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**LITHUANIAN ECONOMY
AND REAL ESTATE MARKET REVIEW
2018 | HALF-YEAR**

WITH PARTNERS: ŠIAULIŲ BANKAS AND LAW FIRM COBALT

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Tomas has extensive brokerage experience in the field of financial markets, investment portfolio management, and market analysing. He consults clients on the issues related to investment markets, writes articles, and provides media with commentaries on markets.

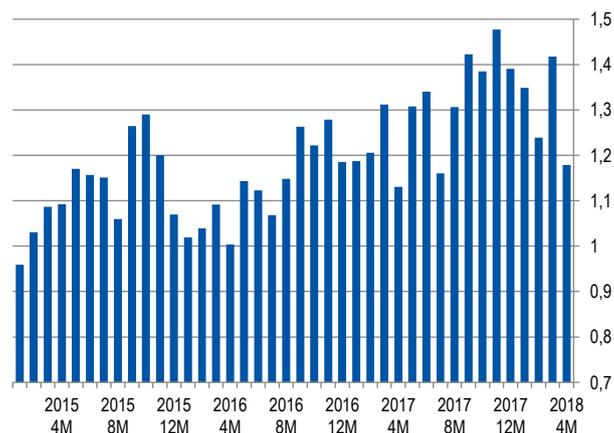
ECONOMY REVIEW

The first half-year of 2018 can be called a continuance of global economy development which has accelerated last year. As a result of improving situation in labour market, decreasing unemployment rate, favourable financing conditions, and consequently increased investment, business and consumer confidence is growing and provides favourable conditions for the global economic development. In fact, this year the economic activity in the euro-zone was lower than expected, although the actual GDP was growing more than forecasted.

The exports in Lithuania have faced with fluctuations under these circumstances. The exports have increased by 7.2 percent in the first four months this year, in comparison with the corresponding period last year; however it was 8,7 per –

cent lower than in the last four months of 2017. Such fluctuations were resulting from a slowdown in the trade with Western Europe and insignificantly growing re-exports from Russia due to lower imports. Following a rapid growth last year, Russia has slowed the pace of economic development this year.

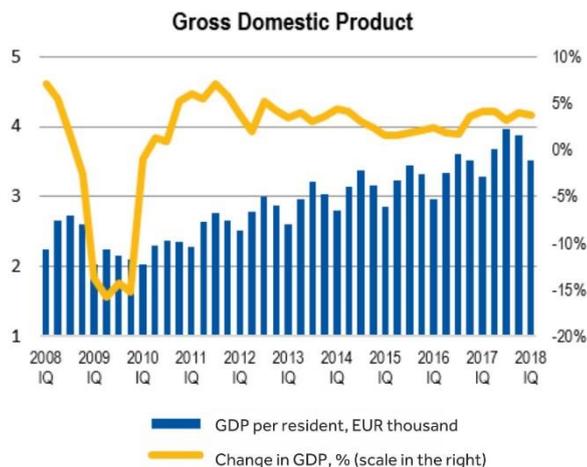
Exports of Lithuanian origin, EUR billion



Source: Statistics Lithuania

Nevertheless, the trends of economic development in Lithuania remain highly positive. The national GDP has

grown by 3.7 percent in the first quarter this year. It is forecasted that GDP, which has increased by 3.9 percent last year, will grow by 3.2 percent this year and 2.7 percent the next year. A slightly lower increase should be resulted by the deceleration of the EU economic cycle, accelerated by the European Central Bank (ECB) quantitative easing programme, which will end in late 2018; the restrictions on international trade are also leading to anxiety sentiments.

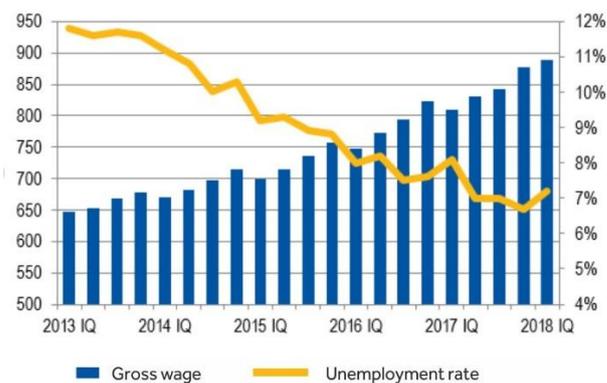


Source: Statistics Lithuania

As a result of steadily decreasing unemployment rate and increasing vacancies in the country, the business is under pressure to increase wages. Moreover, the demand for staff is significantly ahead of their supply. In the first quarter of 2018 the average wage before taxes has increased by even 10 percent, up to EUR 888; and that was the highest quarterly increase over the analysed 5-year period.

Such an increase in wages overshadowed the general growth of prices in the country. In comparison with late 2017, the growth of prices in early 2018 has significantly decelerated and was 2.9 percent in the end of May. It was also influenced by lower prices of food raw material. Inflation in Lithuania is rather unstable, but still is far behind the growth rates in the EU, which is 1.9 percent.

Wage Level, EUR



Source: Statistics Lithuania

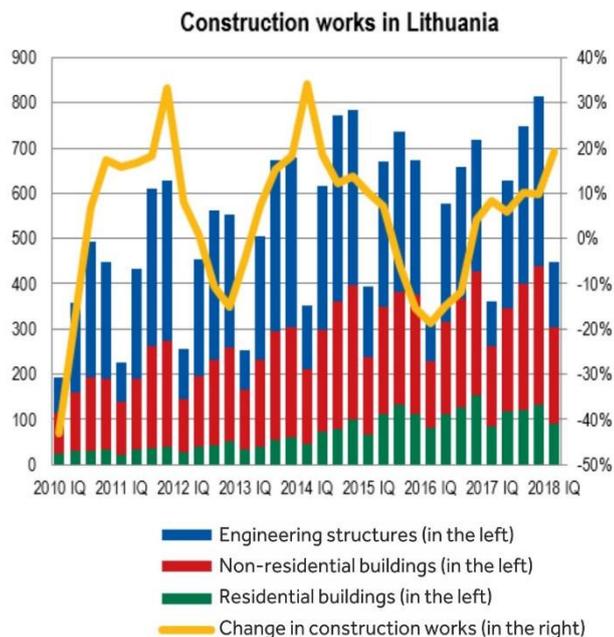
Annual Inflation in Lithuania, per cent.



Source: Statistics Lithuania

The situation in the national labour market is affected by a significant increase in labour productivity and economic activity, which is growing as a result of increasing investment.

Investment in tangible fixed assets of manufacturing enterprises has increased by 6.5 percent in the first three months this year; meanwhile, the total increase of the whole last year was 16 percent. It increased the production capacity of companies as well as the export potential.

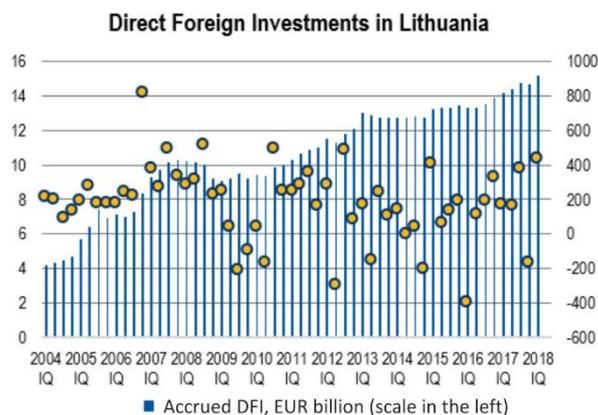


Source: Statistics Lithuania

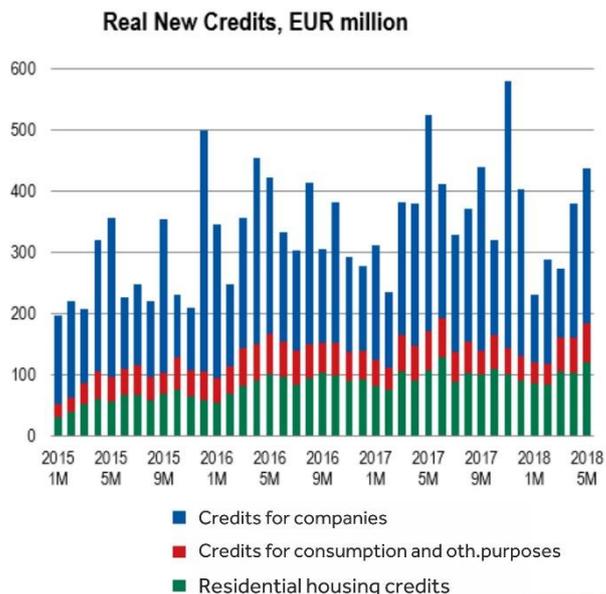
The beginning of the year was also ideal for the construction industry. Investment in engineering structures has grown by even 46 percent in the first quarter of 2018, while the average growth of the last three quarters amounted to 31 percent. The construction of residential buildings went up again following several quarters of recession in a row. The scope of construction of non-residential buildings was expanding by 20 percent in the first quarter of 2018, and that was the fifth quarter in a row when the increase exceeded 10 percent. And again the construction segment falls among the activities, which contribute to the economic development in the country the most.

