

in real

**MARKET REPORT
ECONOMIC AND REAL
ESTATE TRENDS
Q3 2014**



RAIDLA LEJINS & NORCOUS

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SUMMARY

The increase in transactions in the housing market fizzled out and it seems that the ceiling has been reached for some time. There were 7,549 apartment transactions concluded within the third quarter, i.e. 0.7 percent more than in the corresponding period a year ago. The increase in private house transactions reached 3.2 percent (3,382 transactions). Nevertheless, the developers of real estate are not reducing the pace, therefore a more pronounced imbalance between the demand and supply is formed in the market, especially in the capital city.

The amount of apartments unsold (vacant or reserved) in Vilnius is reaching almost 4,000 – this is a record-breaking amount of unsold apartments. However, sale statistics shows that currently existing supply could be sold out in the period of 1.27 years, averagely, and this index is still quite good. Unfortunately, the trends show the decline of this index, thus adequately it means the upcoming challenges and higher competitiveness for RE developers. If this index exceeds 2, more reductions of RE prices may appear. If this index fluctuates about 1.5, the prices in the market are stable. In addition, much also depends on the developers' experience. Since the apartment sale statistics shows that the old-timers of the market sell their projects twice faster than newcomers, therefore one may assume that it will be difficult to compete for less experienced RE developers. The competitiveness should mostly prevail in the economic-class segment, where the amount of transactions has decreased rapidly from 719 apartments, sold in the first quarter of 2014, to 210 apartments, sold in the third quarter. Meanwhile, the sale of upper class apartments has remained stable in comparison with the first quarter of 2014, and even went up by 10.1 percent in comparison with the corresponding quarter of 2013. It is likely, that the purchasers of the economic class apartments could return in the event of less geopolitical tension and risks related to it, because many transactions are concluded in this segment through borrowing funds and the purchasers are particularly sensitive to different external factors.

Despite the increasing supply of new apartments, the prices in the primary market are not decreasing, because the liquidity rate in the market remains rather high. At the end of the quarter the total average rate of new construction apartment prices in Vilnius reached about 5,460 LTL/sq.m. and has increased by approx. 9 percent over the last year. The total average rate of new construction apartment prices in Kaunas has increased by

approx. 4 percent over the last year and reached 3,850 LTL/sq.m. At the end of the quarter the average price of new construction apartments in Klaipeda reached about 4,290 LTL/sq.m., i.e. by 2 percent more than a year ago. The highest increase in asking price of new construction apartments was in Palanga, where the prices have increased by 13 percent and reached about 5,840 LTL/sq.m.

In accordance with the data of the SE Centre of Registers, there were 6,867 land plot purchase-sale transactions registered in Lithuania in the third quarter – i.e. by 25.8 percent less than in the corresponding period last year. The former volumes of land plot purchase-sale transactions, registered in 2013, probably will not be achieved in the near future, because due to complex procedures for purchasing agricultural land, which covers the majority of all land plot transactions, the alternative of long-term lease of land has become more popular. Meanwhile, residential land plot purchase-sale transactions showed an impressive growth: the annual increase of land plot transactions in Vilnius, Kaunas and Klaipeda regions reached 51, 50 and 37 percent, respectively. This shows a growing willingness of people to settle in a private area, located in peripheries of the major cities.

The demand in the commercial property market both in business as well as trade or logistics segments has been growing and vacancy rates have been decreasing further. Actually, the lease prices have remained stable. It was resulted by new developed projects mostly, which are stimulating competitiveness among the lessors and counterbalance the possible increase in lease prices. As regards the segment of logistics centres, one should additionally mention the trading constraints applied by Russia, which affected this segment the most; however, it seems that it did not result in negative consequences.

REVIEW OF LITHUANIAN ECONOMY

In the third quarter of 2014 the focus was given to the military conflict between Russia and Ukraine as well as considerations on its influence on Lithuanian economic situation. In early August Russia introduced sanctions against some states to ban the import of agricultural and food products, what, according to the European Commission, will hit Lithuania the most. The banks operating in Lithuania adequately responded to the news and one after another have decreased the forecasted GDP rates in Lithuania for 2014 and 2015 – it is believed that the embargo imposed by Russia may “cut off” at least 0.5 percent of GDP growth in Lithuania this year, and approx. 1 percent next year. However, it should be noted that, although Russia is the main partner of Lithuania in exports, its sanctions have influence on about 4 percent of exports of the country, where re-export covers the major share. It means that the existing situation will be the most painful for some certain sectors (transporting companies as well as beverage, dairy and meat producers whose activities have been directed to Russia), however the general economy of the country will be affected not so much.

Not only the situation in the East, but also in the West is growing concern – economic recovery in the euro zone remains delicate. High unemployment rates and critically low inflation rate in the euro zone, different development of economics in member-states and a weak growth of borrowing lead to the major concerns, which the European Central Bank (ECB) aims to address to by applying additional measure to stimulate the economics – in September the base interest rate was reduced to the anti-record-breaking rate of 0.5 percent, and it is intended to launch the new share repurchasing programme in October. The annual inflation rate in the euro zone in September has fallen from 0.4 to 0.3 percent – the lowest rate since October 2009. If the rate reached negative values, it would enter the deflation area, which impedes companies to comply with their obligations, increase wages for their employees, and the latter start spending less – it forms a spiral of decreasing prices and retrenchment related to it. ECB expects that the euro zone economics stimulated comprehensively will be able to implement the objectives set – to raise the inflation to the healthy rate, i.e. 2 percent.

The external environment is posing many concerns in Lithuania, however the economy of the country maintains a sustainable growth. In the second quarter this year the annual

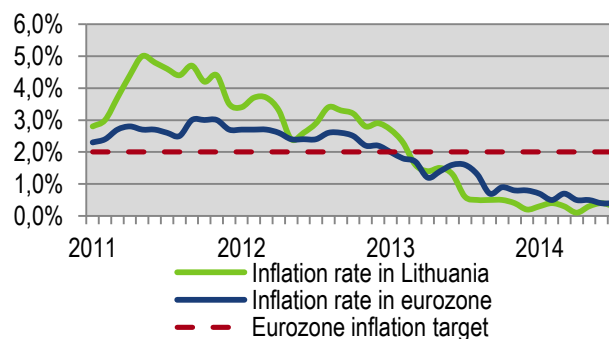
growth of GDP in Lithuania reached 3.1 percent and was one of the highest rates in the European Union. Public finances of the country are in good status, a small current account deficit is being maintained, and as a result of the euro adoption from the next year more active direct flows of investments in Lithuania are expected. The euro adoption is being accepted by Lithuanian consumers ambiguously – some of them started spending more, expecting the prices to increase, while others, in contrary, tend to save more being afraid negative consequences related to the change in currency. Improving wage and unemployment rates in Lithuania are being followed by increasing domestic consumption, which, in the present geopolitical context, offsets the slowdown in export growth partially.

Distribution of exports in Lithuania in 2013 (percent)



Source: Versli Lietuva

Changes in annual inflation in Lithuania and the euro zone (percent)

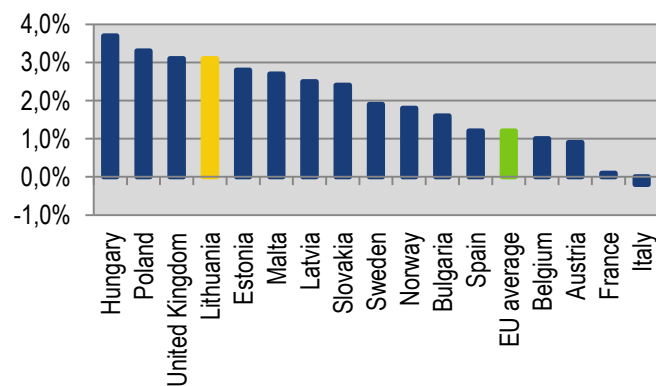


Source: Eurostat

Deteriorating expectation indices forewarn about the upcoming challenges in the future economy of Lithuania. Consumer expectations have fallen within the third quarter of 2014 and it could be explained by nervous disturbances as regards the unfading military conflict between Russia and Ukraine as well as changes related to the euro adoption, which is perturbing some consumers. The economic assessment index, indicating representatives' expectations in industry,

trading, service and construction sectors, has also decreased in comparison with the corresponding period in 2013. Meanwhile, taking into account the seasonality of the segment, the expectations in construction sector individually remained relatively good – the representatives of the construction sector assess the future prospects of the segment much more positively than a year ago. Such rates are adequate to the recovery observed in the real estate market this year, and the constructors' optimism is increased by apartment house refurbishment which is gaining momentum – the modernisation of apartment houses, co-financed by the state and EU funds, should amount up to approx. 260 million Litass in 2015, i.e. by about 13 percent more than in 2014.

Annual GDP growth rate in Q2 2014 (percent)



Source: Eurostat

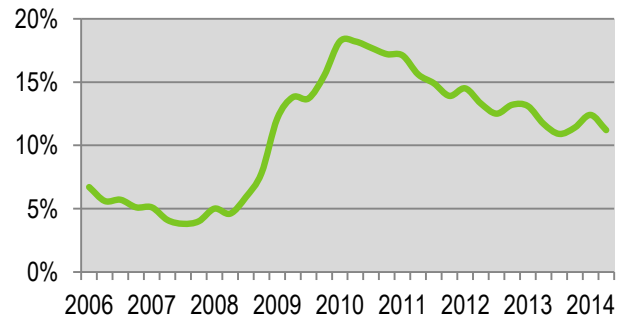
The banks continue to provide opportunities to borrow cheaply, however crediting remains moderate in Lithuania.

The improving financial situation of consumers and companies provide opportunities to finance investment from own funds, while the geopolitical situation in the region also acts as an inhibiting factor in issuing new loans – some companies reconsider or postpone investment projects, while people refrain from long-term obligations.

The situation remains favourable for the housing market growth in a long-term perspective, however the activity inhibiting factors also exist.

