

in real
20 YEARS IN RE MARKET

LITHUANIAN
ECONOMY AND RE
MARKET REPORT
2015 H1



C O B A L T

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SUMMARY

In comparison with the second quarter of the previous year, Lithuanian economy has grown by 1.3 percent this year. Comparing the first and the second quarter of this year, the growth was 0.6 percent, while the positive variation of GDP allowed avoiding formal recording of recession. When forecasting the economic growth rate of Lithuania for the second half of this year, it is important that business expectations are becoming more positive and the situation in Russia is not a novelty to entrepreneurs anymore, while, taking into account the changes in the structure of Lithuanian export, many of them have already refocused on other markets successfully.

The domestic consumption remains the most important factor in economic growth. The consumption is increasing, because household income is gradually growing due to increasing employment rate, meanwhile saving is not increasing, while household expectations remain positive. It is possible to predict that the private consumption will continue to grow, because household income will increase through rising wages and higher employment. Moreover, the demographic situation is favourable for the consumption to grow. Going back to 1986-1992, there were about 57 thousand newborns every year. The majority of them, currently the youth, have already joined the labour market successfully. Likely, the new households will strongly contribute to the overall development of economy not only through the fast-moving consumer goods, but also active participation in the real estate market, as an example.

This year ECB launched a programme of expansionary monetary policy to stimulate the economy (quantitative easing) – by purchasing bonds in the secondary market. Although the economic growth in the euro area is fragile, the preliminary macro-economical rates are already showing better forecasts of economic growth. The expansionary monetary policy of ECB has a direct influence on the interest rate expectations, and that is particularly important to those having housing loans. Currently, loan holders who pay floating interest and are very susceptible to changes in their loan instalments already have to think about the fixed interest rates in order to avoid a significant amount of additional costs in the future.

The start of the first half-year of 2015 was particularly sluggish in the Lithuanian real estate (hereinafter – RE) market; although the situation started to improve in the second quarter, however, the statistics of the purchase-sale transactions in the first half-year and second quarter were worse than in the corresponding periods in 2014. In the second quarter this year, the liquidity of RE market in different segments in Lithuania equalled to the corresponding period in 2013 and was significantly lower than in the beginning of 2014.

According to the data of SE Centre of Registers:

- There were 12,212 apartment purchase-sale transactions concluded in Lithuania during the first half-year of 2015, i.e., by 22.1 percent less than in the corresponding period in 2014.
- There were 5,365 private house purchase-sale transactions concluded in Lithuania during the first half-year of 2015, i.e., by 12.6 percent less than in the corresponding period in 2014.
- There were 13,142 land plot purchase-sale transactions concluded in Lithuania during the first half-year of 2015, i.e., by 5.9 percent less than in the corresponding period in 2014.

Despite the fact, that the number of RE purchase-sale transactions was decreasing in all segments in Lithuania in the first quarter this year, the RE market has remained active and liquid enough for RE prices not to decrease. On the other hand, the presumptions for RE prices to grow are difficult to observe, therefore the prices will likely remain stable in the upcoming period.

Noticeably, the decrease in RE purchase-sale transactions in the second quarter of 2015 was not as significant as in the first quarter, and it was mostly influenced by the following reasons:

- Less influence of “the war of sanctions” on Lithuanian economy, export and transport sectors than expected;
- Abated conflict between Russia and Ukraine (or at least the escalation thereof);

- Greek financial crisis is under control.

In the first quarter of 2015, the highest activity was in the capital city, which significantly overtook the markets of other cities. There were 4,100 apartment purchase-sale transactions concluded in this period – this covers a third of all transactions concluded in Lithuania. RE developers have sold about 1,820 new construction apartments in Vilnius, i.e., only by 1.5 percent less than in the corresponding period last year. It should be noted that after a year-break the economy-class purchasers returned to a new construction apartment segment; who had previously had postponed their plans to purchase housing as a result of military conflict between Russia and Ukraine as well as “the war of sanctions”. One should not exclude the fact that the latter purchasers were encouraged to return to the RE market due to the intensions of the Central Bank of Lithuania to tighten the rules on responsible lending, in respect of which some of potential buyers could no longer purchase the desired housing. We forecast that the sales of new construction apartments will be decreasing in the second half-year; especially, in the economic class segment. On the other hand, the increase in sales of higher-class apartments is noticed: spacious apartments (100-150 sq.m. and more) are usually acquired from own funds. RE developers are often compelled to merge several apartments into one large apartment, in order to meet the demand. This shows, that the market is changing, and the developers are trying to adapt to it.

The new construction market is significantly more moderate in other cities. About 150 apartments were sold in Kaunas, about 80 apartments – in Klaipėda, about 95 – in Palanga, and about 20 – in Neringa. In comparison with the corresponding period last year, the number of transactions on new construction apartments has decreased by 26.1 percent in Kaunas, by 50 percent – in Klaipėda, by 57.8 percent – in Palanga, and by 75 percent – in Neringa.

Despite the new currency, the slowdown in economic growth, “the war of sanctions”, indefinite geopolitical situation, and Greek crisis, the trends in the commercial sector have remained positive in the first half-year of 2015. Three business centres were finished in Vilnius; they supplied the market with about 16,600 sq.m. GLA. Two business centres were finished in Kaunas (GLA - about 4,500 sq.m.). So far, RE developers are only gaining momentum, because 10 new business centres are expected to be opened in Vilnius within the next two years, what should lead to additional GLA – about 142,600 sq.m. The construction of a business centre (14,000 sq.m.) is foreseen in Kaunas. Such development rates were also observed during the last boom in 2008.

In the first-half of 2015, no new shopping centres were opened in the country. The expansion works of “Babilonas I” were finished in Panevėžys; the object was expanded by 1,600 sq.m. and renamed to RYO. Scheduled construction works of shopping centres were continued as well.

In comparison with the corresponding period last year, the increase in the average vacancy rates in the segment of shopping centres in the country is observed. Although the Lithuanian economy is growing and the domestic consumption is increasing, it however does not ensure that all retailers will manage to remain in the shopping centres. In the first half-year, a quite active turnover of tenants was observed in the shopping centres, particularly, in the major ones, where some less popular and weaker retailers had to stop their activities. Nevertheless, the demand for commercial premises is high, thus the vacated area is occupied by new tenants, and the vacancy rates remain low.

In the first-half of 2015, the Industry Confidence Index was improving and reached the level of 2013. Moreover, the forecasts related to exports and output levels in the sector remained quite positive. It seems, the industrial and warehousing segment representatives managed to adapt to the changes in business environment, therefore, it is possible to predict, that this segment should maintain a moderate growth.

However, a trend is observed that willingness to invest into industry expansion is decreasing due to a quite delicate economic growth, as well as the undefined geopolitical risks. Much more often the industrial and warehousing segment representatives are looking for the opportunities to “employ” their profit safely. One of the methods is to acquire industrial and/or warehousing objects, in order to avoid rental costs. This is rather a new phenomenon in the Lithuanian industrial and warehousing segment, since the majority of representatives in this segment was avoiding investments into RE for several years from the emergence of the crisis, by considering it as freezing of funds, required for business expansion; however, the situation has already changed and investing into RE is more common in this segment.

The rents of warehousing premises, either new or old construction, have remained stable in the market for some time and they should not change in the short-term. Although the vacancy rates in this market remain low, and the demand exceeds the supply, there are no sufficient preconditions to raise the rents, because potential tenants have the alternatives – they can look for the opportunities to acquire own RE.

Recently, a more conservative risk management, moderate lending policy and strict lending conditions applicable by banks and other credit institutions more often make people consider the alternatives to traditional RE business funding.

Issued corporate bonds, crowdfunding, peer-to-peer lending – the financial measures, which are rapidly becoming popular throughout the world. They ensure the availability of funding for more companies, especially, in small and medium-sized enterprises. In turn, it allows large companies to diversify their business funding resources and provides flexibility in managing lending-related risks.

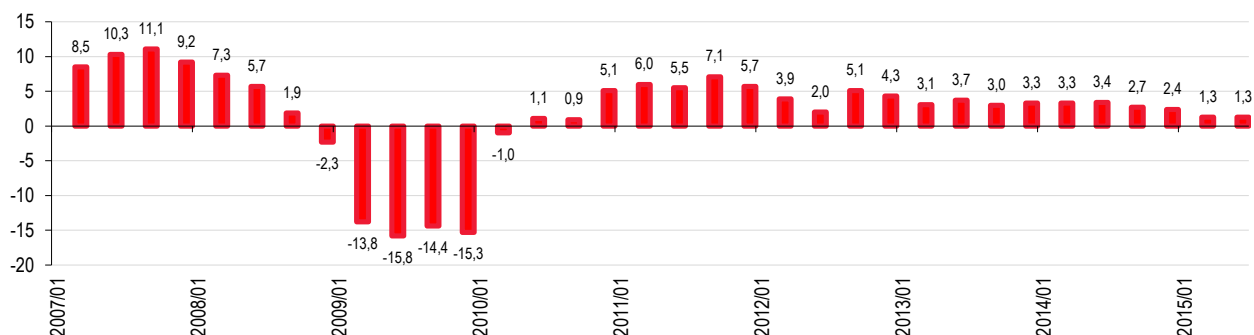
So far the alternative RE business funding tools are more discussed in Lithuania only. Moreover, a rough legislative framework does not promote significant changes and a breakthrough in this field. However, the P2P (peer-to-peer) lending, which is increasingly growing in Lithuania, is a perfect reflection of the openness to financial novelties and the climate in financial markets. This is the matter of time before we get B2B (business-to-business) platforms, which are already operating in other countries.

The public sector also sees the demand of alternative funding opportunities for business – the Bank of Lithuania, the Ministry of Finance and the Ministry of Economy have already drafted a package deal, the implementation of which could provide the opportunity to use crowdfunding, as well as expand the opportunities for companies to issue and distribute bonds. Let's hope that these alternatives of funding will become a reality in the nearest future.

LITHUANIAN ECONOMY REVIEW

A slowdown in growth of Lithuanian economy. In the second quarter of this year Lithuanian economy grew by 1.3 per cent., as compared to the same period last year. Compared to the first quarter of this year the growth in the second quarter amounted to 0.6 per cent., and the positive GDP growth has helped to prevent the fact of a formal recession. Such growth rates in Lithuania are among the slowest in the last 5 years. Lithuanian economic slowdown is mainly due to the development in the international environment. In the first quarter of this year, most exporters were still in "readjustment" mode. Although it was predicted that the economic situation in Russia will deteriorate significantly, still, its import declined much more than was expected. This affects export development both of Lithuania and other European Union countries - lower-than-projected exports are now expected in Lithuania's key trading partners such as the Baltic countries. While predicting the rate of growth of Lithuanian economy in the second half of the year, it is important that business expectations are changing in a positive way, situation in Russia is no longer a novelty, and many entrepreneurs have already successfully switched to the other markets.

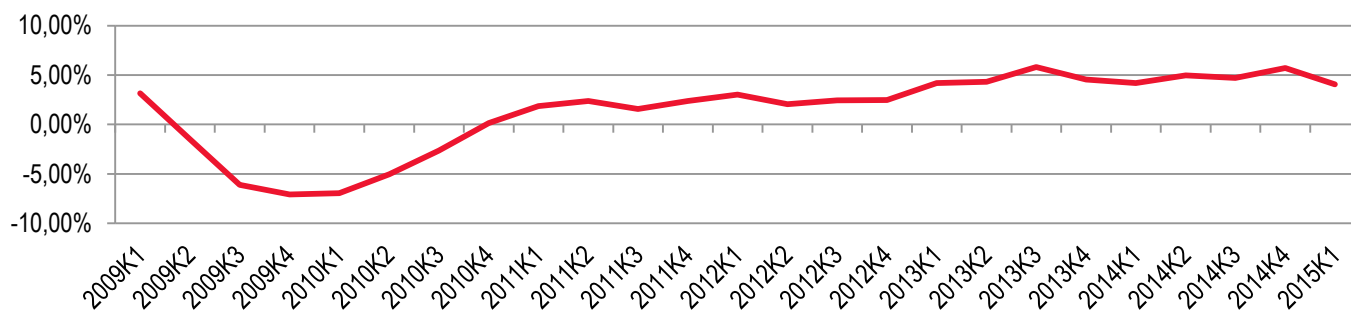
Chart No. 1 Lithuania's GDP growth %



Source: Bloomberg

Increasing employment and domestic consumption also favorable demographic environment. Domestic consumption remains the most important factor in economic growth. Consumption increases as due to increasing employment, household incomes gradually rise, while saving is not increasing as household expectations are still positive. We expect that private consumption will continue to consistently grow as household income increases due to rising wages and higher employment. Also domestic consumption will increase due to the stable prices of the basic consumer basket.

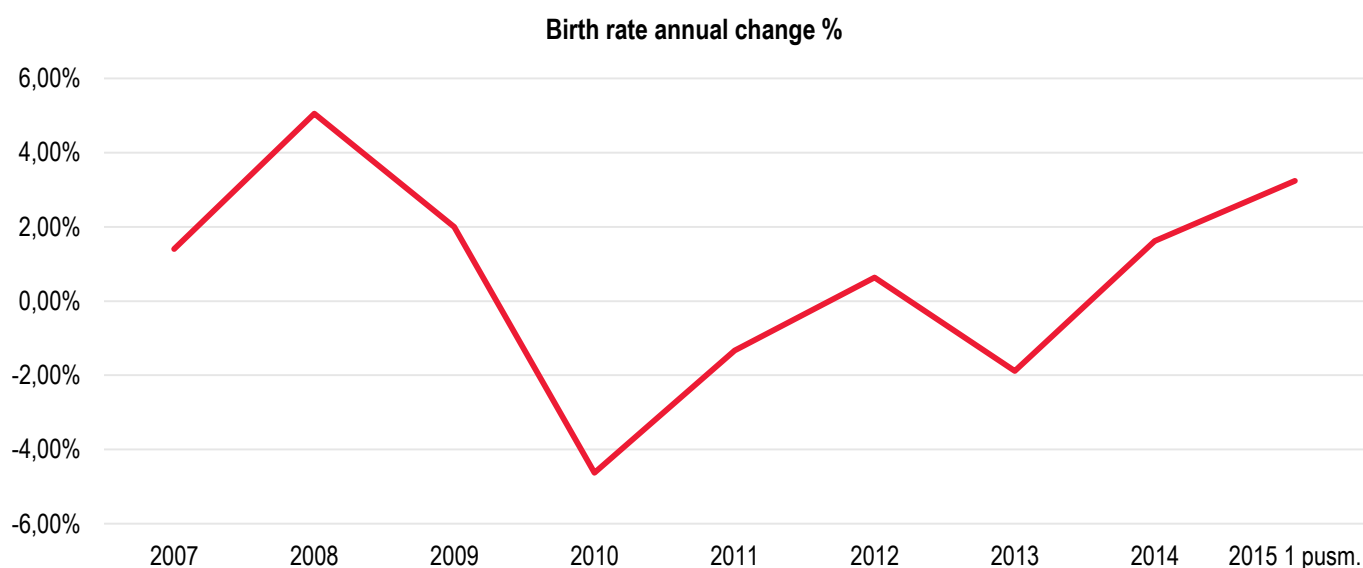
Chart No.2 Changes in earnings %.



Source: Department of Statistics

The demographic environment is also currently very favorable for consumption to grow. Going back to 1986-1992 m., annual birth rate was about 57 thousand. A large proportion of young people have already successfully "entered" the labor market. During the last five years the number of employees has increased, particularly among young people under 34 years old. In January 2010 based on information from Sodra 80 thousand of young people were working earning at least 580 euros per month. In December 2014 there were already 137 thousand of them. Parallely birth rate started rapidly improving. The number of births in the first half of this year increased by 3.2% compared with the same period last year. If such a rapid growth remains there will be achieved the highest growth rate since the start of Lithuanian independence, apart from 2008 when due to the crisis the birth rate was „artificially“ increased. It is likely that many new households will contribute to the overall economic development not only in the fast moving consumer goods market, but also will be active, for example, in the real estate market.

Chart No.3 Birth rate annual change %.

