

A large Ferris wheel is the central focus, viewed from a low angle looking up. The sky is a mix of blue and orange, suggesting sunset or sunrise. A large, horizontal, blue brushstroke graphic is positioned across the upper left portion of the image, partially overlapping the Ferris wheel's structure.

created by
in real

**LITHUANIAN ECONOMY
AND REAL ESTATE MARKET REPORT
2019 H1**

WITH PARTNERS: SEB BANKAS AND LAW FIRM COBALT

TURINYS

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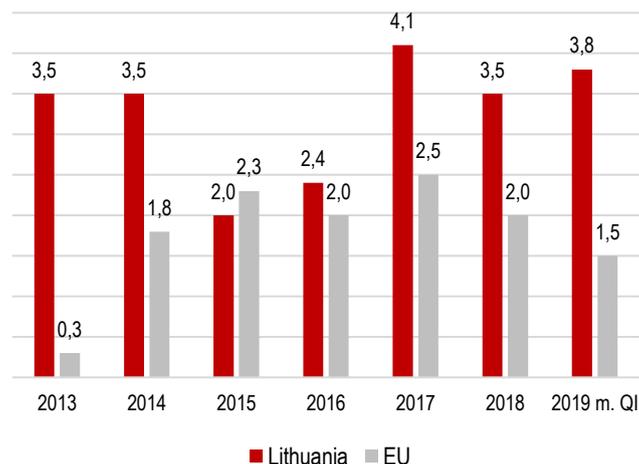
Tadas Povilauskas, *Economist at SEB bankas*

Tadas is in charge of analysing the macroeconomic changes occurring in Lithuania and abroad, as well as being responsible for making predictions used for the internal processes of the bank, its customers and our society.

EKONOMIC OVERVIEW

Despite the slowing of the economic development of the countries in the European Union that was seen during the first half of 2019, the economy of Lithuania maintained a rapid growth. The GDP of Lithuania increased by 3.8 percent during the first quarter and we predict that this growth had been just a little slower during the second quarter than in the first quarter of the year. Nevertheless, we expect that exports of goods and services will slow down as a result of the sluggish development of the export markets during the second half of the year; therefore, we will continue to predict an overall 3.2 percent growth of the GDP of Lithuania in 2019. We believe that the economic development of our country will be slower and will amount to 2.4 percent during the next year.

Changes in the GDP of Lithuania and the European Union
(annual change in comparative prices and percentage change)



Source: Eurostat

Retail trade and industrial production grew rapidly in Lithuania during the first months of this year, while more construction work was also performed than a year ago. This proves that the economy has been growing in a stable and balanced manner so far. Even more reduced unemployment, rapidly increasing salaries, pensions higher than a year ago

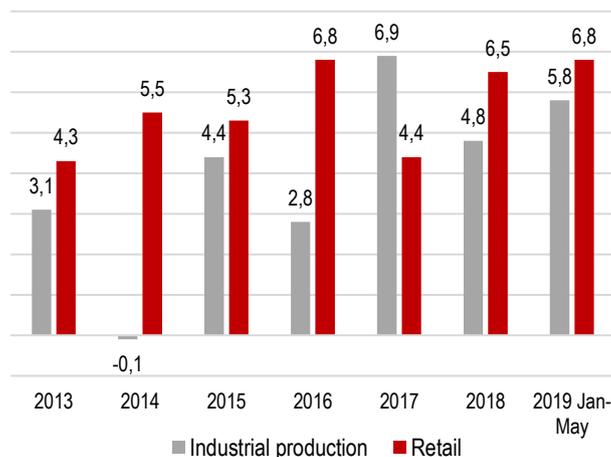
and a stable rate of inflation provided favourable conditions for an increase in the purchasing power, consumers' trust and domestic consumption. The retail trade according to the comparative prices, excluding trade in fuel, amounted to 6.6 percent during the first five months of this year (5.2 percent in 2018) and was 8.2 percent (6.8 percent in 2018) higher than during the same period a year ago.

Trade in foodstuffs and non-food goods also grew more rapidly than a year ago. Online commerce occupies an increasingly larger portion of the retail trade market, similarly to last year: the volumes of mail order or online purchases grew by 21.6 percent. The annual inflation was 2.5 percent in June 2019. The prices of foodstuffs, catering, accommodation, health care and cultural services grew the most; whereas the prices of clothes, footwear and communication services decreased the most compared with last year. We will continue to predict that the annual inflation will be close to 2.5 percent in the country this and next year, and that the prices of services will increase the most as a result of the persisting rapid growth of salaries.

The average salary before taxes grew by 9.4 percent to EUR 1,263 and the salary after taxes increased by as much as 14.6 percent to EUR 803 during the first quarter of 2019. The higher increase in salaries after taxes was the result of tax and pension reforms, which not only increased the Tax-Exempt Amount (TEA) and expanded its applications, but also reduced the social insurance rate. Nevertheless, the average gross salaries in the private sector grew by only 7.2 percent, which is the slowest rate since the end of 2015, demonstrating that businesses are taking a cautious approach with regards to higher pay for their employees regardless of the decreasing unemployment. SEB bankas predicts that the average salaries will increase by 8.2 percent this year and 6.5 percent next year. The government has already approved the amount of the minimum monthly wage (MMW) for 2020 as EUR 607, which is 9.4 percent more than

the MMW this year. The net salaries of persons who receive the MMW will increase even more rapidly as a result of the increasing maximum TEA. On one hand, such changes will increase the consumption costs of the lowest-earning residents; however, business where a relatively large number of employees receive the MMW or a similar amount will have to increase the prices of their products or services, or to come to terms with a lower level of profitability.

Industrial production and retail trade (annual change in comparative prices and percentage change)



Source: Department of Statistics

In addition, the economy is propelled by the still-increasing number of working people. In Lithuania, the number of employees being hired was 1.6 percent higher by the end of the first quarter than a year ago. This is mostly associated with the improving international migration trend: 4.4 thousand more residents came to live in Lithuania than left the country during the first half of the year. The number of incoming people increased by as much as 58 percent, and this change is not only related to persons from third countries, as more persons of a Lithuanian origin came back to Lithuania as well. The improving economic conditions of

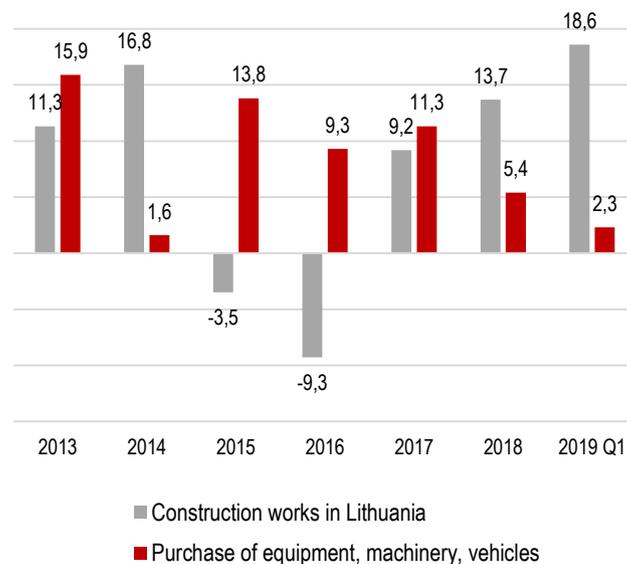
Lithuania are likely to be a factor that helps to bring back more people who left Lithuania in the upcoming years, although this may occur more slowly. In fact, after the enactment of the Mobility Package in the European Parliament at the beginning of April, there was much more uncertainty as to the expansion of transport companies in Lithuania; therefore, the number of foreigners employed in the country will start shrinking if such companies start relocating their activities to Poland or to the countries of Western Europe.