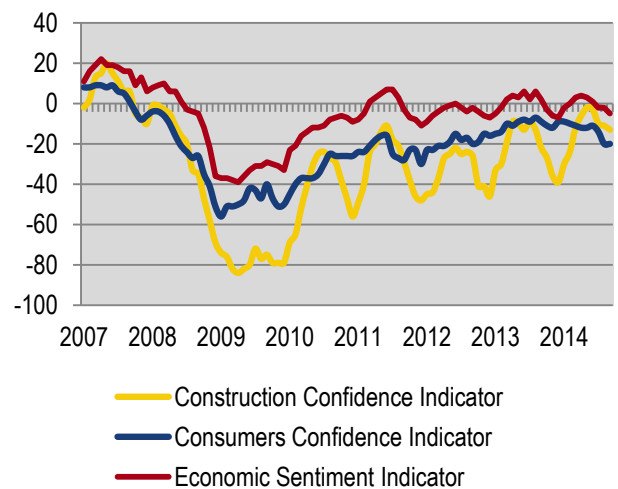
Low interest rates, moderately improving financial situation of households and the euro adoption remain the most essential reasons promoting acquisitions in the RE market. However, the disturbances in the eastern region and sticking recovery of Western Europe have led to the decreasing consumers' expectations in the third quarter this year, what influenced the housing market as well – the growth in the amount of transactions halted. The real estate developers assess the future more optimistically; they continue to increase the supply allowing the oversupply to form.

Unemployment rate in Lithuania (percent)



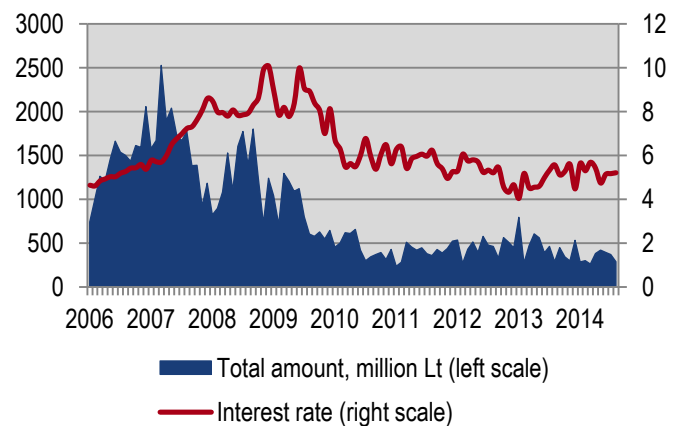
Source: Department of Statistics

Construction, consumer confidence and economic assessment indexes



Source: Department of Statistics

New loans issued to companies and households



Source: Bank of Lithuania

HOUSING MARKET REVIEW

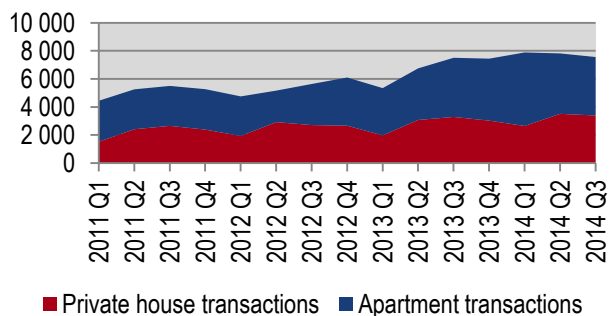
In 2014 the housing market in Lithuania continued to grow. Improving economic situation of people, optimistic assessment of the future and other factors were increasing the sales, which has been followed by rapidly growing new supply apartments. However, it seems that the ceiling of housing demand has been reached in the third quarter – the increase in amount of transactions has slowed down significantly. Nevertheless, the developers of real estate are not reducing the pace, therefore a more pronounced imbalance between the demand and supply is formed in the market.

25 apartment house projects have been launched in Vilnius, Kaunas and Klaipeda within the third quarter this year, where about 1,570 new apartments were offered – by about 29 percent more than in the corresponding period last year. The majority of new apartments, which covers about 94 percent, were offered in Vilnius.

In accordance with the data of SE Centre of Registers, the increase in amount of transactions slowed down in Lithuania in the third quarter of 2014 – it reached 7,549 apartment transactions, i.e. by 0.7 percent more than in the corresponding period a year ago. In comparison, in the first and the second quarters of this year the increase in the transactions was 47.7 and 15.7 percent, respectively.

There were 3,382 transactions concluded in the private house segment in the third quarter of 2014, i.e. by 3.2 percent more than in the corresponding period the previous year. The trends remain similar to the ones in the apartment market – the lowest increase in the amount of transactions was registered in the third quarter, while the amount in private house transactions increased by 34.2 and 14.3 in comparison with the corresponding periods in 2013.

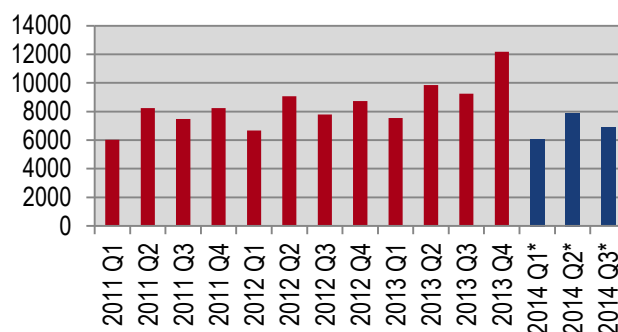
Apartment and private house transactions in Lithuania (units)



Source: SE Centre of Registers

The law on the acquisition of agricultural land, which has become stricter since 1st January and 1st May 2014, affected the volumes of land-plot purchase-sale transactions. In accordance with the data of SE Centre of Registers, there were 6,867 land purchase-sale transactions registered in Lithuania in the third quarter this year, i.e. by 25.8 percent less than in the corresponding period last year. The volumes of the previous land transactions, registered in 2013, will probably not be achieved, because due to complex procedures for purchasing agricultural land the alternative of long-term lease of land has become more popular.

Land plot transactions in Lithuania (units)



* The amount of land plot transactions after the enforcement of the new law on the acquisition of agricultural land

Source: SE Centre of Registers

Housing market in Vilnius

In accordance with the data of SE Centre of Registers, in the third quarter of 2014 28.2 percent of all apartment purchase-sale transactions registered in Lithuania were concluded in Vilnius. The total amount of transactions, concluded in the abovementioned period was 2,132, i.e. 1.6 percent less than in the corresponding period last year. Nevertheless, the amount of apartment transactions over the first three quarters of 2014 was higher by 17 percent than in the corresponding period of 2013.

The statistics of purchase-sale transactions in the last quarter indicate the stabilization of housing sales. Much more significant trends are forming in the new construction market – 537 new construction apartments were sold in Vilnius within the third quarter, i.e. about 2 percent less than in the corresponding quarter last year. The total volumes of the new construction apartment sales in the first three quarters still remain by about 40 percent higher in comparison with the corresponding period in 2013, however such statistics of the third quarter let us assume that possibly the limits of new construction apartment demand have been reached and there are limited possibilities for the sales to grow in the near future.

The sales of the new apartments have become stable, however their supply has significantly increased within the third quarter, thus allowing more obvious supply-demand scissor to form in the primary market. In the third quarter of 2014 there were 21 apartment house projects launched in Vilnius. They supplied the market with about 1,480 new apartments, i.e. by 41 percent more than in the corresponding period last year. This demonstrable difference between the sales and supply of new apartments reflects the formation of oversupply, as well as an increasing competition among the developers of new apartment houses when struggling for customers.

The supply, which exceeds the demand of new apartments, is increasingly aggravating the RE developers' opportunities to sell their projects - the amount of new construction apartments unsold (vacant and reserved) in Vilnius in the third quarter this year has increased by almost 29 percent, i.e. up to 3,960. About a quarter of them are located in the already finished projects, and the remaining ones – are currently under construction.

A significant increase in the housing supply in the third quarter had an essential influence on the liquidity of the new construction apartment market – the rate has increased from 0.94 to 1.27 within the third quarter. It means that all new apartments in the supply at the end of the quarter would be sold out in 15 months thereabout.

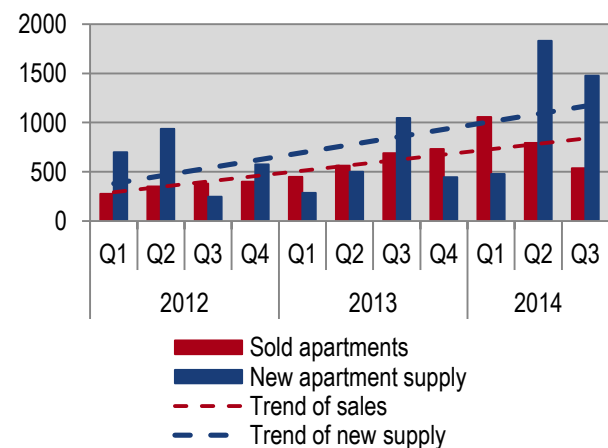
In the third quarter of 2014 the middle class new construction apartments were the most popular in Vilnius – the share of this segment reached 57 percent among overall sales. 39 percent of sales in the primary market in the capital city covered economy class apartments, and the remaining 4 percent – luxury class apartments.

The distribution of new apartment sales under segments indicates a changing structure of the primary market in Vilnius – the most popular economy class apartments in the first and the second quarters of 2014 covered 68 and 63 percent of all sales, respectively, however the majority of the apartments sold in the third quarter belongs to the middle class. The explanation for such rates is the fact that the middle class apartment sales have remained stable, meanwhile the sales in the economy class have decreased significantly, thus proving the reputation of this segment as the most risky one. It is likely, that the purchasers of the economic class apartments could return in the event of less geopolitical tension and risks related to it.

