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LITHUANIAN ECONOMIC AND
RE MARKET REPORT

2019 – 2020

WITH PARTNERS: ŠIAULIŲ BANKU IR ADVOKATŲ KONTORA COBALT

Berti Weber photoshoot

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Tomas Kipišas, *Head of Saving and Investment Products, Šiaulių Bankas AB*

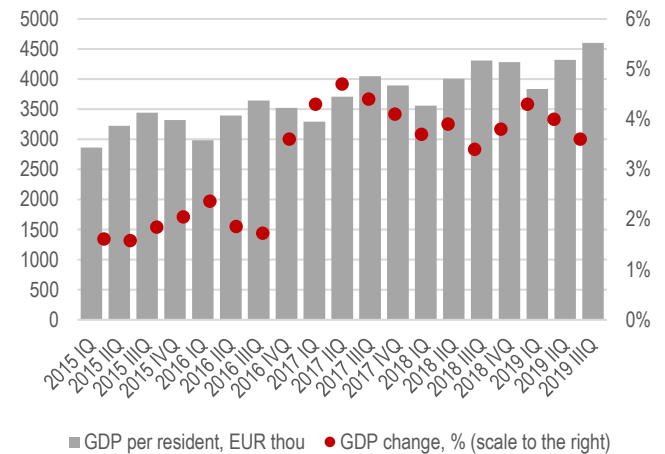
Tomas has many years of experience in financial markets, investment portfolio management and market analysis. Advises clients on investing in markets, writes articles and provides market commentary to the media.

ECONOMIC REVIEW

Lithuania's economic growth in recent years has been encouraging and has exceeded any analyst forecasts. In January - September 2019, Lithuania's GDP grew the fastest in the Baltic States and reached as much as 4 per cent. The pace of expansion has been supported by strong household consumption and investments, which remain one of the key components of GDP growth in the medium term. At an impressive pace rising average wages over the last few years have led to high consumer confidence and higher private consumption spending. Relatively low inflation increased the purchasing power of households, while the acceleration of the use of European Union (EU) funds in Lithuania ensured the growth of investments. Annual growth slowed to 3.6% in the third quarter of 2019, but still remained

one of the fastest in the EU. According to the Bank of Lithuania, GDP growth in 2019 will reach 3.7 per cent.

Gross domestic product

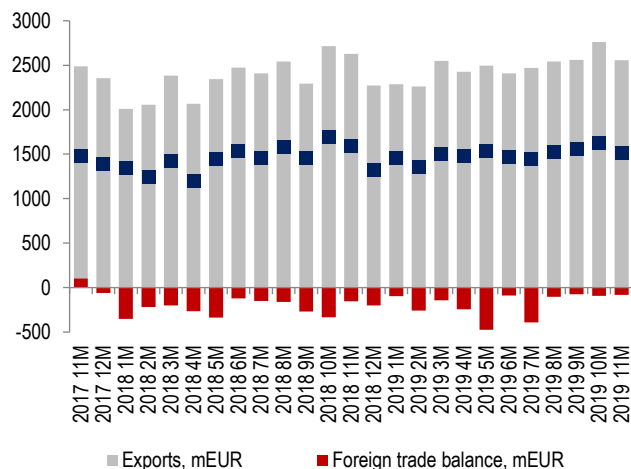


Source: Lithuanian Department of Statistics, calculations of Šiaulių Bankas

During the first months of this year, retail trade, industrial production grew rapidly in Lithuania, more construction works also were executed than a year ago. This proves that the growth of the Lithuanian economy has been sufficiently balanced so far: not only the domestic sectors but also the

export showing great pace has given a great boost. With the main trading partners slipping, the growth of the Lithuanian export sector is surprising. Resistance to the sector has been provided by leveraged investments through increased use of EU programs. This has led to increased production capacity and higher productivity and competitiveness. According to *Eurostat*, the annual value added of one industrial worker in Lithuania has increased by 50% in the last 10 years. As a result, domestic producers were potentially able to take over part of the contract orders from less advanced EU producers.

Foreign trade



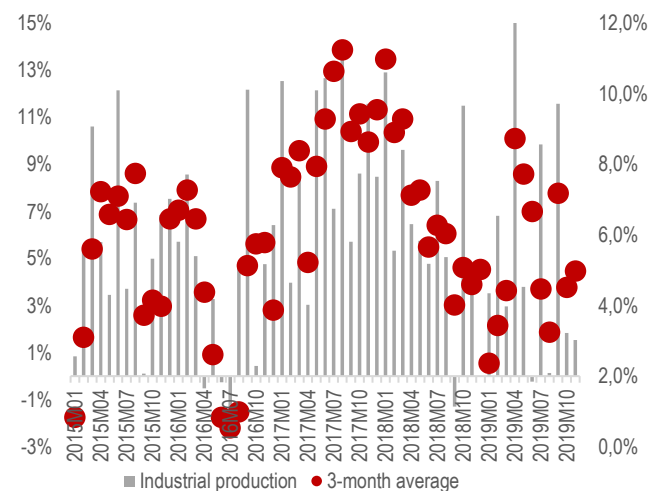
Source: Lithuanian Department of Statistics