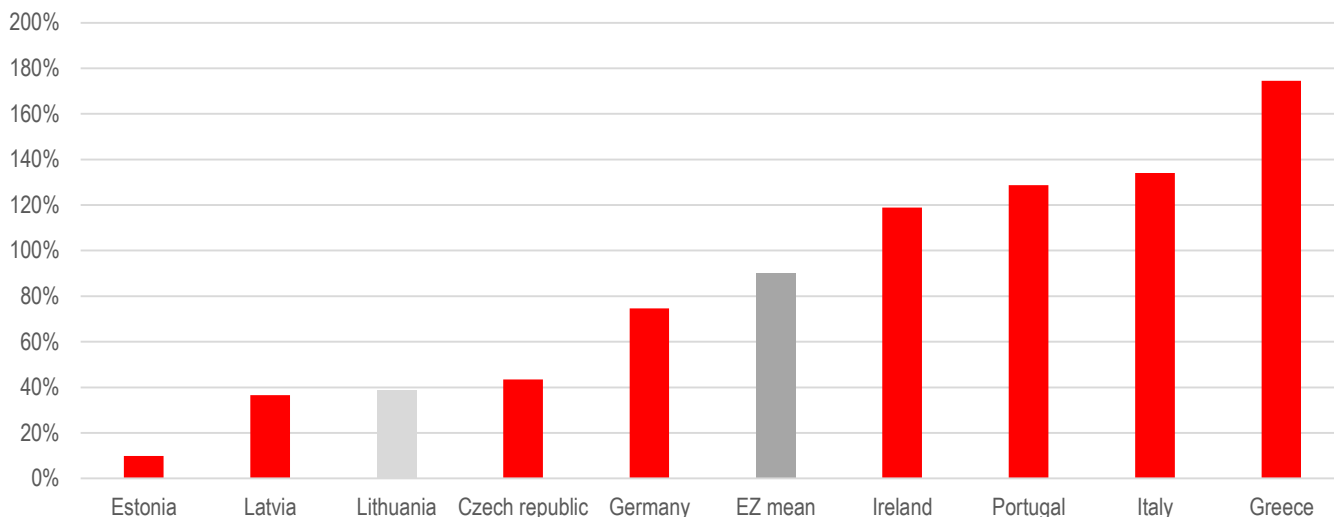


Source: Department of Statistics

Euro zone headaches - the effectiveness of economic stimulus program and the Greek debt

This year, the ECB launched an additional economic stimulus monetary policy - the purchase of sovereign bonds in the secondary market. Although the euro zone economic growth remains fragile, preliminary macroeconomic indicators already shows better growth forecasts. The ECB has reserved the right to increase the pace of economic stimulus program, but in the current moment there is no need for such means. Ongoing conflict in Ukraine and complicated financial situation in Greece poses serious risks for euro zone economic growth. After months of inconclusive negotiations, missed payment to the IMF, several weeks of capital controls and after the massive damage was done to the Greek economy, it finally managed to reach an agreement with international creditors. Greece was offered more than 80 billion euro loan for three years, including assistance to the banks. However, it is still unclear - whether the aid to Greece is sufficient enough to let it recover from the economic blow? Greek debt in mean time is 175 percent of its GDP. Greek economy needs to have annual 5 percent surplus to reduce its debt to 100 percent to GDP and it still remains unclear how the „sick“ economy can achieve it in this time frame. Furthermore it needs to be taken into account that with recovering euro zone economy the ECB will have to raise interest rates and interest expenses for Greece will only rise, thus making it harder to maintain the debt.

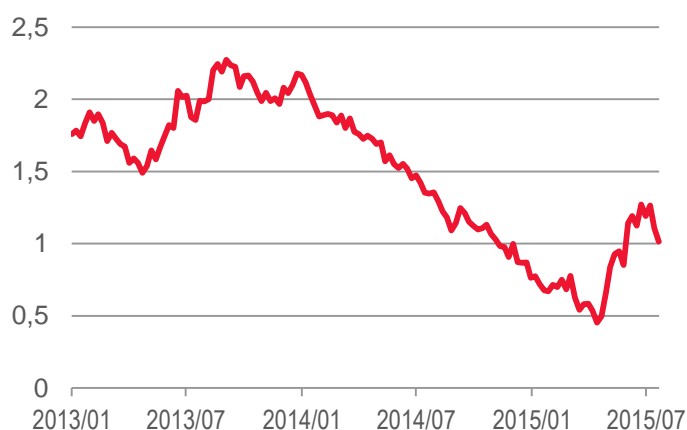
Chart No. 4: Euro zone government debt to GDP %, 2014



Source: Bloomberg

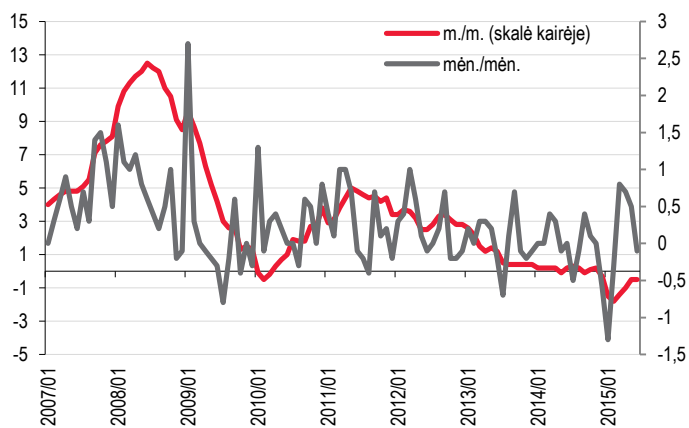
Rapidly changing interest rate expectations. The ECB's monetary policy has a direct impact on interest rate expectations, which is especially relevant for mortgage holders. Although the inflation remains at very low levels and slump in oil prices helped to reduce it even more, the ECB's monetary policy has allowed the euro area "to emerge from deflation (deflation in Lithuania remained through all 2015, annual deflation in June was 0,5 percent). In parallel, the expectations for a long-term base interest rate in the interbank market are changing. For example in the first half of 2015 the costs for hedging interest rate for ten year cost 0,5 percent, and in the second quarter it already costs – around 1 percent. This is important to Loan holders who pay variable interest and who are very sensitive to changes in installment sizes, now should think about the possibility of fixing interest rates in order to avoid a significant amount of additional costs in the future.

Chart No. 5: 10-year fixed interest rate swaps (to 6 months. EURIBOR) Index



Source: Bloomberg

Chart Nr. 6: Average annual inflation %



Source: Bloomberg

HOUSING MARKET REVIEW

Housing market in Lithuania

The start of the first half-year of 2015 was particularly sluggish in the Lithuanian real estate (hereinafter – RE) market; although the situation started to improve in the second quarter, however, the statistics of the purchase-sale transactions in the first half-year and second quarter were worse than in the corresponding periods in 2014. In the second quarter this year, the liquidity of RE market in different segments in Lithuania equalled to the corresponding period in 2013 and was significantly lower than in the beginning of 2014.

According to the data of SE Centre of Registers:

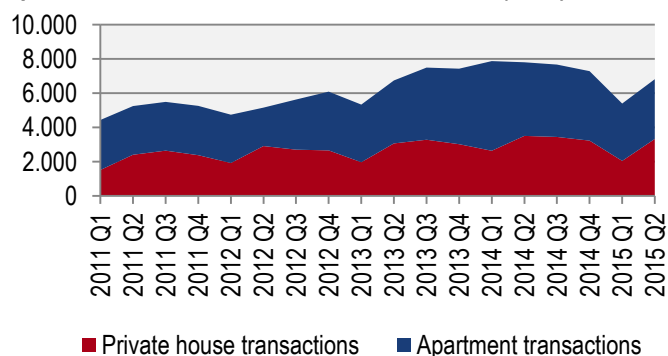
- There were 12,212 apartment purchase-sale transactions concluded in Lithuania during the first half-year of 2015, i.e., by 22.1 percent less than in the corresponding period in 2014, while during the second quarter the number of apartment purchase-sale transactions was less by 12.7 percent than in the corresponding period in 2014.
- There were 5,365 private house purchase-sale transactions concluded in Lithuania during the first half-year of 2015, i.e., by 12.6 percent less than in the corresponding period in 2014, while during the second quarter the number of private house purchase-sale transactions was less by 5.1 percent than in the corresponding period in 2014.
- There were 13,142 land plot purchase-sale transactions concluded in Lithuania during the first half-year of 2015, i.e., by 5.9 percent less than in the corresponding period in 2014, while during the second quarter the number of land plot purchase-sale transactions was less by 3.5 percent than in the corresponding period in 2014.

Despite the fact, that the number of RE purchase-sale transactions was decreasing in all segments in Lithuania in the first quarter this year, the RE market has remained active and liquid enough for RE prices not to decrease. On the other hand, the presumptions for RE prices to grow are difficult to observe, therefore the prices will likely remain stable in the upcoming several quarters.

Better results of the second quarter were mostly influenced by success in solving some international problems, thus leading to better expectations of residents and business. The following reasons can be distinguished:

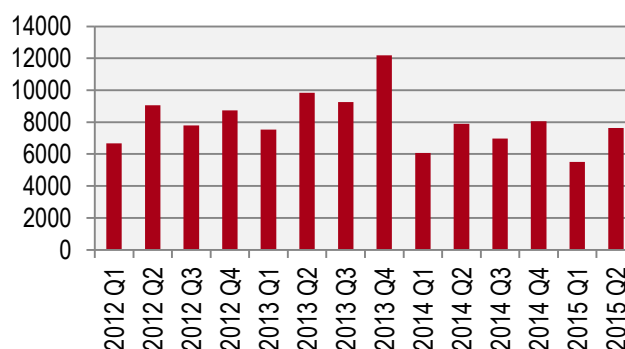
- Less influence of “the war of sanctions” on Lithuanian economy, export and transport sectors than expected;
- Abated conflict between Russia and Ukraine (or at least the escalation thereof);
- Greek financial crisis is under control.

Apartment and house transactions in Lithuania (units)



Source: SE Centre of Registers

Land plot transactions in Lithuania (units)



Source: SE Centre of Registers

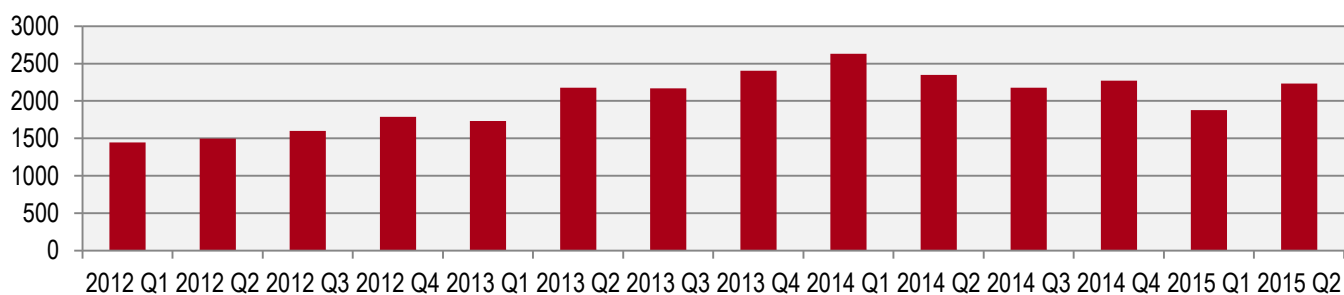
Vilnius market

The trends of RE purchase-sale transactions in Vilnius were similar to the general trends of housing transactions in Lithuania, but not in all segments. According to the data of SE Centre of Registers:

- There were 4,109 purchase-sale transactions concluded in the apartment segment during the first half-year, i.e. by 17.4 percent less than in the corresponding period in 2014. However, the number of the apartment purchase-sale transactions concluded in the second quarter was less by 4.9 percent than in the corresponding period in 2014.
- There were 681 purchase-sale transactions concluded in the private house segment during the first half-year, i.e. by 0.9 percent less than in the corresponding period in 2014. If comparing the data of the second quarter with the corresponding quarter in 2014, the observed increase in transactions was 14.5 percent.
- The half-year statistics of purchase-sale transactions in the land plot segment shows a 0.5 percent decrease only, meanwhile the statistics of the second quarter shows, that the number of land plot purchase-sale transactions concluded in Vilnius was higher by 9.1 percent than in the corresponding quarter of 2014.
- The trends in Vilnius region were opposite to those in the city – during the first half-year this year, the number of purchase-sale transactions was decreasing in the private house segment as well as the land plot segment by 6.9 percent and 1.1 percent, respectively. The decrease in transactions was observed in the second quarter as well – by 5.1 percent and 0.6 percent, respectively.

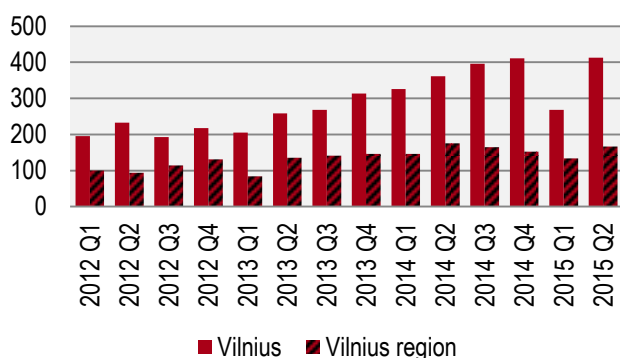
In the general context in Lithuania, Vilnius market remains the most resistant to different external stimulus and shows a solid demand, which is promoted not only by local but foreign purchasers as well. High demand does not allow oversupply to occur, thus RE prices remain stable.

Transactions of apartments in Vilnius (units)



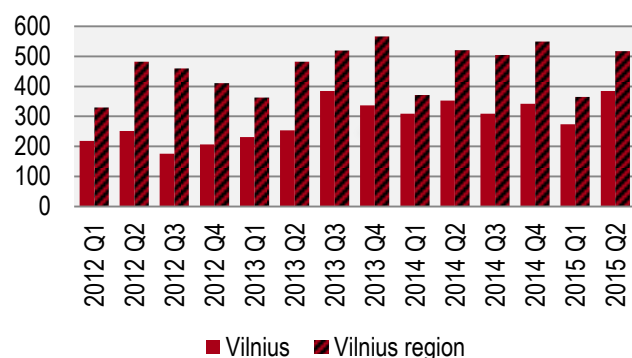
Source: SE Centre of Registers

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



Source: SE Centre of Registers

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



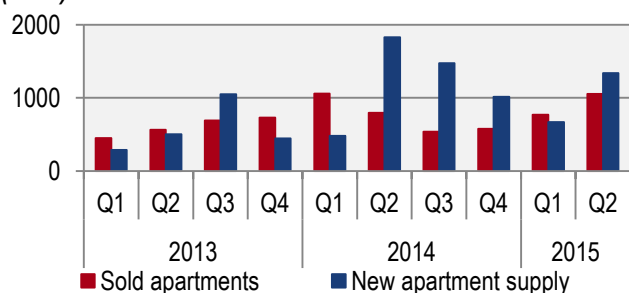
Source: SE Centre of Registers

Despite of particularly poor sales, achieved by the developers in the first quarter this year, total outcome of half-year sales was just by 1.5 percent less than in the corresponding period in 2014. This was mostly resulted by high sales in the second quarter of 2015, when the developers have sold about 1,050 new construction apartments (in total, about 1,820 apartments were sold in the first half-year). Nevertheless, such active sales should not be considered as a long-term trend, since it is likely, that some of the purchasers hastened to acquire housing due to the intensions of the Central Bank of Lithuania to tighten the rules on responsible lending. It is possible to state that some of the transactions were registered in the second quarter at the expense of the upcoming quarters, thus we forecast that the RE market will be less active in the second half-year, and the average number of apartments sold in a month will return to the level of 220-250 apartments per month.

In comparison with the first quarter, in the second quarter this year, the economic-class apartment sales have increased the most (by 45.2 percent). Funding of acquisition is particularly relevant in this segment, thus such a rapid increase in sales can also show that some of the purchasers hastened to acquire housing of the desired size, until it was possible due to former rules of lending.