Despite the increasing supply of new apartments, the prices in the primary market are not decreasing. At the end of the quarter

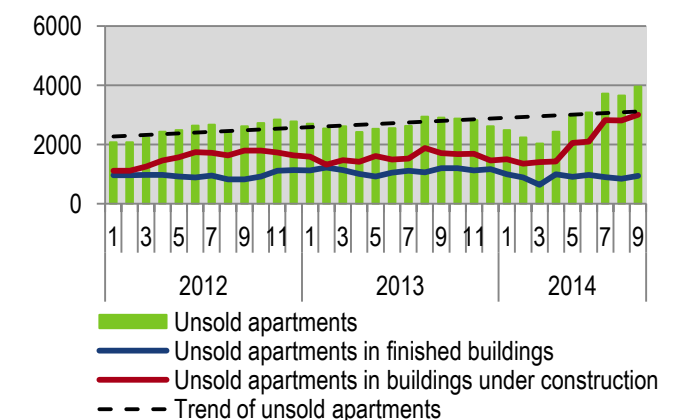
the total average rate of new construction apartment prices in Vilnius reached about 5,460 LTL/sq.m. and has increased by approx. 9 percent over the last year. In late September, the asking price for the economy class apartments in Vilnius was by approx. 4 percent higher than a year ago – up to 4,380 LTL/sq.m. at an average. The price of the middle class new construction apartments increased by 7-8 percent – up to 5.880 LTL/sq.m. Meanwhile the asking prices for the luxury class apartments have remained unchanged – about 8,640 LTL/sq.m. It should be noted that from the beginning of the year the general rate of prices in Vilnius has increased more than in separate classes. The reason for this is the decreasing share of economy class apartments in the supply of new construction apartments.

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



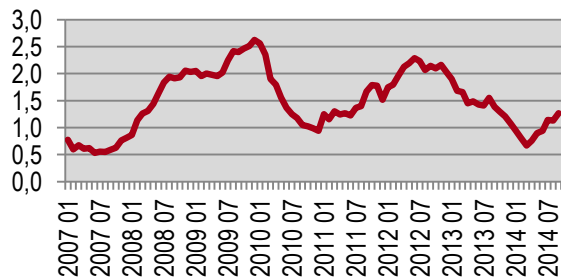
Source: Inreal

New construction apartments, unsold in Vilnius (units)



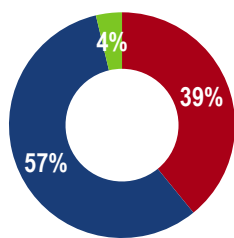
Source: Inreal

Liquidity rate of new apartments in Vilnius



Source: Inreal

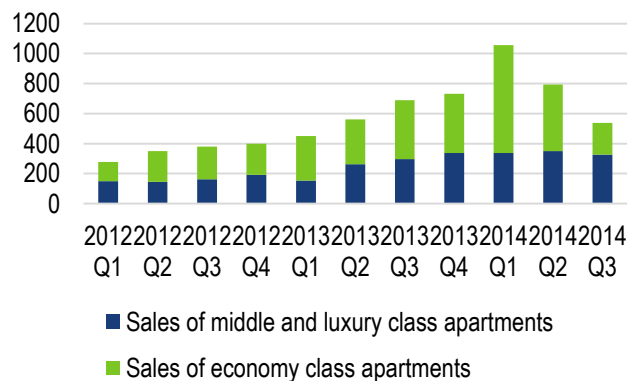
Apartment sales under classes (percent)



■ Economy class ■ Middle class ■ Luxury class

Source: Inreal

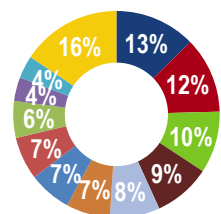
New apartment sales under classes Q3 2012-2014



■ Sales of middle and luxury class apartments
■ Sales of economy class apartments

Source: Inreal

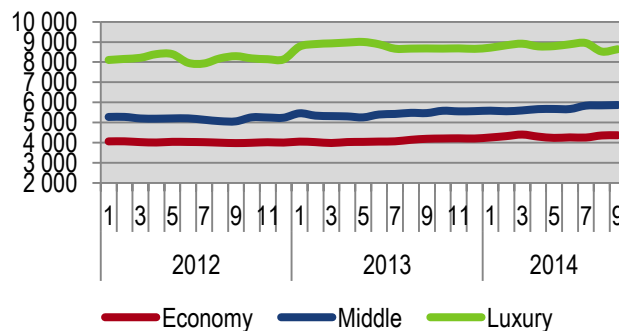
Apartment sales under urban districts (percent)



■ Naujamiestis ■ Pilsaitė ■ Pašilaičiai ■ Šnipiškės
■ Antakalnis ■ Baltupiai ■ Senamiestis ■ Žvėrynas
■ Karoliškės ■ Užupis ■ Visoriai ■ Other

Source: Inreal

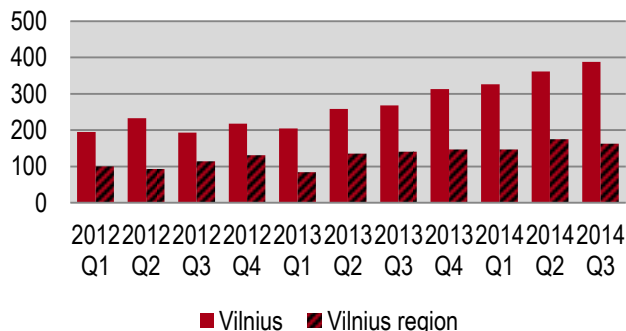
Average prices of apartments under classes in Vilnius (LTL/sq.m.)



Source: Inreal

The amount of transactions, which started to grow in early 2013, continued to grow in the private house segment in Vilnius. In accordance with the data of SE Centre of Registers, there were 388 private house purchase-sale transactions concluded in Vilnius in the third quarter this year – it is by about 45 percent more than in the corresponding period last year. The increase in the private house purchase-sale transactions has been observed in Vilnius region as well, where 162 transactions were concluded in the third quarter, i.e. by about 16 percent more than a year ago.

Private house purchase-sale transactions in Vilnius and Vilnius region (units)

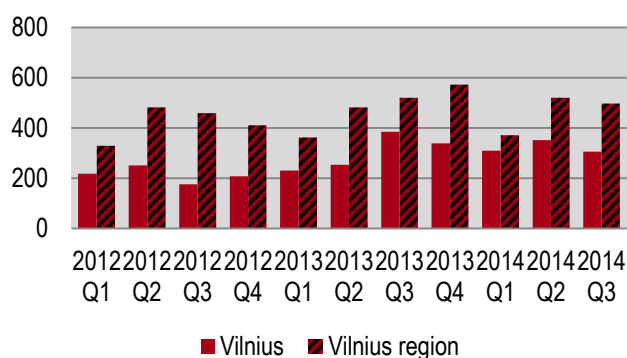


Source: SE Centre of Registers

In accordance with the data of SE Centre of Registers, the volumes of land purchase-sale transactions were decreasing in Vilnius and Vilnius region. In the third quarter the amount of transactions reached 306 in the capital city and 497 in the region. In comparison with the corresponding period of the previous year, the amount of transactions, registered in Vilnius, decreased by 20.5 percent and by 4.4 percent in Vilnius region. This demonstrable change in the market of the capital city can be explained by a significantly lower amount of commercial and industrial land transactions with the share, which decreased from 34 to 8 percent in all transactions. Meanwhile, the volumes of residential and agricultural land transactions have shown slight

fluctuations – reduction by about 3 percent and increase by about 6 percent, respectively. The share of the residential land plot transactions in the capital city reached about 40 percent and agricultural land – 46 percent. In comparison with the corresponding period last year, the amount of residential land plot transaction in Vilnius has increased by 51 percent within the third quarter; however the decrease in the agricultural land transactions was about 17 percent. Since the residential and agricultural land plot transactions made up about 27 and 54 percent, respectively, of all transactions, concluded in Vilnius region in the third quarter, the general trend of transactions remained negative.

Land purchase-sale transactions in Vilnius and Vilnius region (units)



Source: SE Centre of Registers

Housing market in Kaunas

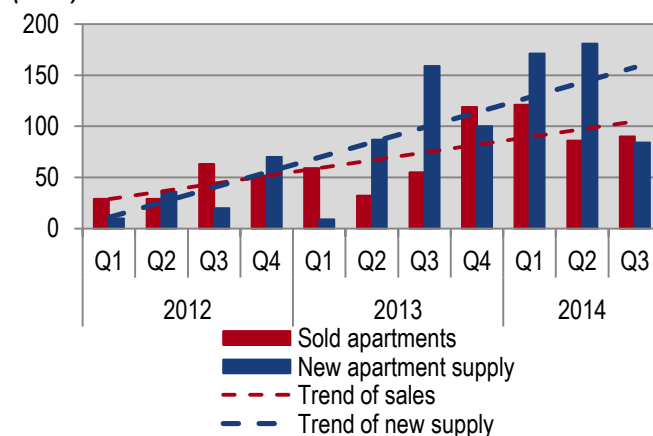
In accordance with the data of SE Centre of Registers, in the third quarter of 2014, there were 1,118 apartment purchase-sale transactions concluded in Kaunas, i.e. by about 12 percent more than in the corresponding period in the previous year. The total increase in the amount of transactions, concluded in Kaunas within the first three quarters this year, was 26 percent in comparison with the corresponding period of 2013.

The sales in the primary market of new apartments in Kaunas showed a significant increase – 90 new construction apartments were sold in the third quarter, i.e. by 63.6 percent more than in the corresponding period last year and almost the same as in the previous quarter.

In the third quarter, the pace of new construction apartment growth in Kaunas slowed down and the market was supplied with almost the same amount of new apartments as sold, i.e. 84, meanwhile, in total, 3 new apartment house projects were implemented. Despite the balance between the supply and demand in the third quarter, the signs of occurring oversupply

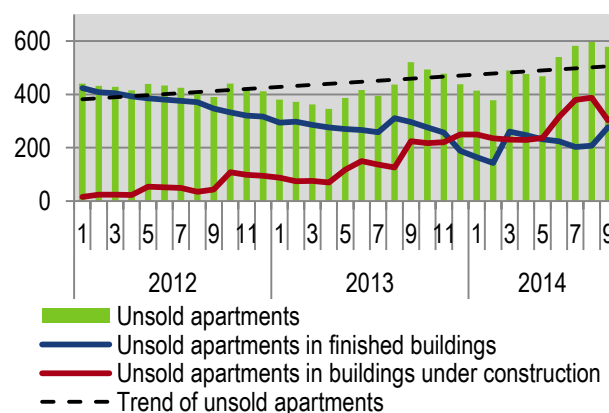
were also observed in Kaunas – the new supply, which occurred in the primary market from the beginning of the year, was about 47 percent higher than the amount of apartments sold in the same period. At the end of the quarter, the total amount of new construction apartments, unsold in Kaunas, was 580. In comparison with the previous year, this amount was by about 11 percent less, i.e. about 440 apartments.

