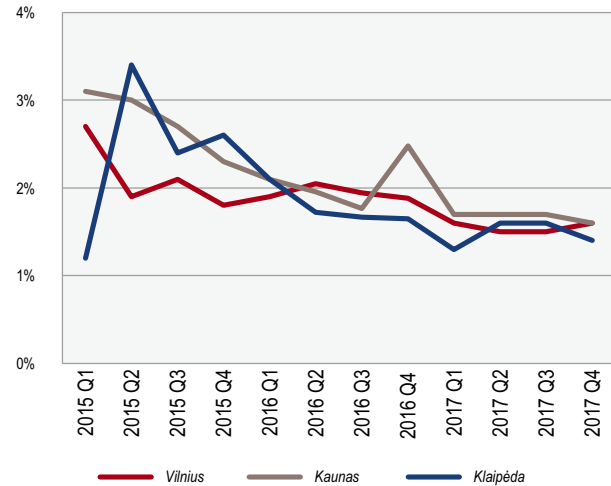
Source: Department of statistics

Compared to the same period a year ago, the average vacancy level has decreased in the shopping centre segment of big cities. A rather active change of tenants can be observed in big city shopping centres, particularly in large ones where weaker traders have suspended their activities. However, the demand for commercial spaces is high, therefore spaces that are abandoned by tenants do not stay available for long, and the vacancy level remains low.

Even though business centre vacancies are minimal, and the economic conditions for business centre development remain favourable for quite some time now, developers are cautious when investing in this segment. First of all, it is a rather risky segment since the Lithuanian retail market is relatively small, selling commodities of secondary necessity, and, in addition, the increasing popularity of online shopping poses more and more challenges to ordinary trade, therefore the demand for business centre space may even decrease in the long run.

DEPO shopping centre was opened in Panevėžys in 2017. Two more DEPO shopping centres are also currently being developed in Vilnius, and one more – in Kaunas. The development of another DEPO shopping centre is planned in the near future in Šiauliai. Two more developers have announced their plans to develop shopping centres in Vilnius in the near future: VPH who are planning the development of a shopping centre near Nordika and Lords LB Asset Management – in place of Audėjas.

Dynamics in shopping centre vacancies in the major cities, percent

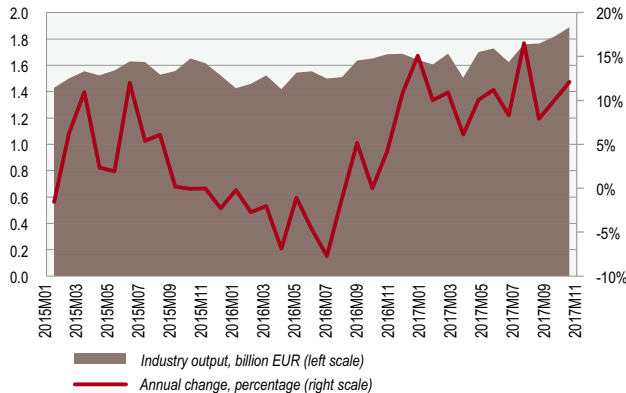


Source: Inreal

INDUSTRIAL AND STORAGE FACILITY MARKET OVERVIEW

One of the main sectors promoting economy in Lithuania generated fairly good results in 2017 – compared to 2016, industrial production volumes increased by around 12.1 percent. Improving industrial confidence indicator, which was one of the best over the past several years in 2017, resulted the stable moods of the industrial sector representatives.

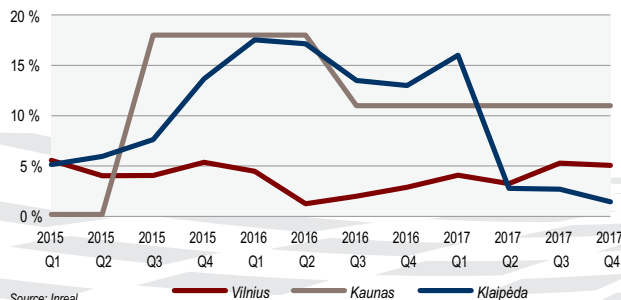
Industry output in Lithuania, billion EUR



Source: Department of statistics

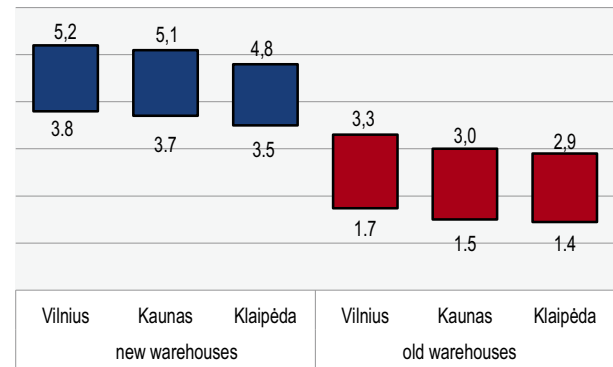
The positive moods of the sector determined the fact that a rather intensive development of storage facilities and logistics centres was carried out in Vilnius and Kaunas in 2017. However, most of the developed logistics centres were designed for personal use and only three logistics centres built in Vilnius in 2017 were available for lease and added 28500 sq. m of leasable space to the market. Further development of this sector is planned in 2018 in Vilnius and Kaunas, as well as in Klaipėda where the development of several larger storage facility projects are planned.