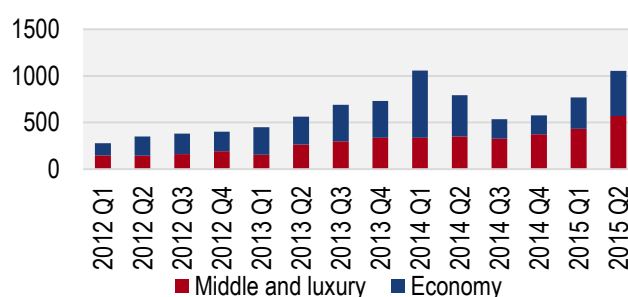
The developers of new projects in Vilnius did not reduce their speed – they have supplied the market with about 2,010 new apartments within the half-year, i.e. by 12.9 percent less than in the corresponding half year of 2014. New supply was insignificantly higher than the sales, thus the total number of unsold (vacant and reserved) apartments increased up to 4,570. As a result of a quite equal ratio of supply and sales, the new construction apartment liquidity rate, calculated by “Inreal”, has stabilized at the limit of 1.5-1.6 in Vilnius; and it is remaining at this level for over a half-year. Such liquidity rate means that the market is balanced, thus changes in prices should not be expected. Nevertheless, it is necessary to take into account the fact that the demand rather than the supply is much more responsive to the changes in the market; therefore developing new projects is much riskier in current circumstances than a half-year or a year ago.

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



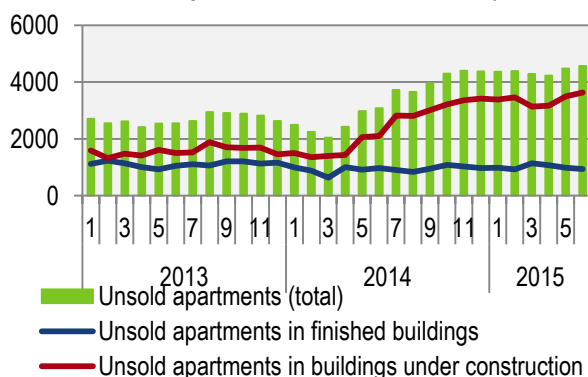
Source: Inreal

New apartment sales under classes (units)



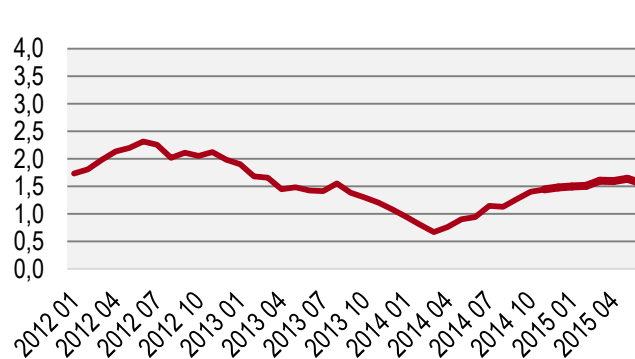
Source: Inreal

New construction apartments, unsold in Vilnius (units)



Source: Inreal

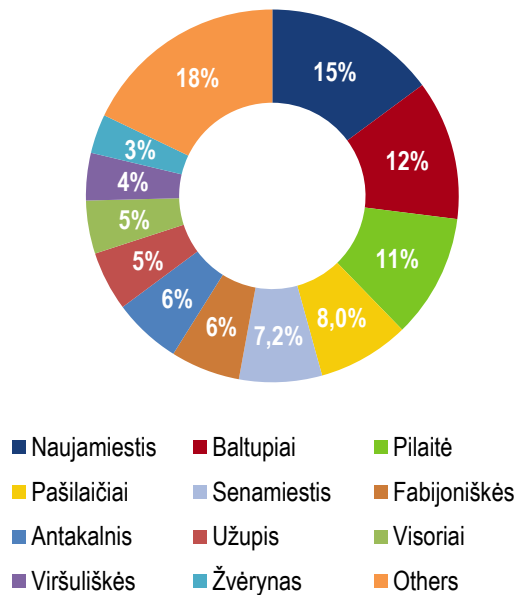
Liquidity rate of new apartments in Vilnius (years)



Source: Inreal

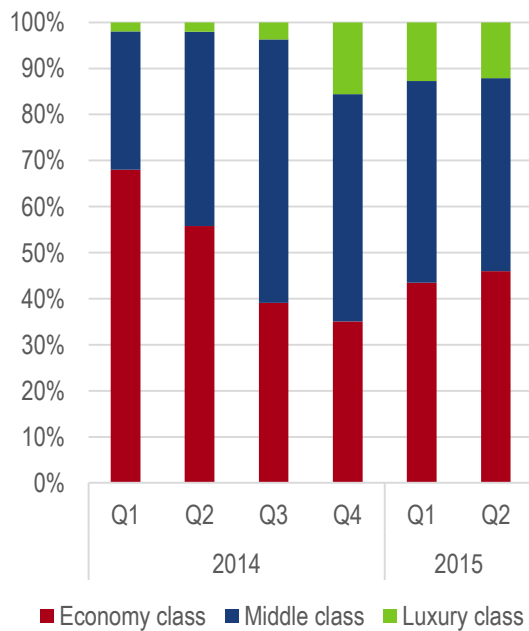
A trend is noticed, that more and more RE purchasers are looking for a higher quality and class housing in the centre of the city. Therefore, the mid-class and luxury-class apartment sales are growing for some time; meanwhile Naujamiestis remains the most popular urban district for several quarters in a row. Changes in customer needs are also observed: if previously 2-room apartments were the most popular, currently, more spacious, 3-room apartments are more marketable.

Apartment sales under urban districts (percent)



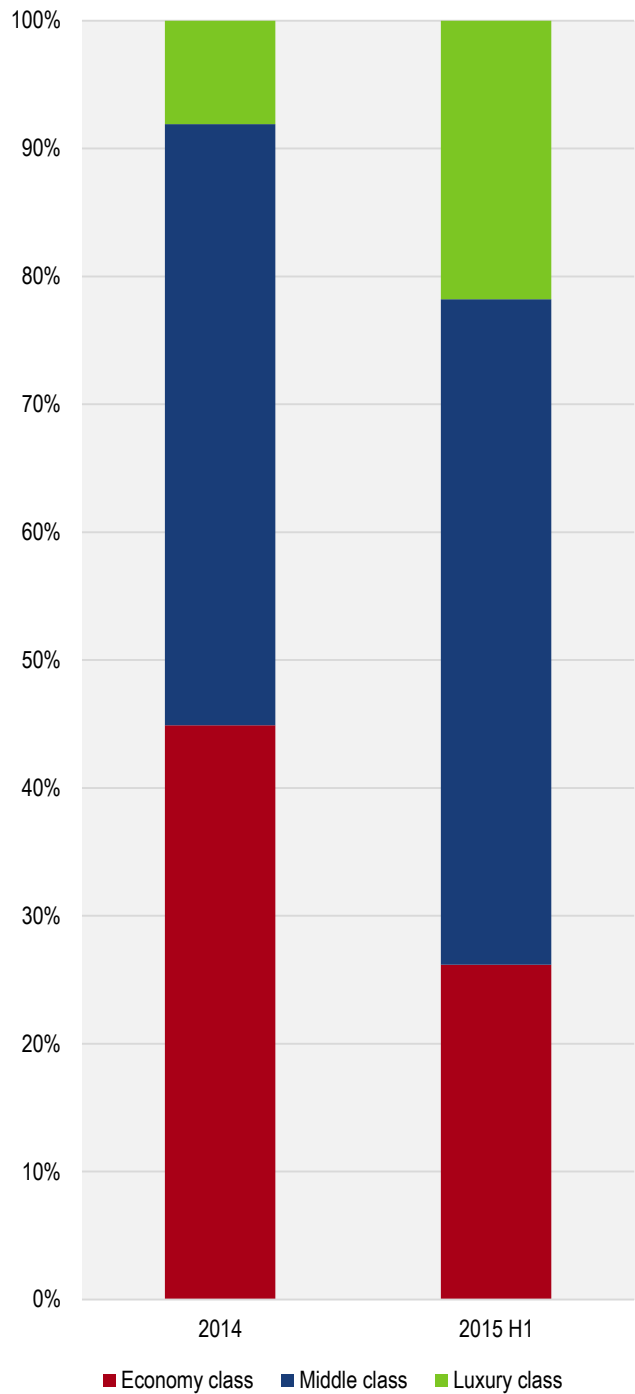
Source: Inreal

New apartment sales under classes (percent)



Source: Inreal

New apartment supply under classes (percent)



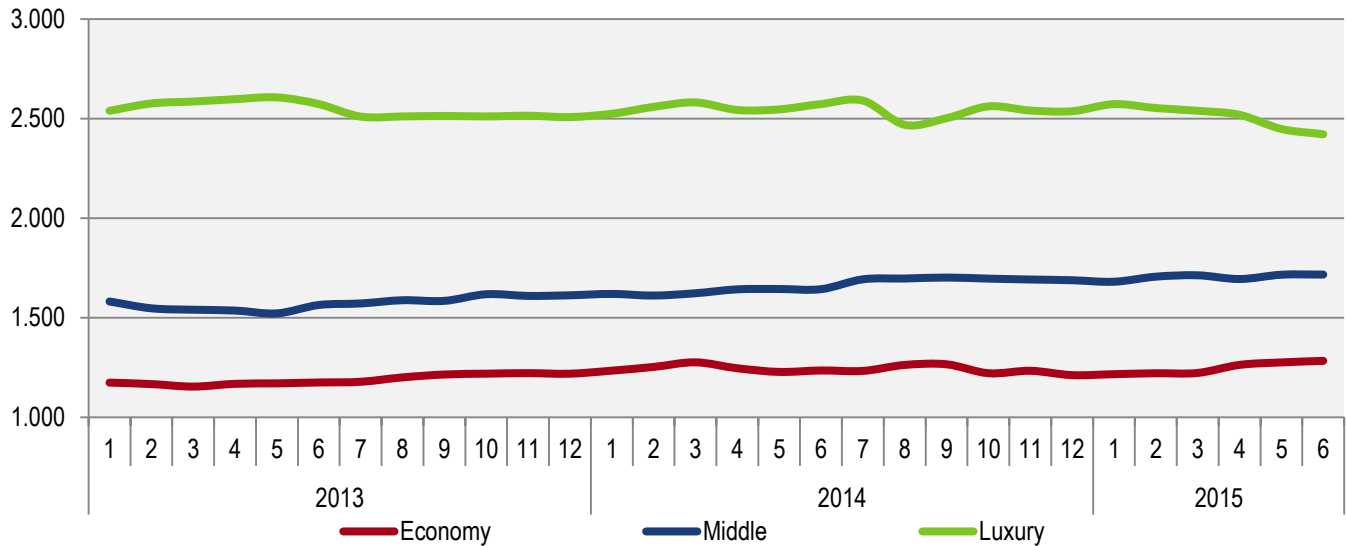
Source: Inreal

In the first half-year of 2015, the trends of new construction apartment prices in Vilnius were different in various segments.

- The average price of economy-class apartments was 1,280 EUR/sq.m. and increased by 3.9 percent within a year.
- The average price of mid-class apartments was 1,720 EUR/sq.m. and increased by 4.5 percent within a year.
- The average price of luxury-class apartments was 2,420 EUR/sq.m. and decreased by 5.9 percent within a year.

Insignificant changes in the average prices of new construction apartments are resulted by ongoing sales and the emergence of new supply. Undoubtedly, the invigorated sales, conducted by the developers in the economy-class and mid-class segments, have also contributed to the annual average increase in the prices, i.e. 4-4.5 percent.

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



Source: Inreal

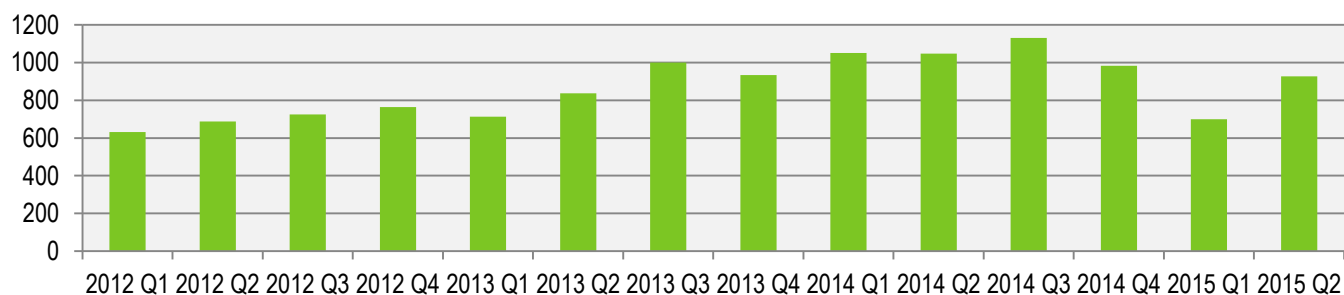
Kaunas market

The trends of RE purchase-sale transactions in Kaunas were similar to the general trends of housing transactions in Lithuania, but not in all segments. According to the data of SE Centre of Registers:

- There were 1,626 purchase-sale transactions concluded in the apartment segment during the first half-year, i.e. by 22.4 percent less than in the corresponding period in 2014. However, the number of the apartment purchase-sale transactions concluded in the second quarter was less by 11.4 percent than in the corresponding period in 2014.
- There were 313 purchase-sale transactions concluded in the private house segment during the first half-year, i.e. by 4.9 percent less than in the corresponding period in 2014. If comparing the data of the second quarter with the corresponding quarter in 2014, the observed decrease in transactions was 11.1 percent.
- The half-year statistics of purchase-sale transactions in the land plot segment shows a 9.2 percent decrease, meanwhile the statistics of the second quarter shows, that the number of land plot purchase-sale transactions concluded in Kaunas city was lower by 4.1 percent than in the corresponding quarter of 2014.
- The trends in Kaunas region were similar to those in the city – during the first half-year this year, the number of purchase-sale transactions was decreasing in the private house segment as well as the land plot segment by 10.5 percent and 13.8 percent, respectively. The decrease in transactions was observed in the second quarter as well – by 4.2 percent and 12.5 percent, respectively.

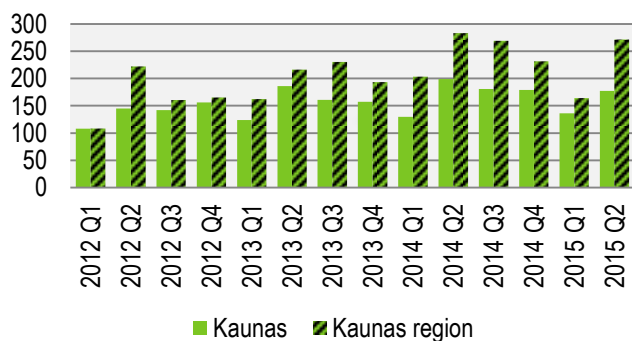
Housing market in Kaunas, which was more active in the second quarter of 2015, showed that a sudden decrease in transactions in the beginning of the year was probably a temporary phenomenon, which was resulted by new currency. When the residents got used to the new currency, the transaction rates reached the level of 2014.

Transactions of apartments in Kaunas (units)



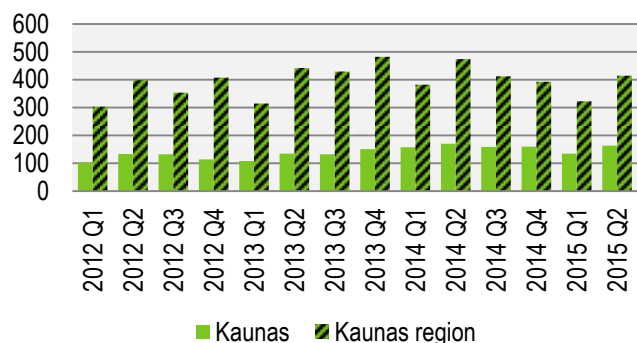
Source: SE Centre of Registers

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



Source: SE Centre of Registers

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

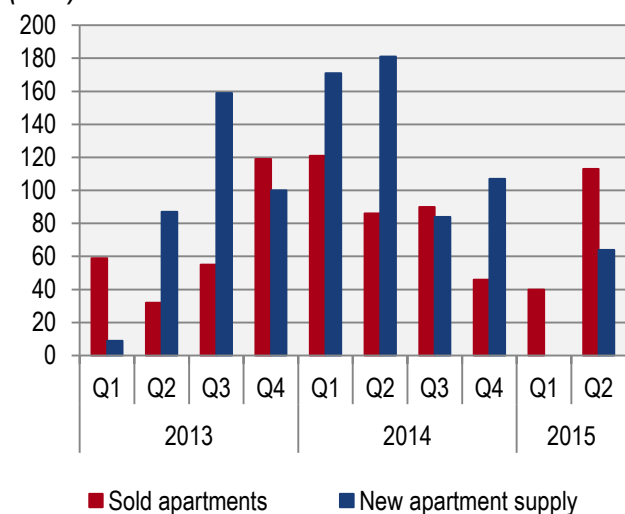


Source: SE Centre of Registers

During the first half-year of 2015, there were about 150 new construction apartments sold in Kaunas, i.e. by 26.1 percent less than a year ago. However, the supply of new apartments was decreasing even more – just 64 new apartments occurred in the market within half-year. This resulted in the decrease in the new construction apartment liquidity rate in Kaunas; it was below 2, as calculated by “Inreal”. Nevertheless, the market liquidity remains quite weak, thus the development of new projects will not be very attractive to the RE developers in the nearest future.