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



Source: Inreal

New construction apartments, unsold in Kaunas (units)



Source: Inreal

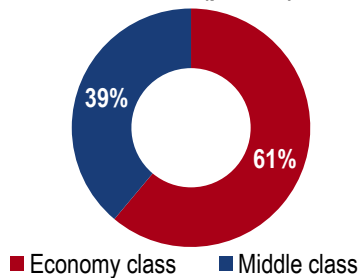
Economy class new construction apartments have remained the most popular in Kaunas. Their share made up about 61 percent of all new construction apartments sold in the city within the third quarter of 2014, and the remaining 39 percent of sales covered the middle class apartments.

At the end of the quarter, the average asking price for the economic class apartment in Kaunas was 3,550 LTL/sq.m., i.e. by about 14 percent more than a year ago. The prices of the middle class new construction apartments have increased by about 1 percent within in the same period, i.e. up to 4,570

LTL/sq.m. It should be noted that the supply of new construction economy class apartments showed a significant increase in Kaunas in 2014, while the middle class has remained unchanged. As a result, the general rate of asking prices for the new construction apartments has increased less significantly as in separate classes – by about 4 percent and reached 3,850 LTL/sq.m.

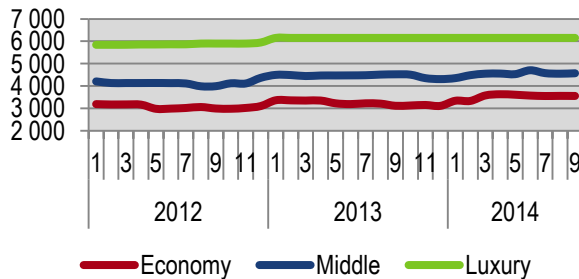
In accordance with the data of SE Centre of Registers, in the third quarter of 2014 the private house sales in Kaunas reached 177, i.e. by about 10 percent more than in the corresponding period last year. The volumes of private house sales in Kaunas region were growing slightly more – by about 14 percent and reached 262.

Apartment sales under classes (percent)



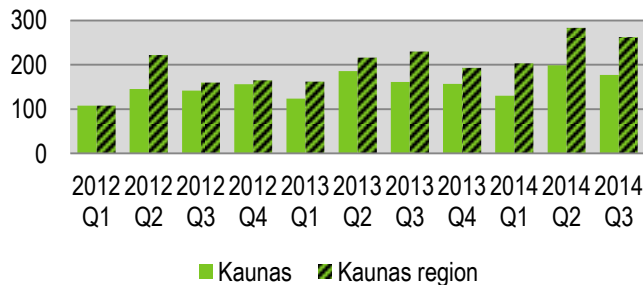
Source: Inreal

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



Source: Inreal

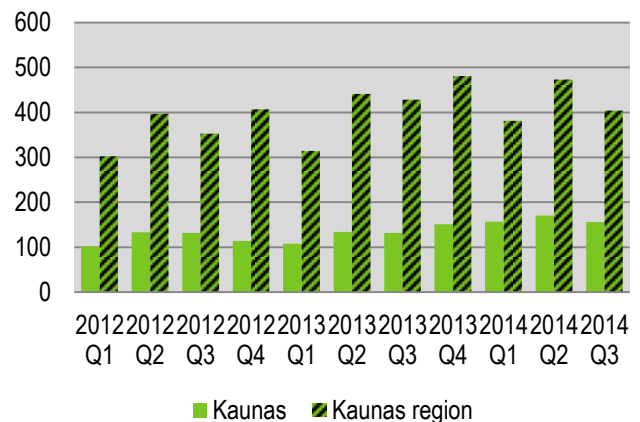
Private house purchase-sale transactions in Kaunas and Kaunas region (units)



Source: SE Centre of Registers

In accordance with the data of SE Centre of Registers, in the third quarter there were 156 land plot apartment purchase-sale transactions registered in Kaunas, i.e. by 16.2 percent more than in the corresponding period last year. The change was resulted by the increase in the amount of the residential land transactions, which was 47 percent, and covers the majority of transactions in Kaunas – about 70 percent of all transactions concluded in the third quarter. Although the amount of transactions was decreasing in other segments, the general trend remained positive. In the third quarter the amount of transactions in Kaunas reached 404 and was by 5.6 percent lower than in the corresponding period of 2013. The increase in the amount of residential land transactions, registered in Kaunas region in the third quarter, was almost 50 percent; however the amount of agricultural land transactions was lower by about 35 percent. The amount of residential and agricultural land transactions was similar and, respectively, made up about 41 and 38 percent of all transactions.

Land purchase-sale transactions in Kaunas and Kaunas region (units)



Source: SE Centre of Registers

Housing market in Klaipeda

In accordance with the data of SE Centre of Registers, in the third quarter of 2014, there were 683 apartment purchase-sale transactions concluded in Klaipeda, i.e. by 15.8 percent less than in the corresponding period in the previous year.

It was observed, that the decrease in the amount of apartment purchase-sale transactions in Klaipeda was resulted by lower sales in the secondary market. Despite 68 new construction apartments sold and the annual increase of 8 percent registered in the third quarter, it has no significant influence on

the statistics, because the new construction apartments, which were sold, made up only about 10 percent of all apartment sales in Klaipeda.

In the third quarter the new supply was not rich in apartments in Klaipeda. The apartment market of the city was supplied with only 1 new project with 11 apartments – as much as in the corresponding period last year.

The amount of apartments unsold in Klaipeda remains stable – ranging from 600 to 740 apartments through the entire 2014. In comparison with the beginning of the year, the increase in the amount of new apartments unsold by the end of the third quarter was insignificant – about 2 percent, i.e. up to 680 apartments.

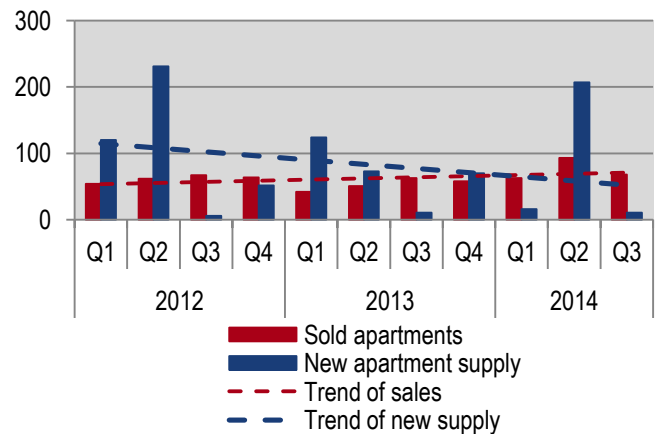
According to the sales, the economy class apartments remained the most popular in Klaipeda as well as in Kaunas - about 69 percent of all transactions. The middle class apartments covered 29 percent, and luxury class – 2 percent.

The average price of new construction apartments in Klaipeda reached about 4,290 LTL/sq.m., i.e. by 2 percent more than a year ago. Over a year, the asking price for economy class apartments went up the most; the average asking price was 4,000 LTL/sq.m., i.e. by about 2 percent more. The asking prices for the middle class apartments reached about 4,480 LTL/sq.m. and was by 1-2 percent higher than in the third quarter of 2013. Meanwhile the asking price for the new construction luxury class apartments has decreased by about 2 percent – up to 6,780 LTL/sq.m.

In accordance with the data of SE Centre of Registers, in the third quarter of 2014, there were 27 private houses sold in Klaipeda city, and 142 – in the region. In comparison with the corresponding period of the previous year, the amount of private house purchase-sale transactions decreased by 30.8 percent in Klaipeda, and increased by 6.8 percent in the region.

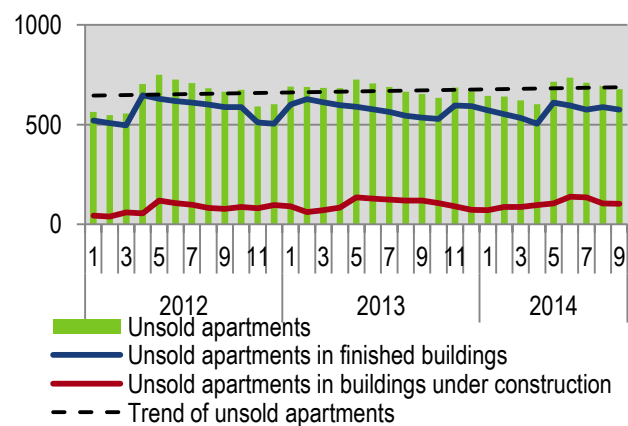
In accordance with the data of SE Centre of Registers, in the third quarter of 2014, there were 18 land purchase-sale transactions registered in Klaipeda, indicating a decrease by a third in comparison with the corresponding period in 2013. The amount of transactions in the region reached 449, i.e. by 5.4 percent more than a year ago. This change was resulted by the increase in the amount of residential land transactions, which was about 37 percent, although the amount of agricultural land transactions decreased by about 17 percent. Residential and agricultural land plot transactions made up about 35 and 47 percent of all transactions, respectively.