The indicators of confidence among the representatives of industry became poorer during recent months, which is not surprising considering the lower mood of the representatives of industry in Europe, as well as the fact that industrial production was balancing between growth and a reduction in the EU during the beginning of the year. Meanwhile, the manufacturing output grew by as much as 6.6 percent in Lithuania during the first five months of 2019. Manufacturing grew in the majority of the most significant industries, indicating that our production development has stayed balanced and showing that our region remained competitive. Furthermore, the exports of goods of a Lithuanian origin, excluding mineral products, grew by 10.5 during the first five months of this year and increased to include nine of the ten most important export markets. However, to tell the truth, we do not expect the industry of Lithuania to be able to maintain such a high development speed during the second half of the year and believe that a sluggish growth of the external demand will slow down the development of industrial sales. Nonetheless, we can see that Lithuania is still attractive for foreign investors; therefore, a quite rapid economic development could be maintained during the medium-term, particularly if more investments are made in the preparation of qualified workers in our country.

Companies in the construction sector could not complain about a shortage of orders for construction work during the

first half of the year. At the comparative prices, 18.6 percent more construction projects were completed in Lithuania during the first quarter of 2019 than a year ago. A similar growth rate is likely to persist during the whole of 2019, while the volume of construction of both residential and non-residential buildings and engineering networks will grow as well. The construction work this year is strongly influenced not only by a more intensive use of the funds of the EU and higher national investments in the road, port and energy sectors, but also by the stable growth of business investments in warehouses and production premises. However, the slowing down of productive investments is a worrying sign: investments in equipment and machinery grew by only 2.3 percent during the first quarter of the year, which is probably the reflection of a higher degree of caution among businesses that are engaged in exports.

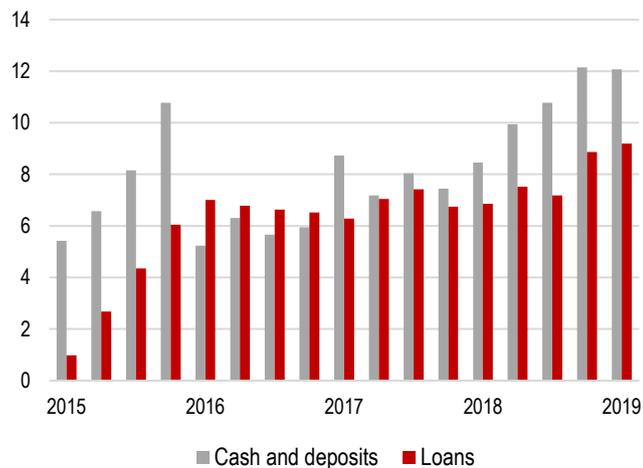
Construction work and investments in equipment, machineries and vehicles (annual change in comparative prices and percentage change)



Source: Department of Statistics

The rapidly increasing income of residents combined with their positive expectations with regards to their prospects in the nearest future, the stable growth of bank lending for the purchases of housing (the annual growth of the mortgage portfolio was 8.6 percent in May) and the increased supply of housing has resulted in the fact that both the primary and secondary residential property markets were very active during the first half of the year. The fact that the prices grew more rapidly in smaller regions, and not in the capital, Kaunas or Klaipėda, also shows us that the financial conditions of the residents of these regions have been improving rapidly in recent times. Nonetheless, it is likely that the activity in the housing market should subside during the second half of the year, after a very strong growth during the first half of the year.

Cash, deposits and household loans (annual change and percentage change)



Source: Bank of Lithuania



Kotryna Griško, RE Market Analyst at INREAL Group

Kotryna has been working as a Real Estate (RE) Market Analyst for two years. She is in charge of supplementing and updating the database of the primary housing market, as well as for providing analytical insights for the internal needs of the INREAL Group, its customers and the mass media.

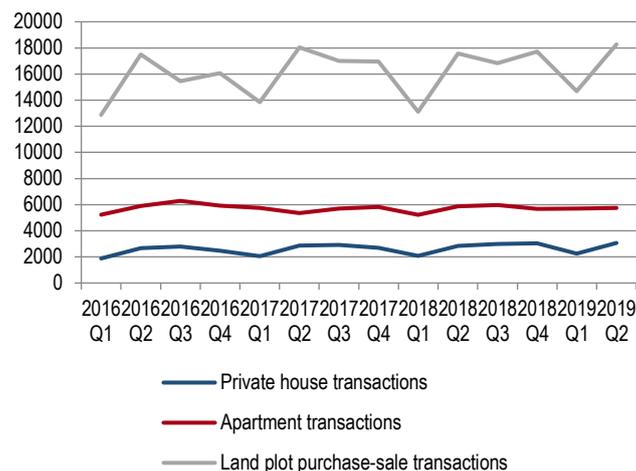
**HOUSING MARKET OVERVIEW
LITHUANIA**

The real estate (RE) market of Lithuania was especially active during the first half of 2019, when more transactions involving apartments, individual houses/cottages and land lots were registered. According to the data of the SE (State Enterprise) Centre of Registers, the number of purchase-sales transactions concluded in Lithuania during this period of time involved 16,757 (4.6 percent more) apartments, 5,323 (8.1 percent more) individual houses/cottages and 32,949 (7.4 percent more) land lots.

VILNIUS

The RE market of the capital was particularly active in both the housing and the individual house segments at the

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

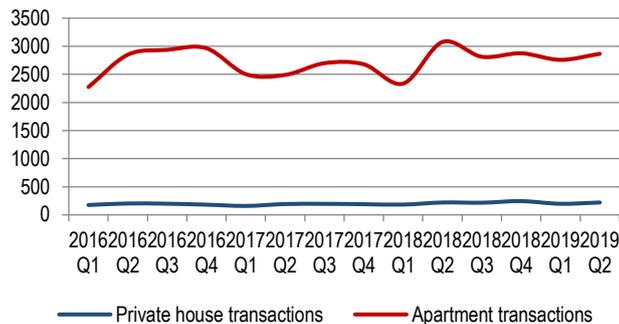


Source: SE Centre of Registers, 07-2019

beginning of 2019. The number of transactions grew at a moderate rate and was higher than the amount during the same period last year. According to the data from the SE Centre of Registers, transactions relating to 5,624 (3.9 percent more) apartments and 417 (3.5 percent more) individual houses/cottages were concluded in Vilnius during

the first half of 2019. The number of transactions involving individual houses/cottages has continued growing, which confirms that buyers are showing an increasing interest in this segment. However, the total number of registered transactions relating to newly built apartments was 13.5 percent lower than during the same period of the last year. Sales of older apartments grew by 14.15 percent.

Apartment and private house transactions in Vilnius (units)



Source: SE Centre of Registers, 07-2019

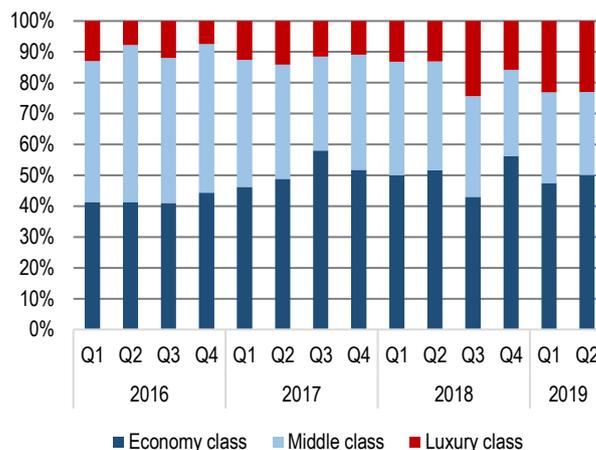
Dynamics of the new supply and sales of apartments in Vilnius (units)



Source: INREAL

The primary market of the capital was also characterised by an especially high level of activity during the first half of 2019. The increasing number of residents in Vilnius, their growing income, positive expectations and housing mortgage loans that are still favourable (due to the “cheap money” policy) have influenced this activity. Approximately 2,855 new apartments were sold in the primary market of Vilnius during the first half of this year, representing 70.4 more when compared to the same period of 2018.