Annual growth of exports, excluding oil products, over 11 months reached 5.4 per cent. In the third quarter, Lithuanian industry even led the export forecasts among all EU countries: Lithuanian producers had the lowest cuts. Even to Germany, where the downturn in the industry is already continuing since the first half of 2018 and the country is on the brink of recession, exports grew by more than 8 per cent. Germany, together with Poland, Sweden and Latvia, are Lithuania's most important foreign trade partners, accounting for a third of Lithuanian production. The Lithuanian transport

sector, which plays a dominant role in the overall structure of export of services, also demonstrates resistance to the slowdown. The sector also stood out as one of the largest employers among all sectors of the economy in nine months of 2019.

It is true that global commodity import, amidst growing uncertainty in global economic policy from the peak of 2018 is rolling down and has already reached the level of the end of 2015. Concerns about a possible recession in major economies are growing. The search for the word "recession" through Google's search tool reached the level of 2009. This has a negative impact on Lithuania's prospects as an open economy.

Industrial production (annual change)

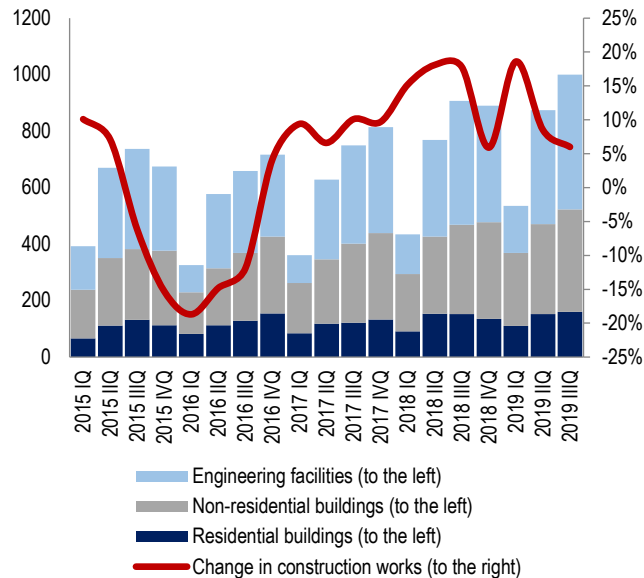


Source: Lithuanian Department of Statistics, calculations of Šiaulių Bankas

Industrial growth was uneven last year, with signs of slowing in the second half of the year. The strongest growth was in the furniture and related products, as well as in the chemical industry. The Lithuanian furniture industry remains solid both in terms of its contribution to the country's exports (about 15

per cent) and in terms of new investments. Lithuania's wood sector generates over 4% of the total GDP. The production of mechanical and electrical equipment stood out among the higher value added sectors, which grew by about 5 per cent last year.

Construction activity in Lithuania

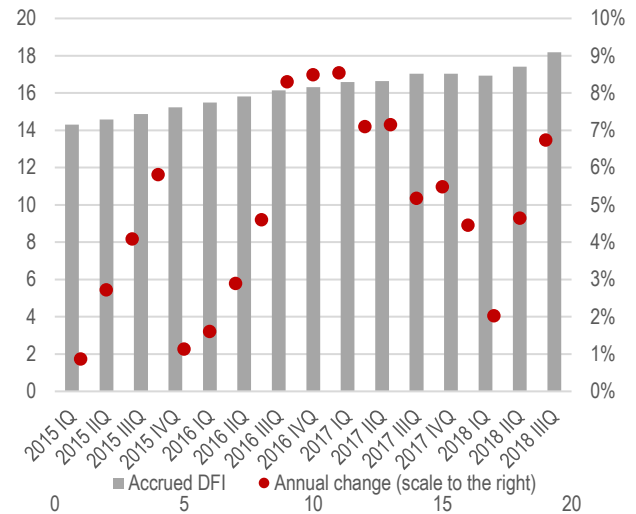


Source: Lithuanian Department of Statistics

Investments in the construction of infrastructure and engineering facilities do not reduce the speed and achieved the best result within 9 months of the last year from 2014. Over the past three years, we have witnessed a significant increase in foreign direct investment (FDI), which has a positive impact on export volumes. Last year, the number of such investment projects in the country was twice as high as two years ago, and the accumulated FDI reached all-time highs. In the third quarter of 2019, FDI growth was 6.7 per cent and was the fastest since the beginning of 2018. It is gratifying that more and more investments are being directed