Dynamics of the new supply and sales of apartments in Klaipeda



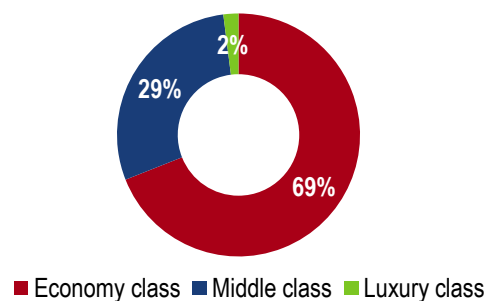
Source: Inreal

New construction apartments, unsold in Klaipeda (units)



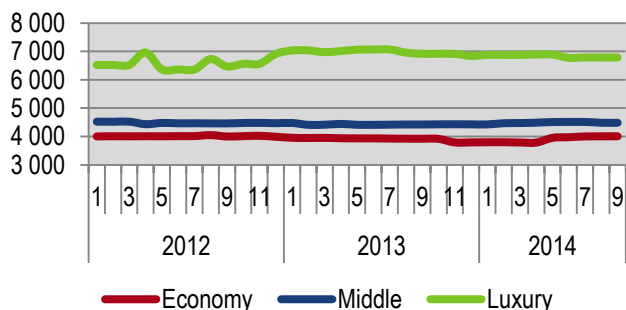
Source: Inreal

Apartment sales under classes (percent)



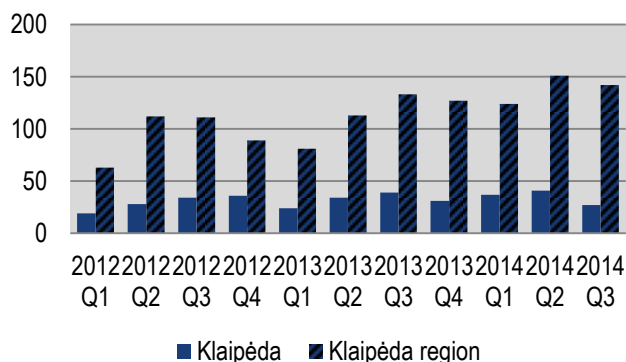
Source: Inreal

Average prices of apartments under classes in Klaipeda (LTL/sq. m.)



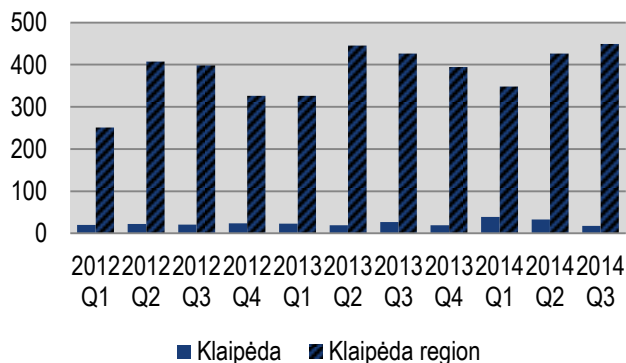
Source: Inreal

Private house purchase-sale transactions in Klaipeda and Klaipeda region (units)



Source: SE Centre of Registers

Land purchase-sale transactions in Klaipeda and Klaipeda region (units)



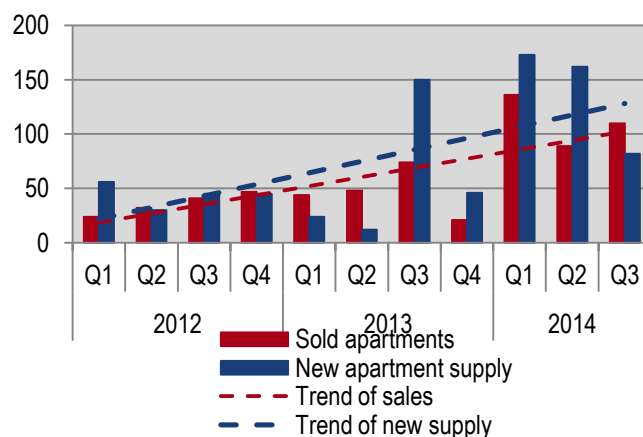
Source: SE Centre of Registers

Housing market in Palanga and Neringa

In accordance with the data of SE Centre of Registers, in the third quarter of 2014, there were 119 and 11 apartment purchase-sale transactions registered in Palanga and Neringa, respectively. In comparison with the corresponding period in 2013, the increase of about 5 percent was registered in Palanga, while the amount of apartments sold in Neringa was lower by a third. To compare the sales of the first three quarters with the data of the corresponding period in 2013, the amount of apartments, sold in Palanga, was higher by about 25 percent, while the sales in Neringa decreased by about 8 percent.

In the third quarter this year, the acquisitions of the new construction apartments in Palanga were active – in total, there were 110 apartments purchased, i.e. about 49 percent more than in the corresponding period last year. 8 new construction apartments were purchased in Neringa municipality – by 3.5 times less than a year ago. This change in apartment sales in Neringa was resulted by a particularly successful third quarter of 2013, which was characterized by a significant increase in supply of new construction apartments as well as high sales.

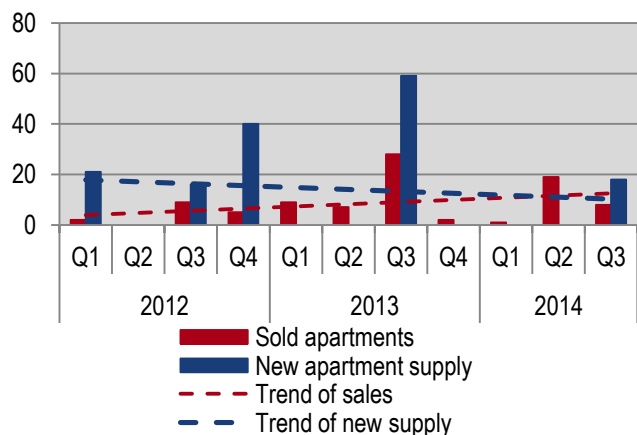
Dynamics of the new supply and sales of apartments in Palanga (units)



Source: Inreal

There were 5 new apartment house projects implemented in Palanga. They supplied the market with 82 new construction apartments; however the volumes of sales exceeded the new supply.

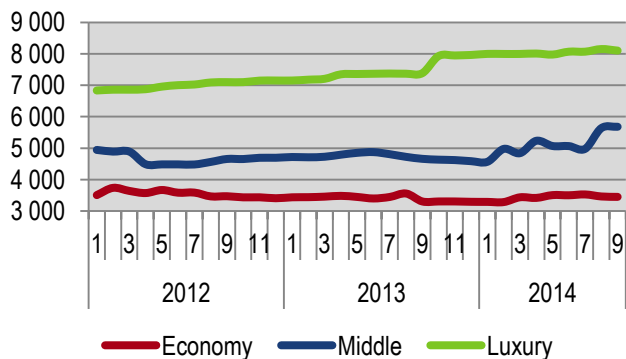
Dynamics of the new supply and sales of apartments Neringa (units)



Source: Inreal

At the end of the third quarter the asking price for the new construction economy class apartments in Palanga reached about 3,500 LTL/sq.m., i.e. by 4-5 percent more than a year ago. At the end of the third quarter the average asking price for the new construction middle class apartments in Palanga was about 5,680 LTL/sq.m. The last quarter in this segment shows a significant increase in average price, which was reaching about 12 percent, however this change was partially resulted by the outside causes – termination of sales in one middle class apartment house project. The asking price for the luxury class apartments in Palanga increased by about 10 percent – up to 8,100 LTL/sq.m. Over the year, the general rate of asking prices in Palanga increased by 13 percent and reached about 5,840 LTL/sq.m. at the end of the quarter.

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

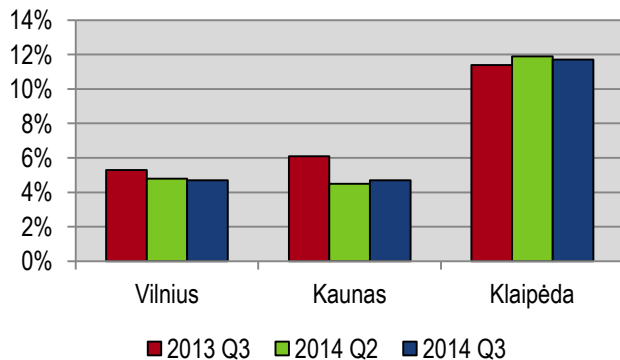


Source: Inreal

BUSINESS CENTRE MARKET REVIEW

In the third quarter of 2014 the lessees' interest in upper class offices remained in Vilnius. The vacancy rates were decreasing in modern business centres both in the capital city as well as in Klaipėda, meanwhile a slight increase was observed in Kaunas. New business centres will supply the business centre market in all three cities in the near future.

Change in vacancies in the business centre sector of the country, percent



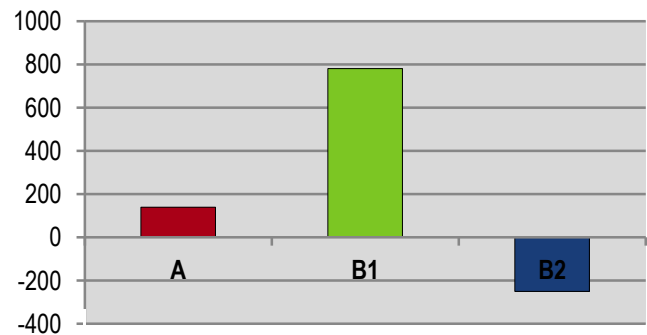
Source: Inreal

At the end of the third quarter of 2014 the third building of the A-class business centre “Baltic Hearts” with 3,300 sq.m. area available for office lease was opened in Vilnius. High demand of such business centres is indicated by the fact that the entire area of “Baltic Hearts III” has already been leased prior to its opening. Limited supply of modern offices, which exists in the capital city, particularly for those, who are looking for larger premises, encourage lessees to enter into pre-agreements with the owners of unfinished business centres.

The increasing demand has led to the general decrease in vacancy rates in the capital city from 4.8 to 4.6 percent. The area of vacant premises in A-class business centres decreased to 150 sq.m. A higher take-up of vacant office premises was also registered in B1-class business centres – 780 sq.m. Meanwhile, the area of vacant offices in B2-class business centres increased by 250 sq.m. The majority of the B1-class business centre “Grand Office”, which was opened in the second quarter, has also been leased prior to its opening, and within the third quarter the vacancy rate in the abovementioned business centre has decreased from 12 to 7 percent. This lessees' activity alerts about the still existing demand in the highest class business centres, located in attractive places of the city.

