



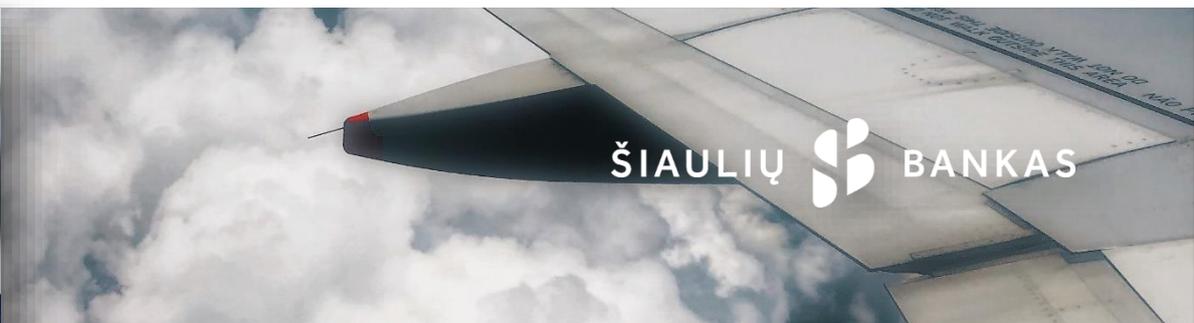
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**LITHUANIAN ECONOMY
AND REAL ESTATE MARKET REPORT
2018 – 2019**

WITH PARTNERS: „ŠIAULIŲ BANKAS“ AND LAW FIRM COBALT

TURINYS

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Tomas Kipišas, *Savings and Investment Product Manager at Šiaulių Bankas*

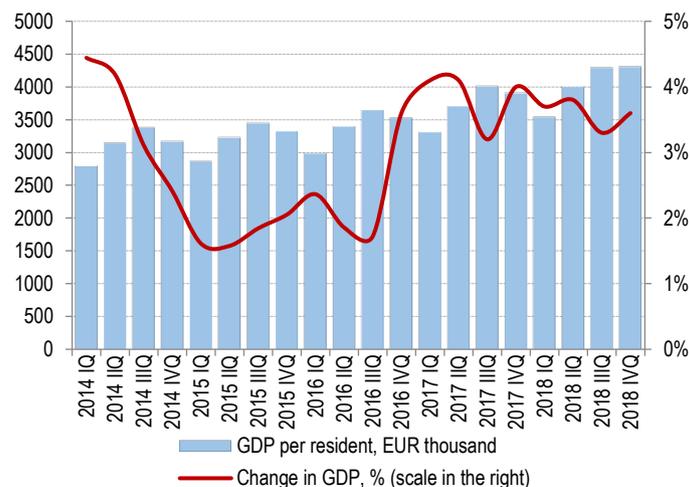
Tomas has extensive brokerage experience in the field of financial markets, investment portfolio management, and market analysing. He consults clients on the issues related to investment markets, writes articles, and provides media with commentaries on markets.

ECONOMIC OVERVIEW

Slowdown in global economic development did not yet have a significant impact on the economy of Lithuania, however the future is already viewed in a more reserved way. In 2018, our country's GDP increased by around 3.6 percent and went well above the EU average which remains at around 2 percent. Internal demand maintained a high pace of development. Active retail trade and rapid household consumption were supported by growing wages and moderate inflation, while recovering investments compensated the effect of a more passive foreign trade. However, during the third quarter of the year, growth dropped to its slowest pace over the past several years. The biggest contributor to the latter was poorer crop yield and decreased added value created by forestry companies. Added value in agriculture reaches over 6 percent of GDP. Despite this, the

country's economic development remains well-balanced and there are so far no signs of danger, even though economic growth will slow down. Rapid rise in labour costs which exceeds labour productivity progress can be named as one of the largest obstacles. According to the EC forecast, growth of Lithuania's GDP will slow down in 2019-2020 to 2.8 and 2.5 percent accordingly – the most modestly among all the Baltic states.

Gross Domestic Product



Source: Statistics Lithuania

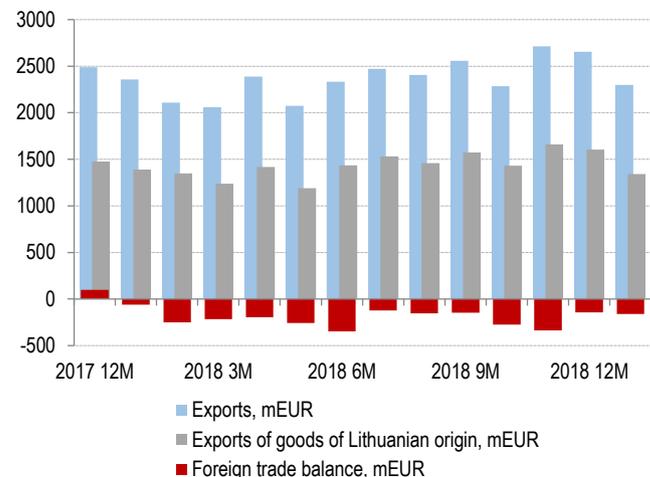
Slowdown is related to slower economic development of the most important trading partners. Signs of tension forming in foreign markets suppress the activity of international trade. Export of products of Lithuanian origin has been increasing less compared to last year, however the pace remains high, and Lithuanian exporters seem to be sufficiently resistant to increased uncertainty. Export of Lithuanian products and services increased by 8.3 percent (10.9 percent in products of Lithuanian origin), and import increased by 9.6 percent during the 11 months of the past year. Export growth was determined by increased oil prices, as well as the growing quantities of export of tobacco and processed tobacco substitutes, and various chemical products. The effect of re-export has practically disappeared and had almost no growth during the previous year, compared to the rapid development in 2017. More rapid export expansion was also muzzled by maximum production capacity loads and insufficient investments to increase them. It is estimated that, next year, export growth will slow down significantly and will only reach 3-5 percent.

Accelerating economy is increasingly improving the personal finances of the population. Last year, the unemployment rate reached its lowest point over the past 10 years, while the average wage increased by over 9 percent. During the past 6 months, average growth increased up to 10.3 percent. Such a leap far exceeded the overall average price level growth in the country which dropped to 2.7 percent due to decreased pressure of import factors. More moderate price growth was determined by increase in the prices of global raw materials. Inflation slightly surpassed the price level changes of Latvia and the entire EU, and was much lower than in Estonia where prices averagely increased by 3.4 percent. Price increase was limited during the second half of the year by a more significant decrease in oil prices.

Rapid wage fund growth and moderate inflation significantly improved the purchasing power of consumers and increased

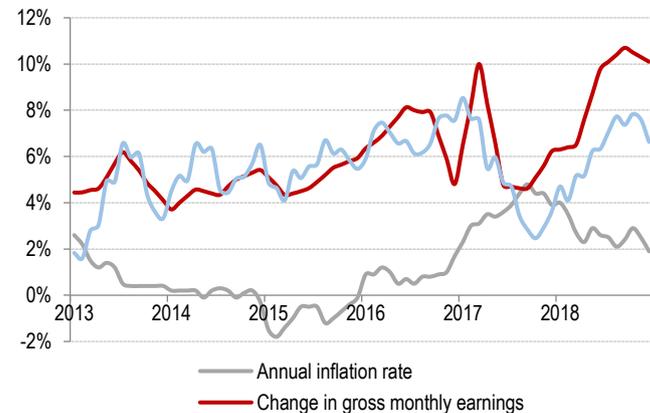
household consumption. Growth in retail trade was strong during the previous year and exceeded 6 percent. Conditions for consumption growth remain good – wages and purchasing power are growing, prices are increasing more slowly, and credit conditions are attractive.

Exports



Source: Statistics Lithuania

Consumer price change



Source: Statistics Lithuania

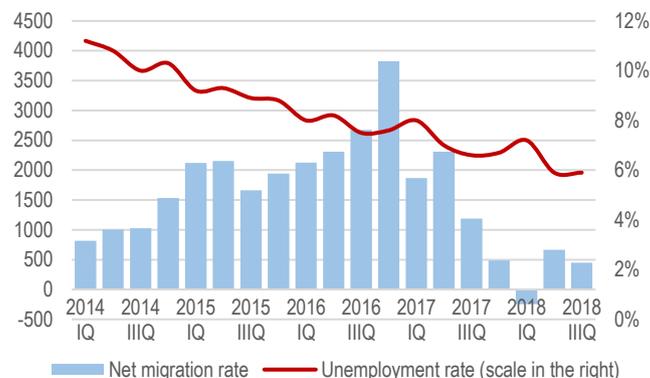
The labour market seem to be out of balance due to rapidly growing labour costs and high demand for qualified workers. The increase of wages was also influenced by political decisions – increase of the minimum wage and increase of the wages of public administration employees. Shortage of employees limits the growth of the number of new jobs, while the number of employed persons even began to decline during the previous year. For the very first time since 2001, the net migration rate has approached zero due to changes in the migration policy facilitating the employment of foreigners from neighbouring non-EU countries in Lithuania. This should somewhat absorb the tensions in the labour market.