Foreign investors have also noticed the progress in Lithuania. In the first quarter of 2018, the Direct Foreign Investment (DFI) in Lithuania was EUR 15.2 billion, thus being higher by 7 percent than a year ago. The average

increase in DFI in Lithuania was 7.2 percent over the last five years, i.e. the highest since 2013.



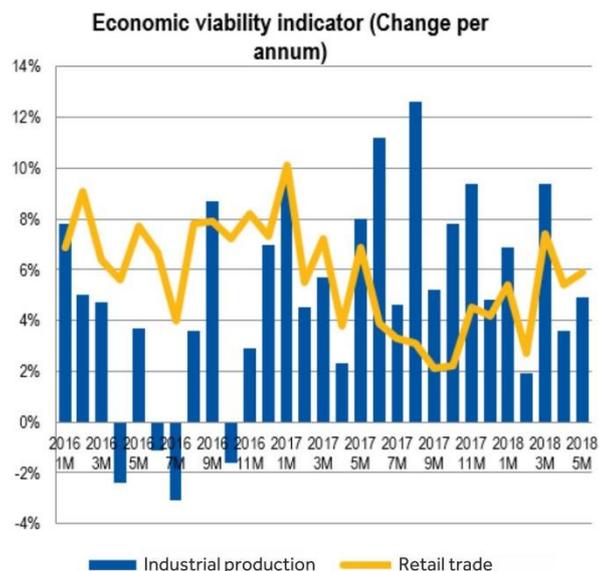
Source: Statistics Lithuania



Source: Statistics Lithuania

The retail trade, which is symbolising the vitality of national economy, seems to be recovering this year and showed a

solid growth, exceeding 6 percent, over the last three months of this year. In comparison with last year, the pace of changes in industrial production slowed down, but still remains at the stage of expansion.



Source: Lietuvos bankas

As a result of positive consumer expectations for the future, rapid credit growth and borrowing still remains in Lithuania. In March of 2018, the portfolio of loans issued to private companies was larger by 6 percent than a year ago; meanwhile the residential housing credits have increased by 8 percent. In turn, the consumer credit portfolio has increased by 5 percent.

Due to a moderately growing interest rate, it is likely that the household borrowing rates will continue to grow slowly. This year the average interest rate of new housing credits already is 0.2 percent higher than a year ago. As a result of accelerating inflation ECB plans to start increasing the base interest rate in mid-2019. Such trends will inevitably increase the risks involved in the segment.

Therefore, the early 2018 was a positive period for the economy in Lithuania. Global economic development enabled further increase in the activity of national industry and exports, as well as attract new investments, what resulted in higher labour demand and productivity, lower unemployment rate, and higher residents' satisfaction. Although, the national economic growth is forecasted to be slower this year and next year, it still remains rather significant and stable.



Robertas Žulpa, INREAL Analyst

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

**HOUSING MARKET REVIEW
LITHUANIA**

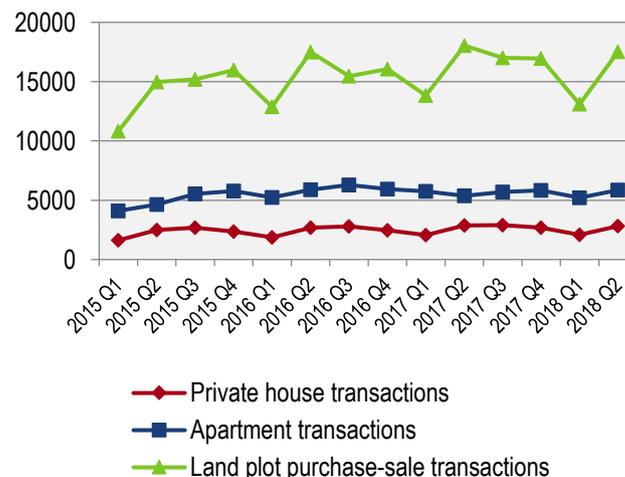
In the first half-year of 2018 the real estate (RE) market in Lithuania maintained positive moods, however, in comparison with the corresponding period in 2017, the transaction volumes have decreased. According to the data of the State Enterprise Centre of Registers, there were 16,005 (0.2 percent less) apartment, 4,917 (0.2 percent less) private house / cottage and 30624 (3.9 percent less) land plot purchase-sale transactions made in Lithuania during this period.

VILNIUS

The statistical data of the State Enterprise Centre of Registers (hereinafter – CR) shows great results. According

to the CR data, there were 5,407 (8.5 percent more) apartment and 403 (14.8 percent more) private house / cottage transactions made in Vilnius in the first half-year of 2018.

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

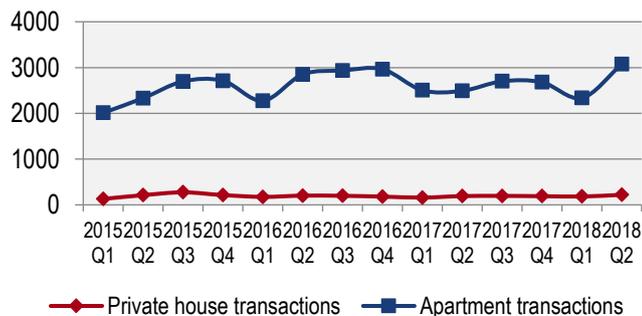


Source: SE Centre of Registers

The increase in private house / cottage transactions reflects an increasingly growing popularity of such housing. Meanwhile the increase in apartment transactions was resulted by the increase in new construction apartment transactions. The total number of registered new apartment

transactions was 2,006, i.e. 27.5 percent higher than a year ago. The sales of old construction apartments have remained stable (3,400 apartments) and matched the results of the first half-year of 2017. New construction apartment transactions were mostly resulted by the “accumulated” previous sales made by the developers in the primary market, when the project is completed and the apartments are registered in CR and only then they appear in CR statistics.

Apartment and private house transactions in Vilnius (units)



Source: SE Centre of Registers

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

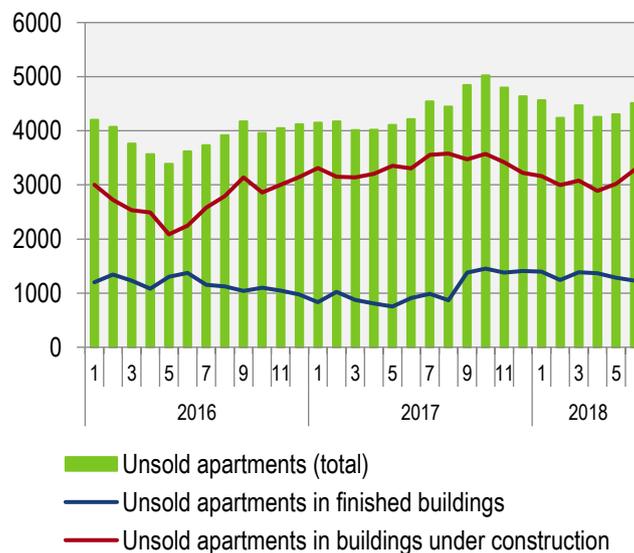


Source: Inreal

The trends are not at the very best in Vilnius primary housing

market: in comparison with the same period in 2017, the demand as well as the supply has decreased significantly. During the first half-year of 2018 the developers sold 1,670 and offered 1,590 apartments for the new market. Respectively, it is 15 percent and 23 percent less than last year. The decreasing sales in the primary market will be reflected in the future CR transaction statistics, therefore, it is likely that one will see decreasing numbers of transactions registered by CR, unless the sales of more affordable old construction housing shows significant increase.