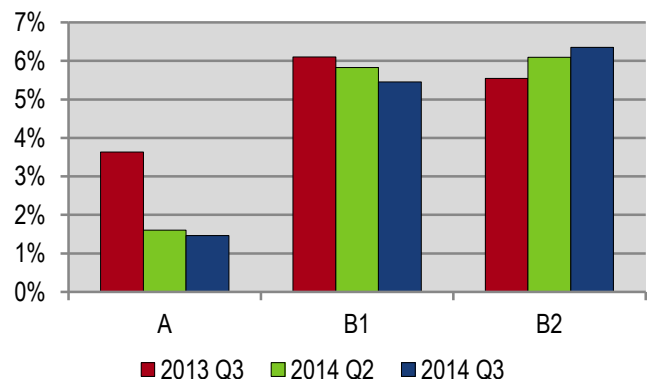
At the end of the third quarter of 2014 the area of vacant office premises in A-class business centres in Vilnius reached 1.5 percent. Vacancy rate of B1-class offices was 5.5 percent, and relatively the highest vacancy rate was in B2-class business centres – 6.4 percent. It should be noted that over the last quarter the vacancy rate was increasing only in B2-class business centres. This trend let us assume that new projects of business centres entering the market provide more opportunities for the lessees to move their activities from the lower to the higher class offices. Lessees' rotation should become more active. It is possible that if such situation continues to prevail, the managers of B2 class business centres will face with more serious challenges to keep the existing or attract new lessees; they may have to revise their pricing, invest more in order to improve their business centres or take other additional measures.

Take-up of vacant office premises in Vilnius, Q3 2014



Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes

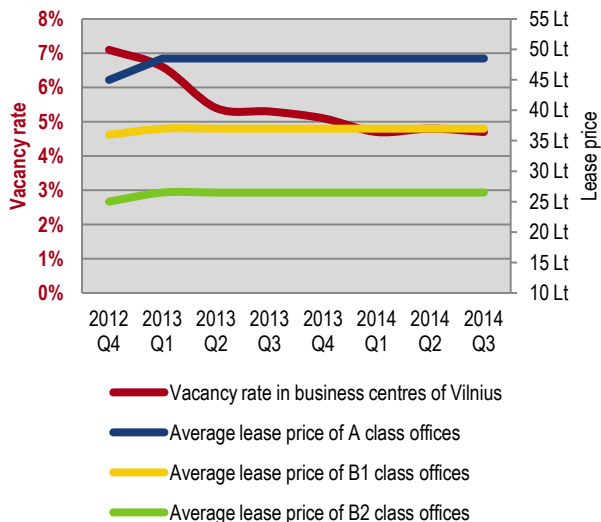


Source: Inreal

In the third quarter this year the average lease price in A-class business centres in Vilnius reached 42-55 LTL/sq.m. The lease price in B1-class business centres was ranging from 32

to 42 LTL/sq.m. The lease price in B2-class business centres was 23-30 LTL/sq.m.

Dynamics of lease prices and vacancies in Vilnius business centres



Source: Inreal

Currently, 4 A-class business centres are being built in Vilnius; they should supply the segment with up to 57,000 sq.m. of rented office area. All of the four business centres (K29, Uniq, Premium, Quadrum I) are expected to be opened in 2015. It should be noted that these business centres apply lease prices, which are higher than average price in the market by 10-20 percent. Soon the market of business centres will be supplied with new B-class business centres (Sostena and Vertingis), which will supplement the supply of premises for lessees with about 9,000 sq.m.

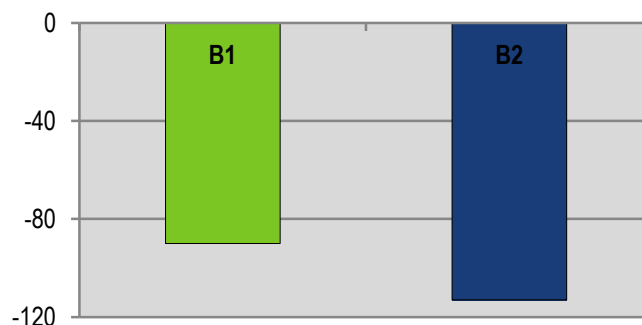
Business centres being developed in Vilnius in Q3 2014

Business centre	Class	Rented area, sq.m.
K29	A	14,000
Uniq	A	7,000
Premium	A	8,200
Quadrum I	A	27,000
Sostena	B1	3,000
Vertingis	B2	6,000
Total:		65,200

Source: Inreal

Vacancies in modern business centres in Kaunas, unlike in Vilnius, were slightly increasing in the third quarter of 2014. In comparison with the second quarter of 2014, vacancy rate in Kaunas increased from 4.5 to 4.7 percent. The area of vacant office premises in B1 and B2-class business centres in Kaunas increased by about 90 and 115 sq.m., respectively. At the end of the quarter, the total area of vacant office premises in Kaunas was 3,390 sq.m. The entire area consisted of premises in B1 and B2-class business centres, because currently there are no A-class business centres in Kaunas.

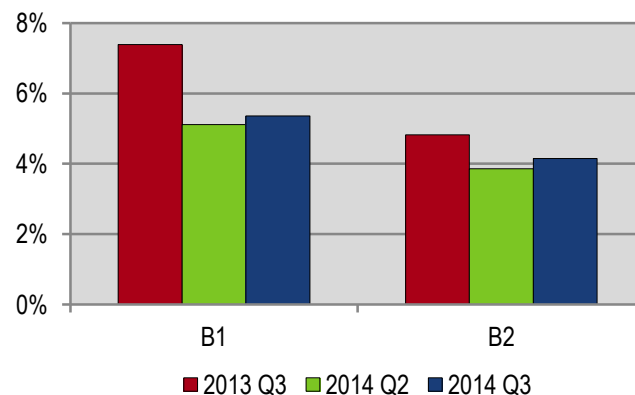
Take-up of vacant office premises in Kaunas, Q3 2014



Source: Inreal

At the end of the third quarter of 2014, the least area of vacant premises for lease was in B2-class business centres, where the vacancy rate reached 4.1 percent. Vacancy rate in B1 class business centres was slightly higher and reached 5.4 percent. Over the last year, vacancy in B1-class business centres has been decreasing much more than in B2-class business centres, what reflects an increasing demand of higher class offices in Kaunas.

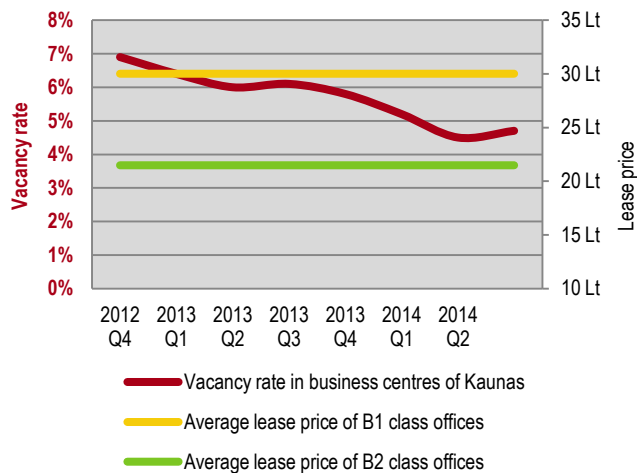
Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

Lease prices in modern business centres remain stable in Kaunas. At the end of the third quarter of 2014, lease prices of B1-class offices reached 25-35 LTL/sq.m., while lease prices of premises in B2-class business centres were ranging from 18 to 25 LTL/sq.m.

Dynamics of lease prices and vacancies in Kaunas business centres



Source: Inreal

In early 2015 the options in B1-class business centres should increase. Next year, the opening of the business centre Mikrovisata is expected in March, which will supply the business centre market with 3,500 sq.m. It is expected to open one more B1-class business centre in spring 2015, which will be located at Ožeškienės street; the area available for lease of premises should be about 1,000 sq.m.

Business centres being developed in Kaunas in Q3 2014

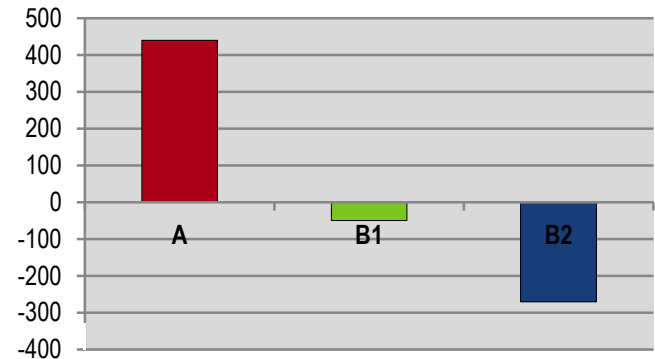
Business centre	Class	Rented area, sq.m.
Mikrovisata	B1	3,500
Ožeškienės str. 15	B1	1,000
Total:		4,500

Source: Inreal

Over the third quarter of 2014, vacancy rates in business centres in Klaipeda decreased as much as in the capital city – by 0.2 percent. The decrease in vacancy rate from 11.9 to 11.7 percent was resulted by a higher take-up of A-class offices – vacant premises in the highest class business centres decreased by 440 sq.m. However, vacant area for lease in B1

and B2-class business centres increased by 50 and 270 sq.m., thus the general vacancy rate have changed insignificantly.

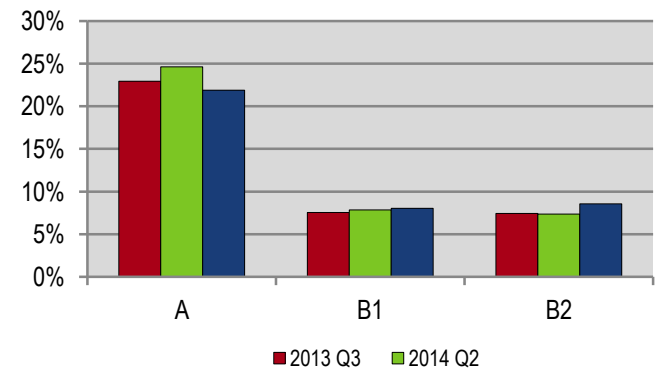
Take-up of vacant office premises in Klaipeda, Q3 2014



Source: Inreal

At the end of the quarter, the largest vacant area for lease was in A-class business centres, where the vacancy rate reached 21.9 percent. Much lower vacancy rates were registered in B1 and B2-class business centres, respectively, 8.1 and 8.6 percent.