Further significant growth of investments should also alleviate the situation in the labour market. During the third quarter of the previous year, material investments in the country grew by over 7 percent, and the business mood index reached its highest point over the past decade. Investments in constructions have significantly increased, particularly in infrastructure and engineering objects. The growth rate was the highest since 2014. Such activity can be associated with a higher level of absorption of EU support. After a few years break, the construction sector once again became a significant component of the country's economic development. The household mortgage portfolio increased by over 8 percent over the past 12 month prior to July of 2018. Slower investments in machinery and equipment were disappointing, however it was wonderful to see rapidly increasing investments in production measures. This is the only possibility to suppress tension in the labour market, as well as expand and increase the efficiency of limited capacities. The unemployment rate has been at its all-time low for some time now, therefore this reserve seems to be used up. This year, investments in Lithuania should continue to grow at a stable rate due to higher absorption of EU funds.

The country's growing economy, improving expectations and increasing investments continued to encourage business

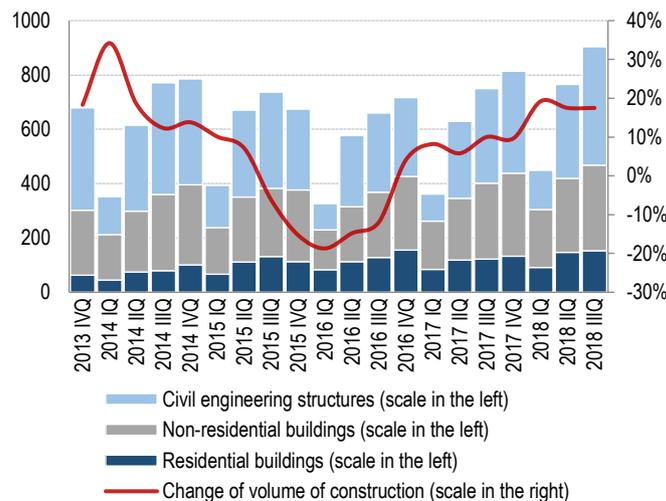
and household lending. Debt level reached a five-year high, but corresponded to the realities of economic development. Compared to last year, 8.3 percent more credits were granted to private enterprises, and 7.5 percent to households prior to the end of July of the previous year. Consumer loan portfolio has increased by 5.2 percent, housing loan portfolio – by 8.1 percent.

Migration and unemployment



Source: Statistics Lithuania

Construction works in Lithuania



Source: Statistics Lithuania



Robertas Žulpa, Head of RE Market Research of INREAL Group

Robert Žulpa has been working as real estate analyst for more than 7 years. He is responsible for feasibility studies, project concepts, market research, consulting on real estate issues and drafting financial models of projects. He is actively involved in acquiring company group assets.

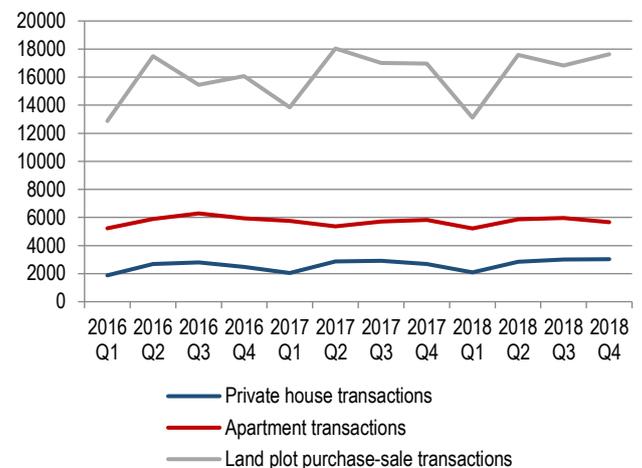
HOUSING MARKET OVERVIEW LITHUANIA

In 2018, the real estate (RE) market in Lithuania remained at the peak of its activity – moderate growth in registered transactions was recorded in the apartment and private house / townhouse segments. According to the data of the State Enterprise Centre of Registers, 33676 (0.6 percent more than in 2017) apartment, 10948 (4.1 percent more) private house / townhouse and 65153 (1.1 percent less) land plot purchase-sale transactions were made in Lithuania in 2018.

VILNIUS

Slow start of the year in the country's largest RE market resulted in predictions that the year will not be so good, however sales began to accelerate later on, once again lifting the overall optimism.

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

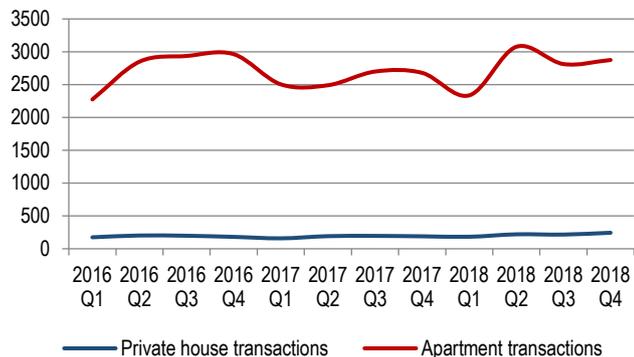


Source: SE Centre of Registers, 01-2019

According to the data of the State Enterprise Centre of Registers, 11100 (6.6 percent more) apartment and 863 (17.1 percent more) private house / townhouse transactions were made in the capital in 2018. Increasing private house / townhouse transactions show that the popularity of these housings is growing. Meanwhile, the increase of apartment transactions was mostly influenced by the growing number of new apartment transactions. The total number of registered new apartment transactions was 16.2 percent higher than a year ago. Growth in the sales of older apartments was much more moderate – 2.3 percent. New

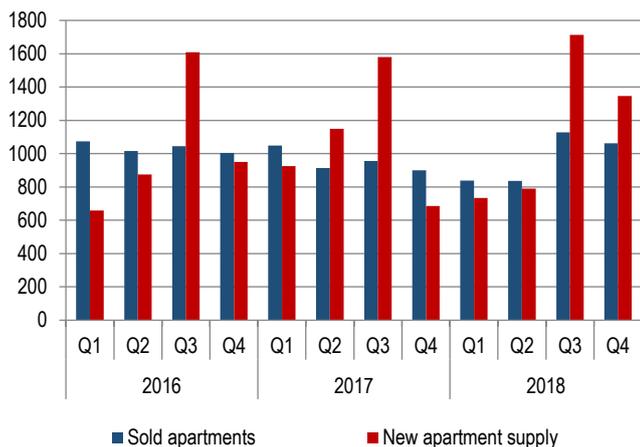
construction apartment transactions were mostly influenced by the "accumulated" previous sales made by the developers in the primary market, as they are registered only after the development of the project is complete, and only then appear in the statistics of the State Enterprise Centre of Registers.

Apartment and private house transactions in Vilnius (units)



Šaltinis: VĮ „Registru centras“, 2019-01 duomenys

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



Source: INREAL

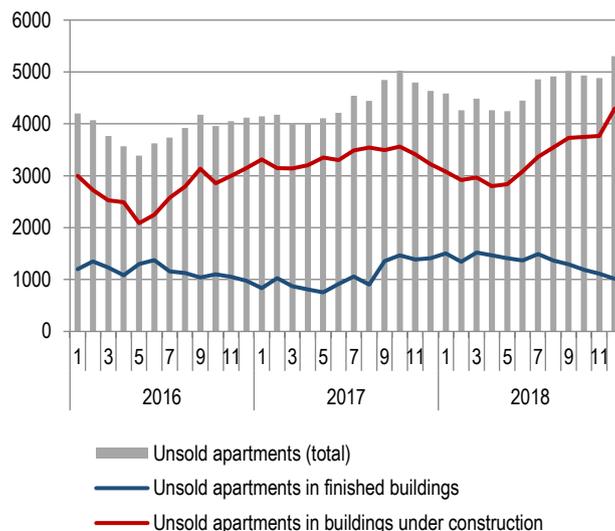
The beginning of 2018 had a low number of sales in the primary housing market, which also indicated a possible

slowdown. However, this was prevented by the continuing "cheap money" environment, positive expectations and fundamental indicators such as the growing population, increasing number of jobs, rapidly growing wages, and practically record housing affordability. Approximately 3865 new apartments were sold during the year, which is 1.2 percent more than in 2017.

Due to the same reason – slowdown of sales at the beginning of the year – it was also expected that developers will be cautious with a more conservative approach to the market. Nevertheless, sales have recovered as the year progressed, and inspired developers to increase the volume of constructions and offer buyers around 4580 new apartments, which is approximately 5.6 percent more than in 2017.

High activity among developers determined the fact that, at the end of 2018, the number of unsold (available and reserved) apartments in the capital reached new heights – 5300 units. Barely a fifth of this supply is comprised of completed projects.