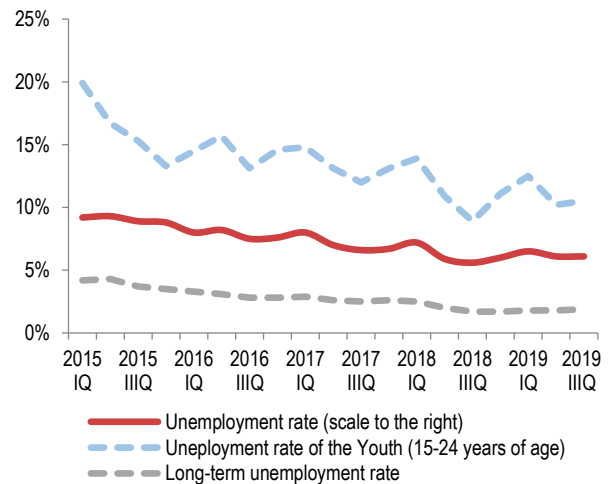
towards high value-added products and the local market is reached by well-known global manufacturers.

Foreign direct investments in Lithuania, billion EUR



Source: Lithuanian Department of Statistics, calculations of Šiaulių Bankas

Salary (monthly)



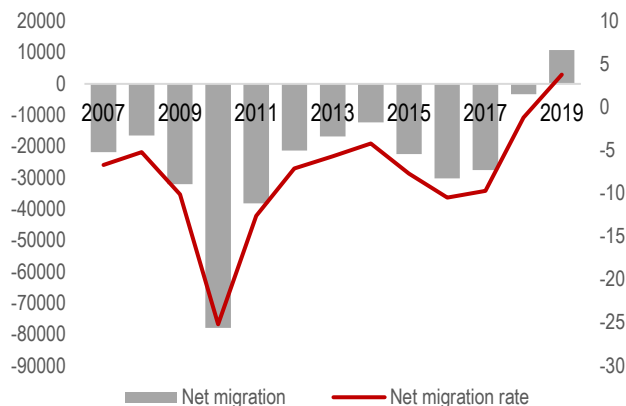
Source: Lithuanian Department of Statistics

Wages grew by 9.2 per cent in the third quarter of last year, while average growth in the quarter from the beginning of 2018 was 9.5 per cent. Bank of Lithuania forecasts that wage growth in 2019 was up 8.5 per cent and it will grow 6.7 per cent next year. For the first time in recent decades, a positive economic background has led to a positive net migration rate. Not only the re-migration of Lithuanian citizens, but also the immigration of third-country nationals in which the local businesses are interested has accelerated. Entrepreneurs in the country are looking for ways to reduce tensions in the labour market: there is not much room for wages rising and staffing shortages are driven by unfavourable demographic factors.

more strongly in the coming quarters. The risk of falling into the middle-income trap after rapid development can only be reduced by finding and absorbing sustainable long-term growth opportunities.

The Bank of Lithuania estimates that the growth rate is expected to be much more moderate this year: GDP growth should fall to 2.5 per cent. Economic growth should be dampened by declining exports due to external uncertainties, weakening household income growth and more moderate growth in investments due to weaker EU aid flows.

Net migration in 2009-2019



Source: Lithuanian Department of Statistics

In the second half of 2019, the country's economic activity has clearly declined. Weakening retail sales data point to the slowdown in the domestic economy and put pressure on domestic demand prospects. Retail growth in September - November 2019 was the slowest since mid. 2016. Although consumer confidence indicators remain high and their financial position is at historic highs, growing anxiety about the future is forcing households to limit private consumption. Such trends are likely to hit domestic economic indicators



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.

**RESIDENTIAL REAL ESTATE MARKET REPORT
LITHUANIA**

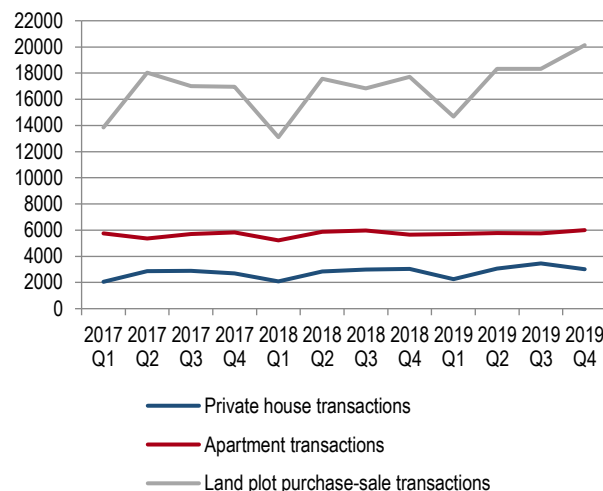
In 2019, the Lithuanian real estate (RE) market was at peak activity with the highest number of residential transactions in 10 years. There was a steady and moderate increase in the number of registered apartments, individual house/cottage and lot transactions. According to the data of SE Centre of Registers, there were 35,040 (4.0% more) apartments, 11,809 (7.8% more) individual houses/cottages and 71,469 (9.6% more) lot buying/selling transactions in 2019 compared to 2018.