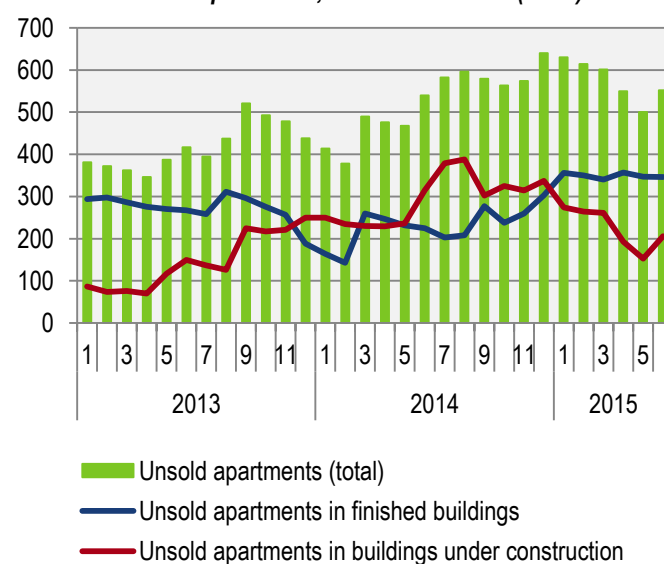
A significant decrease in the development of new projects in Kaunas resulted in the fact that the number of unsold apartments in the already constructed buildings was higher than in the projects currently under development. This is not a good sign for the new construction apartment market in Kaunas, because the oversupply of illiquid or low-liquid apartments is occurring, leading to a decrease in transactions; therefore, it is possible, that the developers may start avoiding new projects. As a result, the potential purchasers will face with a smaller assortment, therefore current situation increases the probability that new construction housing market in Kaunas may get into a kind of liquidity trap.

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



Source: Inreal

New construction apartments, unsold in Kaunas (units)



Source: Inreal

Liquidity rate of new apartments in Kaunas (years)



Source: Inreal

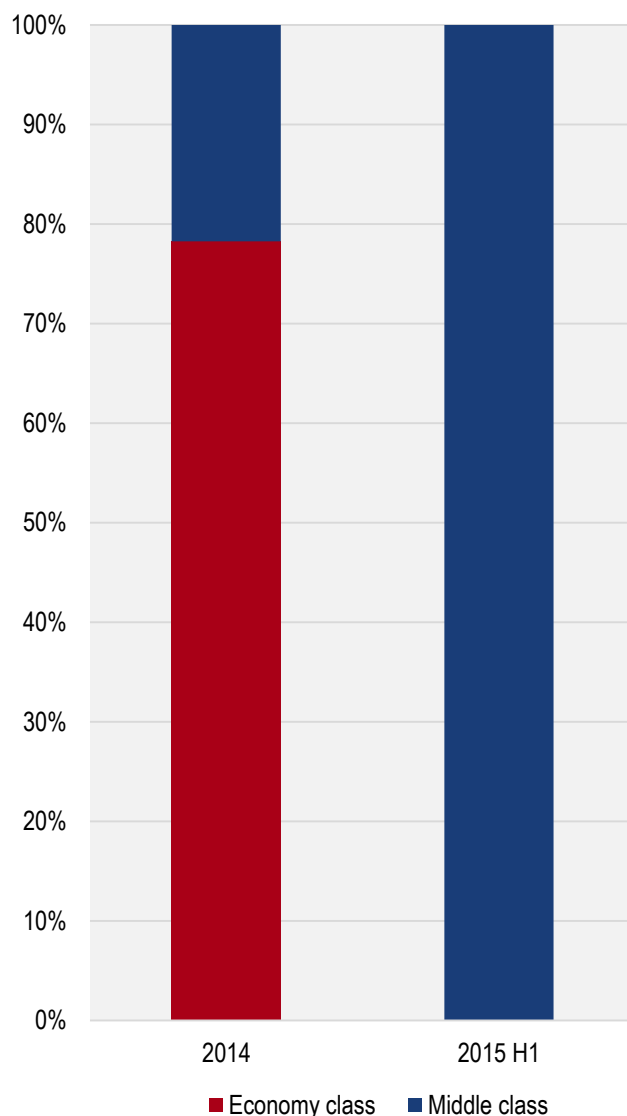
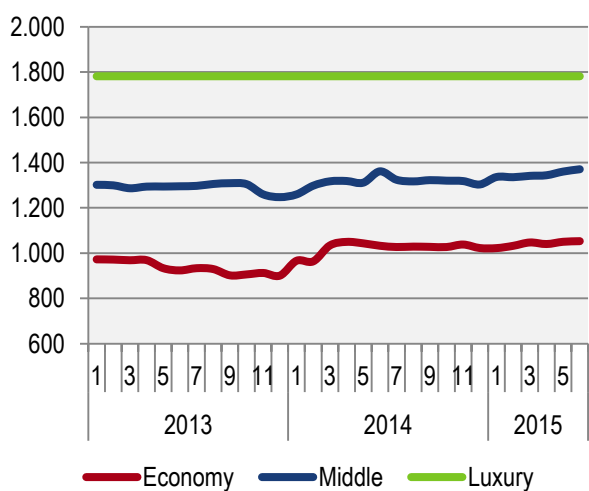
Economy-class apartments cover the major share of supply in Kaunas market. Respectively, the sales in this segment cover the major share of total sales.

In the first half-year of 2015, the trends of new construction apartment prices in Kaunas were similar in various segments – a moderate increase in prices was observed.

- The average price of economy-class apartments was 1,050 EUR/sq.m. and increased by 2 percent within a year.
- The average price of mid-class apartments was 1.370 EUR/sq.m. and increased by 0.7 percent within a year.
- There were no luxury-class projects developed in Kaunas in the first half-year of 2015.

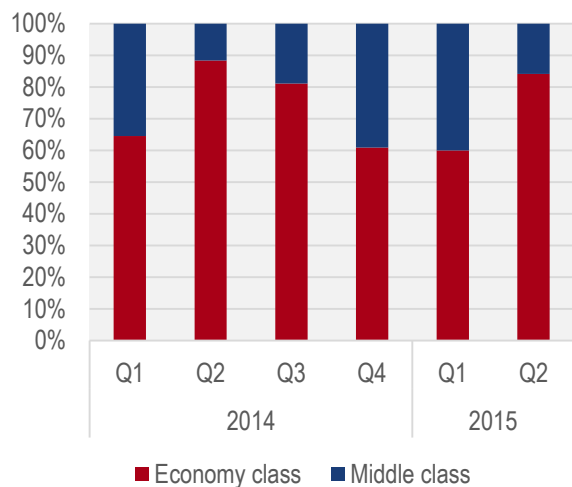
The recovered sales in the first half-year have contributed to the slight annual average increase in the new construction apartment prices, i.e. 0.7-2 percent. Nevertheless, the market remains low-active, and the demand is quite weak, therefore it would be difficult to forecast further increase in the new construction apartment prices for the short-term.

Average prices of apartments under classes in Kaunas (EUR/ sq. m.) **New apartment supply under classes (percent)**



Source: Inreal

New apartment sales under classes (percent)



Source: Inreal

Source:

Inreal

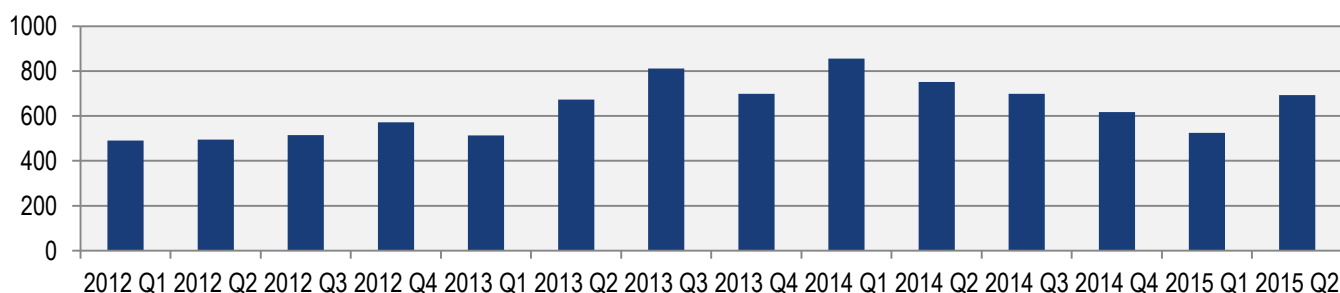
Klaipėda market

The trends of RE market in Klaipėda did not differ from the trends in other cities – the start of 2015 was particularly sluggish, but a quite vivid recovery was observed in the second quarter. Nevertheless, the general purchase-sale rates were poorer than in the corresponding period a year ago. According to the data of SE Centre of Registers:

- There were 1,217 purchase-sale transactions concluded in the apartment segment during the first half-year, i.e. by 24.3 percent less than in the corresponding period in 2014. The number of the apartment purchase-sale transactions concluded in the second quarter was less by 7.7 percent than in the corresponding period in 2014.
- There were 68 purchase-sale transactions concluded in the private house segment during the first half-year, i.e. by 12,8 percent less than in the corresponding period in 2014. If comparing the data of the second quarter with the corresponding quarter in 2014, the observed increase in transactions was 7.3 percent.
- The half-year statistics of purchase-sale transactions in the land plot segment shows a 5.6 percent decrease, meanwhile the statistics of the second quarter shows, that the number of land plot purchase-sale transactions concluded in Klaipėda city was higher by 3.0 percent than in the corresponding quarter of 2014.
- The trends in Klaipėda region were similar to those in the city – during the first half-year this year, the number of purchase-sale transactions was decreasing in the private house segment as well as the land plot segment by 12.7 percent and 2.8 percent, respectively. The decrease in transactions in the land plot segment was observed in the second quarter as well – by 3.8 percent. Only a slight increase was observed in the private house purchase-sale transactions in Klaipėda region – by 0.7 percent.

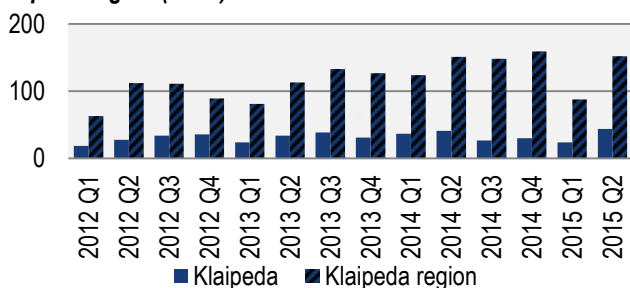
Housing market in Klaipėda, which was more active in the second quarter of 2015, showed that a sudden decrease in transactions in the beginning of the year was probably a temporary phenomenon, which was resulted by new currency. When the residents got used to the new currency, the transaction rates reached the level of 2014.

Transactions of apartments in Klaipėda (units)



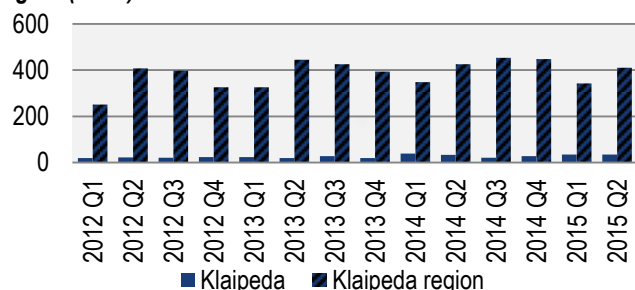
Source: SE Centre of Registers

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



Source: SE Centre of Registers

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

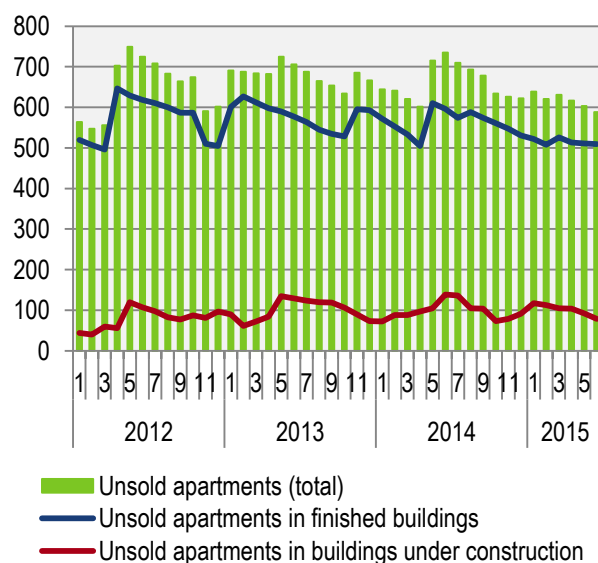
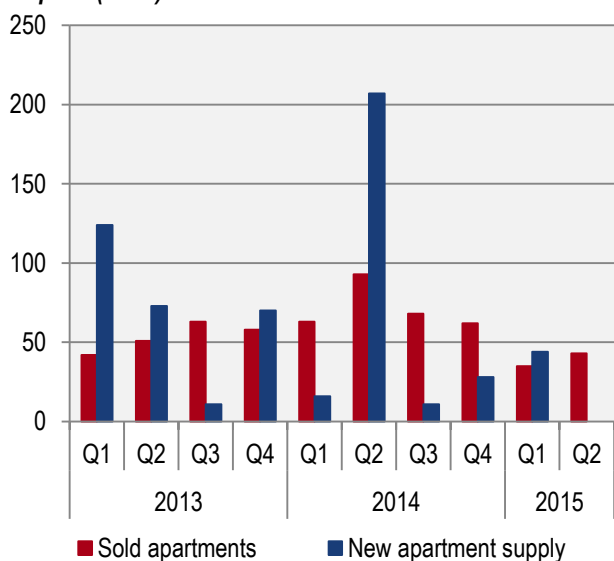


Source: SE Centre of Registers

In the first half-year of 2015, the new construction apartment market in Klaipėda was shrinking – barely 80 apartments were sold, i.e. by 50 percent less than in the corresponding period a year ago. The new supply was shrinking even more over the same period, i.e. by 80.3 percent – the market was supplied with 44 new apartments. In contrast to other cities, the new construction housing market in Klaipėda did not show any signs of recovery in the second quarter and remained at the level of 2014. The new construction housing market in Klaipėda has remained low-active for more than a year, while it is mostly resulting from stagnant supply in already existing multi-dwellings, which makes up approx. 86 percent of the entire supply. Such situation does not promote new investments, and the remaining projects are much more difficult to sell.

Low sales in the primary housing market resulted in a significantly worse liquidity rate in Klaipėda, i.e. it was 2.8 in the first half-year of 2015. It is forecasted that this rate should remain at the limit of 3; however, it means that the conditions for the development of new projects will be unfavourable in Klaipėda in the short-term, due to much tighter competition and price reduction pressure.