New construction apartments, unsold in Vilnius (units)

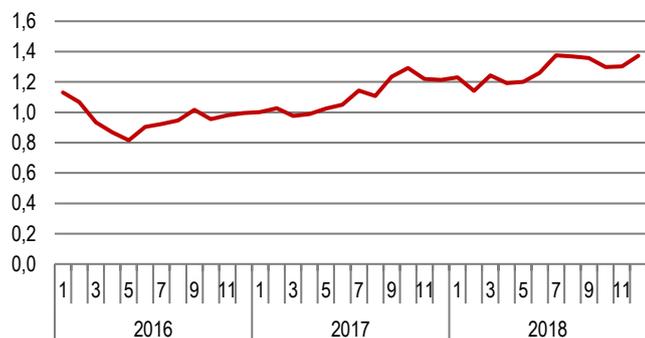


Source: INREAL

The remaining part is "digital", i.e. in projects which are currently being developed or will be developed in the near future. In 2018, Vilnius primary market supply experienced a significant structural change – developers were particularly active in the prestigious segment and offered the market a record number of luxury apartments. The number of unsold prestigious-class apartments in Vilnius was over 1100 by the end of the year, which comprised more than 21 percent of all the primary market supply.

Supply and demand varied unevenly in 2018, therefore the new apartment liquidity rate calculated by INREAL steadily declined throughout the year – from 1.2 at the beginning of the year to 1.4 by the end of the year. This means that, if there are no changes in the supply and demand, it will be possible to sell all new apartments within approximately 17 months. Despite the declining rate, liquidity in the market is rather good and will not force developers to consider significantly decreasing their construction volumes.

Liquidity rate of new apartments in Vilnius

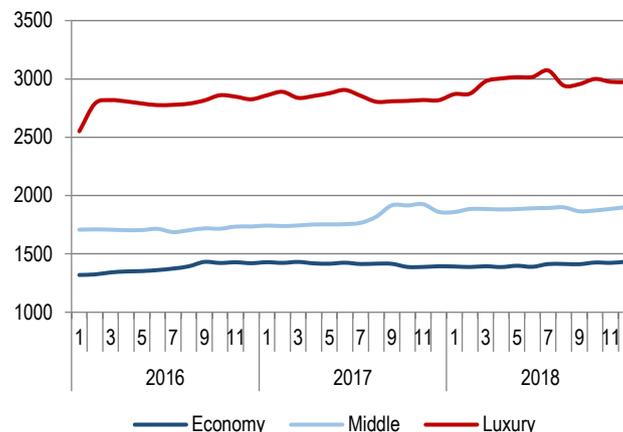


Source: INREAL

Significantly increasing supply is also increasing the options for buyers, as well as competition among developers and pressure on prices. In 2018, the growth of prices of the new apartment supply in Vilnius has stopped. From the beginning of the year, prices have slightly increased only in the prestigious segment, since the level of prices of almost all of the new prestigious projects was higher than the segment's

average. This raised the overall average by 6 percent – to 2970 EUR/sq. m. The prices of the supply of economy class apartments increased by 3 percent since the beginning of the year and reached around 1430 EUR/sq. m by the end of the year, while middle-class apartments increased by 2 percent and reached around 1900 EUR/sq. m.

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



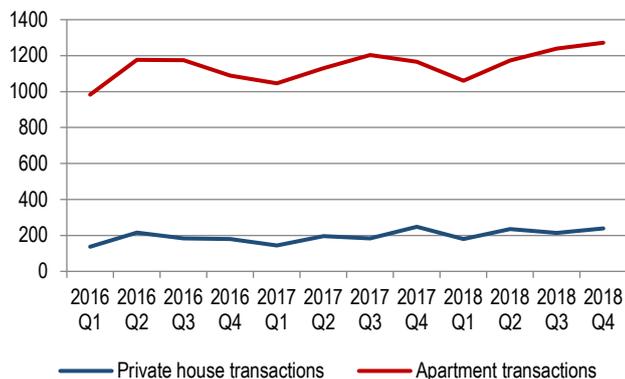
Source: INREAL

KAUNAS

Positive expectations were also evident in Kaunas market which continues to steadily grown over the past 4 years now. This was evidently mostly influenced by positive expectations and economic trends, as well as active business centre and industrial company development in this city. According to the data of the State Enterprise Centre of Registers, 4744 (4.3 percent more than in 2017) apartment and 868 (12.6 percent more) private house / townhouse transactions were made in Kaunas in 2018.

The growing popularity of private houses is not surprising – the real estate prices of this segment are significantly lower than of apartments, and their growth is very moderate.

Apartment and private house transactions in Kaunas (units)



Source: SE Centre of Registers, 01-2019

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



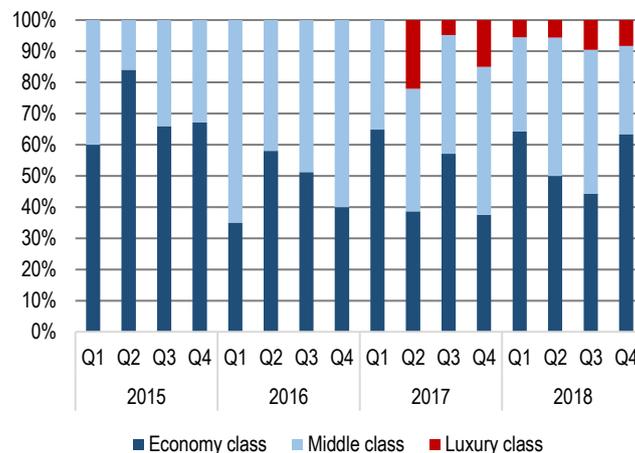
Source: INREAL

In addition, the buyer gets more living space and his own plot of land for the same price. Active development of industrial enterprises in Kaunas region enables to expect further growing in the volumes of sales of the private house / townhouse segment.

In 2018, around 520 new apartments were sold in Kaunas, which is 17.8 percent more than a year ago. Such surge in

the demand for new housing was determined not only by the aforesaid reasons, but also by very active developers who offered attractive new housing options to Kaunas market. In 2018, around 700 new apartments were added to Kaunas market, which is 23 percent more than in 2017. When comparing the primary market potential in the country's two largest cities, new apartment sales in Vilnius comprise approximately 30-35 percent of all the registered transactions, meanwhile in Kaunas this ratio reaches only around 10-12 percent. This shows that at least twice as much new apartments could be bought in Kaunas, despite the fact that the private house segment poses very strong competition for apartments in Kaunas.

Apartment sales under class (percent)



Source: INREAL

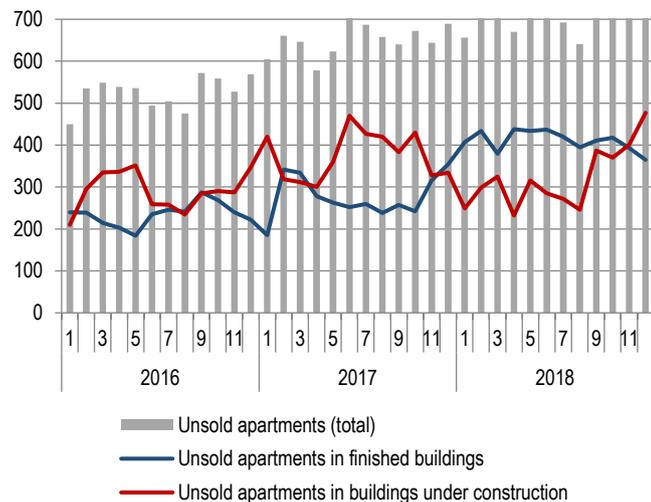
In 2018, developers mostly offered economy class apartments in the market of Kaunas. Accordingly, the sales of this segment were also the highest.

The new supply of housing that appeared in 2018 significantly surpassed the sales of new apartments, therefore the total level of unsold (available and reserved) apartments in Kaunas increased by more than a fifth since the beginning of the year to around 840 apartments by the end of the year. When analysing the structure of supply, it can be seen that,

in 2018, the number of unsold apartments in Kaunas has been moderately decreasing in already developed projects.

This is a good market sign for Kaunas housing developers showing that the number of remaining apartments is decreasing. By the end of the year, the unsold apartments in built houses comprised around 43 percent of the entire primary market supply of Kaunas.

New construction apartments, unsold in Kaunas (units)



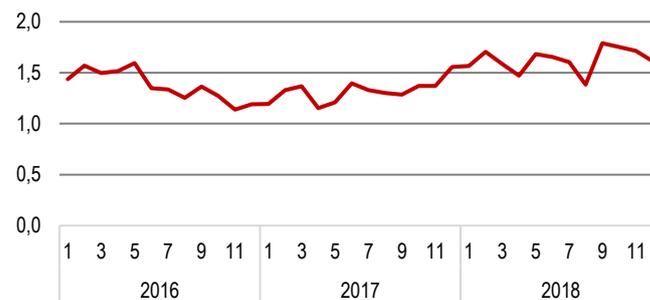
Source: INREAL

In 2018, the balance between Kaunas primary market supply and demand changed unevenly, however the liquidity rate remained stable and was the same by the end of the year as it was at the beginning of the year – 1.6. This means that, if there are no changes in the supply and demand, it will be possible to sell all new apartments within approximately 19 months.