New construction apartments, unsold in Vilnius (units)



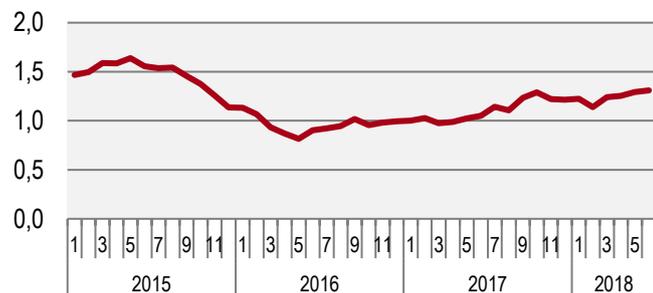
Source: Inreal

Since the sales surpassed the new supply in the first half-year, therefore the total number of unsold (available and reserved) apartments in the capital city in the middle of the year was 4,510 and was approx. 2 percent less than in the beginning of 2018.

Due to a decline in the primary market sales, the conditions

for the emergence of new projects gradually deteriorate – the liquidity rate has increased from 1.2 in the beginning of the year to 1.3 in mid-2018. On the other hand, this rate still shows good liquidity in the market and makes relatively favourable conditions for the RE developers to launch new projects.

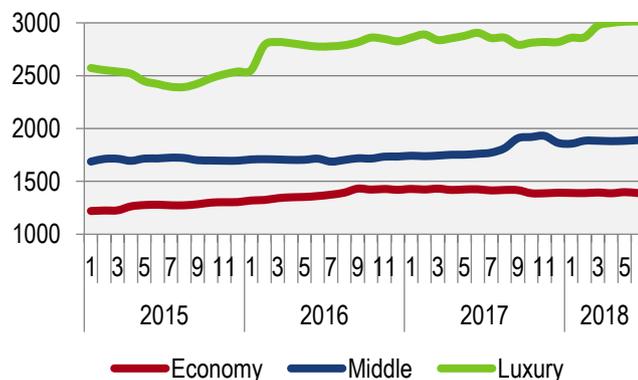
Liquidity rate of new apartments in Vilnius



Source: Inreal

In the first half-year of 2018 the growth of asking prices for new construction apartments in Vilnius has become stale.

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



Source: Inreal

From the beginning of the year, the increase in prices was

observed only in luxury segment, because the prices of almost all new luxury projects were higher than the average rate of the entire segment. It has increased the total average up to 3,010 EUR/sqm. The prices in the mid-class segment have increased by 1.4 percent in the last half-year and reached about 1,890 EUR/sqm in the mid-2018. Meanwhile the asking prices for the economy-class apartments have decreased by 0.2 percent from the beginning of the year, and reached about 1,390 EUR/sqm in the mid-2018. The number of unsold apartments in this segment is the highest; therefore the developers need to make the most of their efforts to attract customers' attention. This segment is distinguished by many direct or indirect discounts, and the purchasers have the greatest negotiating leverages.

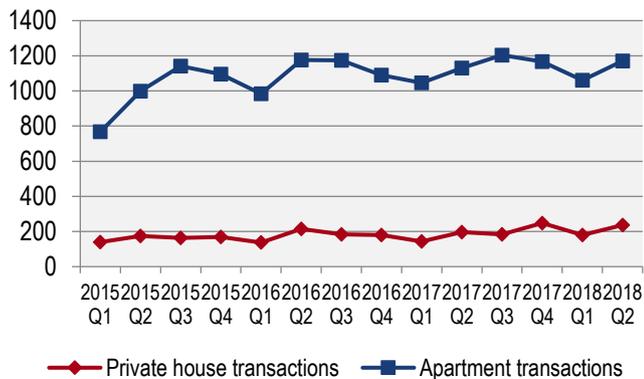
KAUNAS

In the first half-year of 2018, the growth of apartment transactions in Kaunas was more moderate than in the capital city – according to the CR data, 2,230 apartment transactions were made (2.4 percent more than in the corresponding period last year). One of the reasons is the increasing popularity of private houses/cottages segment - there were 415 (by 22.0 percent more) of private houses/cottages purchase-sale transactions made in the latter half-year. The growing popularity of private houses makes no surprise – the real estate prices in this segment are significantly lower than apartment prices, and their growth is very moderate. Moreover, a purchaser gets larger residential area and a private small land-plot for the same price. Active establishment of companies in Kaunas region allows expecting further growth in the private house/cottage segment sales.

In comparison with the last year, Kaunas primary apartment market has become slower – in the first half-year of 2018, there were 250 apartments sold in Kaunas, i.e. 2.7 percent less than in the first half-year of 2017. The developers in Kaunas were even more passive and supplied the market

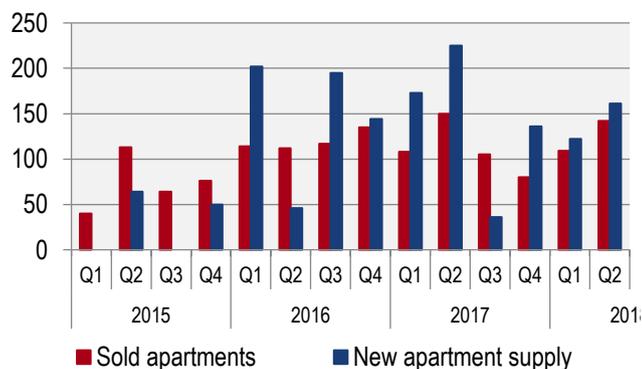
with 283 new construction apartments, i.e. 28.9 percent less. It seems as if in 2016-2017 the housing market in Kaunas had reached its peak and now we are seeing a balanced period of stability. On the other hand it is likely that the international fast-growing companies establishing new jobs and launching their work in Kaunas will give a boost to the further growth of the new housing market in this city.

Apartment and private house transactions in Kaunas (units)



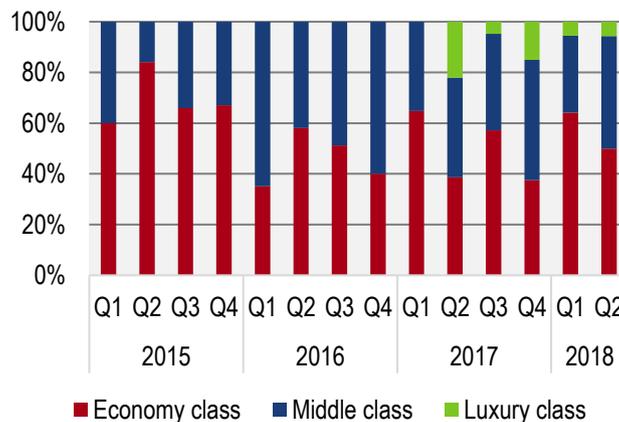
Source: SE Centre of Registers

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



Source: Inreal

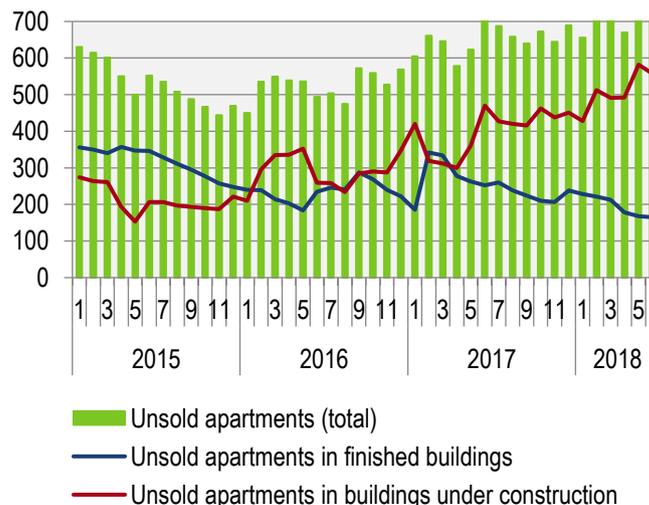
Apartment sales under class (percent)



Source: Inreal

In the first half-year of 2018, the major share of demand in Kaunas primary market covered economy-class apartments. Respectively, the sales in this segment covered the largest share.