Dynamics of vacancies in modern logistics centres in Lithuania



Source: Inreal

Lease prices of logistics centres in Lithuania at the end of 2017, EUR/ sq. m



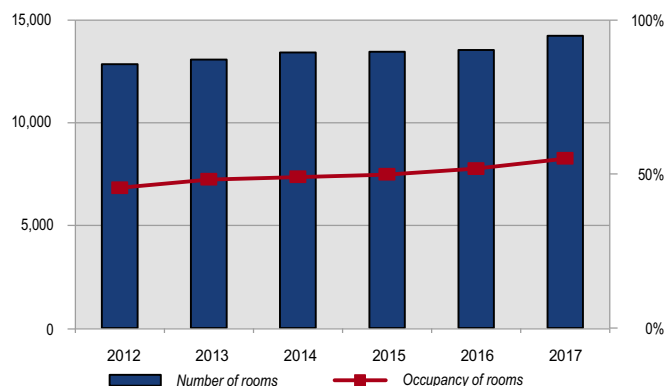
Source: Inreal

TOURISM AND HOTEL MARKET OVERVIEW

Lithuanian airports provided their services to more than 5.2 million travellers during 2017. The flow of travellers using the services of Vilnius, Kaunas and Palanga airports increased by 9.6 percent compared to 2016.

Lithuanian hotels provided accommodation to more than 2.1 million guests in 2017. The flow of foreigners increased by 3.4 percent compared to the same period in 2016. This could have been directly influenced by increasing airport activities, offered new flight destinations and expanding infrastructure.

Dynamics of hotel rooms and occupation thereof in Lithuania



Source: Department of statistics

The hotel sector continues to expand in Lithuania. It is estimated that the number of hotel rooms in the country will reach 14.5 thousand by the end of 2018. Newly built or reconstructed hotels were opened in 3 cities in Lithuania, and added a total of 263 new rooms to the market. Hotel segment development is also planned in 2018 – 4 hotels are currently being built or reconstructed in Vilnius. It is planned that the latter will add 634 new rooms to the market.

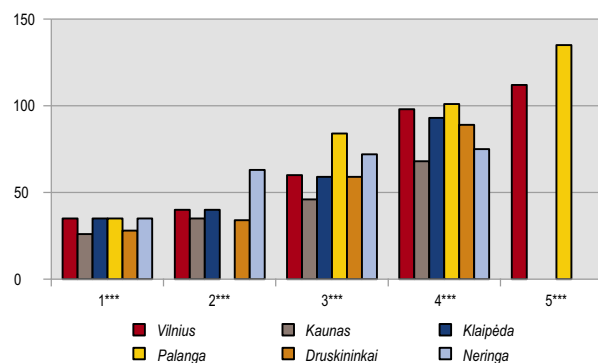
Hotels opened/ will be opened in Lithuania in 2017-2018

City	Hotel	Class	Rooms
Vilnius	Loop Hotel	4****	105
Vilnius	Hotel Kaunas	4****	79
Kaunas	Airhotel	3***	53
Klaipėda	Smiltynės Jachtklubas (II stage)	3***	26
Vilnius	ibis by Accor Hotels	3***	164
Vilnius	Courtyard by Marriott	4****	200
Vilnius	Archer by Design Hotels	5*****	105
Vilnius	Radisson BLU (expansion)	4****	165
Total:			897

Source: Inreal

The cheapest accommodation for two people in a standard double room during the summer season of 2018, depending on the class of the hotel, is offered in Druskininkai and Kaunas where prices are between 28 and 89 euros per night. Meanwhile, accommodation prices are higher in Vilnius, Klaipėda, Palanga and Neringa – between 35 and 135 euros per night. Compared to previous years, prices in 2018 are higher due to the increasing costs of services and human resources.

Average price for a hotel standard double room in Lithuania, in season 2018



Source: Inreal



Simas Paukštys

Associate at Law Firm COBALT

Simas Paukštys advises on construction, zoning, real estate acquisition matters, and related dispute resolution. He works on various-sized real estate and infrastructure development and acquisition projects and provides counselling on other issues of disposal of assets.