Since the beginning of 2018, the supply prices of new apartments in Kaunas changes unevenly in different segments. Supply prices of middle-class apartments dropped by 2 percent since the beginning of the year, and currently reaches around 1600 EUR/sq. m. Meanwhile, the supply price of economy class apartments have increased only

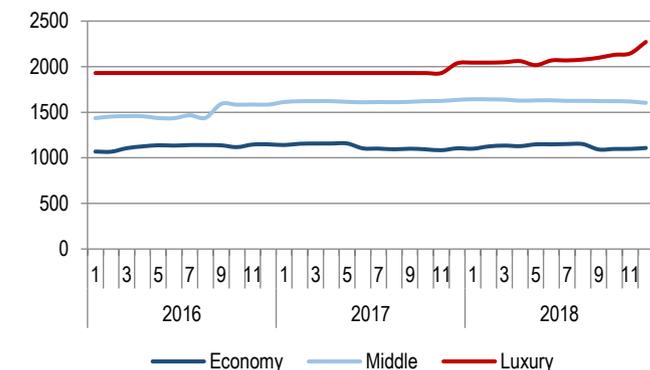
slightly – by 0.3 percent and reaches approximately 1100 EUR/sq. m. The most significant rise can be observed in the supply prices of luxury class apartments which have increased by 11.5 percent during the year and currently reaches approximately 2270 EUR/sq. m. The luxury segment of Kaunas is comprised of only several projects and the number of available apartments is relatively small, therefore the introduction of just one new more expensive project in the market causes substantial changes in prices.

Liquidity rate of new apartments in Kaunas



Source: INREAL

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

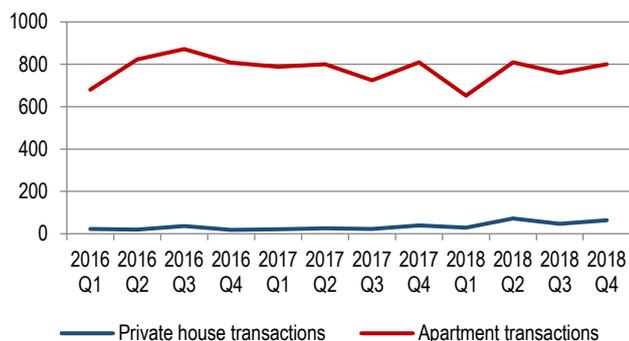


Source: INREAL

KLAIPĖDA

Compared to the same period a year ago, Klaipėda apartment market has slowed down in 2018, while the private house / townhouse market experienced a significant increase in activity. According to the data of the State Enterprise Centre of Registers, 3022 (3.3 percent less) apartment and 211 (two times more) private house / townhouse purchase-sale transactions were made in Klaipėda in 2018.

Apartment and private house transactions in Klaipėda (units)



Source: SE Centre of Registers, 01-2019

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

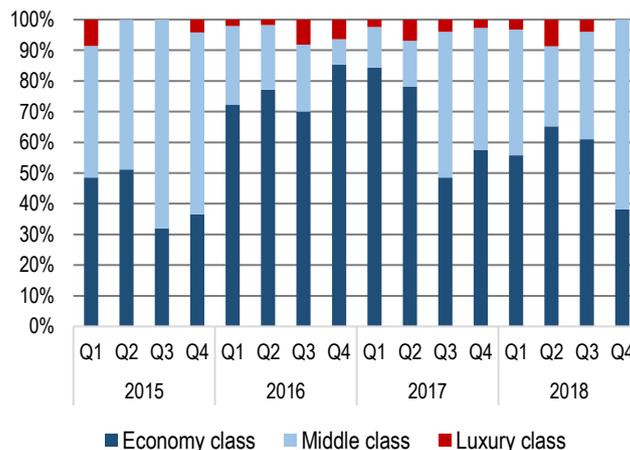


Source: INREAL

One of the greatest challenges for Klaipėda RE market is

decreasing population in the city – over the past 10 years, Klaipėda has "suffered" the most among the three major cities of the country, and lost the largest relative share of its population. On the other hand, despite the dropping apartment sales volumes and decreasing population, there are also certain positive aspects – Klaipėda is the most active city among the three major cities of the country according to the number of sales per 1000 residents. Growing popularity among private houses in the port city is also not surprising – there are a lot of available land plots in the outskirts of the city and in its district where private houses can be built. RE prices of this segment are lower than those of apartments, and communication with the centre of Klaipėda is not difficult. Thus, the volumes of private house / townhouse transactions should continue to grow, and there are not many assumptions that the demand for apartments in Klaipėda city will grow.

Apartment sales under class (percent)



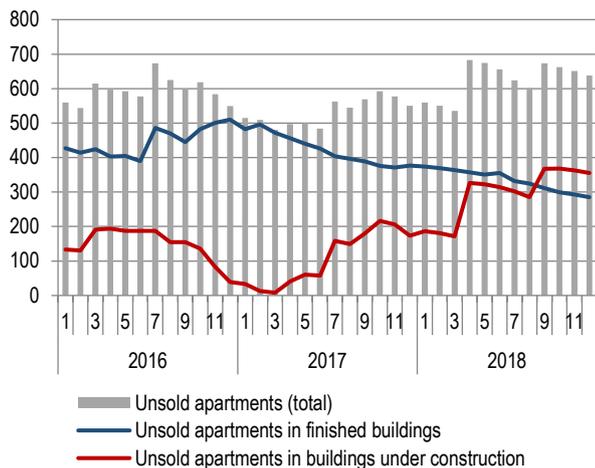
Source: INREAL

Buyers were more passive in Klaipėda primary apartment market in 2018 compared to a year ago, and bought around 310 new apartments. Meanwhile, developers were more active and offered the market around 400 new apartments, which is 16.7 percent more than in 2017. Growing activity among RE developers was recently observed in Klaipėda. Increasing demand for new, modern and high quality housing

in the primary market enables to assume that buyers will also be more active in the near future.

In 2018, Klaipėda market was mostly provided with the supply of economy class apartments, therefore the sales of this segment comprised the largest part of new apartment sales. Increasing activity among middle-class apartment buyers was observed by the end of the year.

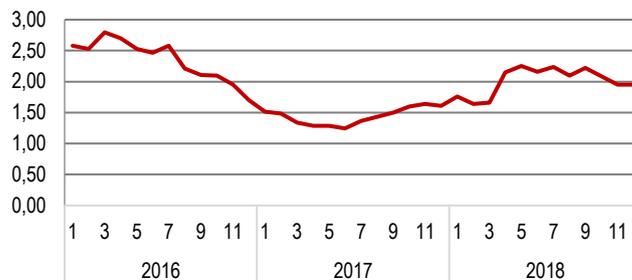
New construction apartments, unsold in Klaipėda (units)



Source: INREAL

The supply that emerged in 2018 surpassed the sales of new apartments, therefore the total number of unsold (available and reserved) apartments in Klaipėda increased by 16 percent since the beginning of the year – up to approximately 640 apartments by the end of the year, thus decreasing the liquidity rate from 1.8 to 2.0 throughout the year. This means that, if there are no changes in the supply and demand, it will be possible to sell all new apartments within approximately 2 years. If Klaipėda liquidity rate of 2 remains unchanged for a longer period of time, conditions for the development of new projects in Klaipėda will no longer be as favourable as before – competition between developers will increase, and there will be growing pressure to decrease the sale prices of apartments.

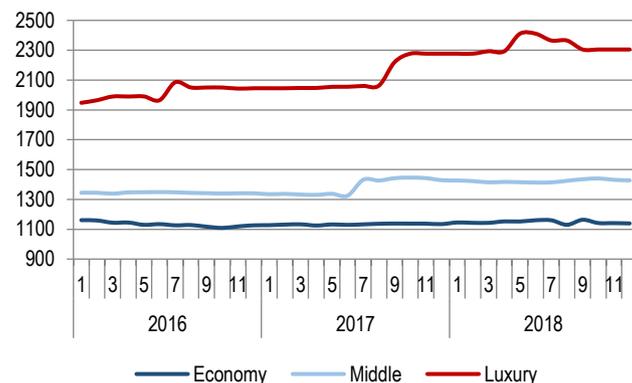
Liquidity rate of new apartments in Klaipėda



Source: INREAL

In 2018, the supply prices of new apartments in Klaipėda changed unevenly in all of the segments. Supply prices grew in economy and luxury class segments, and remained the same in the middle-class segment. The prices of economy and luxury class apartments grew accordingly by 0.4 percent and 1.2 percent, reaching an average of around 1140 EUR/sq. m and 2305 EUR/sq. m. Meanwhile the prices of middle-class apartments remained the same since the beginning of the year and averaged at around 1430 EUR/sq. m.