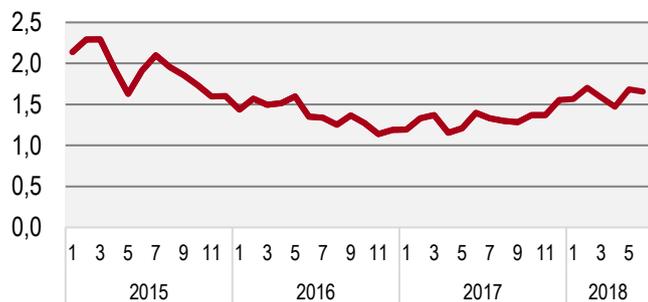
New construction apartments, unsold in Kaunas (units)



Source: Inreal

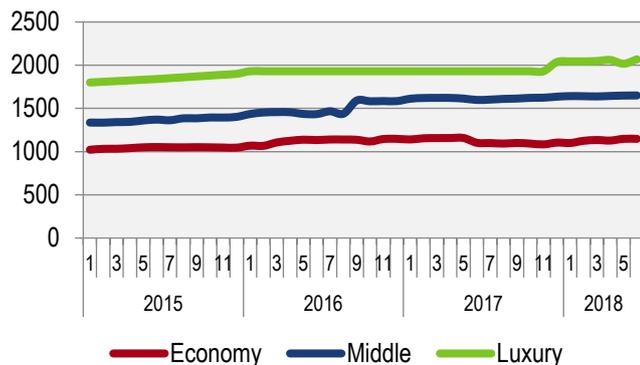
The new supply in 2018 slightly exceeded the sales of new apartments, therefore from the beginning of the year the total number of unsold (available and reserved) apartments in Kaunas has increased by 5 percent up to about 720 apartments in the middle of the year. The liquidity rate has also become worse: from 1.6 to 1.7.

Liquidity rate of new apartments in Kaunas



Source: Inreal

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



Source: Inreal

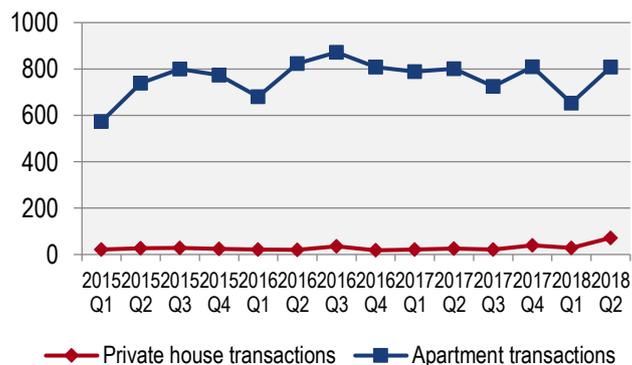
From the beginning of 2018, the asking prices of new construction apartments in Kaunas were increasing in all segments. The prices in the mid-class segment have increased insignificantly by 0.9 percent from the beginning of

the year and the average currently is 1,650 EUR/sqm; the asking prices of economy-class apartments have increased by 3.9 percent and reach 1,148 EUR/sqm. The highest increase in the half-year was observed in the asking prices of luxury-class apartments: 7.2 percent and amount to 2,068 EUR/sqm. The luxury-class segment in Kaunas covers only several projects, and the number of apartments in the supply is relatively low, therefore any insignificant changes or one more expensive project in the market result in noticeable changes in prices.

KLAIPĖDA

In the first half-year of 2018, Klaipėda apartment market slowed down and private house / cottage market made a big jump to the top in comparison with the corresponding period last year. According to the data of the State Enterprise Centre of Registers, there were 1,460 (8.2 percent less) apartment and 100 (2.2 times more) private house / cottage purchase-sale transactions made in the first half-year of 2018.

Apartment and private house transactions in Klaipėda (units)



Source: SE Centre of Registers

One of the greatest challenges of Klaipėda RE market is the migration of residents from the city to its suburbs or region. This trend should further continue, because Klaipėda region has many vacant land-plots suitable for private houses, to

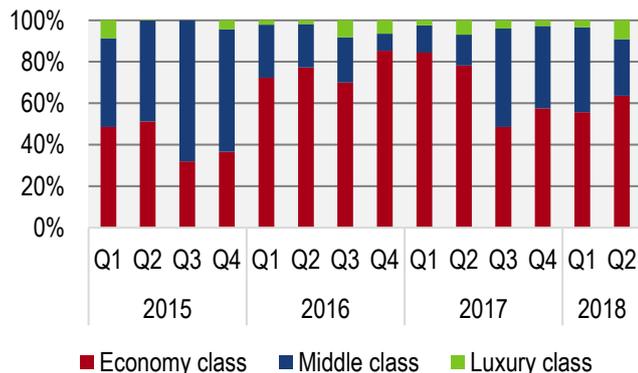
settle down in own housing and have a relatively good communication with the city centre. Therefore, there are not many suppositions for the demand of housing, particularly apartments, to grow in Klaipėda city.

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



Source: Inreal

Apartment sales under class (percent)

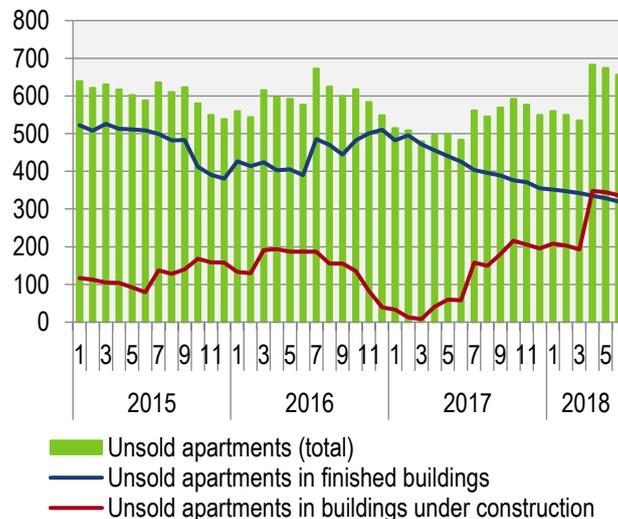


Source: Inreal

In the first half-year of 2018, the purchasers in Klaipėda apartment market were four times more passive than a year ago – 130 new apartments were bought. Meanwhile,

developers were much more active and supplied the market with 230 new apartments, i.e. 1.2 times more than in the first half-year of 2017. It is noticed that recently the activity of developers in Klaipėda has been increasing. Growing demand for new, modern and high-quality housing in the primary market allows us expecting more active purchasers' actions.

New construction apartments, unsold in Klaipėda (units)



Source: Inreal

In the first half-year of 2018, economy-class apartments have made the largest shares of supply and sales in Klaipėda primary market.

The new supply in 2018 has significantly exceeded the sales of new apartments, therefore the total number of unsold (available and reserved) apartments in Klaipėda has increased by 20 percent from the beginning of the year to around 660 apartments in the middle of the year. Meanwhile, the liquidity rate degraded from 1.6 to 2.1 within the half-year. If the liquidity rate remains at 2 for a longer period, the conditions to develop new projects in Klaipėda will become

less favourable, since the competitiveness among developers will grow, thus resulting to a growing pressure to reduce asking prices.

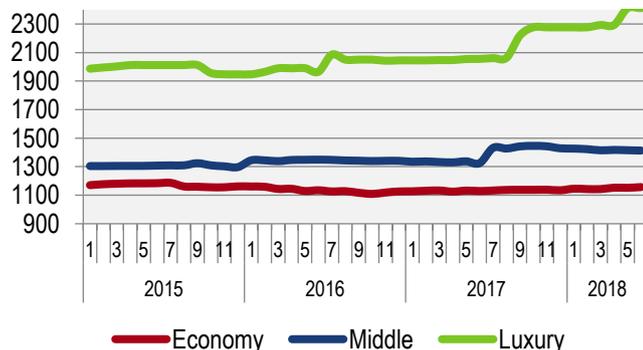
Liquidity rate of new apartments in Klaipėda



Source: Inreal

In 2017, the balance between the supply and demand has changed insignificantly, therefore the liquidity rate calculated by INREAL was the same as in late 2017 as well as in the beginning of the year, i.e. 1.6.