INTRODUCTION

The year 2017, as probably could be anticipated, did not bring any major reforms into the construction sector, and the legislator's main focus was on other spheres. However, the reforms that had been launched previously with the aim of simplifying construction processes and reducing administrative burden for institutions were ongoing.

A somewhat stronger focus was placed on land issues, and in particular agricultural land. As of 1 January 2018, amendments to the Law on the Acquisition of Agricultural Land entered into force, lifting the qualification requirements for acquirers of land. Although the amendments operate to expand the range of potential acquirers, it is likely that in the near term the sector will further undergo broader reforms, ensuring efficient implementation of the requirement for a maximum area of a land holding (500 ha). It is likely that in 2018 the legislator will revert to issues concerning conditions of the state-owned land intended for other uses, regarding determination of conditions for new construction or reconstruction of the existing buildings on the leased state-owned land parcels.

The key changes in the construction sector became effective yet at the beginning of 2017, and no significant changes to the existing procedures in 2018 are anticipated so far. The most important amendment that will take effect in the short term concerns arrangements to make as many as possible public buildings suited for the needs of disabled persons and persons with small children. The most prominent development in the construction sector was the Law on Architecture having entered into force in autumn 2017. The newly adopted Law on Architecture has introduced significant changes enhancing the significance of design proposals, architectural tenders, and social organisations. Furthermore, the Law has conferred on the Chamber of Architects of the Republic of Lithuania the right to protect the public interest, which they have already exercised by bringing a lawsuit regarding the provisions of the general plan of Vilnius city, the validity of which is about to expire.

Finally, the start of 2018 saw the European Court of Human Rights rendering its judgment in *Tumeliai v Lithuania*. The important aspect about this case is that it essentially says that the owners of buildings erected on the basis of unlawfully issued building permits may no longer be obligated to demolish such buildings at their cost and expense and subsequently themselves seek compensation of the resulting damages. Therefore, imposition of the obligation to demolish the building will have to go in parallel with addressing the issue of compensation of damages to the owner of the building.

REAL ESTATE LAW AND TAX NEWS

As of 1 January 2017, new provisions of the Law on Construction, extending the rights of RE purchasers related to the quality of acquired property entered into force. In accordance with the Law on Construction and the clarification of the Ministry of Environment that followed shortly, beginning 1 January 2017, a certificate of completion or a declaration of completion in respect of buildings for the design of which special requirements had been issued after 31 December 2016 may be issued subject to production of a surety bond from an insurance company or a bank guarantee (for the amount equal to 5 per cent of the value of the RE property), which the purchaser would be able to enforce even in case of bankruptcy of the real estate developer.

Effective 1 January 2017, the procedure for completion of certain buildings was simplified. On 1 January last year, more flexible provisions on completion of construction entered into force, providing that for the construction of a one-flat or two-flat house and its appurtenances to be complete it will suffice to draw up and confirm a declaration of completion.

On 1 January 2017, a new construction technical regulation "Energy performance design and certification of buildings" entered into force, duplicating the provisions of the previously applicable technical regulation that the requirement to achieve at least Class A+ energy efficiency applies to new construction buildings in respect of which an application for a building permit for new construction or for a written approval of the building design by an authorised public official was submitted after 1 January 2018, or, where documents

authorising construction are not mandatory, construction operations were started after 1 January 2018.

Beginning 1 May 2018, amendments to the Law on Construction will enter into force, introducing the requirement that buildings will have to be adapted to meet the demands of people with special needs and will have to provide baby nursing and baby changing facilities also in cases where, based on the list approved by the Minister of Environment, ordinary repairs will be carried out or the intended use of the premises will be changed.

As of 1 May 2017, complex amendments to the Law on Protected Areas entered into force, reforming the provisions establishing conditions of construction in protected areas and protection areas of water bodies. The main amendments are related to the conditions of construction operations in protected areas, permitted and prohibited operations in the protection areas of surface water bodies and coastal protection strips, and the conditions of changing the intended use of land parcels in protected areas.

As of 1 May 2018, amendments to the Law on Land will enter into force, providing that state-owned land parcels may be transferred to municipalities not on the basis of a resolution of the Government, but by decision of the Head of the National Land Service, after coordination with the Ministry of Agriculture.

As of 1 January 2018, amendments to the Law on the Acquisition of Agricultural Land, eliminating some of the requirements for the acquirers of agricultural land, entered into effect. The amendments to the Law operate to repeal the qualification requirements for persons seeking to acquire agricultural land. It is further provided that payments under land sale and purchase transactions may only be effected by bank transfer. Finally, the Law stipulates that transactions involving the purchase of shares in legal persons holding agricultural land are subject to analogous requirements as are applied to asset deals. Regardless of the eliminated requirements, the restriction prohibiting acquisition of agricultural land in excess of 500 ha still continues to apply.