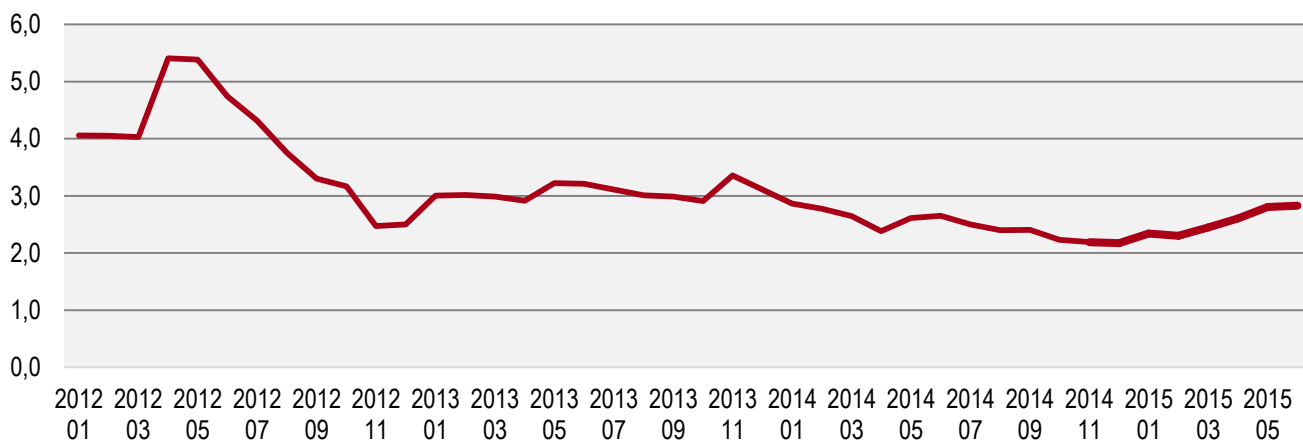
Dynamics of the new supply and sales of apartments in Klaipėda (units) **New construction apartments, unsold in Klaipėda (units)**



Source: Inreal

Source: Inreal

Liquidity rate of new apartments in Klaipėda (years)



Source: Inreal

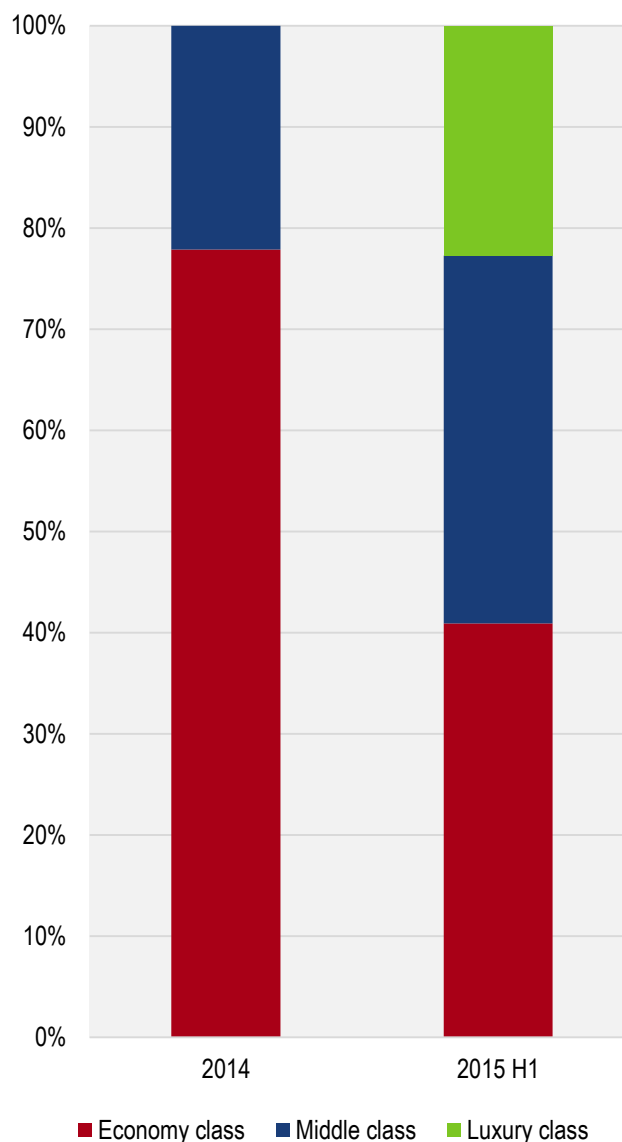
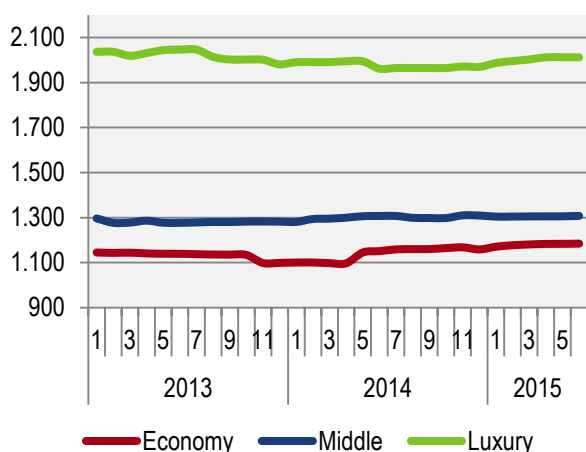
Economy-class apartments cover the major share of supply in Klaipėda market. Respectively, the sales in this segment cover the major share of total sales.

In the first half-year of 2015, the trends of new construction apartment prices in Klaipėda were different from other cities:

- The average price of economy-class apartments was 1,180 EUR/sq.m. and increased by 2.9 percent within a year.
- The average price of mid-class apartments was 1,300 EUR/sq.m. and did not change.
- The average price of luxury-class apartments was 2,010 EUR/sq.m. and increased by 2.6 percent within a year.

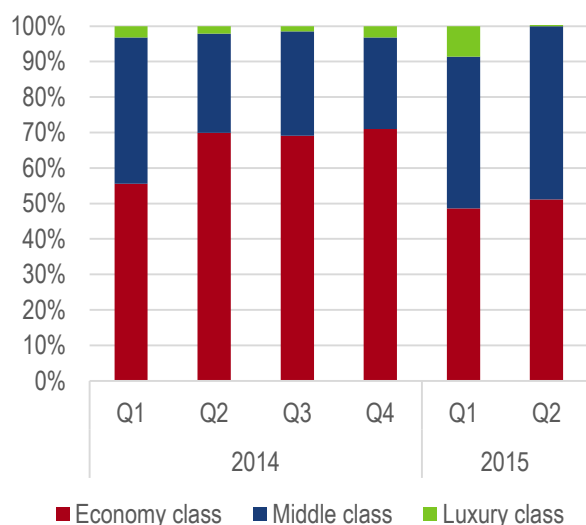
A slight increase in the prices of new construction apartments in economy-class and luxury-class segment does not mean that a long-term price growth should be expected. Current price-related trends resulted from conducted sales and changes in the structure of supply rather than economic incentives. Therefore, it is possible to forecast that the prices of new-construction apartments will remain stable in Klaipėda in the short-term, while the sales will be stingy.

Average prices of apartments under classes in Klaipėda (EUR/sq.m.) **New apartment supply under classes (percent)**



Source: Inreal

New apartment sales under classes (percent)



Source: Inreal

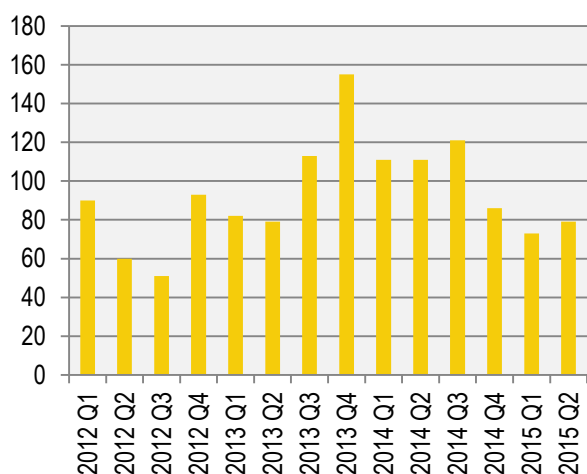
Source: Inreal

Palanga and Neringa market

Gloomier moods, influencing the RE market in Lithuania, did not bypass the second-home segment as well, i.e. Palanga and Neringa. In the first half-year of 2015, the number of apartment purchase-sale transactions decreased by 32.4 and 45.9 percent, respectively, in comparison with the corresponding period a year ago. The trends were different in the second quarter. The number of apartment purchase-sale transactions registered in Palanga was 28.8 percent less than in the second quarter of 2014, meanwhile the number of transactions registered in Neringa increased by 8.3 percent.

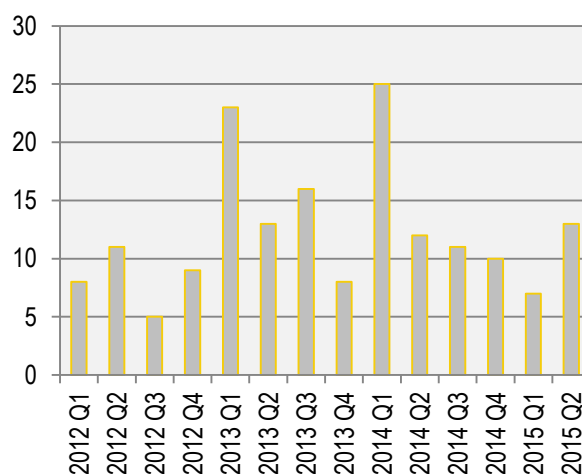
RE developers' activity in both cities was particularly low in the first half-year – just 18 apartments were offered to the market in Palanga, i.e. by 94.6 percent less than in the corresponding period a year ago. There was no new supply in Neringa in the same period. Developers' activity was mostly resulted by low sales of new construction apartments in both regions.

Transactions of apartments in Palanga (units)



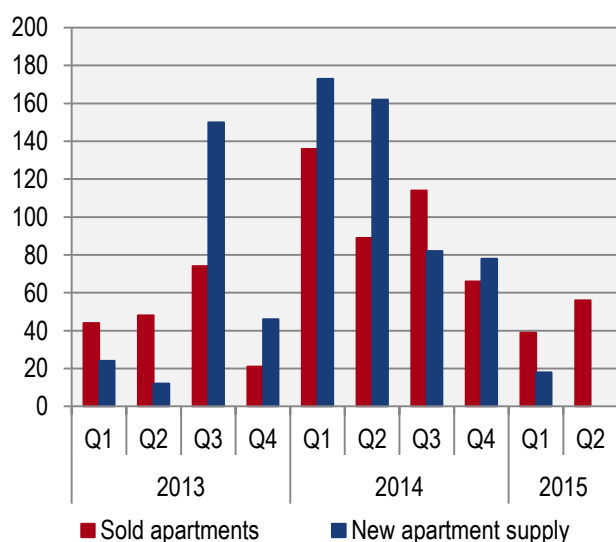
Source: SE Centre of Registers

Transactions of apartments in Neringa (units)



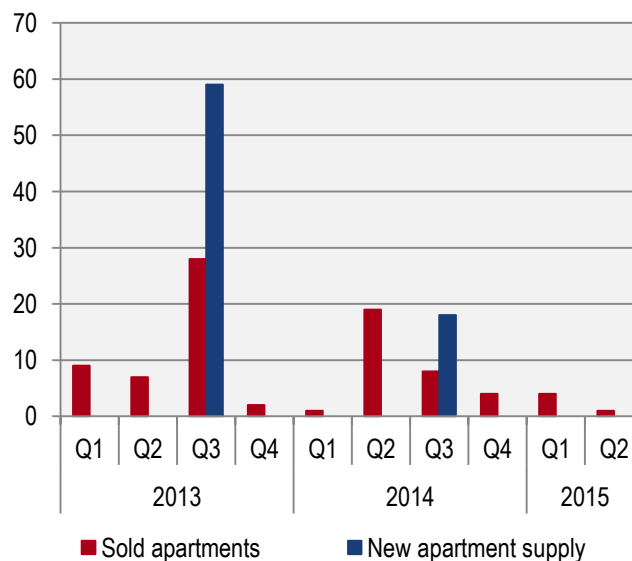
Source: SE Centre of Registers

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



Source: Inreal

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



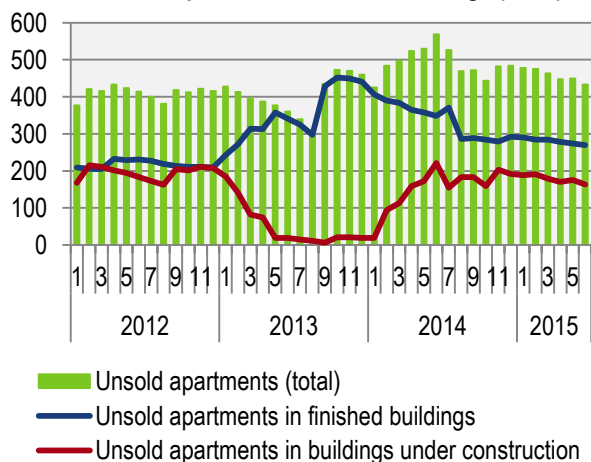
Source: Inreal

In the first half-year, the trends of new construction apartment prices in Palanga were different from the major cities, because the average annual price increase of 6-7 percent was registered in economy-class and mid-class segments.

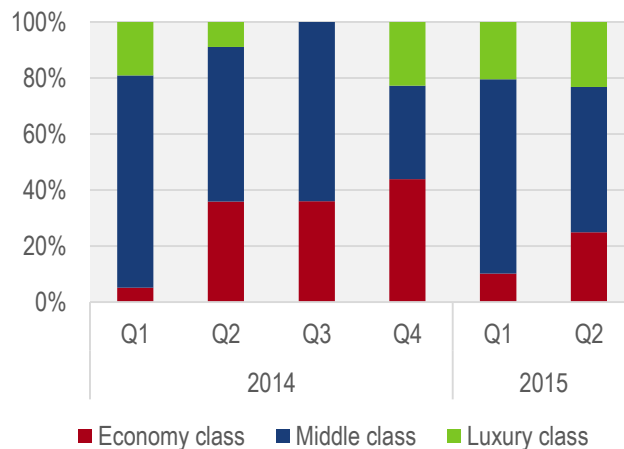
- The average price of economy-class apartments was 1,070 EUR/sq.m. and increased by 6.0 percent within a year.
- The average price of mid-class apartments was 1,570 EUR/sq.m. and increased by 7.0 percent within a year.
- The average price of luxury-class apartments was 2,300 EUR/sq.m. and decreased by 1.8 percent within a year.

Despite the decreased sales, RE prices were not falling in Palanga in the first half-year; except, the luxury-class segment, where the sales decreased significantly. This shows that so far the new construction apartment market in this second-home segment is resistant to lower liquidity.

New construction apartments, unsold in Palanga (units)



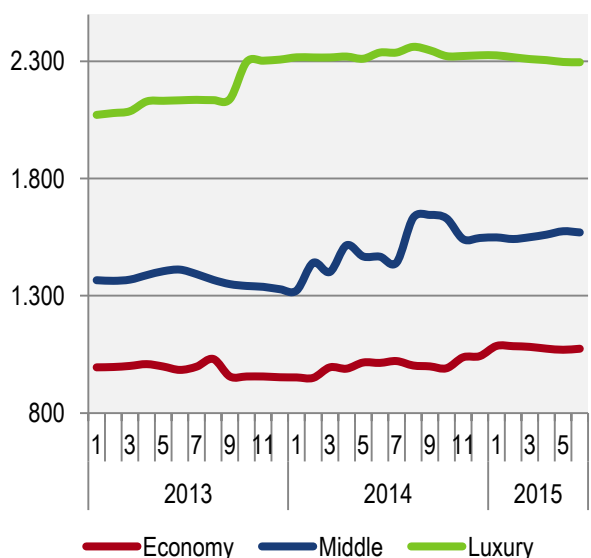
New apartment sales under classes (percent)



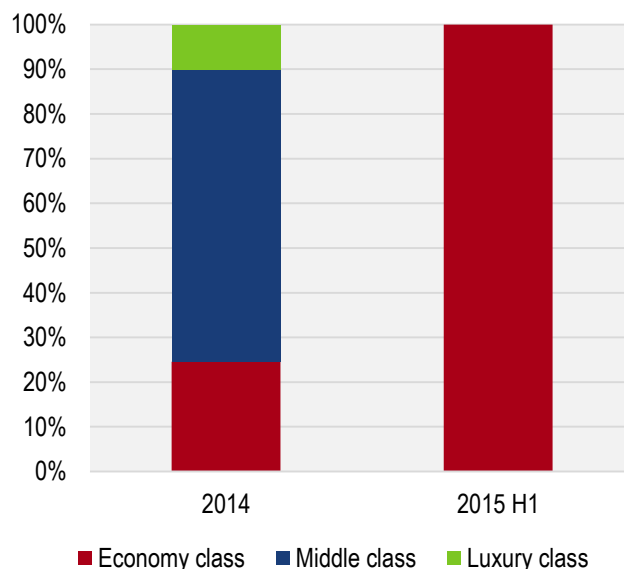
Source: Inreal

Source: Inreal

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



New apartment supply under classes (percent)



Source: Inreal

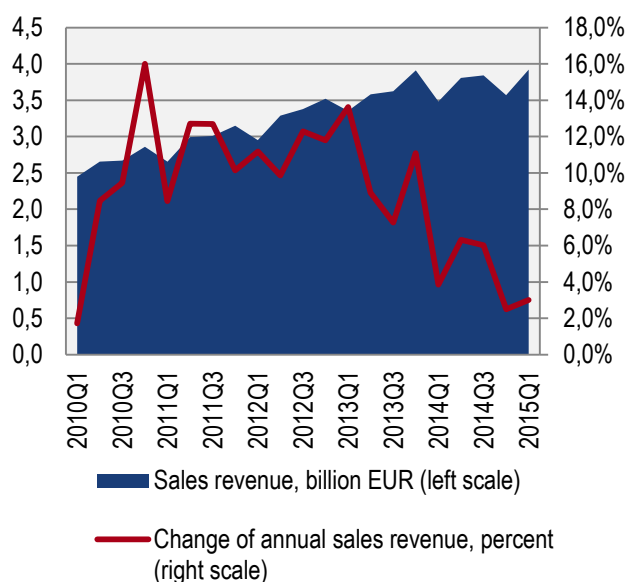
Source: Inreal

BUSINESS CENTRE MARKET REVIEW

The service sector started this year rather conservatively – although the yield was further growing, but the annual change was just 2.5 percent. Such a weak growth resulted from new currency and a temporary paused consumption, however, the domestic consumption started growing in the second quarter and came back to normal level; therefore, it may be assumed, that the service sector should also have registered the more noticeable growth in the second quarter.