VILNIUS

In 2019, the capital's RE market was especially active and a record amount of apartment, individual house/cottage and lot

transactions were made. According to the data of the SE Centre of Registers, in Vilnius 12,032 (8% more) apartments, and 991 (14.8% more) individual house/cottage transactions were completed in 2019 compared to 2018.

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



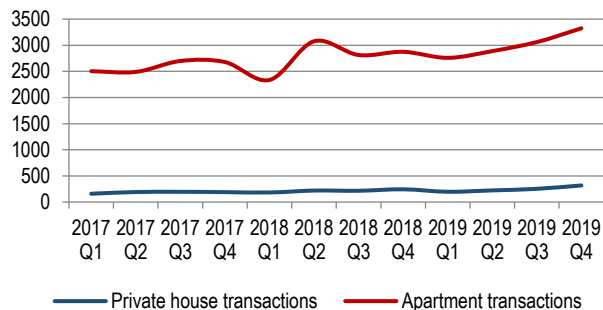
Source: SE Centre of Registers, 01-2020

The growing amount of individual house/cottage transactions indicates that buyers are showing a growing interest in

cottages that are relatively close to the city centre but have the benefits of individual houses, and thus become a valid alternative form of real estate.

According to the SE Centre of Registers, not only the number of houses that have been sold but also the number of houses that are being built is increasing.

Apartment and private house transactions in Vilnius (units)



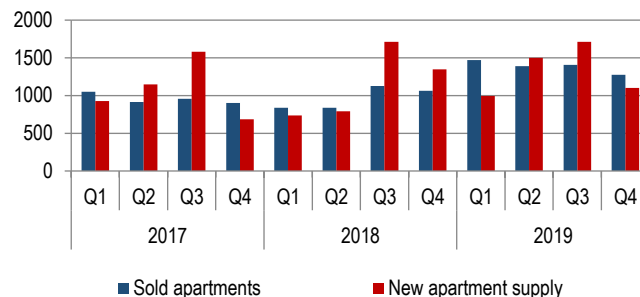
Source: SE Centre of Registers, 01-2020

The primary market in 2019 showed an exceptionally high level of activity since the beginning of the year. In 2019, 5,540 agreements on new apartments were made in Vilnius, which is 43.3% more compared to 2018. This was influenced by the increasing and still very positive expectations of the people, as well as demographic growth and rising wages that allow more and more citizens to buy their own real estate in this favourable credit environment. Many people see RE as the best and the most comprehensible investment option, especially since bonds – a typically safe form of investment – are yielding near-zero or even negative returns. Other investment options with higher returns seem to many to be incomprehensible or very high-risk.

The extremely high activity of the buyers has also led to a lot more action from the builders. RE developers increased the volume of their construction and offered approximately 5,300

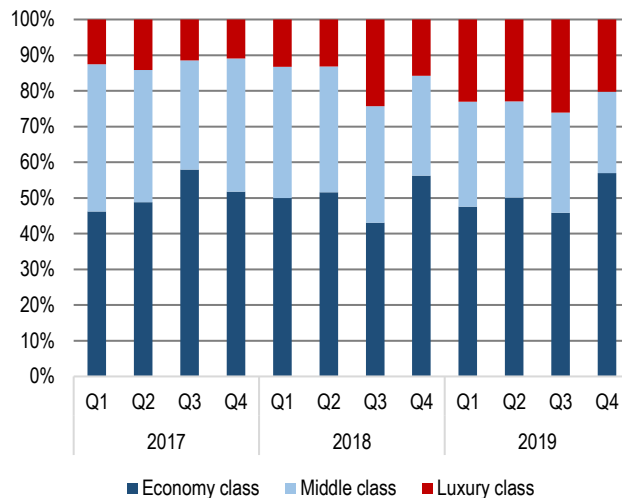
new apartments during the first half of 2019 – 15.8% more when compared to the same period of 2018. The noticeable decline in the supply in the last quarter is only a seasonal fluctuation that happens every year.

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



Source: INREAL

Apartment sales under class in Vilnius (percent)

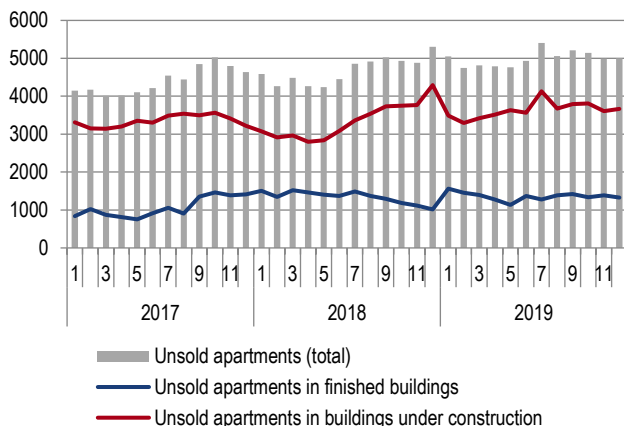


Source: INREAL

Economical housing is attracting buyers once again, since the differences between the economical and the average

housing quality are gradually decreasing because of the growing energy efficiency requirements. Meanwhile, in the prestigious housing segment, an oversupply can be observed. In the primary market, about one-third of the supply consists of prestigious housing, while its sales only make up about a quarter of the total.