On 1 July 2017, the Law on Credit Agreements Related to Immovable Property and relevant amendments to the Law on Consumer Credit, intended to transpose the provisions of the EU Housing Directive into Lithuanian national law, entered into force. The purpose of the Law is to establish conditions for granting credits related to immovable property and requirements for notifying about such conditions, the rights and responsibilities of lenders, credit intermediaries and peer-to-peer lending platform operators in carrying out the operations specified in the Law.

On 1 November 2017, the Law on Architecture entered into force, aimed at regulating societal relations in the field of architecture and determining the conditions for the activities of architects (including training and qualification). The Law on Architecture enhances the significance of design proposals,

architectural tenders and societal organisations. Furthermore, the Law contains a particularly significant provision conferring the right on the Chamber of Architects of the Republic of Lithuania to file a lawsuit in order to safeguard the public interest (the latter concept, among other things, has been significantly expanded by the Law).

As of 1 January 2018, amendments to the Law on the Fundamentals of Free Economic Zones entered into force, extending favourable tax treatment for companies operating within the FEZ and making FEZ management companies entitled to a tax benefit on the lease of state-owned land.

As of 1 November 2017, amendments to the Law on Environmental Impact Assessment of the Proposed Economic Activity entered into force. In line with the new arrangement, screening for environmental impact assessment will be carried out solely in respect of the proposed economic activity specified in the Law. Likewise, the provision on the procedure for reconsideration of the screening conclusion at the Environmental Protection Agency has been deleted from the law, and the right of a municipal council to stop the environmental impact assessment process has been narrowed.

TAXES

As of 1 January 2017, the provisions of Regulation (EU) No 1042/2013 as regards the place of supply of services connected to immovable property for VAT charging purposes entered into force. Whereas the Regulation contains a non-exhaustive list of services that are considered to be connected to RE, the effective provisions will enable uniform assessment whether the services provided should or should not be considered to be connected to RE in all Member States.

As of 1 January 2018, amendments to the Law on Immovable Property Tax have entered into force, providing that residential property and property intended for other uses will be subject to a progressive tax: (i) the portion of real estate with a taxable value within the range from EUR 220 000 to EUR 300 000 will be subject to a 0.5% real estate tax; (ii) the portion of real estate with a taxable value from EUR 300 000 to EUR 500 000 will be subject to a 1% real estate tax; (iii) the portion of real estate with a taxable value in excess of EUR 500 000 will be subject to a 2% real estate tax. In 2018, the exempt value of EUR 220 000 will remain unchanged.

As of 1 January 2017, land tax is calculated on the entire tax value of land. The applicable land tax rates, ranging from 0.01 per cent to 4 per cent on the tax value of land, will remain unchanged. Specific land tax rates are determined at the municipal level.

ABOUT / CONTACTS

INREAL GROUP

INREAL is a trademark of an idea, which gives spark to unique projects, basis for professional services, and added value to businesses, companies, clients, and partners. INREAL positions creativity as a core value in the dynamic business world. INREAL Group, which consists of: Inreal valdymas UAB, Inreal UAB, Inreal Geo UAB, provides probably the widest range of real estate services in Lithuania.

Currently they have over 90 employees working for them in 11 cities in Lithuania. The company has engaged in business operations for over 20 years and implemented more than 50 real estate projects of various purposes, which received recognition and awards at contests not only in Lithuania but on an international scale as well. In 2015/16 and 2016/17 Inreal Group was named as the National Champion during the prestigious European Business Awards in the category of Business and Environmental Sustainability.



INREAL
T. Narbuto str. 5, 08015 Vilnius
Ph. +370 5 273 0000
www.inreal.lt [f](#) [in](#)

ŠIAULIŲ BANKAS

Successfully operating in the country and owning the biggest Lithuanian capital share Šiaulių Bankas was founded in 1992. Šiaulių Bankas aims to be a reliable, stable and constantly growing financial partner focusing on corporate and consumer financing.

Šiaulių Bankas takes fourth position by size in Lithuania and services its customers in 65 customer service points operating in 38 cities and towns throughout the country. The Bank has fortified its leading position in the multi-apartment renovation programme in Lithuania. Šiaulių Bankas shares are quoted on the Main List of the NASDAQ Baltics.

Magazine and portal Global Banking & Finance Review recognized Šiaulių Bankas as the Best SME bank in Lithuania 2016. International business and finance publication Global Finance nominated Šiaulių Bankas as the Best Bank in Lithuania in 2016 and 2017.



AB Šiaulių bankas
Tilžės str. 149, 76348 Šiauliai
Ph. +370 700 55055
Fax +370 41 430 774
www.sb.lt [f](#) [in](#) [ig](#)

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COBALT
Lvovo str. 25, 09320, Vilnius
Ph. +370 5 250 0800
Fax +370 5 250 0802
www.cobalt.legal [f](#) [in](#) [tw](#)