Apartment sales under class in Vilnius (percent)



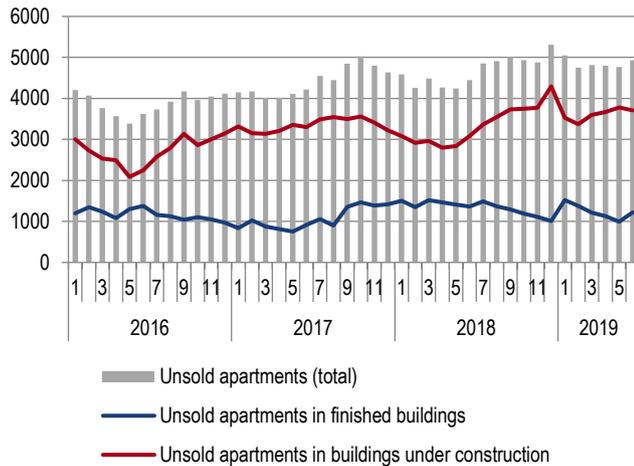
Source: INREAL

The high level of activity among buyers also resulted in more active actions from builders. RE developers increased the volumes of their construction and offered approximately 2,490 new apartments during the first half of 2019, or 63.4 more when compared to the same period of 2018.

Due to the increased activity by builders, the number of unsold apartments (that were available or reserved) in the capital remained at a similar level in the middle of 2019 and amounted to approximately 4,930 apartments, only a quarter of which were in completed houses. The remaining part

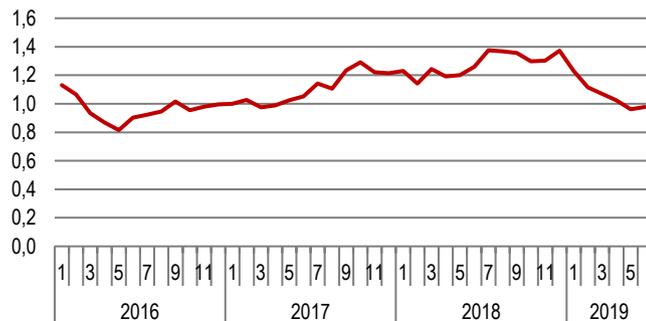
belonged to projects that are currently ongoing, or that are planned to be implemented but are already being offered publicly.

New construction apartments, unsold in Vilnius (units)



Source: INREAL

Liquidity rate of new apartments in Vilnius



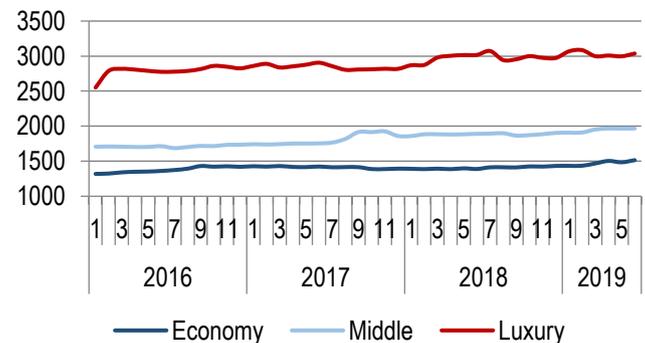
Source: INREAL

Developers continue increasing the supply of the prestigious housing segment; therefore, the portion of these sales increased. Prestigious housing amounted to approximately 23 percent of the sales in the primary market during the first

half of this year.

As the number of sales in the primary market has grown, the indicator of the liquidity of newly constructed apartments calculated by INREAL improved from 1.4 at the end of the previous year to 0.9 in the middle of this year. This means that all new apartments could be sold within approximately 11 months if the existing supply and demand do not change. Such liquidity shows that the market is very active at the moment, and this could induce the developers to take on more new projects.

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



Source: INREAL

A moderate growth in the prices of newly constructed apartments was recorded in all segments in Vilnius during the first half of 2019. The prices of apartments in the economy segment grew by approximately 6 percent from the beginning of the year and currently amount to approximately EUR 1,515/sq. m. The prices of the supply of the apartments in the medium segment also grew by approximately 3 percent from the beginning of the year and amount to approximately EUR 1,968/sq. m; whereas the prices of prestigious apartments grew by 2 percent and amount to approximately EUR 3,037/sq. m.

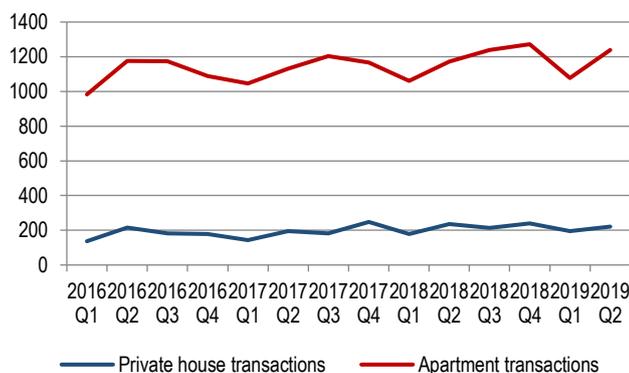
KAUNAS

According to data from the SE Centre of Registers, transactions in relation to 2,316 apartments (3.7 percent more when compared to the same period of 2018) and 418 individual houses/cottages (0.7 percent more) were concluded in Kaunas during the first half of 2019.

The primary market of Kaunas was characterised by a high level of activity during the first half of 2019: approximately 400 sales of newly constructed apartments took place in the city, which is approximately 62.3 percent more when compared to the same period last year. Such a spike in the demand could be explained by the residents' positive expectations, increasing income, the development of new business centres and industrial companies, as well as the new jobs appearing in the area.

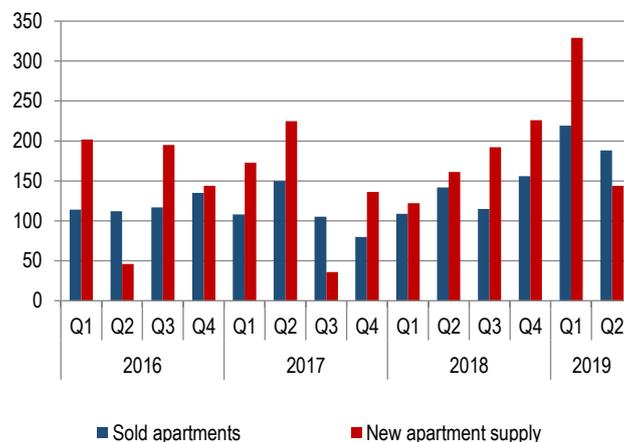
Not only buyers but also developers were active during this period of time. They added approximately 473 new apartments to the primary market of Kaunas during the first half of 2019, or 67.1 percent more when compared to the same period last year.

Apartment and private house transactions in Kaunas (units)



Source: SE Centre of Registers, 07-2019

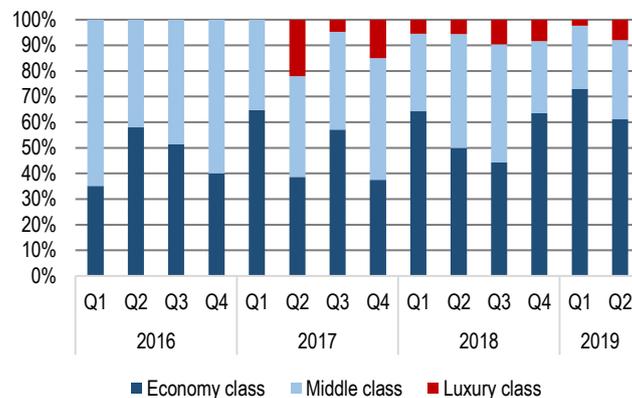
Dynamics of the new supply and sales of apartments in Kaunas (units)



Source: INREAL

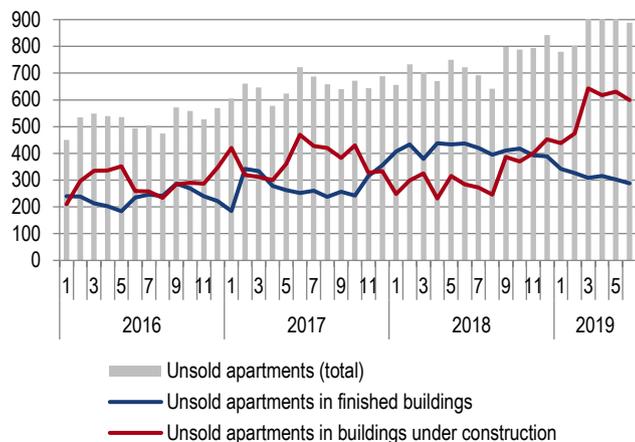
The developers mainly offered economy-class apartments to the market of Kaunas during the first half of 2019, and the sales in this segment constituted the biggest proportion.