Dynamics of vacancies in Klaipeda business centres under classes



Source: Inreal

In October the new A-class business centre Liepų Biurai should be opened in the heart of Klaipeda city; it should supply the market with up to 1,800 sq.m. of area for lease. Although the vacancy rate in A-class business centres is very high in Klaipeda, however it is expected that this business centre will cover the segment of exceptional customers by offering luxury and prestigious premises, therefore in principle this business centre should bring minimal competition against currently existing modern business centres.

The average lease price in A-class business centres in Klaipeda was 30-35 LTL/sq.m. Lease prices of premises in B1-

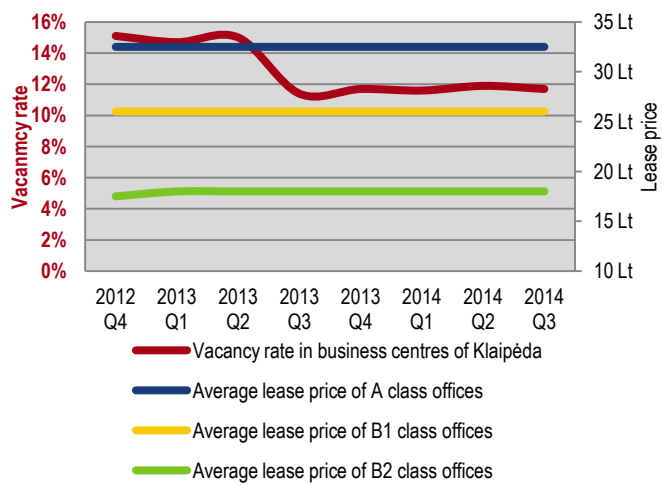
class business centres were ranging from 22 to 30 LTL/sq.m., and from 16 to 20 LTL/sq.m. in B2-class business centres.

Business centres being developed in Klaipeda in Q3 2014

Business centre	Class	Rented area, sq.m.
Liepų biurais	A	1,800
Total:		1,800

Source: Inreal

Dynamics of lease prices and vacancies in Klaipeda business centres



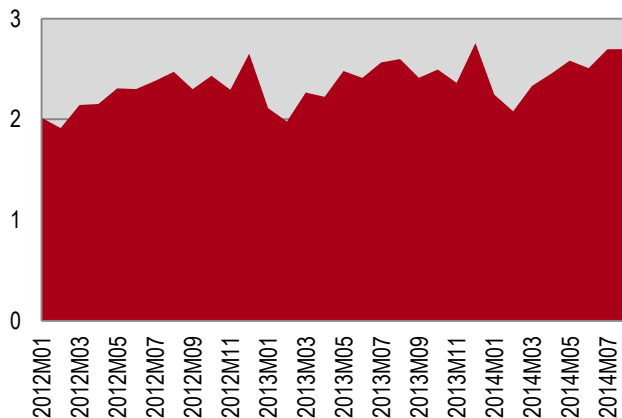
Source: Inreal

SHOPPING CENTRE MARKET REVIEW

The retail trade volumes in Lithuania continued to grow in summer. Low vacancy rate is creating favourable conditions for establishing new shopping centres or planning expansion of some existing ones.

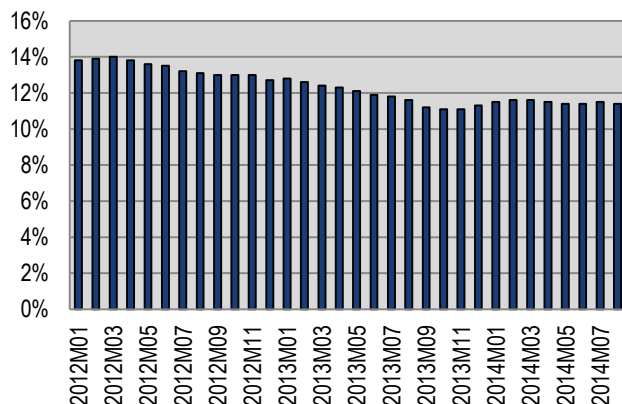
In January-July 2014, the retail trade volumes reached 19.6 billion LTL in Lithuania, i.e. by 5.1 percent more than in the corresponding period of 2013. Increasing domestic consumption was mostly influenced by consumers' high expectations for the future, growing income and decreasing unemployment. In July 2014, the unemployment rate in Lithuania reached 11.4 percent, i.e. by 0.2 percent less than a year ago.

Retail trade volumes in Lithuania, billion LTL



Source: Department of Statistics

Unemployment rate in Lithuania, percent



Source: Department of Statistics

Consistently growing retail trade is encouraging more and more new trademarks to enter the Lithuanian market and expand actively later. In 2014, the apparel chain “Hennes & Mauritz” (“H&M”) was rapidly expanding by opening four new shops in Vilnius, one in Klaipeda and one in Siauliai. By the end of this year, “H&M” is planning to expand to Panavezys (SC “Babilonas”), and Kaunas in the near future (SC “Mega”). Over the third quarter of 2014, more significant shopping centres have not been opened, however new shopping centre projects have been further expanding successfully.

In the beginning of the next year the opening of a new shopping centre next to “IKEA” is expected in **Vilnius**; its area will reach 20,000 sq.m. In addition, the works of the second stage are expected to be finished in “Domus Pro”, what will expand the area of the shopping centre from 7,500 to 12,000 sq.m.

In the third quarter the construction of a new shopping centre was launched on Savanoriu av. in **Kaunas**; its opening is expected in December 2014. It is expected, that the supermarket “Rimi” will be established there, and the remaining area of 4,900 sq.m. will be leased for trading and service companies. By 2016 it is expected to implement the project for expansion of the shopping centre “Mega”, which will increase its area by 40 percent – up to 102,000 sq.m.

Shopping centres being developed or to be developed in 2014

City	Title	Area, sq.m.	End of construction
Vilnius	Prekybos Parkas	20,000	2015 Q1
Vilnius	PC Domus Pro II	5,000	2015 Q1
Kaunas	Prekybos centras	7,500	2014 Q4
Kaunas	PC Mega II	22,000	2015 Q4
Iš viso:		54,500	

Source: Inreal

Klaipeda market will soon be supplied with a small trading building, however larger projects are not being developed in the city yet.

Over the third quarter of 2014, the vacancy rates in the shopping centres have remained rather stable in all major cities of Lithuania. The vacancy rate in Vilnius decreased from 0.9 to 0.8 percent, while it remained unchanged in Kaunas – 0.5 percent. The vacancy rate in Klaipeda was even less – it reached 0.4 percent. The excessive demand ensures that new vacant premises soon become occupied by other lessees. The major shopping centres may enjoy high activity of retailers and

the opportunity to increase lease prices, however the situation is not identical in all shopping centres – vacancy rates in some shopping centres, which attract lower flows of visitors, are reaching from 5 to 12 percent. The latter shopping centres have difficulties to compete against leaders in the market in order to attract popular retailers. They have to focus on searching for new lessees and try to get them interested by applying lower lease prices.

Current trends in the shopping centres in the country should remain in the near future, because the majority of the major projects, currently being developed or to be developed, will be finished and enter the market next year only. They should supply the market with at least 47,000 sq.m. of new trading area.

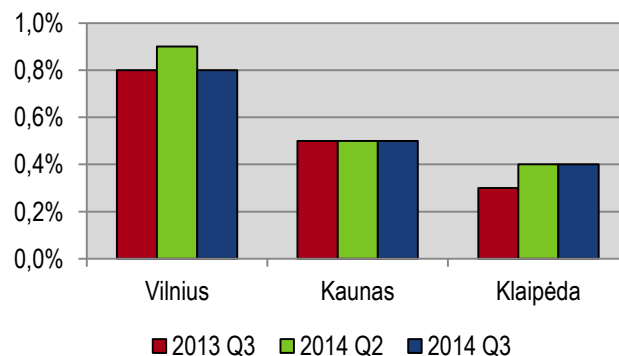
The third quarter of 2014 was not very rich in newly opened and renovated supermarkets, however construction works of new supermarkets have been further continued or were launched successfully in this period. In the third quarter “Maxima” opened one new supermarket in Riese and intends to build five new and restore 13 supermarkets over 2014. This year the supermarket chain Iki is also focusing on the renovation of existing supermarkets – one was restored in this quarter; in addition, it opened one new and restored 16 supermarkets over the year. In the third quarter this year “Rimi” have not opened new supermarkets, but some supermarkets are currently under construction. The amount of “Prisma” supermarkets has remained unchanged over the quarter and currently it has 4 supermarkets: 2 in Vilnius and 2 in Kaunas. Rapid expansion of “Fresh Market” has slowed down in the third quarter this year – it opened one supermarket in Kaunas. One new supermarket was also opened by “Norfa”.

Competition in the supermarket chain market remains strong, and it will be fostered even more by “Lidl”, which is entering the market in Lithuania. In the third quarter this chain has continued the construction of the logistics centre in Kaunas and works of supermarket planning and construction.

The volumes of supermarkets continue to grow in Lithuania, and sustained expansion of shopping centres and supermarkets reflects the recovery in this segment. Improving economic situation in the country, growing income of people and domestic consumption, as well as particularly low vacancy rates in the shopping centres allow to assume that the shopping centre market should not be limited by projects, which are being

implemented currently. The potential of this segment remains sufficient for the emergence of new projects.

Dynamics in shopping centre vacancies in the major cities, percent



Source: Inreal

Development of supermarket chains in the country in 2014

Supermarket chains	Supermarkets, newly opened	Supermarkets, restored
Maxima	1	8
Iki	1	16
Norfa	3	0
Rimi	2	0
Prisma	1	0
Kubas	4	0
Fresh Market	13	0
Total:	25	24

Source: Inreal

LOGISTICS CENTRE MARKET REVIEW

In 2014 the decrease in the volumes of industry output is observed in Lithuania, which leads to a more conservative assessment of the future by industry representatives. Geopolitical friction in the region has strongly affected some of the international freight forwarding companies, however it had no significant influence on the general vacancy rate and lease prices in the logistics centres yet.