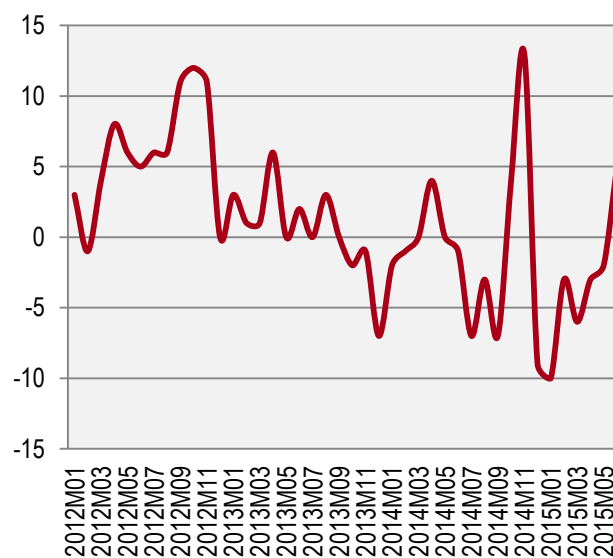
As usual, the highest activity was in Vilnius in the first half-year of 2015. Three business centres were built or their expansion works were finished in Vilnius in the first half-year: Vertingis and Sostena business centres in Pašilaičiai, and Premium business centre in Žirmūnai. These objects supplied Vilnius modern business market with about 16,600 sq.m. GLA, in total. Taking into account the fact, that at least ten more modern business centres were being built or planned to be launched in the near future, it is possible to state that Vilnius market should receive a record-breaking GLA of new business centres in the next two years. Newly built or planned to be built office buildings should supply the market with about 142,600 sq.m. GLA. Partially, it reminds the situation in 2008, when the RE developers have also rapidly turned to the development of offices, however, in contrast to the previous period, the majority of business centres under development are already successfully rented before the construction works are finished, and usually the tenants are strong foreign companies expanding their activities and establish new jobs.

Dynamics of service sector enterprise income of Lithuania, billion EUR



Source: Department of statistics

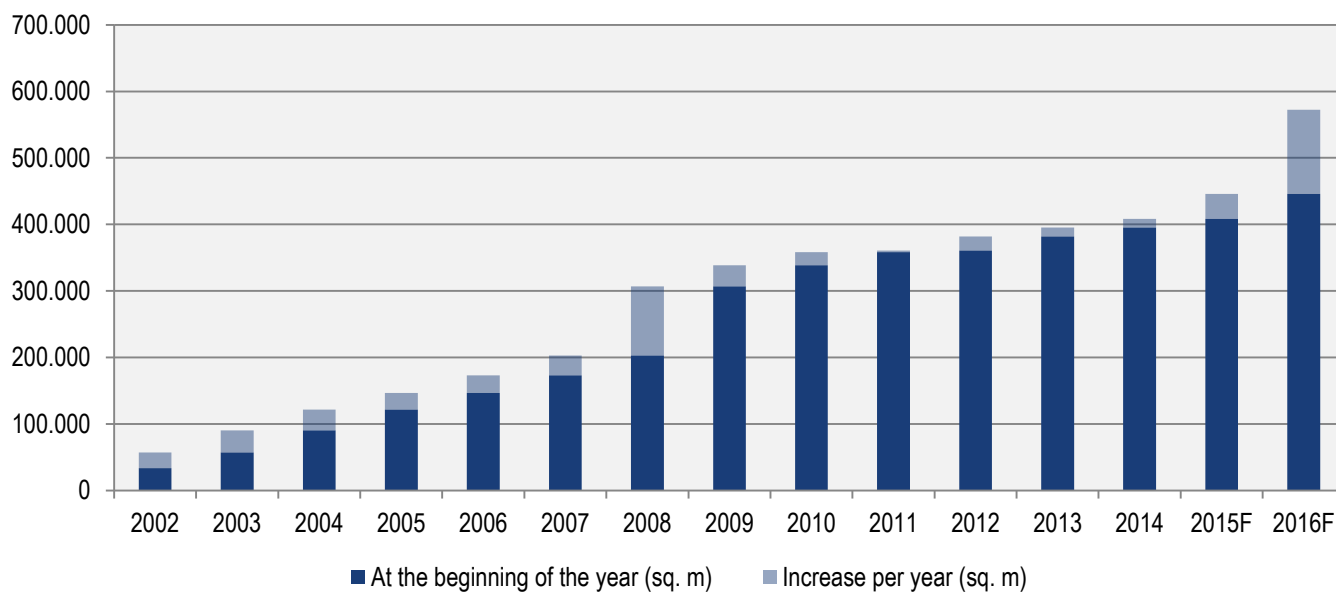
Services confidence indicator



Source: Department of statistics

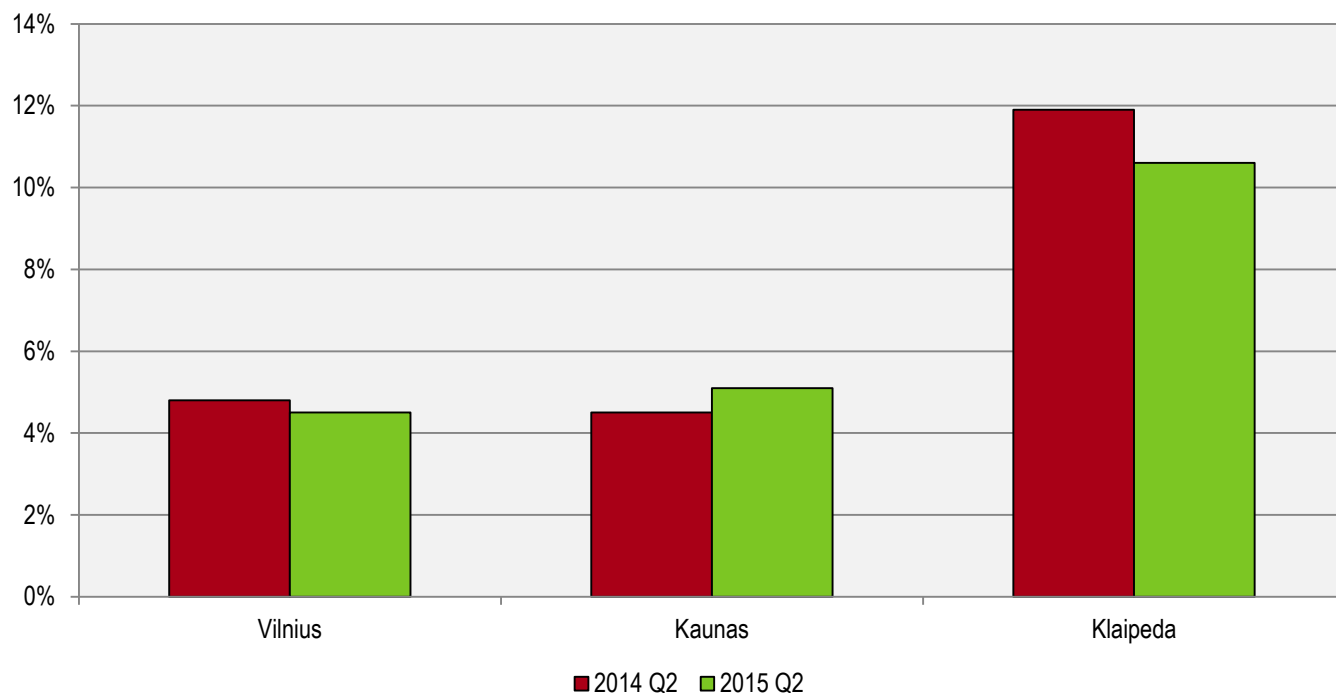
Despite the impressive development of business centres in Vilnius, vacancy rates were not growing, but even showed a slight decrease – up to 4.5 percent in comparison with the corresponding period a year ago. This shows that the demand of modern office premises remains high in the capital city. On the other hand, two new business centres were opened in Kaunas in the first half-year; they supplied the market with just 4,500 sq.m. GLA and resulted in a slight increase in vacancy rates – up to 5.1 percent. Newly opened business centres in Kaunas had influence on a more active migration of tenants, leading to an increase of vacant leasable area in business centres, which were built earlier. In contrast to Vilnius market, the vacated premises in Kaunas business centre market are not leased quickly.

Expansion of modern business centres in Vilnius



Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes



Source: Inreal

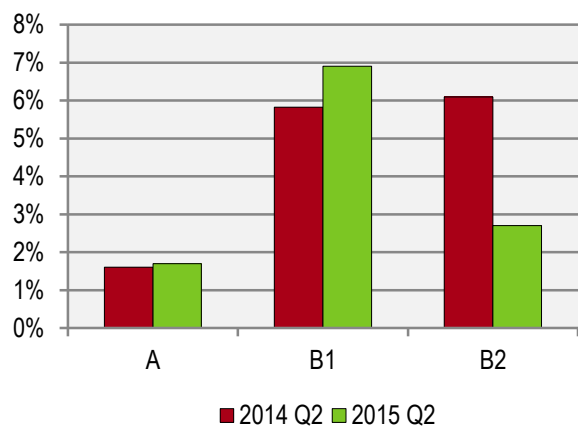
In comparison with the situation in the capital city, the development of new business centres in Kaunas and Klaipėda is sluggish. A little more progress can be observed in Kaunas, where a Class-A business centre (14,000 sq.m.) is planned to be built in the centre of the city. Meanwhile, the construction works of a business centre (2,500 sq.m.) are planned in Klaipėda, however, so far there is no high demand of new office buildings – relatively high vacancy rates remain in the market.

Business centres being developed in Vilnius in H1 2015

Business center	City	Class	Net area sq. m	Open date
K29	Vilnius	A	14,000	2015 Q3
Uniq	Vilnius	A	7,000	2015 Q3
Quadrum	Vilnius	A	40,000	2016-2017
Green Hall 2	Vilnius	A	8,000	2016
Burė 3	Vilnius	A	13,000	2016
Narbuto BC	Vilnius	A	4,280	2016
Saltoniškių BC	Vilnius	A	10,000	2017
135	Vilnius	B1	7,800	2016
Delta	Vilnius	B1	20,000	2016
Hanner BC	Vilnius	B1	18,500	2016
			142,580	
K. Donelaičio str.	Kaunas	A	14,000	2016
Minijos str.	Klaipėda	B1	2,500	2016
			16,500	

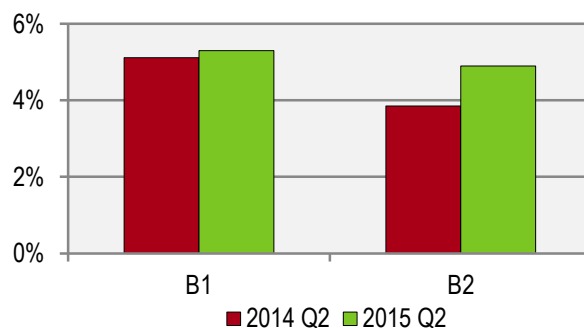
Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes



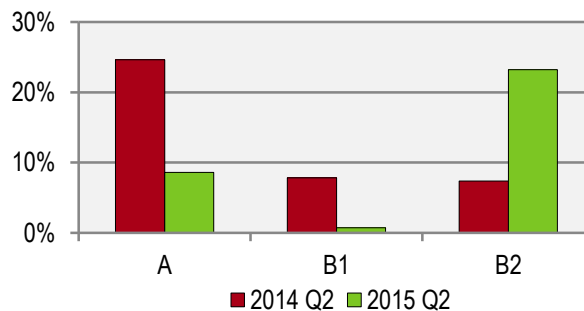
Source: Inreal

Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

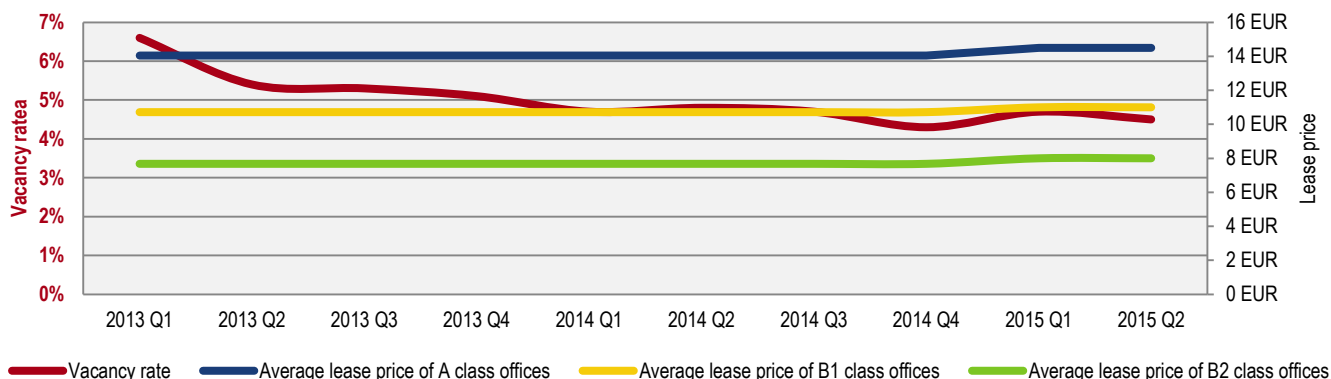
Dynamics of vacancies in Klaipėda business centres under classes



Source: Inreal

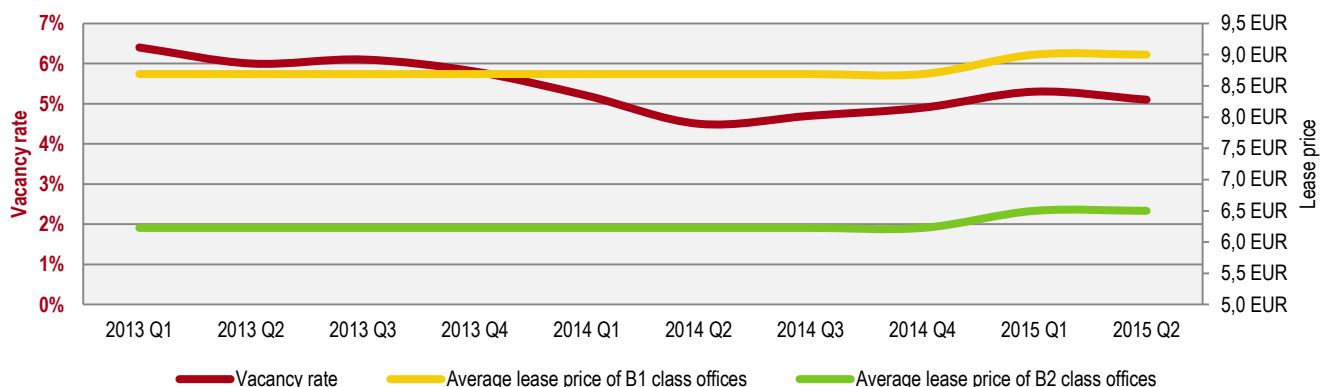
Lease prices have remained stable in the major cities. Actually, as a result of new currency, lease prices were often rounded up, thus a slight increase in lease prices was observed. In 2015, lease prices should remain stable in the major cities, because newly developed business centres in Vilnius should meet the increasing demand, while the supply of modern offices in Kaunas and Klaipėda is enough to meet current demand.