Apartment sales under class in Kaunas (percent)



Source: INREAL

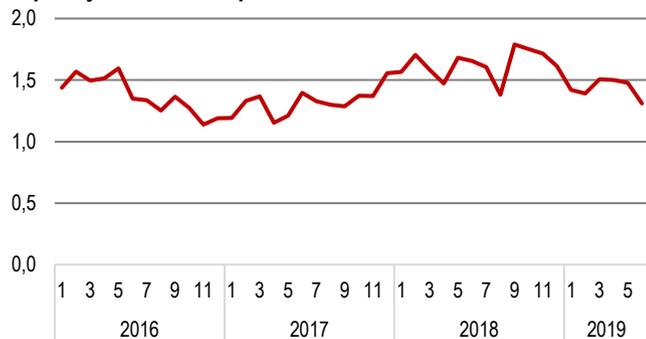
New construction apartments, unsold in Kaunas (units)



Source: INREAL

The developers were slightly more active than the buyers during the first half of 2019; therefore, the total number of unsold apartments (that were available or reserved) increased to approximately 890 apartments in Kaunas after the beginning of the year. The apartments in completed buildings amounted to approximately 32 percent of the supply in the primary market of Kaunas by the middle of the year.

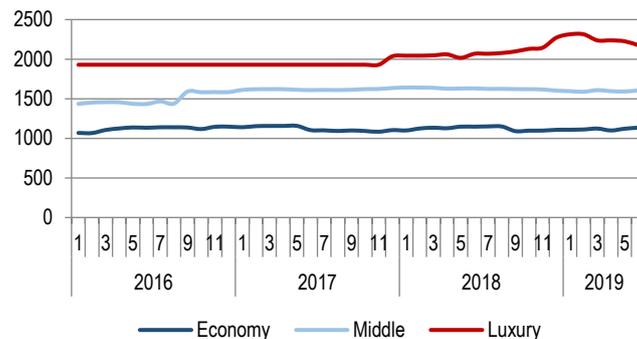
Liquidity rate of new apartments in Kaunas



Source: INREAL

The indicator of the liquidity of the primary market of Kaunas improved from 1.6 at the beginning of the year to 1.3 in the middle of the year, as a result of the active actions from buyers during the first half of 2019. This means that all new apartments could be sold within approximately 15 months if the existing supply and demand do not change.

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



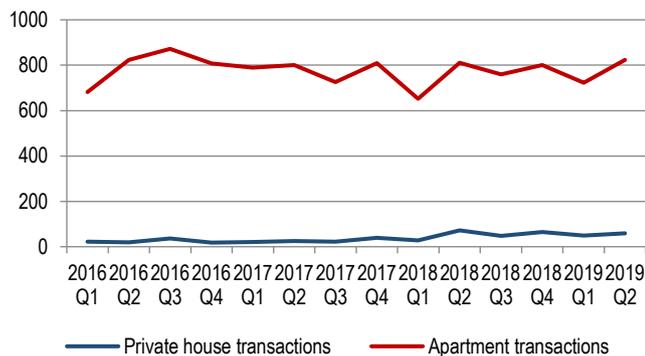
Source: INREAL

The prices of the supply of newly constructed apartments changed at an uneven rate in the different segments in Kaunas from the beginning of 2019. The prices of prestigious apartment decreased by 4 percent from the beginning of the year and currently amount to EUR 2,176/sq. m. However, the prestigious segment in Kaunas consists of only a few projects and the number of apartments offered on the market is relatively low; therefore, even minor changes have an impact on the fluctuation in the prices. The list price of economy-class apartments increased slightly by approximately 2 percent, and amounted to approximately EUR 1,135/sq. m; whereas the price of medium-class apartments remained unchanged and is currently at approximately EUR 1,606/sq. m.

KLAIPĖDA

The apartment market in Klaipėda recovered during the first year of 2019 compared to the same period a year ago, while the market for individual houses/cottages increased even more. According to the data of the SE Centre of Registers, transactions involving the purchase-sales of 1,546 (5.7 percent more) apartments and 108 (8 percent more) individual houses/cottages were registered in Klaipėda during the first half of this year. An increased number of transactions involving individual houses/cottages has been observed in Klaipėda for some time. There are plenty of attractive lots suitable for individual constructions in the port city and its outskirts, where communication with the city centre is not complicated; therefore, it is highly likely that the residents' interest in this segment will continue growing.

Apartment and private house transactions in Klaipėda (units)



Source: SE Centre of Registers, 07-2019

Buyers were much more active in the primary housing market of Klaipėda during the first half of 2019 compared to the respective period last year and purchased approximately 210 (63 percent more) new apartments. On the other hand, the developers were slightly less active and offered just 187 new apartments (19.4 percent less) to the market. It is highly likely

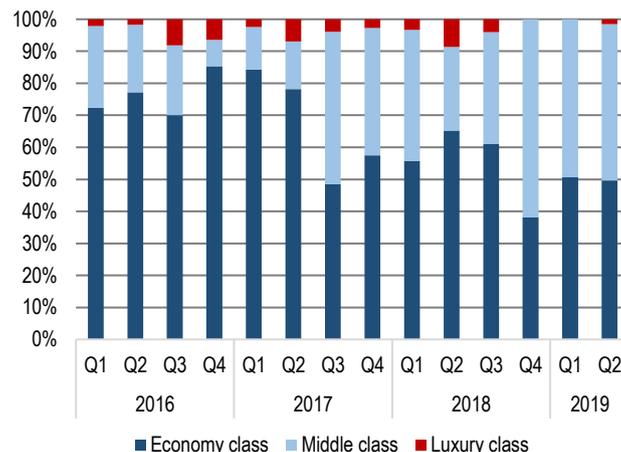
that such a spike in the demand was caused by the attractive new RE projects taking place in the port city.

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



Source: INREAL

Apartment sales under class in Klaipėda (percent)

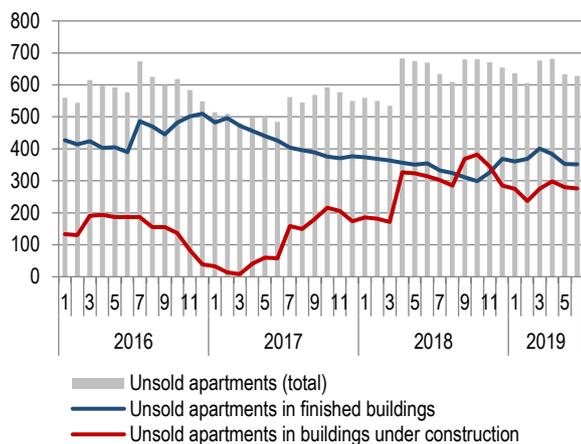


Source: INREAL

The balance of the supply and demand in the primary market of Klaipėda changed unevenly during the first half of 2019; however, the total number of the apartments that were not sold (that were available or reserved) decreased to 628 apartments in Klaipėda as a result of the activity of buyers since the beginning of the year.

The developers mainly added medium-class housing to the market of Klaipėda during the first half of 2019, which aroused a higher interest among buyers in this segment. However, economy-class apartments still had the most interest in the port city.

New construction apartments, unsold in Klaipėda (units)



Source: INREAL

In Klaipėda, the indicator of liquidity improved from 2.0 at the beginning of the year to 1.5 by the middle of the year. This means that all new apartments could be sold within approximately 18 months if the existing supply and demand do not change.

The prices of the newly constructed apartments changed at an uneven rate in all the segments in Klaipėda during the first half of 2019. The prices of the supply increased in the

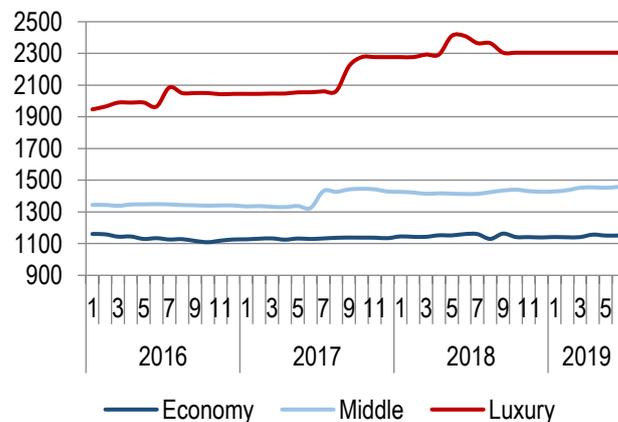
economy and medium segments, whereas they remained the same in the prestigious segment. The prices of economy-class and medium-class apartments increased by 1.1 and 2.1 percent, respectively, from the beginning of the year and amounted to EUR 1,150/sq. m. and EUR 1,458/sq. m., on average. Meanwhile, the price of prestigious apartments did not change from the beginning of the year and amounted to EUR 2,305/sq. m., on average.