In January-July 2014, the industry output was reaching 40.5 billion Litass in Lithuania, i.e. by 1.9 percent less than in the corresponding period in 2013. Industrial Confidence Index shows that the industry representatives' expectations were more pessimistic in the third quarter than a year ago. It is related to the risks occurring due to continuing military conflict between Russia and Ukraine, as well as more conservative behaviour of companies and consumers resulted from these risks.

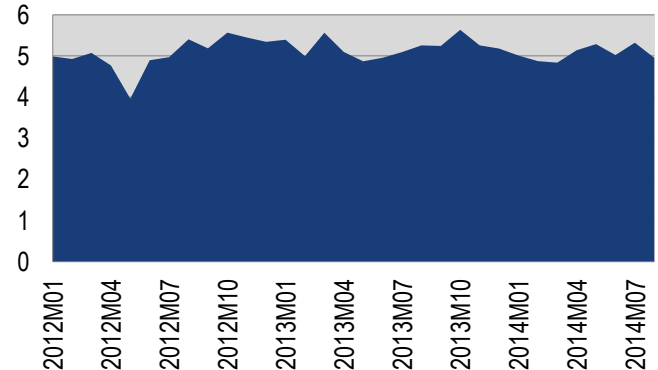
The embargo imposed by Russia on the imports has affected the exports in the country: the increase in volumes has slowed down significantly over 2014, and the industry representatives' forecasts for the exports remained moderate. Still, it should be noted that the slowdown of exports can be related to the significant decrease in re-export to Russia, however this year the export of Lithuanian goods should remained higher than last year. Trade restrictions are being undergone better by companies, which has diversified their activities or may redirect to other markets.

When analysing vacancy rates in modern logistics centres in the major cities of the country at the end of the third quarter, it was observed that the area of vacant premises has increased both in Vilnius and Klaipeda in comparison with the beginning of the year. Such change was mostly resulted by the new logistics centres opened in both cities. New objects have not been occupied yet, but vacancy rates are rapidly decreasing, and the earlier-built warehouses are fully occupied, therefore it was still complicated to lease modern warehousing premises with an area of 1,000 sq.m. at the end of the quarter. In the third quarter the vacancy rate in Vilnius and Klaipeda reached 4.6 and 9.3 percent, respectively. Meanwhile, this rate remains close to zero in Kaunas.

Despite the tension resulting from the military conflict between Russia and Ukraine, the general rate of prices in modern logistics centres remains stable and have not changed in the third quarter of 2014. The average lease prices in modern

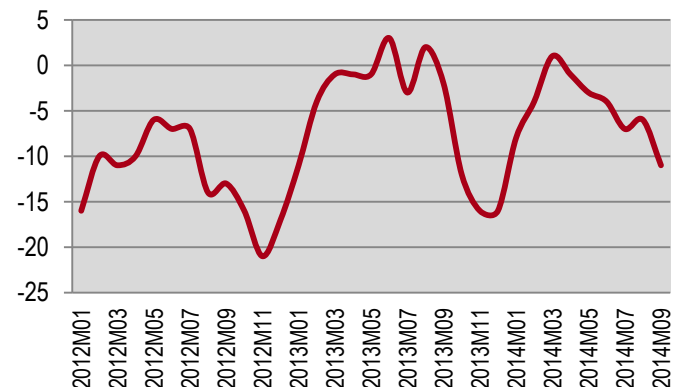
logistics centre in Vilnius were 12-17 LTL/sq.m., and 11-15 LTL/sq.m. in Kaunas and Klaipeda. Lease prices of such premises in old logistics centres in Vilnius reached 6-10 LTL/sq.m., and 5-9 LTL/sq.m. in Kaunas and Klaipeda.

Industry output in Lithuania, billion LTL



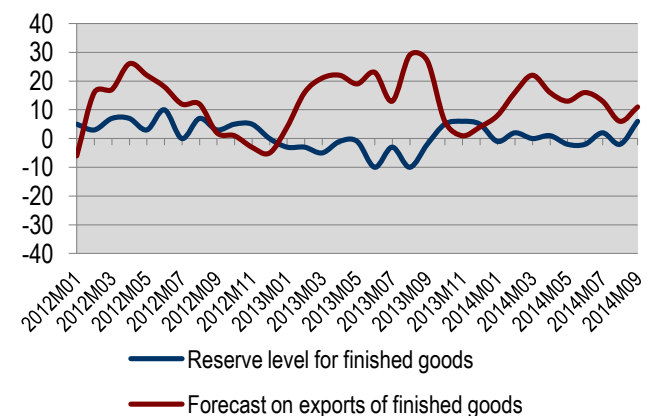
Source: Department of Statistics

Dynamics of Industrial Confidence Index in Lithuania



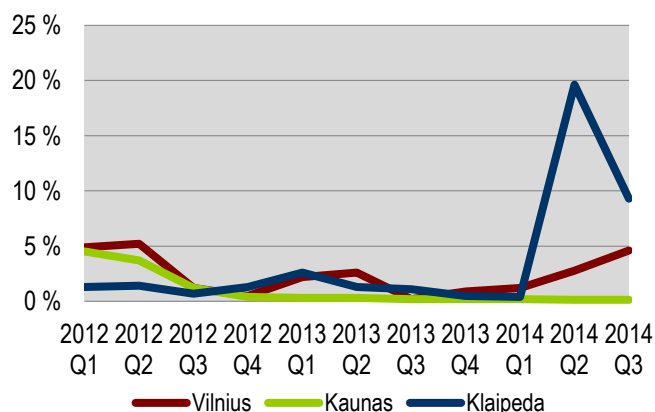
Source: Department of Statistics

Industry representatives' forecasts on exports and reserves



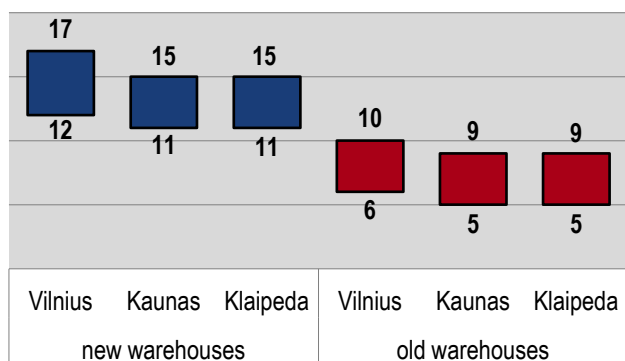
Source: Department of Statistics

Dynamics of vacancies in modern logistics centres in Lithuania



Source: Inreal

Lease prices of logistics centres in Lithuania, Q3 2014



Source: Inreal

Logistics centres, being developed and expected to be developed in Lithuania in 2014

City	Title	Area, sq.m.	End of construction
Vilnius	Vilpros Logistika	14,000	2015 Q2
Vilnius	Arvydo Paslaugos II	8,500	2015 Q2
Klaipėda	AdRemLez II	14,600	2014 Q4
Total:		37,100	

Source: Inreal

In the third quarter this year, the new logistics centre “Transimeksa” (10,000 sq.m.) was opened in **Vilnius**, which at the end of the quarter offered 4,500 sq.m. of vacant premises for lease. By mid-2015, it is intended to open a new logistics centre “Vilpros Logistika” with an area exceeding 13,000 sq.m.

Lessees are already offered to rent premises up to 5,000 sq.m., to be built according to their individual needs. In 2015 the construction works of the logistics centre “Arvydo Paslaugos II” with an area of 8,500 sq.m. will be finished in **Vilnius**. Large logistics centres are being built in **Kaunas** as well, however they will be used by their owners, while there are no large projects to be offered for lease. By the end of this year, the opening of the logistics centre “AdRemLez II” is expected in **Klaipeda**, which will offer 14,600 sq.m. for lease.

The companies continue active investments in the major cities of the country and are building their own built-to-suit warehouses. Such active investment flows are mostly observed in Kaunas, where the warehousing market is less expanded than in Vilnius and Klaipeda. In the third quarter of 2014, a logistics centre was opened in Kaunas by “Limedika” and “Sanitex”, the construction works have been successfully implemented by “Lidl”. In addition, “Lietuvos paštas” launched the construction works and intends to move distribution of consignments from Vilnius to Kaunas – the new centre with an area of 8,500 sq.m. Next year “DPD” intends to open a new logistics centre in Kaunas as well.

The general climate in the logistics market in Lithuania still remains cautious. Low vacancy rate in the centres reflects high demand of warehousing premises, however the geopolitical situation acts as a factor hampering the expansion of logistics centres. Nevertheless, this year and next year the market will be supplied with new modern warehousing premises for lease, and trading restrictions in the region are seen as temporary or of little importance.

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ABOUT COMPANY / CONTACTS

INREAL GROUP



Inreal Group, consisting of JSC "Inreal GEO", JSC "Inreal valdymas" and JSC "Inreal", provides probably the widest spectrum of services in Lithuania, related to real estate. Inreal group companies belong to SC "Invalda privatus kapitalas". About 90 employees are currently working in Inreal group; mediations in lease or sale of more than 550 thousand sq. m. of commercial premises, over 1,000 residential housing objects, and over 200 land plots. The company mediates in 40 residential housing projects, 24 investment projects, or their portfolios. More than 4,900 valuation reports and about 80 consultations (feasibility studies, investment memorandums, and market research) are being drawn up annually. The value of asset of valuation is above 2.5 milliard Litas. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Mažeikiai, Alytus, Plungė and Utena. Currently JSC "Inreal Valdymas" develops two real estate projects: houses in Nida "Kopų vetrungės" ("Dunes weathervanes"; „[Kopų vētrungēs](#)“) and apartments and commercial premises in Klaipėda oldtown "Danes uzutėkis" ("Danes Bay"; „[Danēs užutēkis](#)“)

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