New construction apartments, unsold in Vilnius (units)

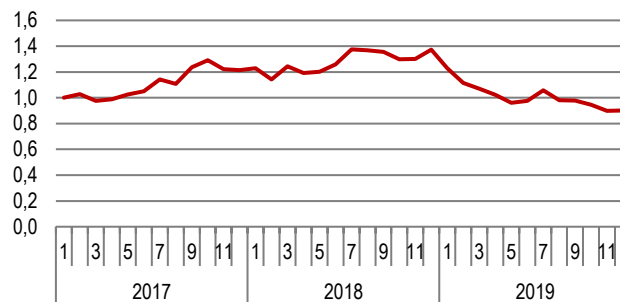


Source: INREAL

In 2019, when the demand exceeded the supply, the total number of unsold (vacant and reserved) apartments in the capital decreased to 4996 units at the end of the year. Only a quarter of them are houses that have already been built. The other part consists of projects that are currently under construction, or that are only about to be started but are already being offered to the public.

Due to the extreme activity of the buyers, INREAL's calculated liquidity ratio of new apartments improved from 1.4 at the end of 2018 to 0.9 in mid-2019. This liquidity ratio shows that if the current supply and demand don't change, all the new apartments could be sold in about 11 months and that would encourage RE developers to take on more new projects. However, if the market activity declines, the developers may face the problem of a deteriorating liquidity.

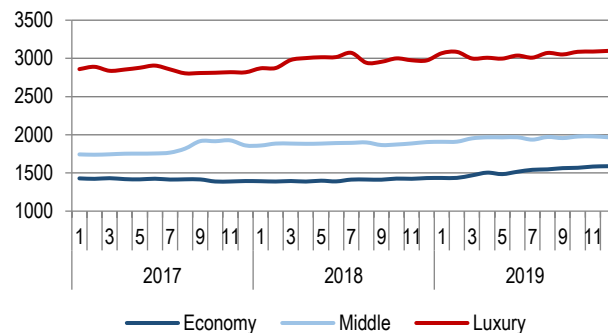
Liquidity rate of new apartments in Vilnius



Source: INREAL

In 2019, a moderate growth in the supply prices of newly-built apartments in Vilnius was recorded in all segments. Since the beginning of the year, housing prices in the economical segment have risen by about 10.8% and currently stand at about 1,588 EUR/ sq. m. The prices of middle-class apartments have risen by 3.3% since the beginning of the year and amount to about 1,967 EUR/sq. m, while the prestigious class rose by 4.2% and amounts to about 3,098 EUR/sq. m.

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

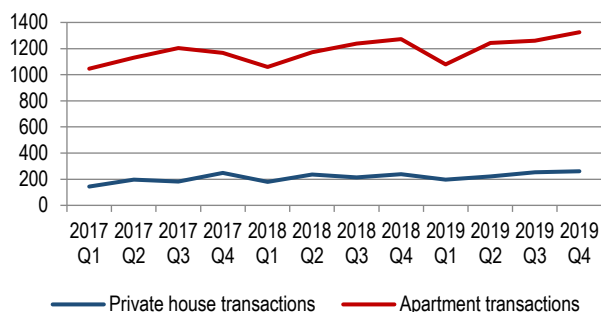


Source: INREAL

KAUNAS

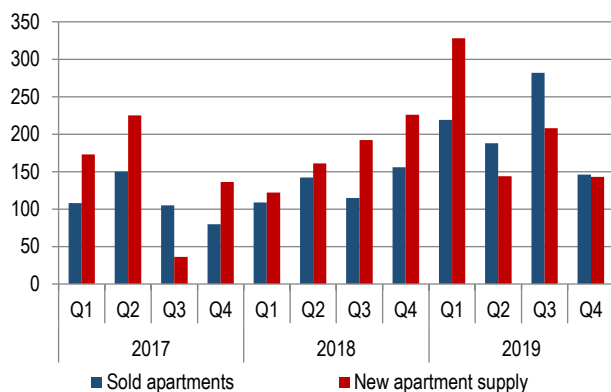
According to SE Centre of Registers, 4,905 apartment (3.4% more than in 2018) transactions and 932 individual house/cottage (7.4% more) transactions were registered in Kaunas in 2019.