Liquidity rate of new apartments in Klaipėda



Source: INREAL

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

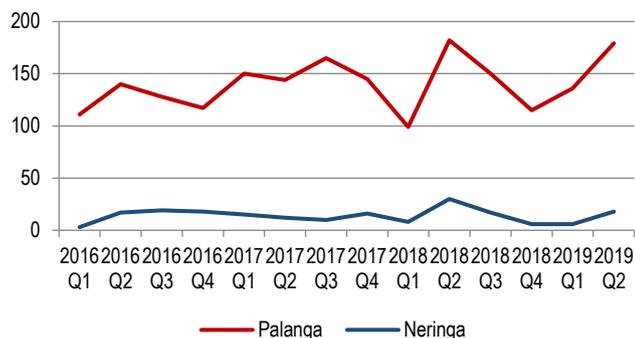


Source: INREAL

PALANGA IR NERINGA

The RE market of Palanga was more active during the first half of 2019 when compared to the same period of 2018. According to the data of the SE Centre of Registers, transactions involving the purchase-sales of 315 (12.1 percent more) apartments were concluded in Palanga during the first half of this year. Meanwhile, the RE market of Neringa was significantly less active than a year ago, as just 24 (36.8 percent less) transactions involving the purchase-sales of apartments were concluded.

Apartment transactions in Palanga and Neringa (units)



Source: SE Centre of Registers, 07-2019

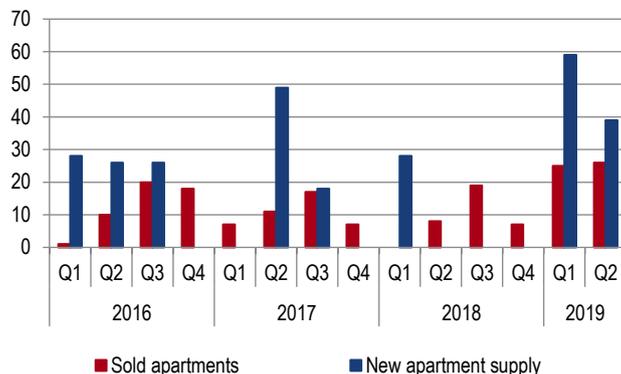
An increase in the activity of the RE market has also been observed in the primary market of Palanga during the first half of this year: 126 apartments were sold in the city, i.e. 7.6 percent more than during the same period last year. As a result of the buyers' activity, the total amount of newly constructed unsold apartments (that were available or reserved) decreased by 19.8 percent during the year, amounting to approximately 580 apartments in the middle of this year. Meanwhile, the builders were more passive and presented just approximately 110 new apartments to the market, which is 31.2 percent less than during the first half of 2018.

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



Source: INREAL

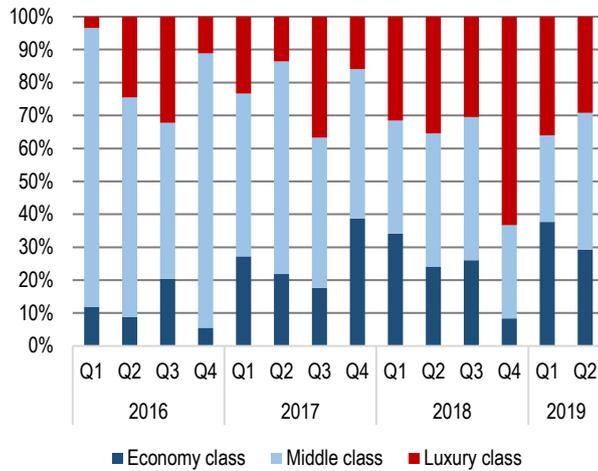
Dynamics of the new supply and sales of apartments in Neringa (units)



Source: INREAL

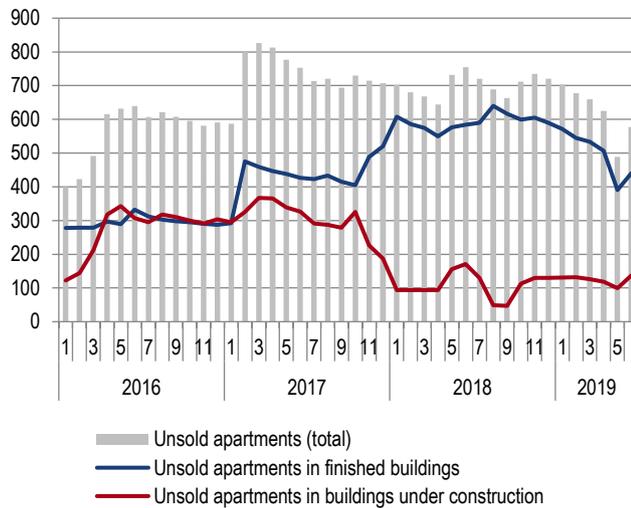
Both buyers and the builders of new apartments were much more active in the primary housing market of Neringa during the first half of this year. Buyers bought 51 new apartments, which is almost 9 times more; while the builders added 98 new apartments to the supply, which is 3.5 times more than last year.

Apartment sales under class in Palanga (percent)



Source: INREAL

New construction apartments, unsold in Palanga (units)

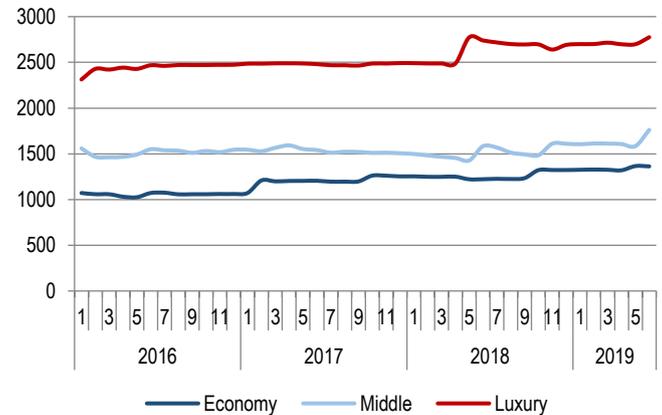


Source: INREAL

The average prices of the supply of newly constructed apartments grew in Palanga during the first half of 2019. They increased by 3 percent in the economy sector and currently

amount to EUR 1,363/sq. m. The prices also increased by 9.5 percent in the medium sector and amount to EUR 1,762/sq. m., and they increased by 3.1 percent in the prestigious sector where they currently amount to EUR 2,775/sq. m.

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



Source: INREAL



Tomas Sovijus Kvainickas, RE Market Analyst at INREAL Group

Tomas Sovijus has been working as a Real Estate (RE) Analyst for over eight years and is a specialist in the fields of commercial property as well as in investments and development.

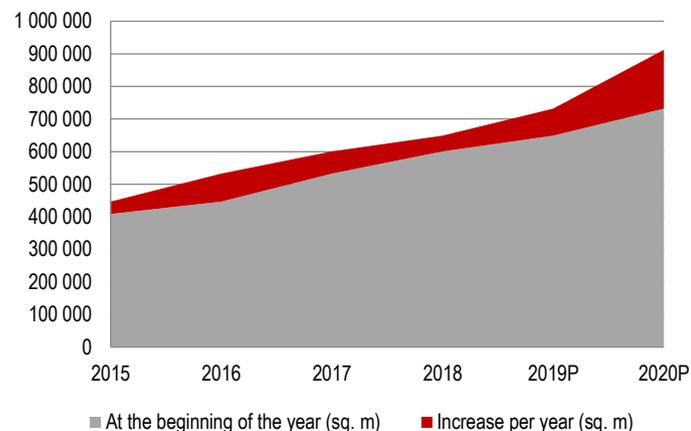
BUSINESS CENTRE MARKET OVERVIEW

A favourable economic environment, the growing income of companies in the service industry and the active expansion of international and local companies have led to the fact that the office segment has been especially active and liquid during the last several years and the demand for modern offices is high.