Dynamics of lease prices and vacancies in Vilnius business centres



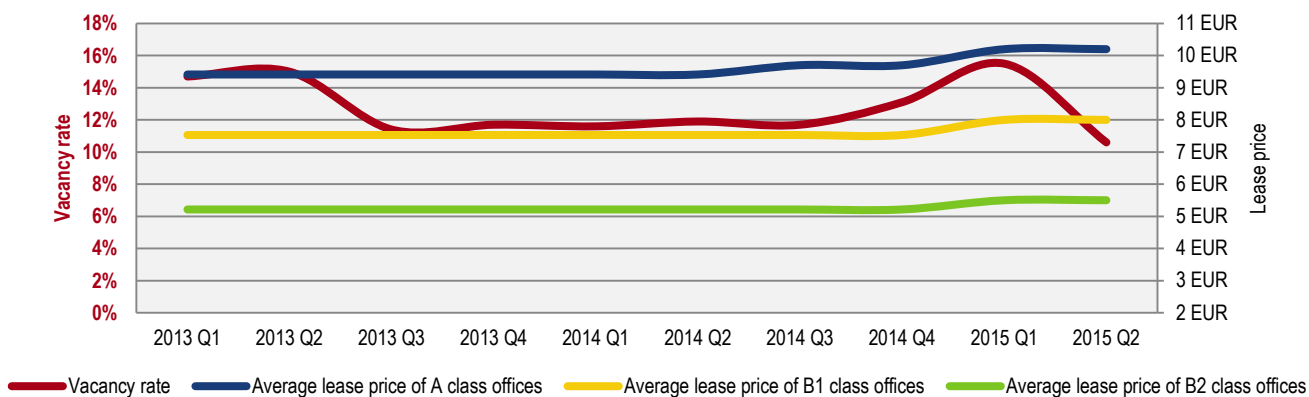
Source: Inreal

Dynamics of lease prices and vacancies in Kaunas business centres



Source: Inreal

Dynamics of lease prices and vacancies in Klaipėda business centres

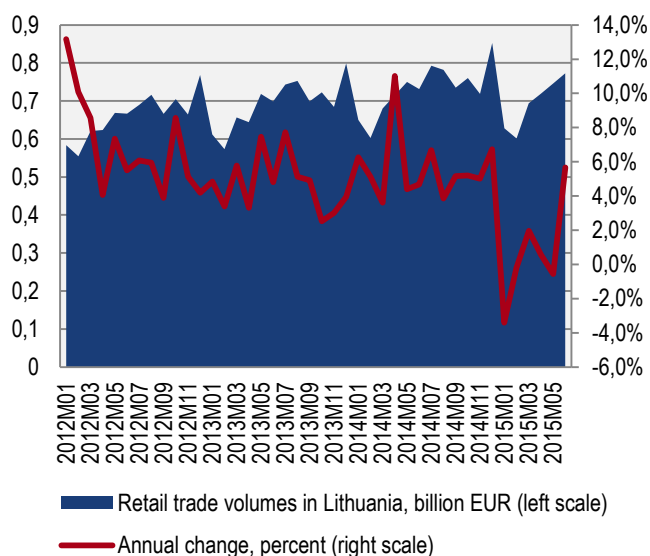


Source: Inreal

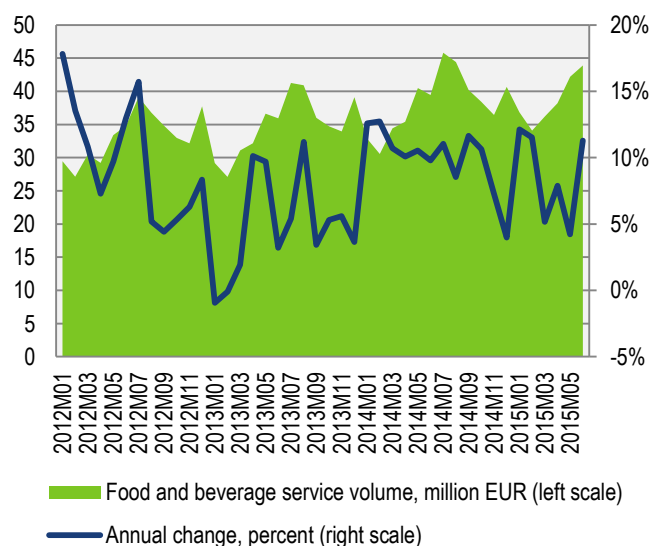
SHOPPING CENTRE MARKET REVIEW

In the first half-year of 2015, the retail trade volumes increased by 0.8 percent in Lithuania; however, taking into account the fact, that after euro adoption the domestic consumption in the beginning of the year has shrunk by more than 3 percent, such total half-year rate shows a rapidly recovering and growing domestic potential; as a result, it gives more optimism to the entire trading segment. The growing domestic consumption and decreasing unemployment should promote moderate expansion of retail segment – it means good news to the developers of shopping centres, since more prospects to invest into this segment occur.

Retail trade volumes in Lithuania, billion EUR



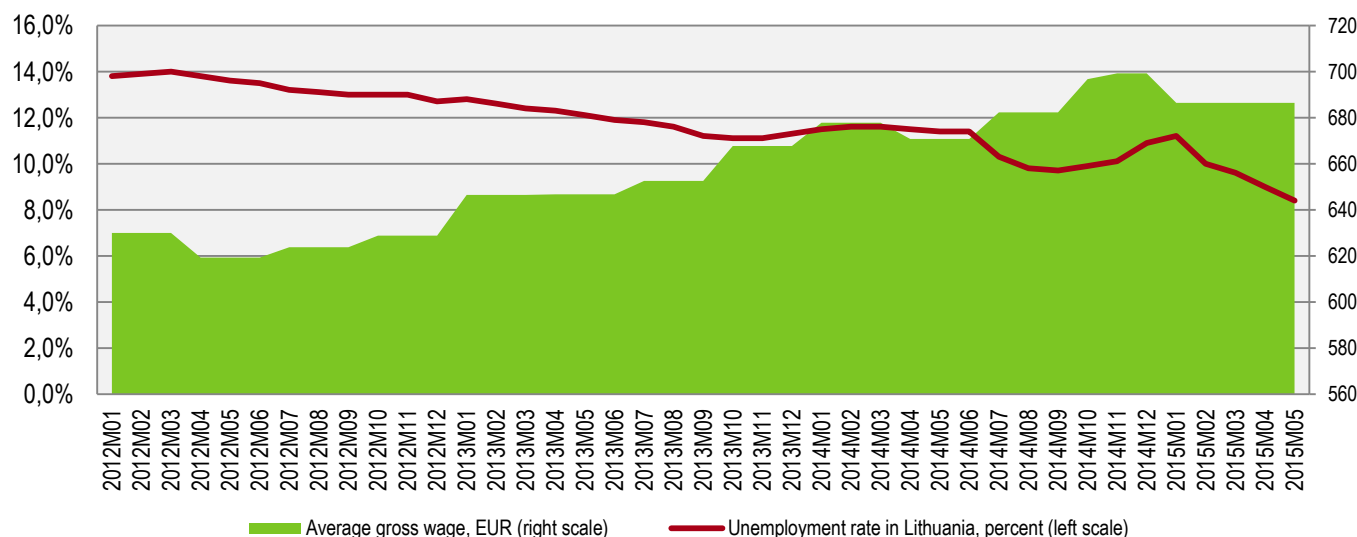
Food and beverage service volumes, million EUR



Source: Department of statistics

Source: Department of statistics

Dynamics of unemployment and gross wage, percent



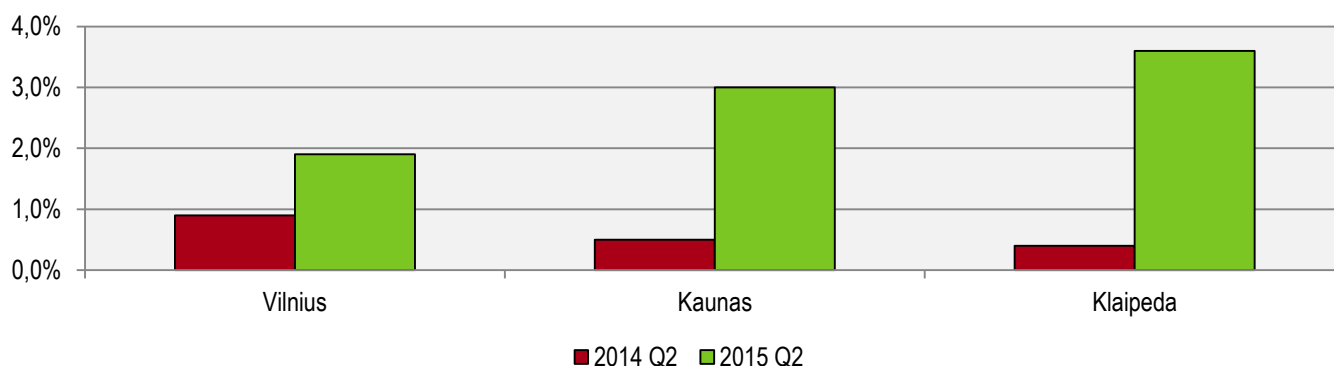
Source: Department of statistics

In the first-half of 2015, no new shopping centres were opened in the country. The expansion works of “Babilonas I” were finished in Panevėžys; the object was expanded by 1,600 sq.m. and renamed to RYO. Scheduled construction works of shopping centres were continued as well.

In comparison with the corresponding period a year ago, the increase in the average vacancy rates in the segment of shopping centres in the country is observed. Although the Lithuanian economy is growing and the domestic consumption is increasing, it however does not ensure that all retailers will manage to remain in the shopping centres. In the first half-year, a quite active turnover of tenants was observed in the shopping centres, particularly, in the major shopping centres, where some less popular and weaker retailers had to stop their activities. Nevertheless, the demand of commercial premises is high, thus the vacated area is occupied by new tenants, and the vacancy rates remain low.

The expansion of foreign brands, which has been rather active in Lithuania for several years, slowed down noticeably in the first half-year; it seems that Lithuanian market is absorbed and the remaining space is very little for them to expand. The majority of changes in the shopping centre lessees were related to local retailers.

Dynamics in shopping centre vacancies in the major cities, percent



Source: Inreal

Shopping centres being developed in H1 2015

City	Name	Area, sq. m	End of construction
Vilnius	PC Domus Pro (II stage)	5,000	2015 Q3
Vilnius	Nordika (I stage)	18,000	2015 Q4
Vilnius	Nordika (II stage)	20,000	2016 Q2
Vilnius	Parkas Outlet (expansion stage)	3,000	2016 Q2
Total:		46,000	

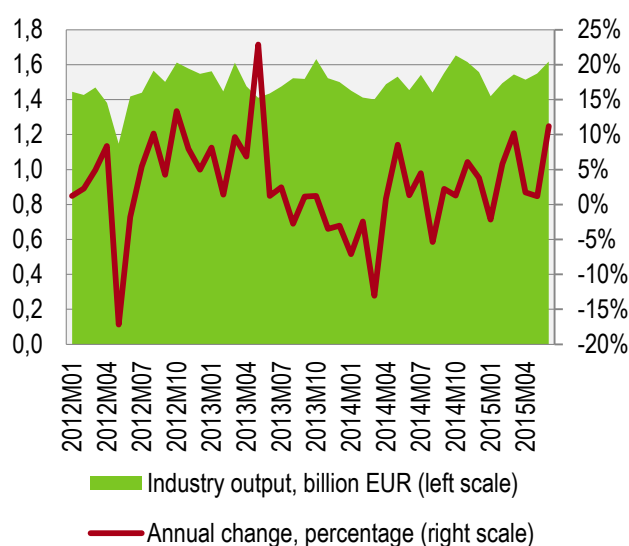
Source: Inreal

INDUSTRIAL AND WAREHOUSING MARKET REVIEW

Despite “the war of sanctions” with Russia, which influenced the economy of Lithuania the most in the European Union, industry representatives’ expectations remain positive. In the first-half of 2015, the Industry Confidence Index was improving and reached the level of 2013. Moreover, the forecasts related to exports and output levels in the sector remained quite positive. It seems, the industrial and warehousing segment representatives managed to adapt to the changes in business environment, therefore, it is possible to predict, that this segment should maintain a moderate growth.

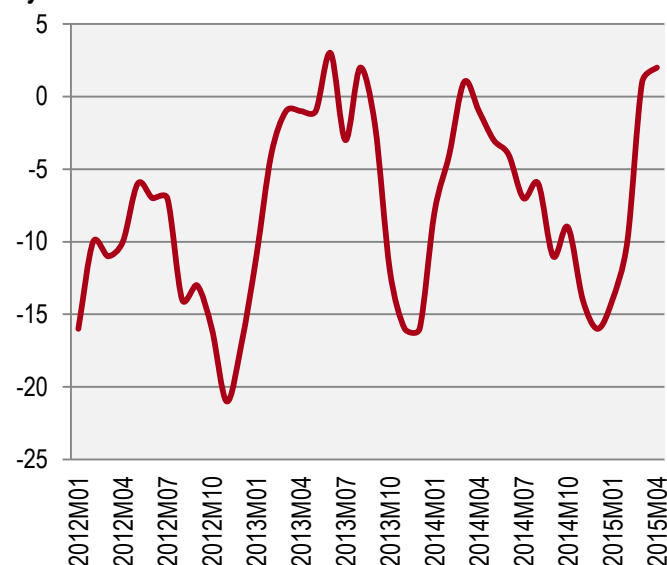
However, a trend is observed that the willingness to invest into industry expansion is decreasing due to a quite delicate economic growth, as well as the undefined geopolitical risks. Much more often the industrial and warehousing segment representatives are looking for the opportunities to “employ” their profit safely. One of the methods is to acquire industrial and/or warehousing objects, in order to avoid rental costs. This is rather a new phenomenon in the Lithuanian industrial and warehousing segment, since the majority of representatives in this segment was avoiding investments into RE for several years from the emergence of the crisis, by considering it as freezing of funds, required for business expansion; however, the situation has already changed and investing into RE is more common now.

Industry output in Lithuania, billion EUR



Source: Department of statistics

Dynamics of Industrial Confidence Index in Lithuania



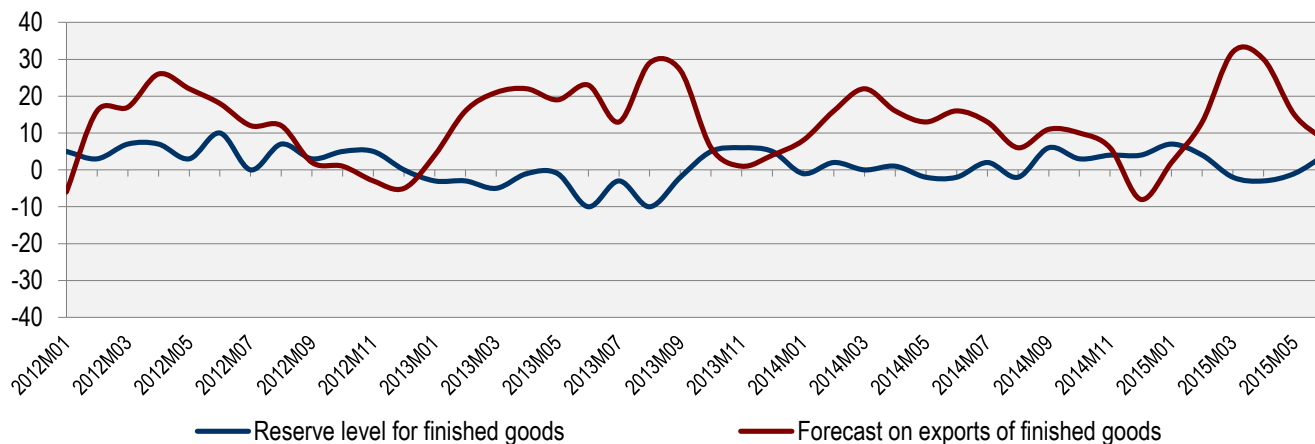
Source: Department of statistics

Quite good performance of industrial sector resulted in maintaining good vacancy rates in the logistics centre market. Actually, this rate was worse in Vilnius due to premises vacated. In Klaipėda, the projects, finished in 2014, were successfully rented, thus the vacancies were decreasing in the first half-year of 2015. The majority of warehouses in Kaunas are build-to-suit, thus there is almost no supply of warehousing premises to rent – vacancies remain close to zero.