Apartment and private house transactions in Kaunas (units)



Source: SE Centre of Registers, 01-2020

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



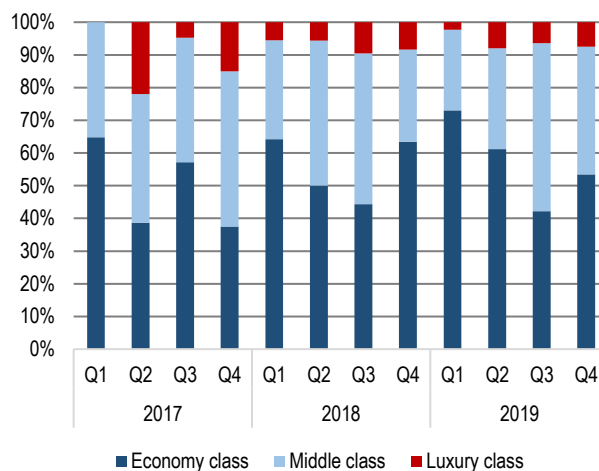
Source: INREAL

In 2019, Kaunas' primary market also showed record activity. Here, 835 new sales of apartments have been agreed on, which is about 60% more than in the same period during

2018. Such a spike in demand may have been driven not only by the positive expectations of the people and the rising wages, but also by the continued expansion of new business centres and industrial companies and the creation of new jobs.

This increased activity could be witnessed not only among the buyers but also among the developers. In 2019, they added about 820 new apartments to Kaunas' primary market – 17.4% more than in 2018.

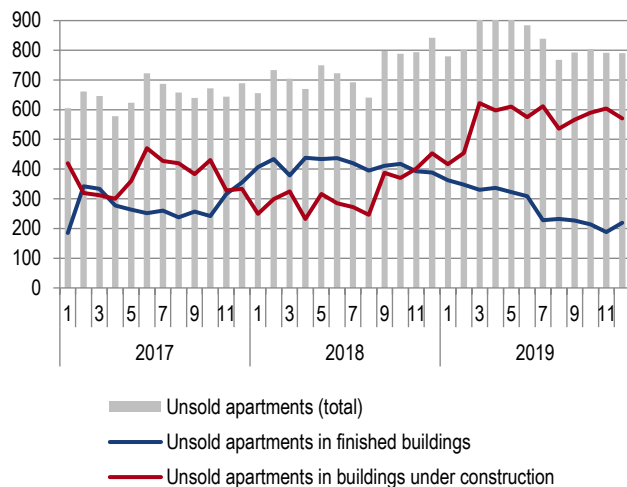
Apartment sales under class (percent)



Source: INREAL

The positive expectations of residents and their increasing income have encouraged Kaunas' developers to supply the market with higher quality and more expensive housing. Therefore, in 2019, middle-class apartments made up the largest part of the new supply. Accordingly, the market has attracted greater attention from the buyers in this segment and sales of mid-range apartments accounted for 37% in 2019. On the other hand, the majority of Kaunas' residents are still interested in economical class housing.

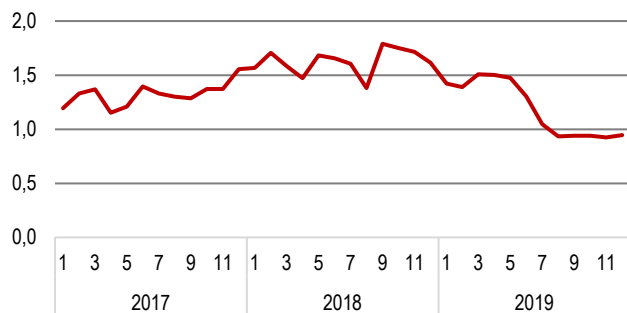
New construction apartments, unsold in Kaunas (units)



Source: INREAL

In spite of the increased supply, the extremely active buyers' actions have resulted in the fact that, by the end of 2019, the total number of unsold (vacant and reserved) apartments in Kaunas was reduced to 790. Due to the active developers who have presented many new projects to the market this year, only 28% of the existing supply consists of completed projects.

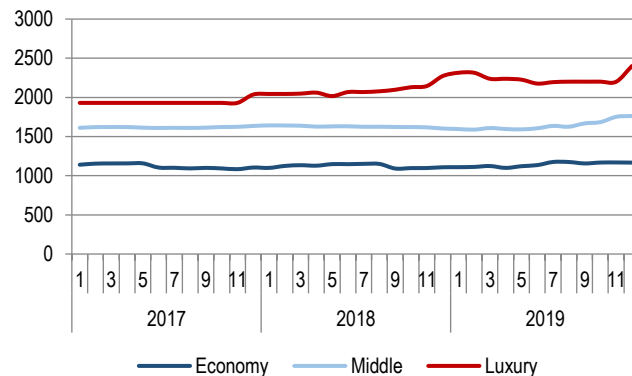
Liquidity rate of new apartments in Kaunas



Source: INREAL

The high demand in 2019 improved the liquidity ratio of Kaunas' primary market from 1.6 at the beginning of the year to 0.9 at the end of the year. This means that, if the supply and demand remain steady, all of the new flats could be sold within approximately 11 months.