The second stage of the S7 business centre complex was completed in Vilnius in the first half of 2019 and an agreement for the sale of this complex to the Eastnine company was reached, passing the threshold of a 6 percent annual return on the capital. The positive attitude among investors towards the market of Lithuania undoubtedly contributed to the plans to provide almost 100,000 sq. m. of new office premises to the market in 2019 and as much as 175,000 sq. m. each year in 2020 and 2021.

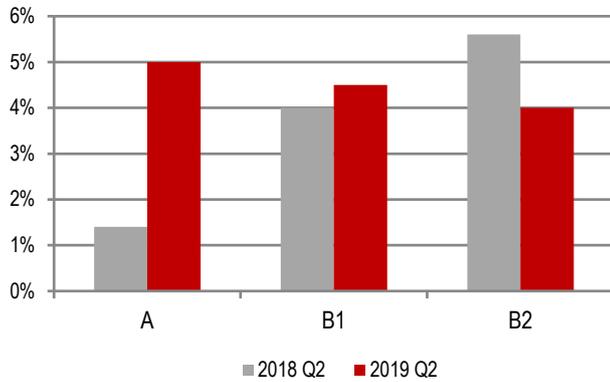
It seems that the record speed of development was not an obstacle to maintain low vacancies in the modern business centres, which amounted to 5 percent in the Class A business centres this year. However, it should be noted that the vacancies increased in Class A business centres as a result of the new business centres which opened in the second half of 2018. The market is likely to use up these new areas this year.

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



Source: INREAL

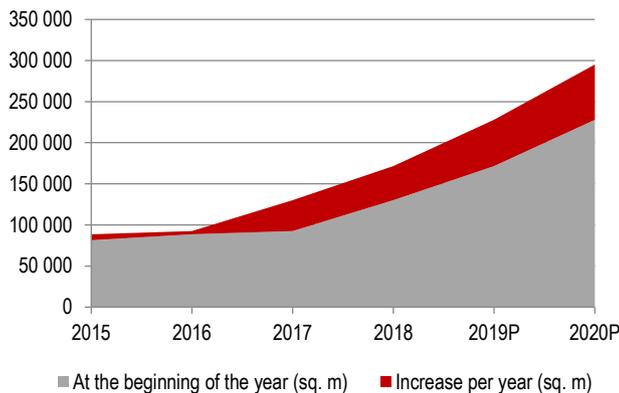
Dynamics of vacancies in Vilnius business centres under classes



Source: INREAL

Vacancies in the Class B1 and B2 business centres remained at a similar level and they currently amount to 4.5 and 4 percent, respectively.

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

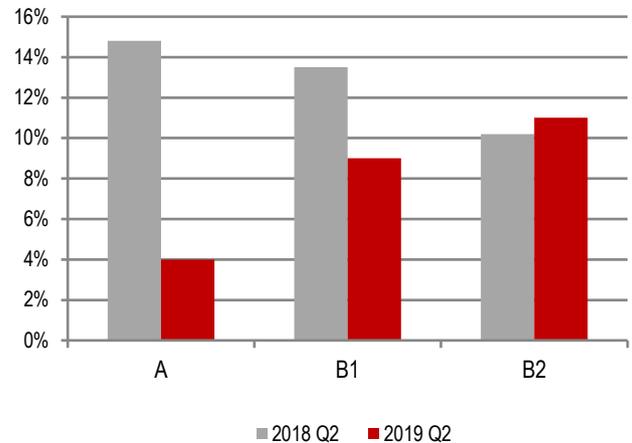


Source: INREAL

8 business centres should open their doors in Kaunas in 2019, which will offer approximately 65,000 sq. m. of leasable area to the market. The market should also be supplemented

by almost 60,000 sq. m. in 2020-2021, including an area of 50,000 sq. m. that will be located in the complex of business centres being planned by SBA in front of the island of Nemunas.

Dynamics of vacancies in Kaunas business centres under classes

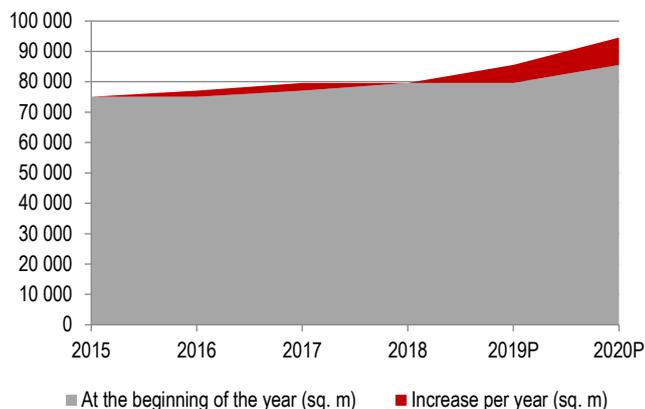


Source: INREAL

The decrease in the number of vacancies that took place during one year in the temporary capital confirms the demand for modern offices and the competitiveness of Kaunas in the fight for the expansion of the companies in the service industry. The vacancies in Class A offices decreased from 14.8 to 4 percent in Kaunas, and Class B1 vacancies decreased from 13.5 to 9 percent, whereas Class B2 vacancies remained the same.

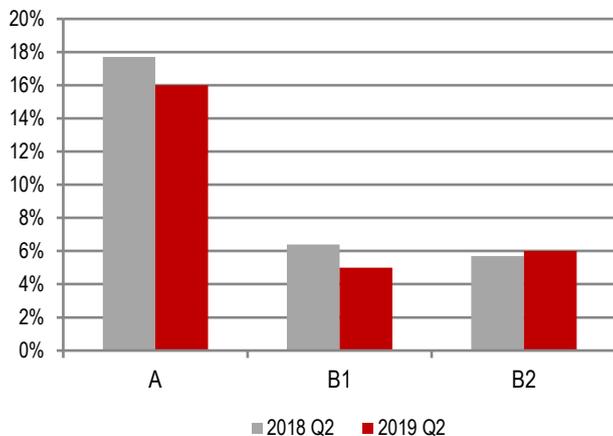
After over a decade of stagnation, the developers of business centres are slowly looking at the Klaipėda region as well. A Class A business centre was opened in the port city in 2019, and there are plans for two more Class A business centres as well as two Class B2 business centres to open their doors before the end of 2020.

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



Source: INREAL

Dynamics of vacancies in Klaipėda business centres under classes



Source: INREAL

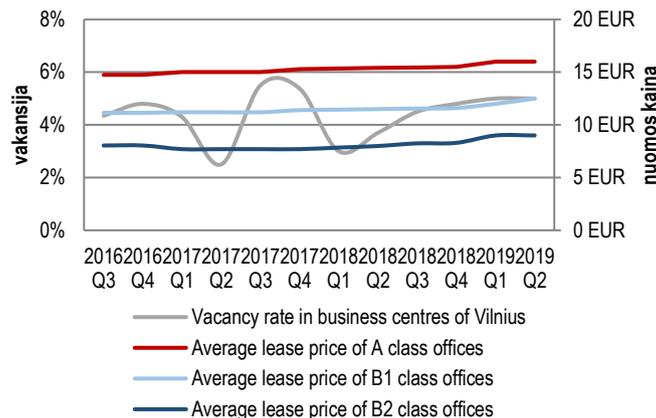
Although the volumes of development are not high, these investments in the office market of Klaipėda should predispose the other market participants positively and provide the conditions for more intensive development in the

future. It is noteworthy that the small total increment in the area of the business centres did not significantly influence the vacancies in business centres: these decreased from 17.7 to 16 percent in the Class A centres during the last 12 months; from 6.4 to 5 percent in the Class B1 centres; and they remained almost the same in the Class B2 centres.

Although the average rent increased slightly in Vilnius in 2019, the price range in the Class A centres remained the same and currently is EUR 14-17/sq. m., while in the B1 centres it is EUR 10-14/sq. m. and in the B2 centres is EUR 7-10/sq. m.