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



Source: Inreal

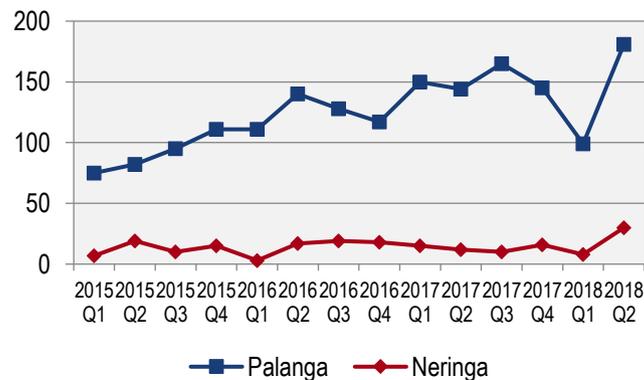
In the first half-year of 2018, the asking prices of new construction apartments in Klaipėda were changing in all

segments differently. The prices of economy-class and luxury-class apartments grew by 2.0 and 5.9 percent, respectively, and the average prices are approximately 1,159 EUR/sqm and 2,411 EUR/sqm. Meanwhile, the average price of middle-class apartments is about 1,413 EUR/sqm and decreased by 1.1 percent from the beginning of the year.

PALANGA AND NERINGA

In the first half-year of 2018, Palanga market was less active in comparison with the corresponding period in 2017. According to the data of the State Enterprise Centre of Registers, there were 280 (4.8 percent less) apartment purchase-sale transactions made in the first half-year of 2018. Meanwhile, the RE market in Neringa was much more active in the first half-year of 2018 than a year ago – there were 40 (40.0 percent more) apartment purchase-sale transactions made.

Apartment transactions in Palanga and Neringa (units)



Source: SE Centre of Registers

The RE market slowdown in the first half-year of 2018 was observed in Palanga primary market; there were 117 apartments sold, i.e. 32 percent less than in the first half-year of 2017. The developers offered 140 new apartments, and this is more than twice less than in the first half-year of 2017.

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



Source: Inreal

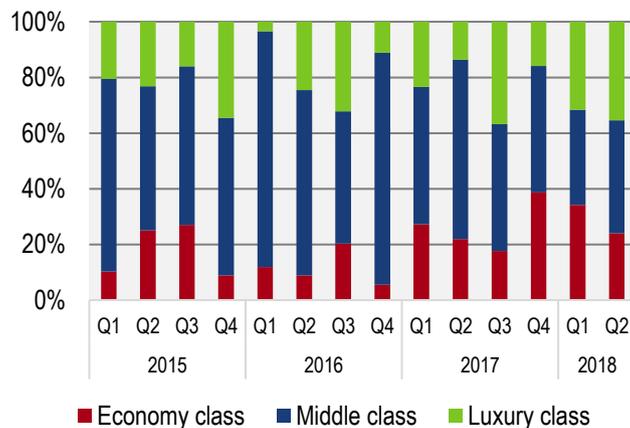
The purchasers and developers of new apartments in Neringa was also twice more passive than in the first half-year of 2017. There were 8 new apartments bought, and 28 apartments offered, i.e. 43 percent less than a year ago.

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



Source: Inreal

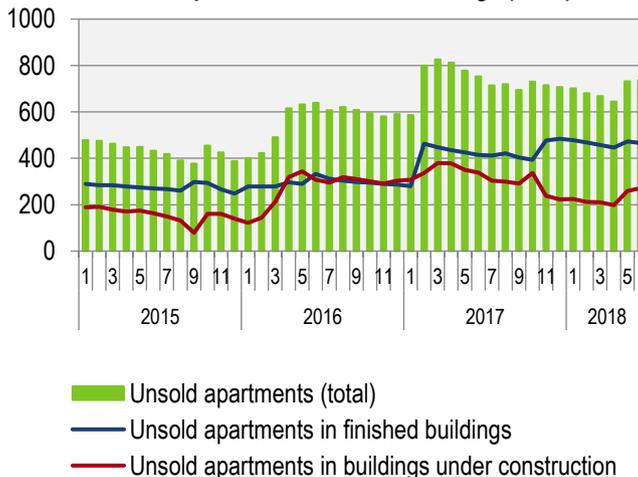
Apartment sales under classes in Palanga (percent)



Source: Inreal

The new supply in 2018 exceeded the sales of new apartments, therefore the total number of unsold (available and reserved) apartments in Klaipėda has increased by 20 percent from the beginning of the year to around 660 apartments in the middle of the year.

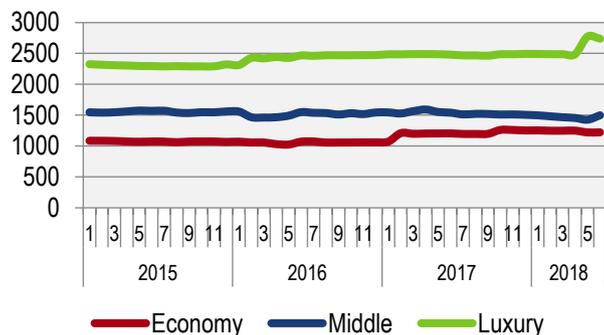
New construction apartments, unsold in Palanga (units)



Source: Inreal

The total number of apartments unsold in Palanga over the first half-year of 2018 has increased by 4 percent up to 740 unsold (available and reserved) new construction apartments.

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



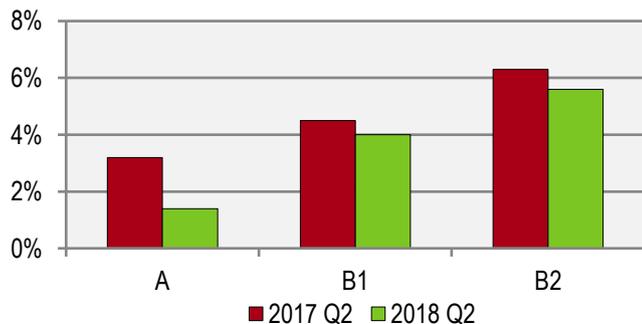
Source: Inreal

In the first half-year of 2018, the asking prices of new construction apartments in Palanga have changed differently in all segments. The asking prices of economy-class and middle-class apartments decreased by 2.4 and 0.5 percent, respectively, and the average prices were about 1,222 EUR/sqm and 1,498 EUR/sqm in the middle of the year. Meanwhile, the asking prices of luxury-class apartments have increased by 9.9 percent from the beginning of the year and reached about 2,740 EUR/sqm in the middle of the year.

BUSINESS CENTRE MARKET REVIEW

Due to a favourable business and economic environment, currently the segment of offices is very active and liquid, the demand for modern offices is particularly high, and the range of lessees is diverse: from local expanding companies to establishing new foreign companies. During the first half-year of 2018, only one business centre was opened in Vilnius; it has added about 8,500 sqm of gross leasable area. By the end of the year, there will be 5 new office projects launched in the capital city; they will add about 56,000 sqm of gross leasable area to the market. In 2019, it is expected to open at least another 6 business centres with 75,000 sqm of gross leasable area. Regardless of high development paces, the demand for modern business centres in the capital city is particularly high, and almost the entire new area is taken up. During the first half-year of 2018 the total vacancy rate in Vilnius has decreased from 5.4 to 3.7 percent, and is the lowest in Europe. The decrease in overall vacancy rate was mostly resulted by the decrease in vacancies in B1 and B2 segments, where vacant area covered 4 and 5.6 percent, respectively, at the end of the first half-year of 2018. Meanwhile, the vacancy rate in Class A segment was only 1.4 percent.