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



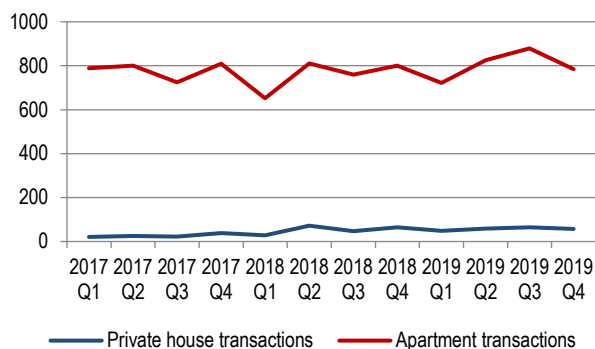
Source: INREAL

In 2019, a moderate price increase in the supply of newly-built apartments in Kaunas was recorded in all segments. Since the beginning of the year, the price of economical class apartments has increased by about 5.3% and amounts to approximately 1,167 EUR/sq. m. The price of middle-class apartments increased by 10% and is currently around 1,763 EUR/sq. m. Prices of the prestigious apartments have increased by 5.7% since the beginning of the year and currently stand at about 2,401 EUR/sq. m.

KLAIPĖDA

After 2018, the market for apartments and individual houses/cottages in Klaipėda recovered and started to grow. According to the SE Centre of Registers, 3,211 (6.3% more) apartment and 231 (9.5% more) individual house/cottage transactions were registered in Klaipėda in 2019. The port city continues to see a growth of individual house/cottage transactions. Individual houses are becoming an attractive alternative for the residents of Klaipėda, since this city still has enough of space to build in.

Apartment and private house transactions in Klaipėda (units)



Source: SE Centre of Registers, 01-2020

In 2019, Klaipėda's primary market also broke its former activity record. During this year, 386 new apartments were agreed on in Klaipėda, which is 18% more than in 2018. Meanwhile, as the RE developers probably did not expect such an increase in demand, they could not meet the needs of the growing numbers of potential buyers, so only about 330 (24% less) new apartments were offered to the market.

In 2019, as the demand significantly exceeded the supply, the number of unsold (vacant and reserved) apartments in the port city decreased to 584 in a year.

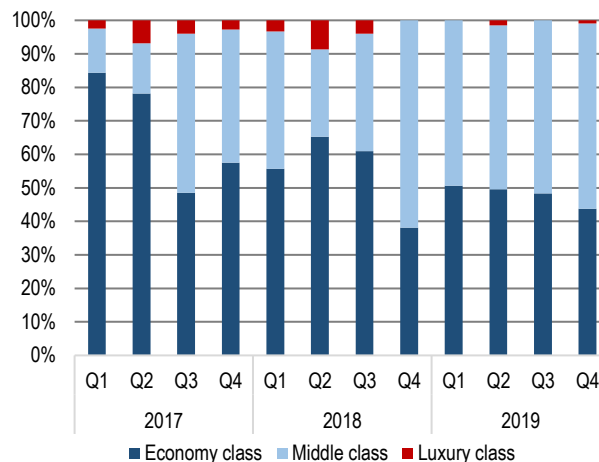
In 2019, the developers mainly added mid-class housing to the market of Klaipėda, which attracted increased attention to this segment from buyers. Correspondingly, the sales of this segment accounted for the largest share – 51% of all the apartments that were sold.

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



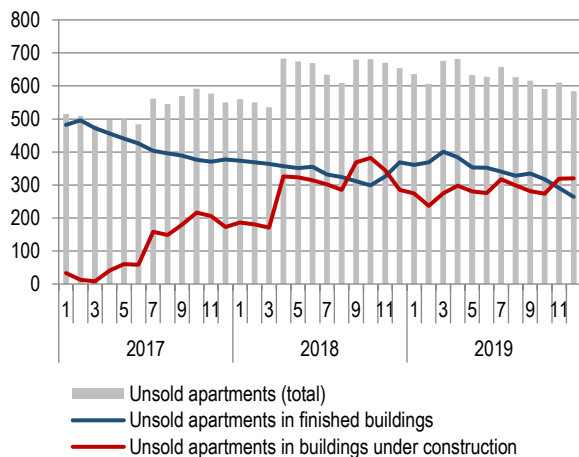
Source: INREAL

Apartment sales under class (percent)



Source: INREAL

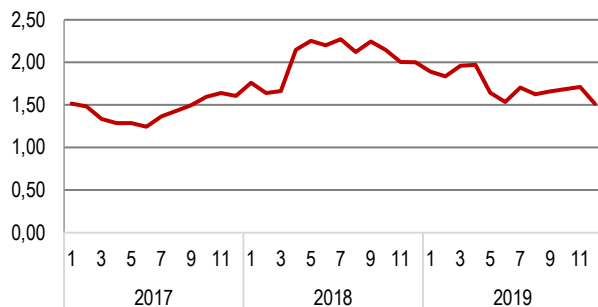
New construction apartments, unsold in Klaipėda (units)



Source: INREAL

The liquidity ratio in Klaipėda improved from 2.0 at the beginning of the year to 1.5 at the end of the year. This means that if the supply and demand remain steady, all the new flats could be sold within approximately 18 months.