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

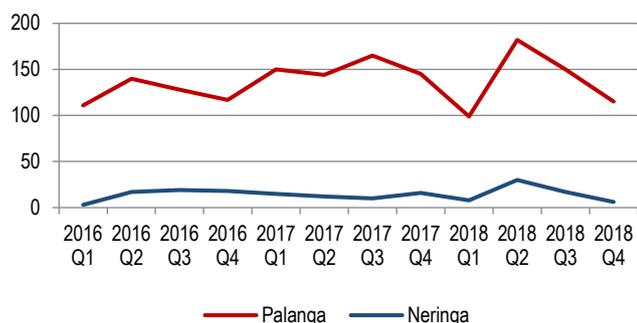


Source: INREAL

PALANGA AND NERINGA

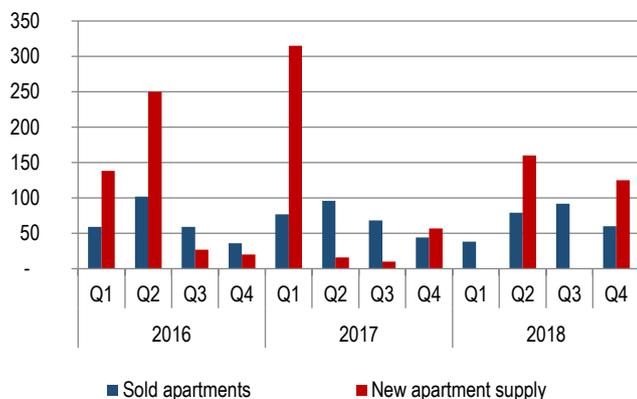
In 2018, the activity of the market of Palanga has slightly decreased compared to 2017. According to the data of the State Enterprise Centre of Registers, 546 (9.6 percent less) apartment purchase-sale transactions were made in Palanga in 2018. Meanwhile, compared to last year, the RE market was much more active in Neringa during 2018. 61 (15 percent more) apartment purchase-sale transactions were made in Neringa over the year.

Apartment transactions in Palanga and Neringa (units)



Source: SE Centre of Registers, 01-2019

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



Source: INREAL

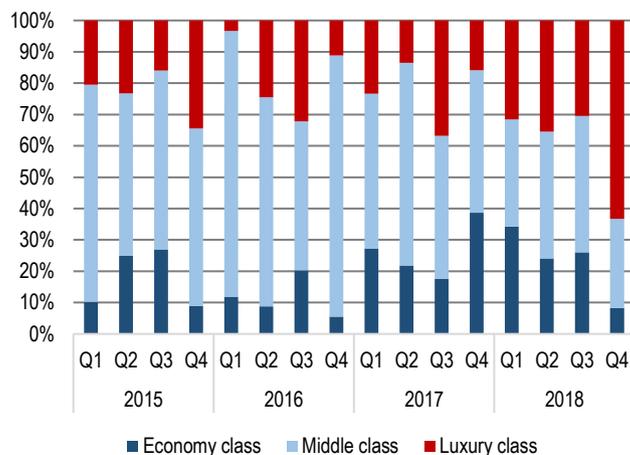
Dynamics of the new supply and sales of apartments in Neringa (units)



Source: INREAL

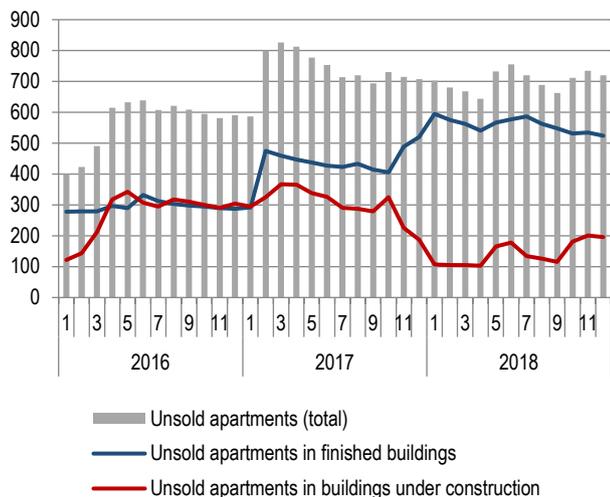
The RE market slowdown in 2018 was observed in Palanga primary market where 270 apartments were sold, which is 6 percent less than in 2017. Developers offered around 285 new apartments which is 28 percent less than in 2017.

Apartment sales under classes in Palanga (percent)



Source: INREAL

New construction apartments, unsold in Palanga (units)



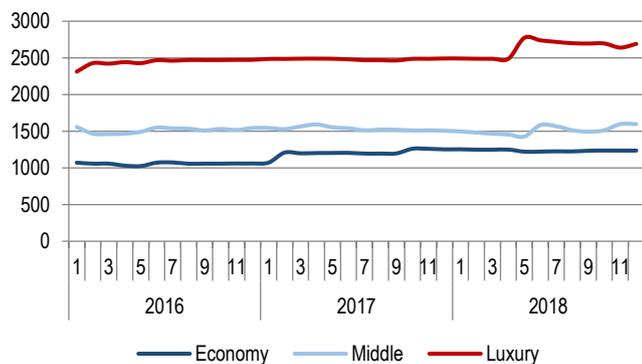
The difference between the new supply and the sales was not significant, therefore the total level of unsold new apartments (available and reserved) in Palanga increased by 2 percent over the year to around 720 apartments by the end of 2018.

In 2018, the prices of the supply of new apartments in Palanga changed unevenly in all of the segments. The supply prices of economy segment apartments decreased by 1.4 percent since the beginning of the year and reached around 1240 EUR/sq. m at the end of the year. Meanwhile, the supply prices of middle-class and luxury class apartments increased accordingly by 6.0 and 8.0 percent and reached around 1600 EUR/sq. m and 2700 EUR/sq. m at the end of the year.

Source: INREAL

Developers and buyers of new apartments in Neringa were also much more passive compared to 2017. There were 34 new apartments bought, and 28 apartments offered, that is accordingly 19 and 2.4 percent less than a year ago.

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



Source: INREAL

BUSINESS CENTRE MARKET OVERVIEW

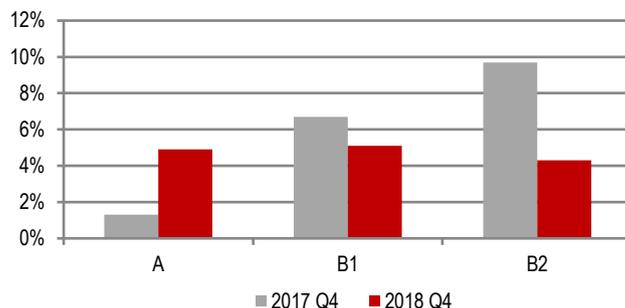
Favourable economic environment, growing revenues of companies in the services sector, and active development of international and local enterprises determined the fact that, over the past several years, the office segment was particularly active and liquid, and demand for modern offices was very high. In 2018, 5 new business centres were opened in the capital supplementing the market with around 49000 sq. m of leasable space. And there are plans to open at least 7 more business centres in 2019, which would provide around 80000 sq. m of leasable space. Despite the fact that the pace of development is very high, the demand for modern business centres remains strong in the capital and absorbs almost the entire newly available area. In 2018, the overall vacancy rate in Vilnius dropped from 5.4 percent to 4.8 percent. The overall decrease in vacancies was mostly influenced by a decrease of available areas in B1 and B2 segments, where unleased space comprised 5.1 percent and 4.3 percent accordingly at the end of 2018. Meanwhile, the level of vacancy of A class offices increased due to the growing supply and reached around 4.9 percent by the end of the year.

In 2018, 11 new business centres were opened in Kaunas which added more than 40000 sq. m of leasable area to the market. Due to growing supply, the overall vacancy rate in Kaunas has increased from 5.9 to 9.3 percent by the end of 2018. At the end of the year, the vacant space indicator in class A office buildings significantly increased and reached around 8 percent. New supply in B1 and B2 segments also increased the level of vacancies accordingly up to 9 percent and 11 percent. In 2019, at least 7 new business centres will be added to Kaunas market which will offer around 60000 sq. m of leasable space.

At the end of 2018, the overall vacancy level in the port city increased from 9.9 percent to 10.6 percent. Development of new offices was particularly passive in Klaipėda, since the vacancy rate of modern offices remains very high for several years now, therefore conditions for the development of new

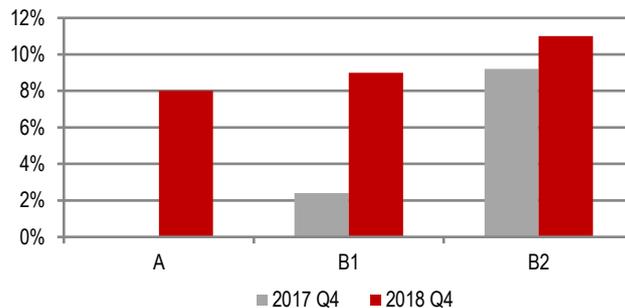
offices are not favourable in this city.