The price range has also remained the same in Kaunas, regardless of the higher prices in the new business centre. The range of prices among newly concluded contracts was EUR 12-14/sq. m. in the Class A centres, EUR 9-12/sq. m. in the Class B1 centres and EUR 6-9/sq. m. in the Class B2 business centres.

Dynamics of lease prices and vacancies in Vilnius business centres

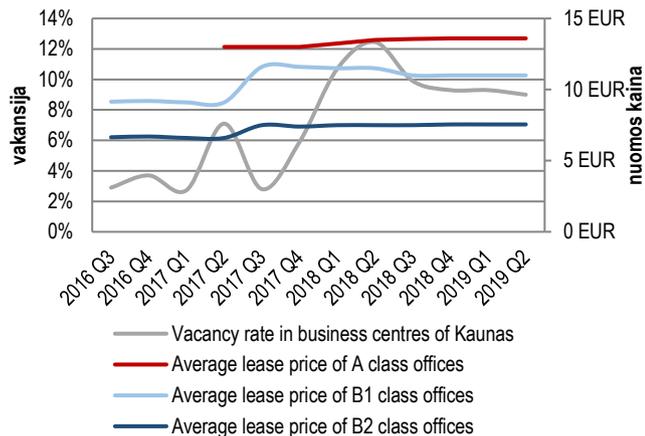


Source: INREAL

The prices were stable in Klaipėda as well; thus premises can be rented for EUR 9-13/sq. m. in Class A centres, EUR

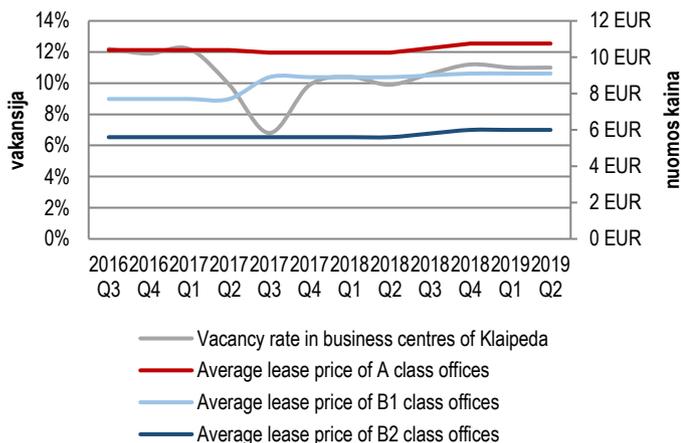
7-11 /sq. m. in Class B1 centres and EUR 5-8/sq. m. in Class B2 centres.

Dynamics of lease prices and vacancies in Kaunas business centres



Šaltinis: INREAL

Dynamics of lease prices and vacancies in Klaipėda business centres

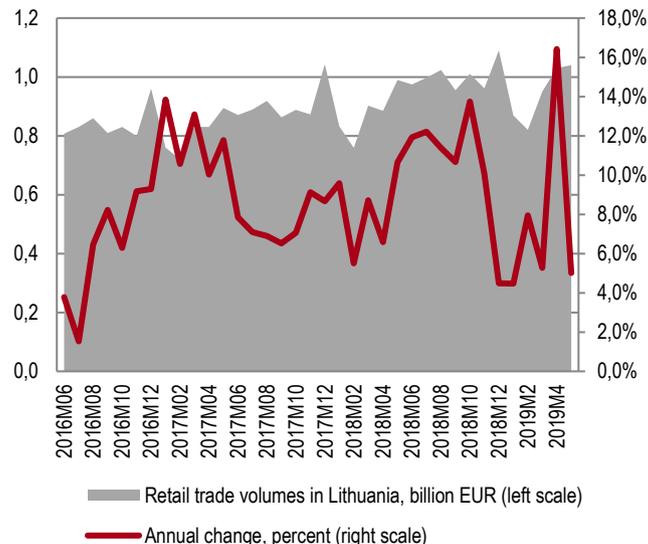


Source: INREAL

SHOPPING CENTRE MARKET OVERVIEW

The volumes of retail trade have been increasing in Lithuania for several years and they continued to grow at a sufficiently high level. They increased by approximately 8 percent during the first half of 2019 compared to the respective period last year.

Retail trade volumes in Lithuania (billion EUR)



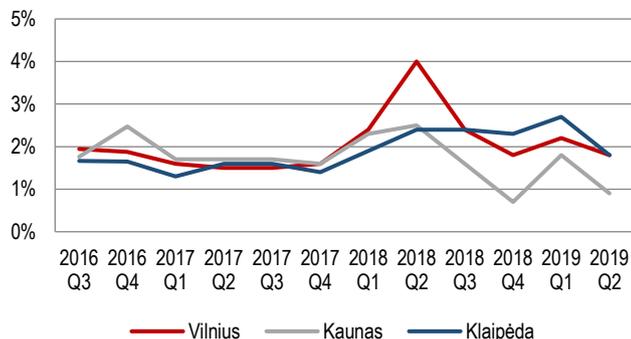
Source: Department of Statistics

A low unemployment level and an increasing income has increased the assuredness of residents with regard to the future. This is greatly reflected by the market of the shopping centres, which was quite calm and did not experience any major transactions during the first half of this year. The opening of a store which belongs to the Latvian Depo network in Kaunas and the opening of a new-format MaximaXXXX store in the Akropolis in Vilnius could be considered as more prominent events in this sector. Other large shopping networks in Lithuania also opened new sites or reconstructed their stores.

A higher development of the trade industry is anticipated in 2020-2021, when it is planned that the Novatoriai and Vilnius Outlet shopping centres, as well as when the first Hortes store in Lithuania will open their doors.

The total area of vacant premises in shopping centres decreased slightly during the last half of the year and it currently amounts to approximately 2 percent in Vilnius and Klaipėda and approximately 1 percent in Kaunas, which provides clear evidence of the attractiveness of shopping centres even in the age of online commerce.

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

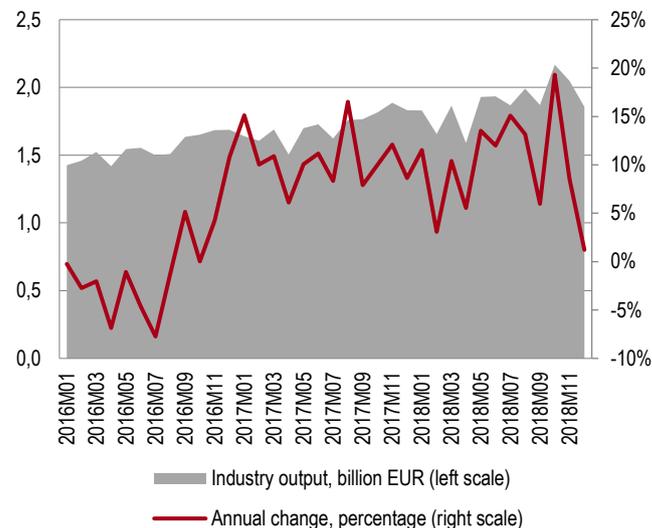


Source: INREAL

INDUSTRIAL AND STORAGE FACILITY MARKET OVERVIEW

One of the most influential sectors of the economy of Lithuania grew by approximately 8.5 percent during the first half of 2019 compared to the analogous period of 2018. The need for storage premises will remain high during the next several years because, irrespective of the newly opened objects, the level of vacancies in logistics centres is still low and the rentals of such premises have remained stable in the country.