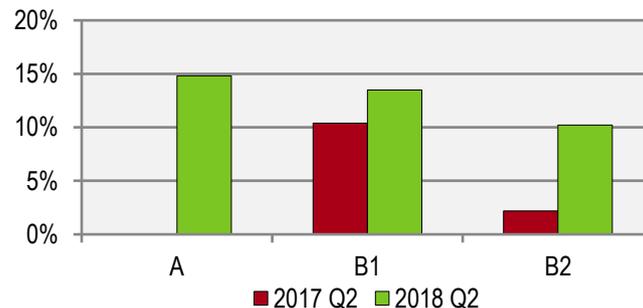
Dynamics of vacancies in Vilnius business centres under classes



Source: Inreal

In the first half-year of 2018, there were 9 new business centres with gross leasable area of 35.900 sqm opened in Kaunas. The major share of newly opened area in Kaunas was partially leased, therefore, in comparison with the beginning of the year, the vacancy rate has increased twice by mid-2018 and was 12.4 percent. The vacancy rate in Kaunas Class A segment was 14.8 percent, B1 segment – 13.5 percent, and B2 segment 10.2 percent. By the end of the year, there will be at least 2 new office projects opened in Kaunas; they will add the market with about 3,500 sqm. The opening of at least 5 business centres is expected in 2019, which will add about 40,000 sqm of leasable area.

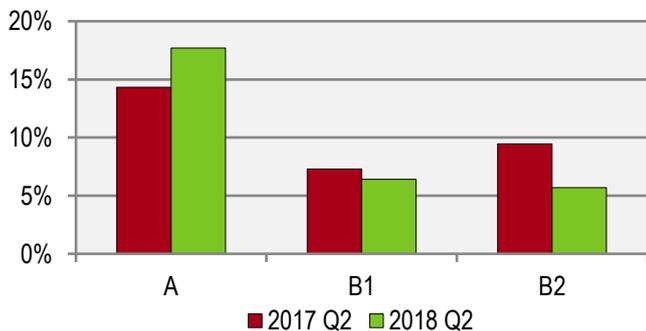
Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

In the first half-year of 2018, the overall vacancy rate in Klaipėda was 9.9 percent and has not changed from the beginning of the year. The expansion of new offices in Klaipėda is very sluggish, since the vacancy of modern offices has been particularly high several years in a row, therefore currently the conditions for new offices to occur in this city are not favourable. In 2018, one multipurpose project will be launched; it will offer about 2,000 sqm of administrative premises. Moreover, the construction of two small office buildings (up to 1,000 sqm) is expected in the nearest future. Meanwhile, there is no information about any larger new office projects, although the port city has drafted several new office projects, which could be launched once needed.

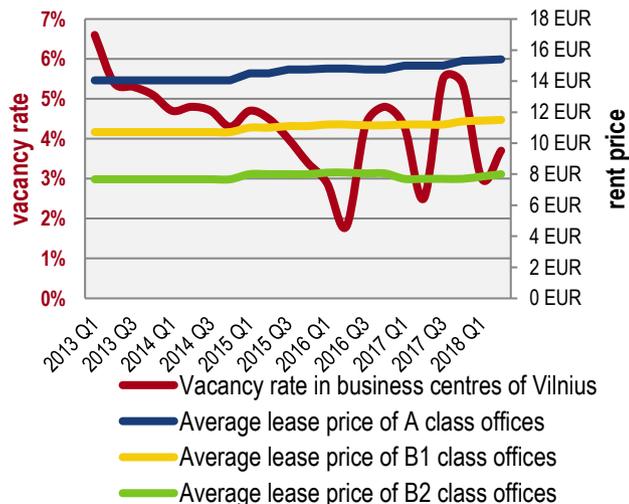
Dynamics of vacancies in Klaipėda business centres under classes



Source: Inreal

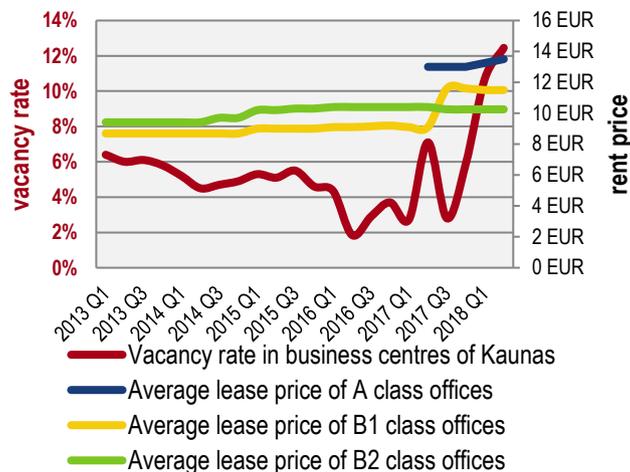
In the first half-year of 2018, the lease prices in Vilnius, particularly those of higher class, have an insignificant trend of increase, regardless of rapidly growing supply of leasable area. Currently the average lease prices of Class A offices in Vilnius are 14-17 EUR/sqm, B1 – 10-14 EUR/sqm, and B2 – 7-10 EUR/sqm.

Dynamics of lease prices and vacancies in Vilnius business centres



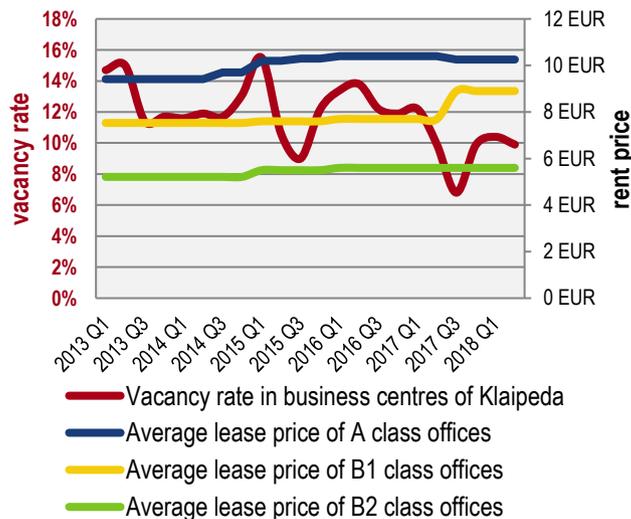
Source: Inreal

Dynamics of lease prices and vacancies in Kaunas business centres



Source: Inreal

Dynamics of lease prices and vacancies in Klaipėda business centres

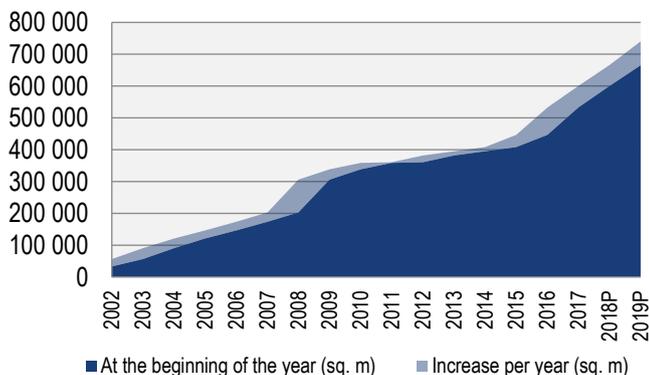


Source: Inreal

The new business centres in Kaunas have raised the quality and price level, and currently the average lease prices of Class A offices in Kaunas are 12-14 EUR/sqm, B1 – 9-12 EUR/sqm, and B2 – 6-9 EUR/sqm.

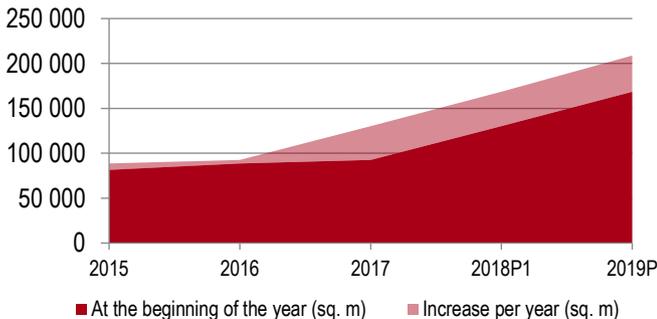
In the first half-year of 2018, the vacancy rate of Class A segment in Klaipėda was growing, meanwhile it has fallen in B1 and B2 segments; however, the vacant area in Klaipėda still remains too large, in order to start thinking of growing leases prices. Currently the average lease prices of Class A offices in Klaipėda are 9-13 EUR/sqm, B1 – 7-9 EUR/sqm, and B2 – 5-8 EUR/sqm.