Dynamics of vacancies in Vilnius business centres under classes



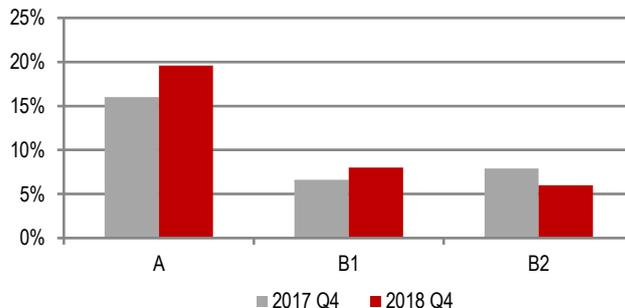
Source: INREAL

Dynamics of vacancies in Kaunas business centres under classes



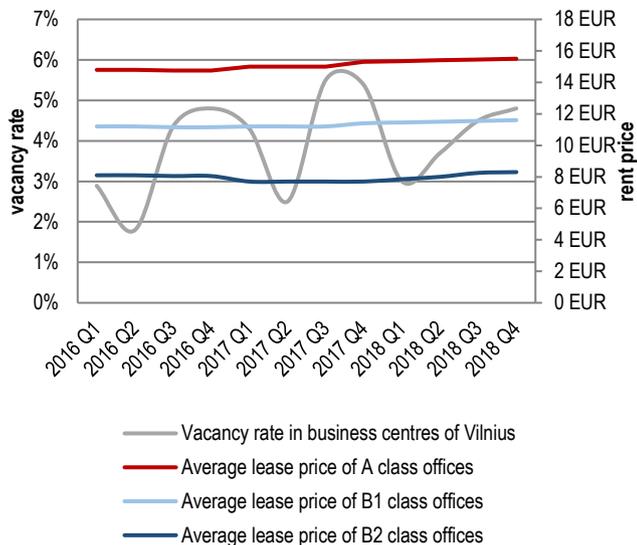
Source: INREAL

Dynamics of vacancies in Klaipėda business centres under classes



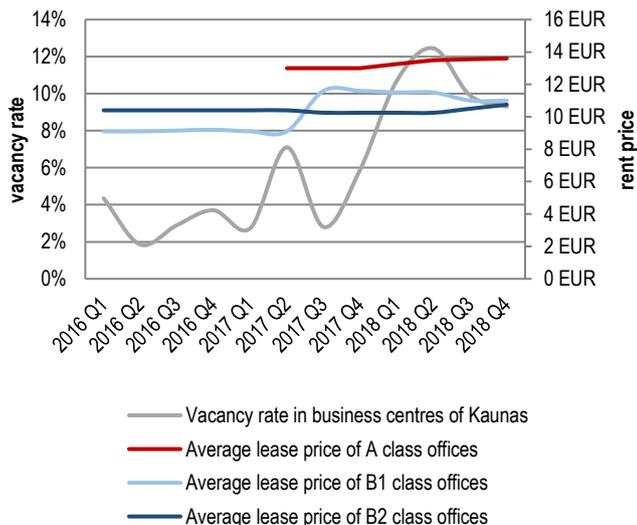
Source: INREAL

Dynamics of lease prices and vacancies in Vilnius business centres



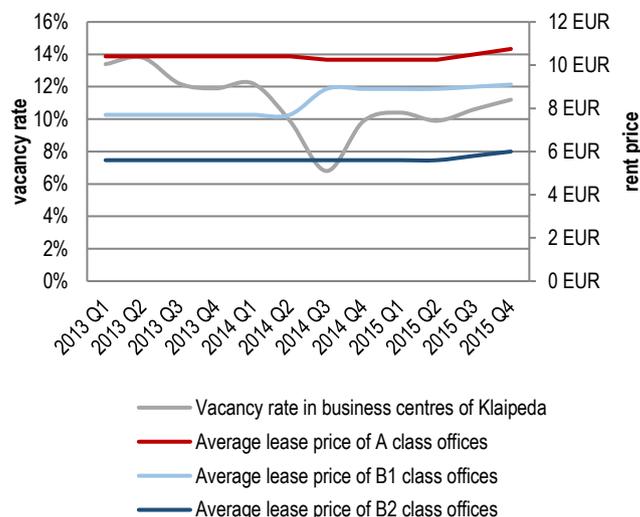
Source: INREAL

Dynamics of lease prices and vacancies in Kaunas business centres



Source: INREAL

Dynamics of lease prices and vacancies in Klaipėda business centres



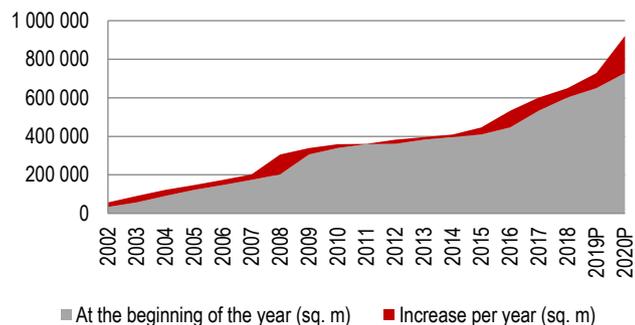
Source: INREAL

No new business centres were opened in Klaipėda in 2018, however the first stage of the innovation and business centre Baltijos Technologijų Parkas with an area of 6100 sq. m was completed and opened at the beginning of 2019. Light House – the largest coworking space in the Baltic countries was established here. The project will be developed in 4 stages, while the remaining 3 stages are planned to be implemented until the end of 2021. In addition to this project, there are plans to develop several smaller business centres in Klaipėda, however there is still no information about the beginning of the constructions.

In 2018, lease prices in Vilnius remained more or less stable and unchanged. Currently, the average lease prices of class A offices in the capital reach 14-17 EUR/sq. m, B1 – 10-14 EUR/sq. m, B2 – 7-10 EUR/sq. m.

New business centres in Kaunas market slightly lifted the bar for quality and prices, and the current average lease prices of class A offices reach 12-14 EUR/sq. m, B1 – 9-12 EUR/sq. m, and B2 – 6-9 EUR/sq. m.

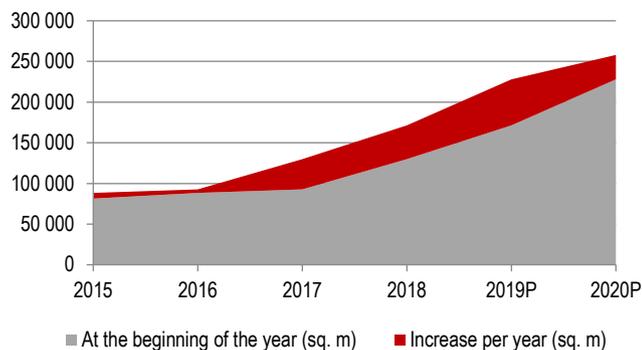
Expansion of modern business centres in Vilnius (sq. m)



The average lease prices of class A offices in Klaipėda remained stable and reach 9-13 EUR/sq. m, B1 – 7-9 EUR/sq. m, B2 – 5-8 EUR/sq. m.

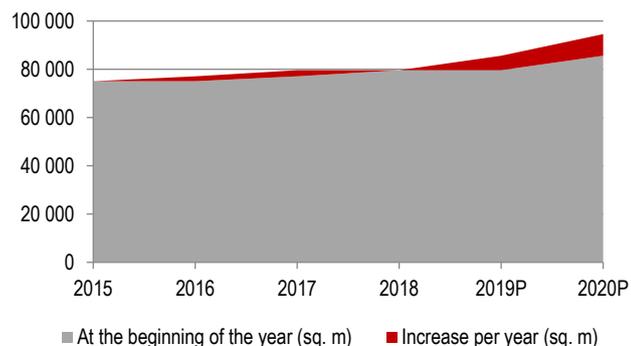
Source: INREAL

Expansion of modern business centres in Kaunas (sq. m)



Source: INREAL

Expansion of modern business centres in Klaipėda (sq. m)



Source: INREAL

SHOPPING CENTRE MARKET OVERVIEW

Retail trade volumes in Lithuania increased by 10.1 percent over 2018, compared to the same period of the previous year. Retail trade volumes have been increasing at a similar pace for several years now.

Positive expectations of the population, continuously low unemployment rate, and rapidly growing wages are the main presumptions enabling to expect further increase in retail trade volumes. These factors determine the growth of wages, purchasing power and consumption.

Compared to the same period a year ago, the average vacancy level in the shopping centre segment of big cities is very similar. The demand for such facilities is high, therefore the premises vacated by lessees are quickly occupied by the new ones.

Positive trends in the trade segment encourage RE developers and investors to consider this sector more boldly. In 2018, the year's biggest investment transaction in the Baltic states was concluded in this particular segment, when Ozas shopping centre was sold to buyers from South African Republic for 125 million euros. BIG shopping centre in Klaipėda was sold to new owners for 25 million euros.