Industry output in Lithuania (billion EUR)



Source: Department of Statistics

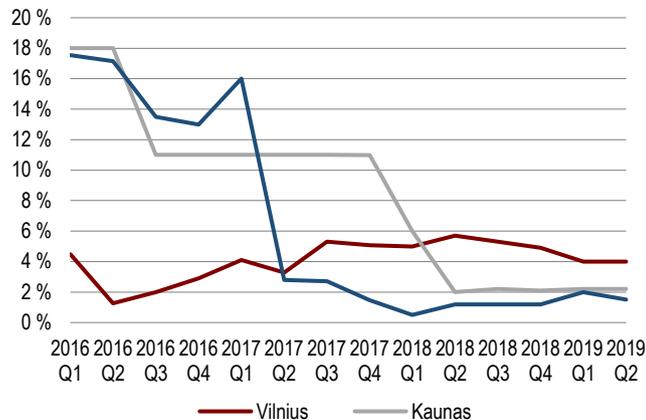
The construction of one logistics centre was completed and 3 new logistics objects, the total area of which amounts to approximately 40,000 sq. m. (including the centres that were constructed by the end of 2018 but were opened this year), were opened in Vilnius during the first half of 2019. It is expected that the construction work on one more logistics centre will be completed and will add 30,000 sq. m. more to the market before the end of this year; whereas 3 more new

objects will open their doors and create approximately 38,000 sq. m. of warehousing premises before the end of 2020.

A new small logistics centre with an area of approx. 5,500 sq. m. was opened in Kaunas at the beginning of 2019. The new premises should increase by 48,000 sq. m. more before the end of this year and an additional 20,000 sq. m. logistics centre will open its doors at the beginning of 2020.

The supply of logistics premises was supplemented by a centre with an area of almost 7,500 sq. m. in the Free Economic Area (FEA) of Klaipėda at the beginning of this year. There are also plans to construct a new 8,500 sq. m. centre there this year, and to open a warehouse-refrigerator over 20,000 sq. m. in size on the outskirts of the city.

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

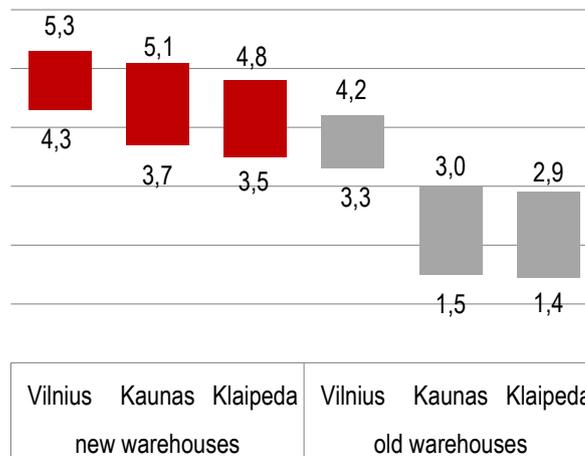


Source: INREAL

The area of available premises in the modern logistics centres in Central and Western Lithuania is approximately 2 percent, while this indicator is approximately 4 percent in Vilnius as a result of the more intensive development of new

objects. Nonetheless, the prices are still higher in Vilnius than in other parts of Lithuania, and currently amount to EUR 4.3-5.3/sq. m. for new warehouses and EUR 3.3-4.2/sq. m. for older buildings. The prices have remained similar in Kaunas and Klaipėda. Premises in new warehouses can be leased in Kaunas for EUR 3.7-5.1/sq. m. and for EUR 3.5-4.8/sq. m. in Klaipėda. Those who are looking for a cheaper alternative can lease premises in older buildings where the prices are EUR 1.5-3.0 and EUR 1.4-2.9/sq. m., respectively.

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



Source: INREAL



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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.

REAL ESTATE LAW AND TAX NEWS

In reviewing the first half of 2019, there are a couple of things to point out. For quite a while, the participants of the real estate market have been expecting changes, or at least clarity, in the legal relationship of lease of state-owned land – the practice of application of legislation having suddenly changed a few years ago has unveiled the flaws of legal regulation, but there have been no follow-up decisions on this to date.

In addition, there has been no apparent move forward in the field of co-operation of institutions involved in territorial planning and construction processes, though it is absolutely necessary, particularly in light of the increasing relevance of conversion projects. So far, it can be considered that the only effort in that direction is the amendments consolidating the

organisation of projects of formation of land parcels in the hands of municipalities.

Unexpectedly, a major change in legal regulation of recent time is the long-awaited and finally adopted Law on Special Land Use Conditions, which should be noted by real estate developers. The Law, which is scheduled to take effect already in January next year, consolidates the regulation of special land and forest use conditions now scattered across various legislative acts. However, the main question is how the entry into force of this Law will be implemented and whether the provisions granting the right to register certain conditions without the land owner's consent will not infringe the principles of legitimate expectations and legal certainty.

This time, the future legislative changes are hard to predict as never before, because the political maelstrom seems unlikely to stop whirling for some time; on top of that, real estate matters have never been high on the agenda of the ruling coalition. That said, the time span remaining until the new election fever grip is sufficient for us to see at least one more significant legal regulation initiative.

On 1 May 2019, amendments to the Law on Credit Agreements Related to Immovable Property entered 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.

As of 20 June 2019, amendments to the Law on Land entered into force, providing that a new land tax exemption will apply in respect of 2020 and subsequent tax periods – no tax will be levied on land falling within the territories specified in the Law on Special Land Use Conditions and determined on the grounds of public interest when due to the application of special land use conditions to such territories the owner is unable to use the land parcel according to the main designated land use and/or method(s) of use of the land parcel.

Effective 1 July 2019, amendments to the Law on Expropriation of Land for a Public Purpose in Implementing Projects of Special National Significance entered into force, revising procedures for expropriation of land for public purposes. One significant change is that the institution implementing the project is entitled to authorise governmental and public authorities and companies (whose rights and obligations as the owner it implements) and state-governed (state-controlled) public companies and private limited liability companies to perform/implement its functions (a part thereof). In addition, the time limit allowed for vacating property taken for public needs has been extended: a period of no less than 3 months starts to run from the date of transfer of the compensation amount to the account designated by the land owner and/or other land user.

As of 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, **entered into force**.

On 6 June 2019, a new Law on Special Land Use Conditions was adopted. It will replace Government Resolution No 343 “Regarding the Approval of Special Land and Forest Use Conditions”, which has been in effect since 1992. The new Law, which will take effect beginning 1 January 2020 (except certain parts of the Law), will consolidate the regulation of special land and forest use conditions, establish the conditions of determination, amendment and cancellation of such special land and forest use conditions, the legal power of such conditions, and the procedure for compensation of losses resulting from determination of such conditions. Although the very content of the conditions of land and forest use has not been substantially amended, the terms of entry into force of the Law, related to the transitional period (application of the conditions determined or to be determined prior to the entry into force of the Law) and the implementation of such conditions should be carefully reviewed and prepared for not only by public or municipal authorities but also each individual.

As of 1 January 2020, amendments to the Law on Land, providing that all projects of formation and rearrangement of land parcels will be organised by the administrative department of the relevant municipality, regardless of whether the project concerns urban or township areas, or rural residential areas, **will take effect**.

Effective 1 January 2020, amendments to the Law on Protected Areas and the Law on the Coast Strip will enter into force, revising the conditions of activities in protected areas and coastal strip areas in order to bring the Law in line with the newly adopted Law on Special Land Use Conditions. It should be noted that the amendments to the Law on Protected Areas provide for limitations on new construction

in protected areas, except homestead buildings, and there are plans to prepare a plan for management of the continental area of the coastal strip. Accordingly, the Law on the Coast Strip revises the conditions of construction of construction works of exceptional significance and non-exceptional significance.

The Law on the Underground Railway Network, laying down the fundamentals for the implementation of the underground railway network, a new mode of transport in Lithuania, is scheduled to take effect **as of 1 January 2020**. 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.

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COBALT is closely integrated alliance of top-tier law offices in Estonia, Latvia, Lithuania and Belarus, making us one of the largest law firms in the Baltic market. COBALT has been named Baltic Law Firm of the Year 6 times. We were recognized as the Most Innovative Law Firm of the Year 2019 in the Baltics at the IFLR European Awards in London. COBALT also won CEE Legal Matters Deal of the Year Award for Estonia, Latvia, and Lithuania, as well as the overall Baltic Deal of the Year, at the 2019 CEE Legal Matters Awards. We have received multiple awards from the Chambers Europe, IFLR, The Lawyer and Mergermarket and we are regularly listed amongst the top performing M&A legal advisors in the Bloomberg, Thomson Reuters and Mergermarket deal tables. More than 190 lawyers provide comprehensive services to local, regional and multinational corporations, foundations, credit institutions and companies, as well as individuals in all areas of corporate law.

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