Expansion of modern business centres in Vilnius, sq.m



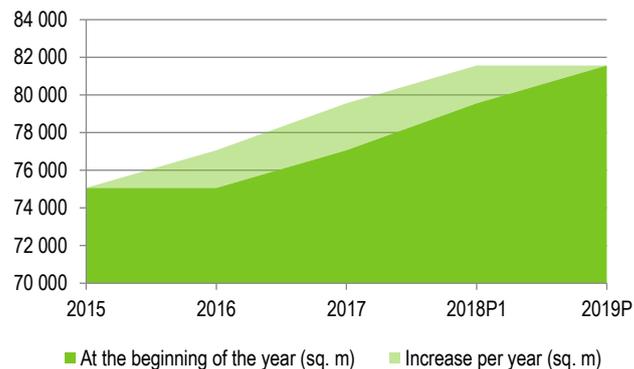
Source: Inreal

Expansion of modern business centres in Kaunas, sq.m



Source: Inreal

Expansion of modern business centres in Klaipėda, sq.m

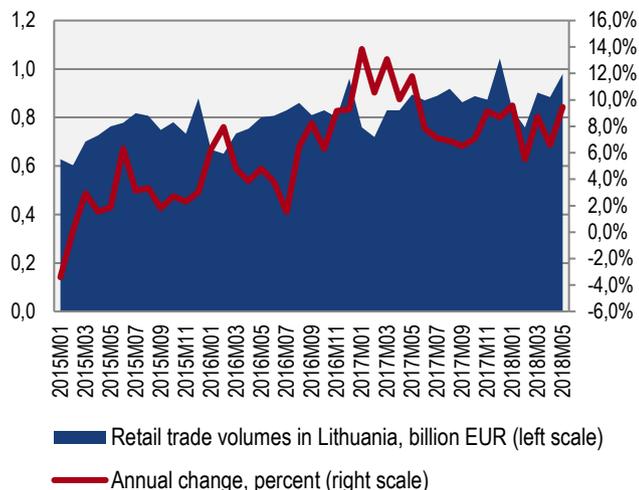


Source: Inreal

SHOPPING CENTRE MARKET REVIEW

In comparison with the corresponding period a year ago, retail trade volumes in Lithuania increased by 9.5 percent in the first half-year of 2018. The sector has been growing similarly for several years in a row.

Retail trade volumes in Lithuania, billion EUR



Source: Department of statistics

The main causes which allow expecting retail trade to grow are positive expectations of people, stable and low unemployment rate, and rapidly increasing wage. Due to these factors residents generate more income resulting in higher consumption.

In comparison with the corresponding period last year, the average vacancy rate in shopping centre segment has increased in the cities. However, the demand for trade premises is high, therefore the premises vacated by lessees are quickly occupied by the new ones.

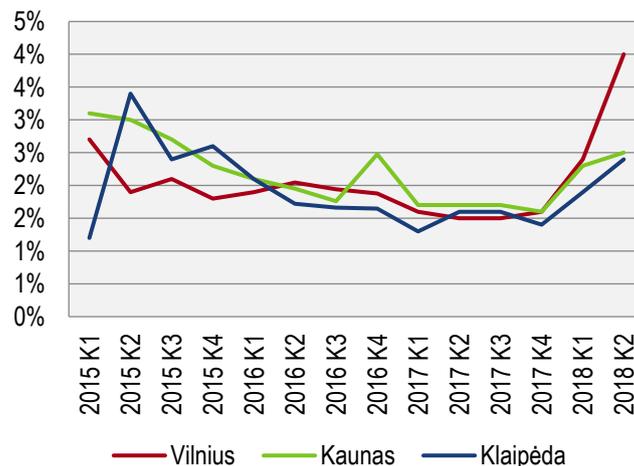
Positive trends in the trade segment promote RE developers and investors to look at this sector more courageously. In

2018, the largest investment transaction in the Baltic States was concluded in the commercial segment – the shopping centre “Ozas” was sold to the purchasers from the Republic of South Africa for EUR 125 million. Moreover, at the end of the half-year, Klaipėda shopping centre “BIG” was transferred to the new purchasers for EUR 25 million.

In the first half-year of 2018, the shopping centre “DEPO” was opened in Vilnius. Moreover, another two shopping centres “DEPO” are being built in Vilnius and Kaunas. The construction of one more shopping centre “DEPO” is expected to be launched in Šiauliai in the future.

Ogmios Group Company soon plans to start the construction of a new shopping centre (60,000 sqm) in Vilnius. It is also noticed that more and more long-standing large shopping centres are planning renewal and expansion in the near future.

Dynamics in shopping centre vacancies in the major cities, percent

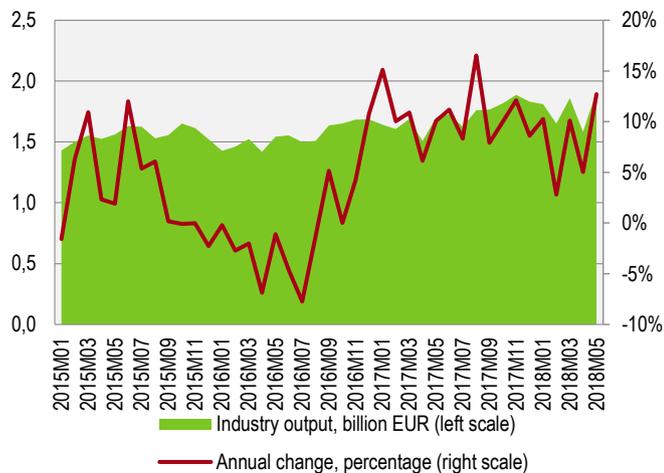


Source: Inreal

INDUSTRIAL AND WAREHOUSING MARKET REVIEW

One of the basic sectors promoting Lithuanian economy showed good results in the first half-year of 2018 – in comparison with the first half-year of 2017, the volumes of industrial production increased by approx. 12.7 percent. The growing industrial confidence index reflects representatives' stable moods in the industrial sector; in the first half-year of 2018 it was growing and was the highest over the last several years.

Industry output in Lithuania, billion EUR

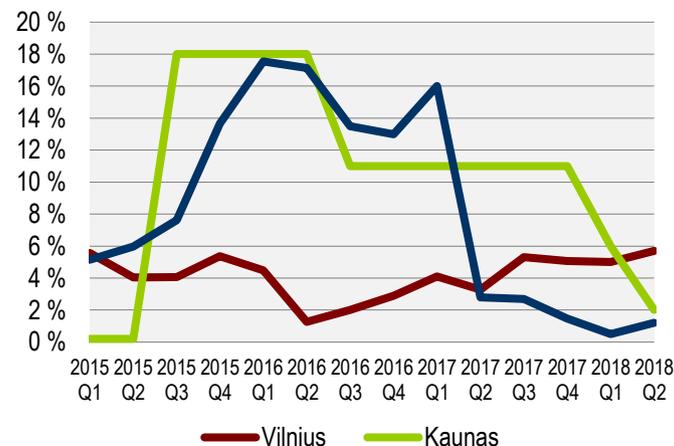


Source: Department of statistics

As a result of positive moods and low vacancy rates in this sector, the expansion of warehousing premises and logistics centres for lease was carried out in Vilnius and Kaunas in the first half-year of 2018. One logistics centre with an area of 6,400 sqm was opened in Vilnius. The construction of two logistics centres will be finished in the capital city by the end of the year and they will supply the market with up to 28,000 sqm GLA. A logistics centre with an area of 12,300 sqm was opened in Kaunas. One more logistics centre with an area of

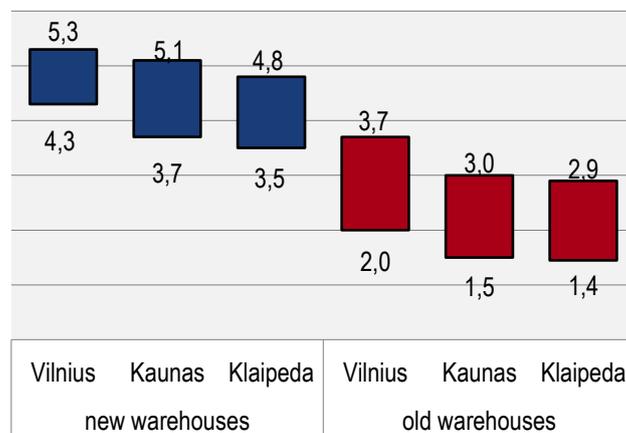
5,500 sqm will enter the market by the end of the year. There were no warehousing projects in Klaipėda in the last half-year; however, the construction of two logistics centres are currently going on, which will supply the market with 25,000 sqm GLA.