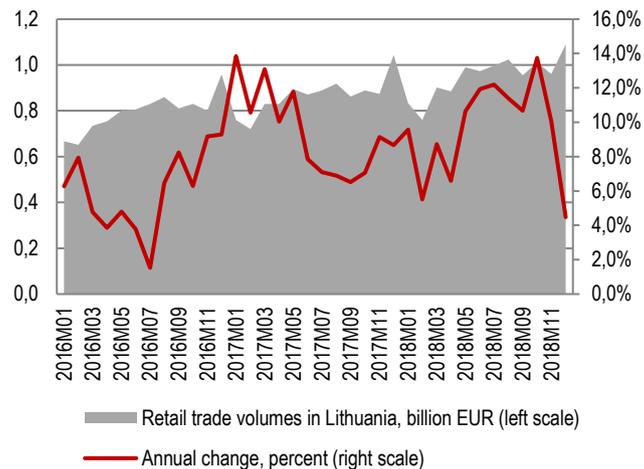
Sports and recreation goods store Decathlon with an area of 5000 sq. m was opened in 2018 in VNO Business and Trade Park developed by VPH company in Vilnius. Constructions of another commercial building with an area of 13500 sq. m will soon begin next to this store.

Two DEPO shopping centres were opened in Vilnius in 2018. Constructions of a third DEPO shopping centre are currently underway in Kaunas. The development of two more DEPO shopping centres is planned in the near future in Kaunas and Šiauliai.

At the beginning of 2019, the constructions of Ogmios Grupė outlet centre with an area of 80000 sq. m began in Vilnius.

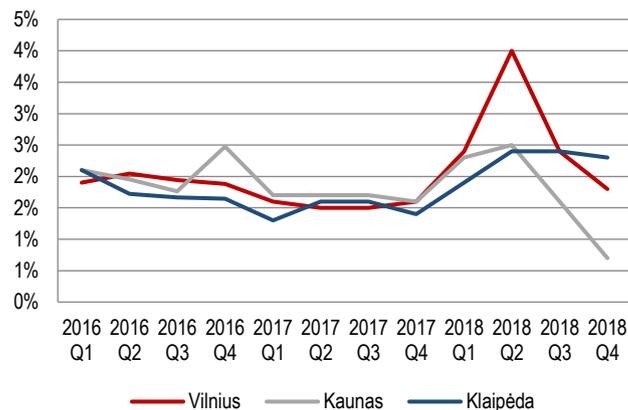
Renovation and development works of already available large shopping centres are actively underway.

Retail trade volumes in Lithuania (billion EUR)



Source: Statistics Lithuania

Dynamics in shopping centre vacancies in the major cities, (percent)

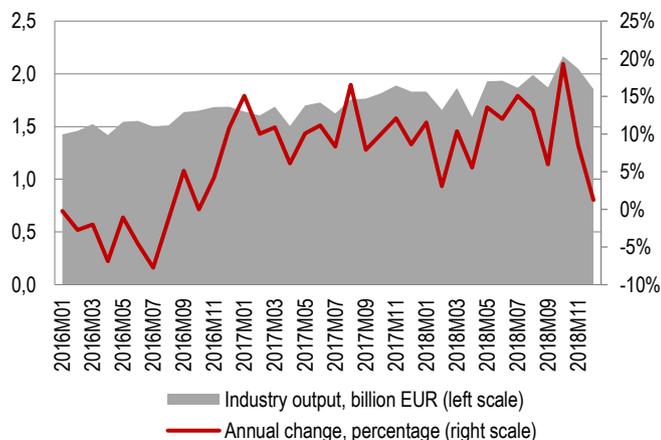


Source: INREAL

INDUSTRIAL AND STORAGE FACILITY MARKET OVERVIEW

One of the main sectors promoting economy in Lithuania generated fairly good results in 2018 – compared to 2017, industrial production volumes increased by around 9 percent. Similar sector growth rates have been recorded for several years now, together with decreasing storage facility and logistics centre vacancies, and growing lease prices. Despite this, compared to other commercial RE segments, investors were still rather cautious with this sector, even though competition in it is relatively low, while the profitability rate is 1-2 percent higher than in other commercial property classes. One of the main reasons may be that logistics and production sectors are the fastest to react to macroeconomic changes, therefore business prefers to invest in perhaps less profitable, but also less risky commercial RE sectors. On the other hand, situation has changed in 2018, and the positive trends of the sector, as well as low vacancy rates determined that very active development of storage facilities and logistics centres for lease were carried out in all of the major cities, and will be carried out in the near future.

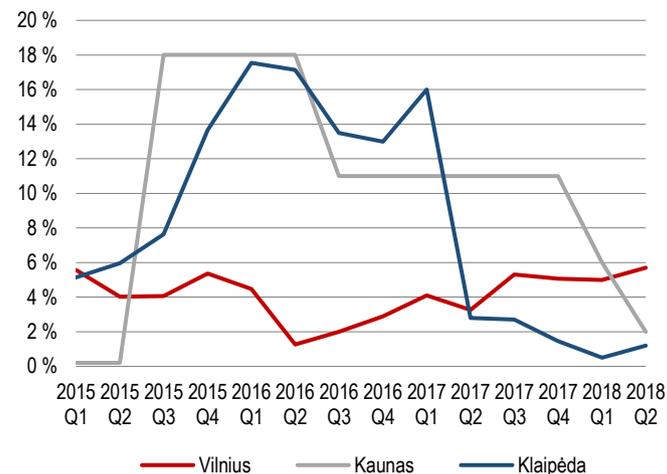
Industry output in Lithuania (billion EUR)



Source: Statistics Lithuania

One logistics centre with an area of 6400 sq. m was opened in Vilnius in 2018. Constructions of two more logistics centres were completed in the capital prior to the end of the year, but the official opening was carried out at the beginning of 2019. and the centres were officially opened at the beginning of 2019. These two new logistics centres added 28000 sq. m of leasable space to the market. In 2019, constructions of at least two new logistics centres for lease will begin in Vilnius, which will add around 55000 sq. m to the market. In addition, Sirin Development company plans to build 100000 sq. m of industrial facilities over several stages in a 18.5 ha land plot acquired in Vilnius.

Dynamics of vacancies in modern logistics centres in Lithuania (percent)



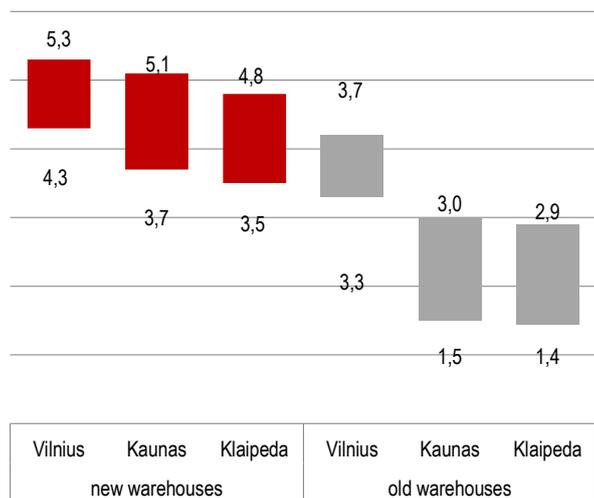
Source: INREAL

3 logistics centres were opened in Kaunas in 2018 which added around 25600 sq. m of leasable space to the market. In 2019, at least 4 new logistics centres for lease will be opened in Kaunas, and will add around 54000 sq. m to the market.

2 logistics centres were opened in Klaipėda in 2018 with around 13400 sq. m of leasable space. In 2019, at least 2

new logistics centres for lease will be opened in Klaipėda, and will add around 41500 sq. m to the market.

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



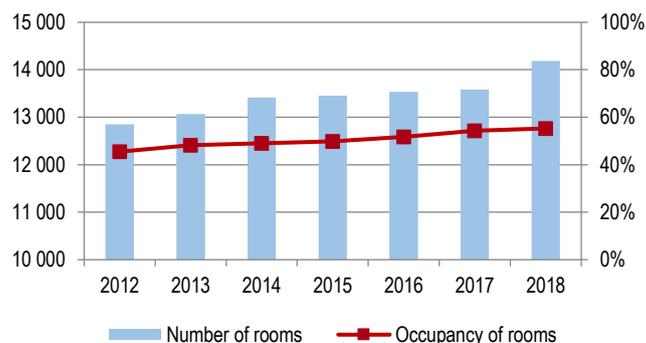
Source: INREAL

TOURISM AND HOTEL MARKET OVERVIEW

Lithuanian airports serviced more than 6.2 million travellers during 2018. The flow of travellers using the services of Vilnius, Kaunas and Palanga airports increased by 19.2 percent compared to 2017.

Lithuanian hotels provided accommodation to around 2.4 million guests in 2018. Compared to 2017, the number of accommodated tourists increased by 8.5 percent. The flow of foreigners increased by 7.3 percent. This was directly influenced by increasing airport activities, new flight destinations, expanding infrastructure, and rapid hotel development.