In the first half-year of 2015, the construction works of two logistic centres were launched in Vilnius; they will supply the market with about 9,100 sq.m. GLA. The construction works of LEZ warehouse were continued in Klaipėda. In comparison with the entire segment, such expansion is insignificant, because the amount of build-to-suit warehouses is much higher throughout Lithuania.

The rents of warehousing premises, either new or old construction, have remained stable in the market for some time and they should not change in the short-term. Although the vacancy rates in this market remain low, and the demand exceeds the supply, there are no sufficient preconditions to raise the rents, because potential tenants have the alternatives – they can look for the opportunities to acquire own RE.

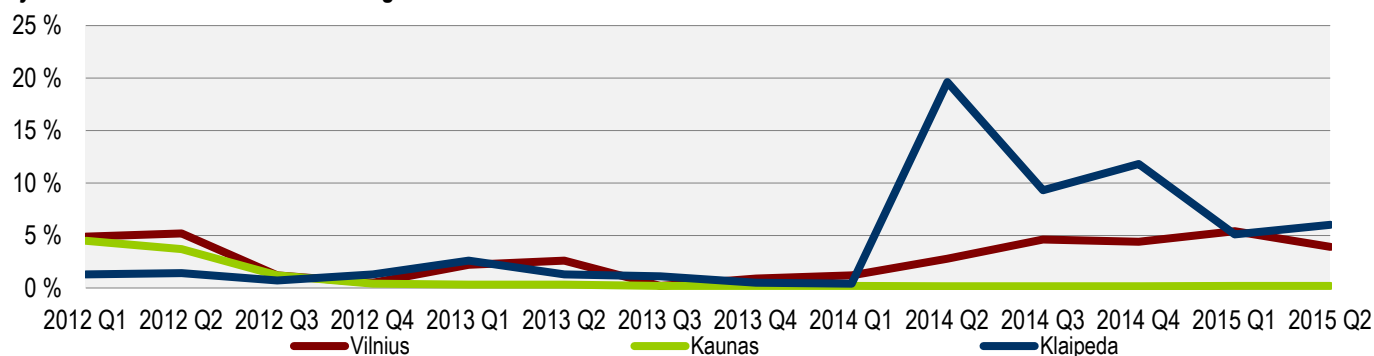
Industry representatives' forecasts on exports and reserves



Source: Department of statistics

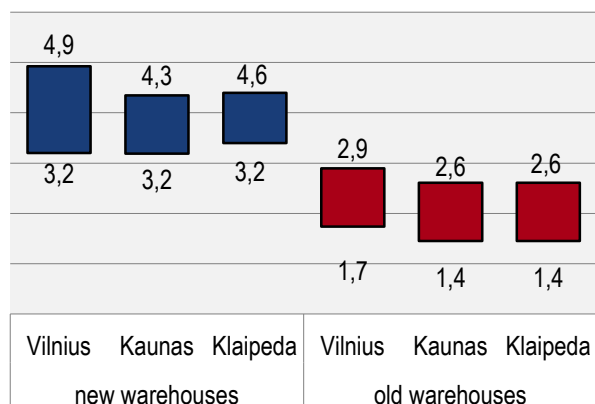
Lower expectations of the economic growth pose new challenges in the industrial and warehousing sector; however the potential of Lithuania remains high in a long-term perspective. It is possible, that the industrial development will not stop in Lithuania and it will form additional demand of warehousing premises. An increase in lease prices should not be expected in 2015, however new projects should be developed and the expansion of this segment should be held.

Dynamics of vacancies in modern logistics centres in Lithuania



Source: Inreal

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



Source: Inreal

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

City	Name	Area, sq. m	End of construction
Vilnius	LC Dobrovolės g.	4,000	2015 Q4
Vilnius	Woodline LC	5,100	2016 Q1
Klaipėda	Klaipėda FEZ warehouse	13,000	2015 Q4
Total:		22,100	

Source: Inreal

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ALTERNATIVES TO TRADITIONAL RE BUSINESS FUNDING MAKING THEIR WAY

Given a more conservative approach to risk management, prudential lending policy and stringent borrowing conditions recently adopted by banks and other credit institutions, RE developers often tend to consider alternatives to traditional funding of the RE business.

Corporate bonds, crowdfunding, or collaborative funding, and mutual funding are financial instruments gaining increased popularity worldwide, ensuring access to funding for a wider range of companies, small-sized and medium business in particular. In turn, large-sized companies can diversify their business funding sources and enjoy flexibility in managing risks inherent in borrowing.

In Lithuania this matter so far remains mainly at the level of discussions. Likewise, there is currently no legal framework in place to enable substantial changes and a breakthrough to take place. However, openness to financial innovations and sentiments on the financial markets are fully reflected by P2P (*peer-to-peer*) lending, showing strong growth. It's only a matter of time before we see the arrival of B2B (*business-to-business*) mutual lending platforms which are already there in certain foreign countries.

The need from businesses for alternative funding options is also felt by the public sector – the Bank of Lithuania, the Ministry of Finance and the Ministry of Economy have already prepared a package of proposals which, when implemented, would enable the RE business to use crowdfunding and provide broader opportunities for companies to issue and distribute bonds. Hopefully, such funding alternatives will become a reality in the nearest term.

The real estate sector requires large-scale investments, real estate projects are often high in value and require a sizeable capital, so RE companies often face working capital challenges. The real estate business is generally funded from own funds and funds borrowed from banks or other credit institutions. However, today, with particularly prudential lending policy predominating, banks apply stringent borrowing conditions and require substantial security. As a result, new developers intending to enter the market encounter complicated and sometimes even unfavourable borrowing conditions, because they don't possess substantial equity or are unable to provide other types of security (guarantees, surety bonds or similar instruments). Besides, along with a bank loan or a loan granted by some other credit institution, the developer has to assume a number of additional obligations to the creditor – supply information about project development, coordinate certain decisions in advance, etc.). All these circumstances, taken together, lead to consider alternative sources of financing. Below are outlined some of the possible alternative sources to traditional borrowed capital funding which recently have been making their way in a large number of countries.

Bonds – debt securities of companies

Business financing through a bond issue is a way for companies to raise borrowed capital by issuing securities of the company – bonds. A bond is a debt security confirming the right of the bond holder to be repaid by the bond issuer after a set period of time the face value of the bond together with annual interest or the bond holder's entitlement to other property rights.

Raising additional equity by issuing shares also means involving new shareholders in the business operations of the RE company and, therefore, can be not acceptable. Unlike with company shares, purchasers of bonds don't acquire ownership rights to the company, so this option is handy in order to retain control of the company by a single owner. Besides, the bond issuer independently sets the time limits for redemption of bonds and other conditions, so in identical circumstances he can borrow cheaper and for a longer period of time than from a bank or another credit institution.

The bonds of public limited liability companies (AB) may be distributed both publicly and privately, while those of private limited liability companies (UAB) – only privately. For a non-public distribution of the bonds of a company to occur only a decision of the

shareholders to that effect and a bond subscription agreement are required. These have to contain the key information about the bond issue, i.e. the nominal value of the bonds, annual interest rate, redemption date, etc. Public distribution of bonds or convertible bonds is subject to additional requirements. Accordingly, the bond redemption date may be linked to the due date of return, or payments may be diversified as payable in instalments, by setting different redemption dates.

It should be noted that the Bank of Lithuania, the Ministry of Finance and the Ministry of Economy have already developed a package of proposals which, when implemented, will expand opportunities for companies to issue and distribute bonds – private limited liability companies will be able to distribute bonds publicly. Despite the fact that for the time being this alternative is relatively more costly, it has considerable advantages over traditional funding, particularly for those market players who overall don't have access to bank financing due to the scope of, or the risk entailed in, their activity. Issuing of bonds enables to secure a longer duration of the loan, to borrow without security and better manage risks involved in borrowing, through diversification of the sources of funding.

Despite the advantages offered by bonds, the Lithuanian bonds market is not sizeable, so a RE company may face a lack of potential investors determined to redeem the bond issue. For this reason, it makes sense to evaluate completely new financing platforms involving a wide range of potential investors.

Crowdfunding, or collaborative funding – the hottest novelty in the financial markets

Crowdfunding and mutual lending (P2PL – *peer-to-peer* and *business-to-business lending*) are instruments to raise borrowed funds for the development of real estate projects which, as yet, remain only scarcely used in Lithuania. Such online platform-based alternatives enable the developer of a real estate project to relinquish traditional funding methods and significantly expand the range of potential investors by involving private individuals who don't possess sufficient funds or are not willing to participate in the real estate market directly or through real estate funds.

Crowdfunding is designed to raise direct funding for a specific project, i.e. through the use of various online platforms the developer makes public information about a planned or ongoing project and indicates the amount he seeks to raise. In turn, through the use of such platform potential investors directly provide funding in exchange for a return the form of which is agreed in advance. Based on return to investors, crowdfunding is divided into the following categories: rewards and equity based.

The essence of rewards crowdfunding is provision of funds for a specific project or company (developer), when investors or sponsors who believe in the idea indicated in the platform make funds available to project owners. In case of rewards crowdfunding lenders don't become holders of equity or debt securities, therefore, this method of crowdfunding can rarely be used to raise funding for major projects or those delivering clearly defined commercial benefits.

In case of equity crowdfunding lenders (investors) use the funding to acquire securities (shares, bonds) in the company owning (managing) the project or to gain other pre-specified return or rights to claim it. Depending on the crowdfunding platform and proposed conditions, there are a few key funding mechanisms which vary from a contractual obligation to return a pre-agreed portion of income to the investor to convertible bonds granted for a relevant portion of investments.

Equity-based crowdfunding model is attractive both to investors and the company implementing the project. In terms of the real estate market, this method provides opportunities for investors to get involved in the real estate market even with limited funds available. This results in a significant increase in the number of persons able to provide insufficient funds to the company who owns the project. Besides, unlike with involvement in the activities of real estate funds, investors may select real estate projects in which they want to invest, so required funding can be obtained by persons who guarantee even a low return, but innovative and attractive ideas. Accordingly, because of a large number of potential investors the project owner is not forced to assume considerable financial obligations, i.e. the funds he requires can be obtained on more favourable terms than from banks or other credit institutions.

It is true that as of today the Bank of Lithuania and related institutions are still working to provide relevant legal mechanisms to legalise in Lithuania the mechanisms for return from crowdfunding and protection for investors; however, taking into account the

importance of the publicly recognised crowdfunding, the growing potential and successful practices abroad, it is likely that such legislation, along with online platforms, will be shortly here.

Mutual lending

If today crowdfunding is still in the plans, mutual lending platforms, though only between individuals so far – P2P (*peer-to-peer*) – were launched in Lithuania yet at the beginning of 2014. P2P lending, showing extraordinary growth in Lithuania, is a clear reflection of openness to financial innovations and of sentiments on the financial markets, so it seems only a matter of time before P2B (*peer-to-business*) and B2B (*business-to-business*) mutual lending platforms such as are already present in other countries arrive here.

Mutual lending, in some sense, can be understood as primary and secondary loan markets which operate on the basis of an online platform: the borrower determines the main borrowing conditions, provides information about its financial situation and types of loan security, while the lenders, through the use of the very same platform, grant a portion of the loan of their choosing on the conditions set by the borrower.

No other additional obligations, except the loan relationship, are created as between the lender and the borrower, so from the point of view of legal effects mutual lending somewhat reminds of a public distribution of bonds which is freely accessible to all who satisfy the conditions set with regard to the platform.

Mutual lending is an attractive option for potential lenders (investors), because it enables to generate a financial return by selecting specific conditions of the loan (return, maturity date, creditworthiness of a person, etc.) and diversifying the loan portfolio and lending in small amounts. Furthermore, platforms often provide additional liquidity, e.g. in order to recover investments before maturity the loan portfolio may be sold to third parties on the secondary market. Meanwhile, the borrower, similar as with distribution of bonds, not only may determine the scope and conditions of debt obligations, but also due to availability of public access to the platform doesn't need to allocate time and resources so that potential investors can access information about the loan they seek to take out.

Joint venture (partnership) – raising additional equity by attracting a financial investor

With excess of equity capital on the market and low interest rates on deposits, a large number of investors direct their funds namely into the RE sector. Attracting additional equity from a financial investor or business partner under a joint venture agreement is not a new alternative or novelty; however, given such market conditions, its existence should not be forgotten.

Though it has its own drawbacks, in certain cases joint venture can seem an acceptable alternative indeed. Involvement of a company or person who provides all or a portion of required funds for the real estate project enables not only to fill missing budget lines, but also provides additional benefits which enable to attain better results at a lower cost.

Joint venture is not strictly defined by legislation and can take different forms; each partner's preferences are covered by a mutual agreement. Due to this, it's not worth discussing financing or cooperation models in detail, but it can be noted that the obligations of a partner may be not limited solely to the provision of financing – after proper evaluation of the partner's experience, available business contacts, the scope of obligations may be extended (e.g. by providing for the duty to seek potential investors or buyers) for the purpose of improving project implementation possibilities.

In the cases where funding is obtained through partner contributions, the project is normally implemented through a special purpose vehicle which becomes the owner of the real estate development, and the partner is allocated a relevant portion of shares in that certain company. This helps to avoid division of the rights of ownership to the project, as well as enables easier realisation of the project (after the development of real estate). Accordingly, in order to avoid issues related to the governance of the company operating real estate, the partners execute a shareholders' agreement supplementing the joint venture agreement, covering such issues as voting, appointment of the company's executives and other issues related to the company and real estate.

Noteworthy, partnership creates conditions not only to raise external financing, but also to apply purposefully the knowledge possessed by all the partners. In addition, partnership relations mitigate the risk of insolvency of the partners and project implementation, because when there is a lack of working capital the capital held by two or more partners is larger than that of one developer, which, among other things, facilitates borrowing from banks and other credit institutions.

Despite of such advantages, it should be taken into account that in case a partner has been attracted, the benefit derived from the project will have to be shared, which reduces the margin of the project. Likewise, in the absence of stringent and precise regulation of mutual relationships, there is a risk of improper fulfilment by the partners of their obligations, management or disposal of the real estate development. Because of the reasons stated above, as well as in order to avoid additional contractual relations and retain full control over project development, other methods for raising financing should be considered.

No doubt, the alternatives to funding real estate projects presented above are not the only alternatives. Taking into account the market situation or the progress of the project in development, the developer's status and available business contacts, other ways of raising funding can be found which are acceptable to the specific investor. However, it is obvious from the above alternatives alone that project funding should not be understood as amounting only to obtaining of a bank loan secured by mortgage over the developer's existing and future assets or pledge of the developer's property rights.

Finally, it's worth mentioning that the adoption of, and an increased demand for, other funding alternatives would certainly have a positive effect on the financial markets and enable easier access to funding and, respectively, more sustainable business development.

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INREAL GROUP



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 550 residential housing objects, and over 300 land plots. The company mediates in 50 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 725 million euro. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Mažeikiai, Alytus, Plungė, Utena, Tauragė and Druskininkai.

Currently JSC "Inreal Valdymas" develops real estate projects: houses in Nida "Kopų vetrunges" ("Dunes weathervanes"; „Kopų vetrungės“) and apartments and commercial premises in Klaipėda oldtown "Danes uzutekis" ("Danes Bay"; „Danės užutėkis“).

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AB bank Finasta was founded in 2008. Bank specialization - investment and private banking services. Bank provides a wide range of services including both daily banking and corporate banking, investment banking services, also brokerage services. Bank Finasta for three consecutive years was nominated among the Top 3 banks providing best customer service in Lithuania.

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