Dynamics of vacancies in modern logistics centres in Lithuania, percent



Source: Inreal

Lease prices of logistics centres in Lithuania, EUR/ sq. m



Source: Inreal

The expansion of warehousing sector is one of the most sluggish in the country; although the competition is not high and the prices tend to grow, the payback time is not worse than in other commercial projects. There are opportunities to earn in this RE segment, but the business is sluggishly using them. One of the main reasons can be that business is reluctant to take risks, since the logistics and production companies are most likely to respond to macroeconomic changes; therefore they prefer to invest in less risky commercial and residential projects.



Simas Paukštys, Associate at Law Firm COBALT

Simas is an Associate at COBALT, focusing his practice on real estate and infrastructure law. He advises on construction, territorial planning, real estate acquisition and related dispute resolution matters. Simas has worked on various-sized real estate and infrastructure development and acquisition projects and has provided counselling on other issues of disposal of assets.

REAL ESTATE LAW AND TAX NEWS

The first half of 2018 confirmed an increasingly conspicuous trend that the legislator does not plan to essentially reform territorial planning, construction and other related areas, i.e. the amendments that have been adopted or entered into force over that period are modest and mainly intended to achieve regulatory alignment with other areas (e.g. national defence) or EU legislation.

A significant judgment rendered by the European Court of Human Rights at the beginning of the year in *Tumeliai v Lithuania* has been endorsed in the case-law of the Supreme Court of Lithuania. Currently, the court of last resort has endorsed the following main rules stemming from the above judgment: the principle of good governance should not prevent the authorities from correcting mistakes, even

those resulting from their own negligence; however, the risk arising from any mistake made by a State authority must be borne by the State itself, and errors must not be remedied at the expense of the individuals concerned. Furthermore, even if it is found that construction is illegal, the issue of consequences should be decided by reference to legally relevant circumstances, including the duty of the public authorities to ensure that their actions are compliant with the legal acts, to act diligently and in a timely manner.

The regulatory changes also include the restated Law on Concessions, which entered into force at the beginning of the year. The restated Law extends the range of possible concession holders, provides for new price calculation and concession contract amendment rules and includes provisions which allow more than one person to participate in final negotiations.

A somewhat stronger focus was also placed on land issues, and in particular agricultural land. The amendments to the Law on the Acquisition of Agricultural Land having entered into force at the beginning of the year have lifted the qualification requirements for acquirers of land. This notwithstanding, the core limitation imposed by the Law remains unchanged: the maximum area of an agricultural

land holding that a person (together with related persons) may have is 500 ha.

Finally, at the end of the half-year, publication of the solutions of the new General Plan of Vilnius City was started and received substantial attention from the parties concerned. The newly developed General Plan, unlike the current plan, includes details of every urban block and its regulated area, which is likely to simplify conditions for construction in those territories that are not included in the territorial planning documents at a locality level.

Effective 1 January 2018, the restated Law on Concessions was adopted with the aim of aligning national regulation with European Union law. The amendments distinguish between two types of concession: (i) works concession to carry out the works and exploit the outcome of such works; and (ii) services concession to provide services and/or public services, organise the provision of such services. Also, the Law has abolished the definition of the maximum duration of a concession contract and provides for circumstances when a concession contract may be amended. Besides, from now on, tenderers will be required to indicate all subcontractors they intend to engage in the performance of a concession contract. Finally, if a tender submitted by a tenderer included in the list of tenderers is similar to the highest scoring tender (up to 15%), such tenderer is also invited to participate in a negotiated procedure (the awarding authority has the right to invite to participate in a negotiated procedure the tenderer whose tender is the second highest scoring tender, even though the difference between the first and second ranked scores is more than 15%).

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 have repealed 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 sets forth 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.

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 May 2018, amendments to the Law on Construction entered into force, introducing the requirement that buildings have to be adapted to meet the demands of people with special needs and have to provide baby nursing and baby care facilities also in the cases where, based on the list approved by the Minister of Environment, ordinary repairs are carried out or the intended use of the premises is changed. Besides, **11 November 2018** is the scheduled effective date for amendments which concern construction operations in territories intended for the needs of national defence. The amendments change the procedure and conditions for issuing permits for construction or demolition operations intended for the needs of national defence. The amendments further establish that there is no mandatory requirement to inform the public about the proposed development of a design of a construction works intended for the needs of national defence. Eventually, provisions have been added which state that the Head of Administration of the municipality is obligated to notify the public not only of the proposed development of a design of a construction works of public interest or a design of a construction works on a land plot for which no territorial planning documents are available at a locality level, but also the very fact of

participation of the public in the consideration of the design proposals of a construction works.

As of 1 May 2018, amendments to the Law on Land entered 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.

Effective 1 May 2018, an amendment to the Law on Territorial Planning entered into force. It provides that in the cases when underground deposits are not represented on the general plans at a municipal level, plans for deployment of underground natural resources in non-urbanised territories and territories not subject to urbanisation may be prepared and used to change the main designated purpose of land use where in the territorial planning documents or the designs of a land holding there is no engineering infrastructure and its development planned for those territories. Furthermore, amendments establishing new provisions with respect to territories intended for the needs of national defence are due to come into force **as of 11 November 2018**. By virtue of the amendments, the Ministry of National Defence may give proposals to the municipality to revise the municipality-level and locality-level general plan where development of territories not reflected in municipality-level and location-level general plans is necessary for ensuring the needs of national defence. In addition, territorial planning involving territories intended to serve the needs of national defence is not public.

As of 1 January 2018, amendments to the Law on Immovable Property Tax 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.

Moreover, the above amendments repealed the provisions that exempt value applies to all non-commercial real estate that is owned or acquired by family members. As a result, real estate tax should be calculated using individual exempt value which applies on a case-by-case basis to every natural person who owns (acquires) non-commercial property. Similarly, individual exempt value is also separately applied to spouses holding such real estate as marital property.

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, clients, and partners. INREAL positions creativity as a core value in the dynamic business world. INREAL Group, which consists of: [UAB “Inreal valdymas”](#), [UAB “Inreal”](#), and [UAB “Inreal GEO”](#), 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, 2016/17 and 2017/18 INREAL Group was named as the National Winner during the prestigious European Business Awards.

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ŠIAULIŲ BANKAS

Šiaulių Bankas AB was established in 1992. It is a bank successfully operating in Lithuania and holding the biggest share of Lithuanian capital. Šiaulių bankas strives to be a reliable financial partner maintaining stable and consistent growth, focussing on business financing and consumer financing solutions. Šiaulių Bankas AB is the fourth biggest bank in Lithuania servicing customers at 63 customer servicing divisions in 37 towns and cities in Lithuania. The Bank is the leader in financing renovation of apartment buildings in the country. Šiaulių Bankas AB' shares have been included in the official trading list on the NASDAQ Baltic Exchange. In 2016 magazine and portal “Global Banking & Finance Review” nominated Šiaulių Bankas AB as the best SME [small and medium-sized enterprises] bank in Lithuania. The international business and finance publication “Global Finance” announced Šiaulių Bankas AB as the best bank in Lithuania in 2016 and in 2017.

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COBALT is a leading law firm in the Baltics, already a five-time winner of the Baltic Law Firm of the Year Award. COBALT lawyers are consistently ranked in the top tier by the major legal directories Chambers Global, Chambers Europe, Legal500 and IFLR 1000. More than 190 lawyers provide full scope of services to local, regional and international corporations, funds, credit institutions and companies, as well as individuals in all areas of business law.

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