Number of hotel rooms and occupancy in Lithuania



Source: Statistics Lithuania

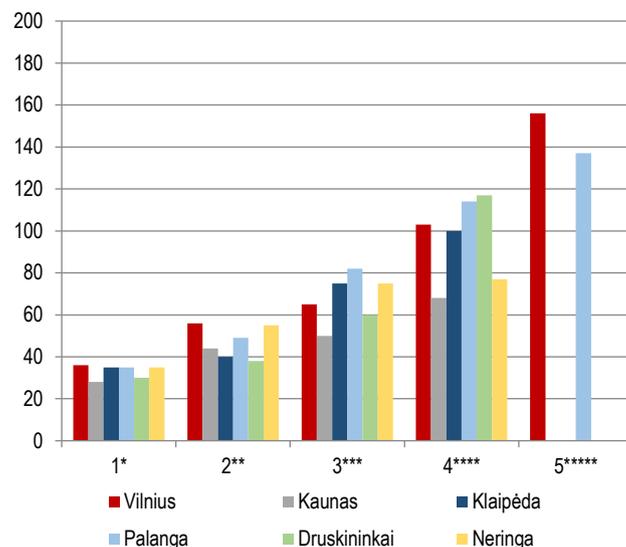
In 2018, hotel development in Lithuania was active like never before. Prestigious and well-known international hotel brands, such as Hilton, Marriot, Design Hotels, etc. were opened or soon will be opened in the Lithuanian market and are significantly improving the image of Lithuania in international markets. In 2018, 6 new hotels were opened in Vilnius, adding a total of 825 rooms to the market. Constructions of at least 9 more hotels with 996 rooms are currently underway or will soon begin across Lithuania. And constructions of at least 6 more hotels with around 1000 rooms are planned in the near future. If all of these plans will

be implemented, around 2000 new hotel rooms will be added to the Lithuanian market within the next two years, most of which will be located in the capital.

City	Hotel	Class	Rooms
Vilnius	Pacai	5*****	105
Vilnius	Courtyard by Marriott	4****	199
Vilnius	Loop Hotel	4****	113
Vilnius	Radisson Blu (second building)	4****	165
Vilnius	ibis by Accor Hotels	3***	164
Vilnius	Vilnia	4****	79
Vilnius	DoubleTree by Hilton	4****	175
Vilnius	Hilton Garden Inn	4***	164
Vilnius	Neringa (expansion)	4***	117
Vilnius	Park Inn by Radisson Vilnius Airport Hotel & Business Centre	3***	120
Vilnius	Grotthuss Boutique Hotel	5*****	42
Kaunas	Algiro (expansion)	3***	24
Kaunas	Moxy	4****	175
Druskininkai	Amberton Green SPA Druskininkai	5*****	79
Nida	Nidos banga	3***	100
Total:			1821

Source: INREAL

Average standard double room rate in Lithuanian hotels for the 2019 Season (EUR)



Source: INREAL

The cheapest accommodation for two people in a standard double room during the summer season of 2019 is offered in Kaunas. Depending on the class of the hotel, prices are between 28 and 68 euros per night. Meanwhile accommodation prices are higher in Vilnius, Klaipėda, Palanga and Neringa – between 35 and 156 euros per night. Compared to previous years, prices in 2019 are higher due to new higher class hotels in the market, as well as increasing costs of services and human resources.



Simas Paukštys, Associate at Law Firm COBALT

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

The time of modest regulatory changes is continuing, making to go on repeating for the past few years that legislative amendments are of editorial character and do not affect the substance of regulation. In these terms, 2018 was a quiet year, and 2019 will be very much the same (at least in the sense of new legislation). It is true though that the lack of major changes for a number of years running has at least one positive aspect to it – legal stability, which has enabled to develop a settled practice of application of legislation.

However, stagnation and disregard for generally known problems (take again, for example, construction on leased state-owned land) raises a question if the reason why the legislator does not further (re)regulate the market is for stabilising effect, or because issues relating to the real estate (RE) market are at the bottom of the political agenda.

In a nutshell, the market will again witness minor changes in

the year ahead. Some revisions have been made to the Law on Construction, the Law on Territorial Planning, and minor provisions of the Civil Code and other laws have been amended. However, no major breakthrough has been accomplished so far in the areas where it's most desired by RE market players: management of state-owned land and inter-institutional dialogue.

Can this be expected to occur this year? We can probably form expectations for the nearest term from the fact that we started 2019 without major regulatory changes and, what is more, without the Minister of Environment.

REAL ESTATE LAW NEWS

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

On 1 July 2019, amendments to the Civil Code, providing that during the enforcement process of a final judgment (provided for in Part VI of the Code of Civil Procedure)

conditional mortgage may be created over foreclosure properties, taking effect once the acquirer becomes the owner of foreclosure properties, will come into force.

On 1 May 2019, amendments to the Law on Credit Agreements Related to Immovable Property will enter into force, providing that in all instances of non-fulfilment of financial obligations under the credit agreement penalties may be calculated for a period not exceeding 180 days. The borrower may not be held liable for any other penalties and payments for non-fulfilment of financial obligations under the credit agreement.

Adopted in November 2018 and scheduled to take effect **as of 1 January 2020**, the Law on the Underground Railway Network (metro) lays down the fundamentals for the implementation of the underground railway network, a new mode of transport in Lithuania. The Law provides that the underground railway network project will be implemented by respective municipalities which decide to put an underground railway network in place. Importantly, land and subterranean caves are made available for the purpose of construction of the metro system as underground spaces so that construction operations of the underground part of the metro system can take place without the requirement for the developer to own the land parcel.

As of 17 January 2019, certain provisions of Construction Regulation STR 1.05.01:2017 have been amended to provide that a document authorising construction must also be obtained for planned reconstruction of a simple construction works into a construction works of non-exceptional or exceptional significance and in order to carry out major repairs of a simple construction works or simple repairs of a simple construction works, where the category of a construction works is changed into a construction works of non-exceptional or exceptional significance.

On 1 January 2017, an amendment to Construction Regulation STR 2.01.02:2016 entered into force, revising energy efficiency requirements for new construction buildings. As a reminder, the requirement to achieve at least Class A+ energy efficiency applies to new construction buildings in respect of which an application for a building permit for new construction was submitted after 1 January 2018. The next phase starting on 1 January 2021 will introduce the requirement to design and construct buildings with Class A++ energy efficiency ranking, i.e. buildings consuming almost no energy. The requirement to construct buildings consuming almost no energy has already started to apply from 1 January 2019 in respect of new construction buildings of public and municipal institutions, agencies and state enterprises.

REAL ESTATE TAXES NEWS

Over a period **commencing 1 January 2019** and ending 1 July 2019, a tax amnesty will apply, providing an opportunity to individuals to voluntarily report and pay back taxes on income not reported or not duly charged to tax in the preceding year, with penalties and default interest waived.

However, **beginning 1 January 2019**, if during a tax inspection any tax liability is assessed on income the origin of which the taxpayer cannot substantiate, the taxpayer will be subject to a fine in the amount of 50 to 100 per cent of chargeable tax amount.

The period of limitation applicable to assessment or reassessment of tax has been changed. **As of 1 January 2020**, both a taxpayer and the tax administrator will be able to assess or reassess taxes only for a period covering the current and 3 past calendar years. There are several exceptions to this rule when the tax administrator will be able to recalculate taxes for a period going beyond 5 or 10 years.

No amendments to the Law on Immovable Property Tax or the Law on Land have been made or are currently planned.

ABOUT / CONTACTS

INREAL GROUP

INREAL is a trademark of an idea, which gives spark to unique projects, basis for professional services, and added value to businesses, clients, and partners. INREAL positions creativity as a core value in the dynamic business world. INREAL Group, which consists of: [UAB "Inreal valdymas"](#), [UAB "Inreal"](#), and [UAB "Inreal GEO"](#), provides probably the widest range of real estate services in Lithuania. Currently they have over 90 employees working for them in 11 cities in Lithuania. The company has engaged in business operations for over 20 years and implemented more than 50 real estate projects of various purposes, which received recognition and awards at contests not only in Lithuania but on an international scale as well. In 2015/16, 2016/17 and 2017/18 INREAL Group was named as the National Winner during the prestigious European Business Awards.

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ŠIAULIŲ BANKAS

Šiaulių Bankas AB was established in 1992. It is a bank successfully operating in Lithuania and holding the biggest share of Lithuanian capital. Šiaulių bankas strives to be a reliable financial partner maintaining stable and consistent growth, focussing on business financing and consumer financing solutions. Šiaulių Bankas AB is the fourth biggest bank in Lithuania servicing customers at 62 customer servicing divisions in 37 towns and cities in Lithuania. The Bank is the leader in financing renovation of apartment buildings in the country. Šiaulių Bankas AB' shares have been included in the official trading list on the NASDAQ Baltic Exchange. In 2016 magazine and portal *Global Banking & Finance Review* nominated Šiaulių Bankas AB as the best SME [small and medium-sized enterprises] bank in Lithuania. The international business and finance publication *Global Finance* announced Šiaulių Bankas AB as the best bank in Lithuania in 2016 and in 2017.

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

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