Liquidity rate of new apartments in Klaipėda

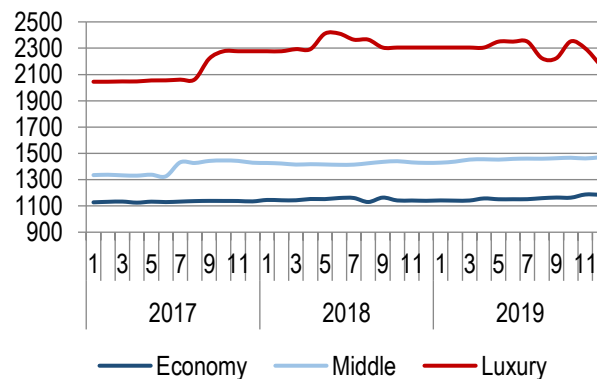


Source: INREAL

In the first half of 2019, the prices of newly-built apartments in Klaipėda changed unevenly in all segments. In the economical and mid-range segments, the prices of the apartments grew; and in the prestigious segment they

decreased. Since the beginning of the year, the prices of economical and mid-range apartments increased by 4% and 3%, respectively, and averaged at around 1,185 EUR/sq. m and 1,470EUR/sq. m. Meanwhile, the prices of the prestigious apartments fell by 5.5% since the beginning of the year and averaged at around 2,177 EUR/sq. m. Klaipėda's prestigious segment consists of only a few projects and the number of apartments on offer is relatively small, so any changes will have a significant impact on the prices.

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

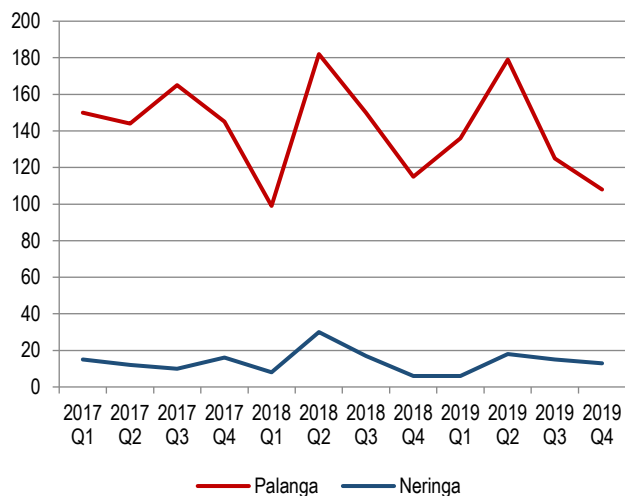


Source: INREAL

PALANGA IR NERINGA

In 2019, the RE market in Palanga grew only slightly compared to 2018. According to the data of the SE Centre of Registers, 548 (0.4% more) apartment transactions were made in Palanga last year. Meanwhile, the RE market in Neringa was a lot more passive than a year ago, and just 52 (14.8% less) apartment transactions were made.

Apartment transactions in Palanga and Neringa (units)



Source: SE Centre of Registers, 01-2020

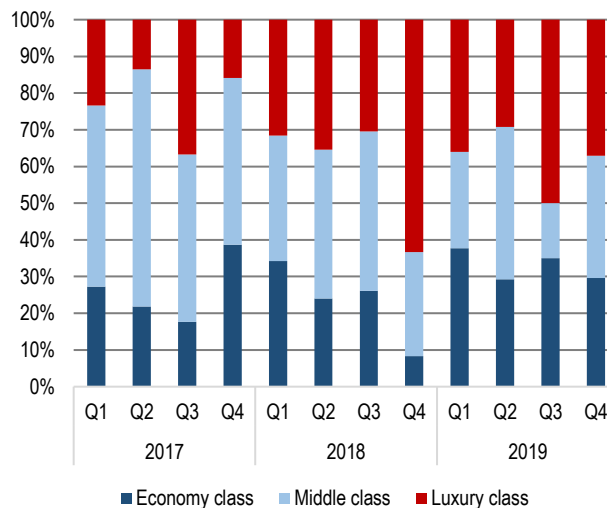
The boom of the new housing market after the first half of 2019 has lost its momentum and did not surpass the 2018 indicators in Palanga. In 2019, 240 new apartments were agreed on in Palanga, which is 10.8% less than the number in 2018. The passive actions of buyers have led to an overall increase in the number of unsold (vacant and reserved) newly-built apartments to around 746 at the end of the year. The builders were also more passive and offered about 278 new apartments to the marker, which was 2.4% less than in 2018.

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



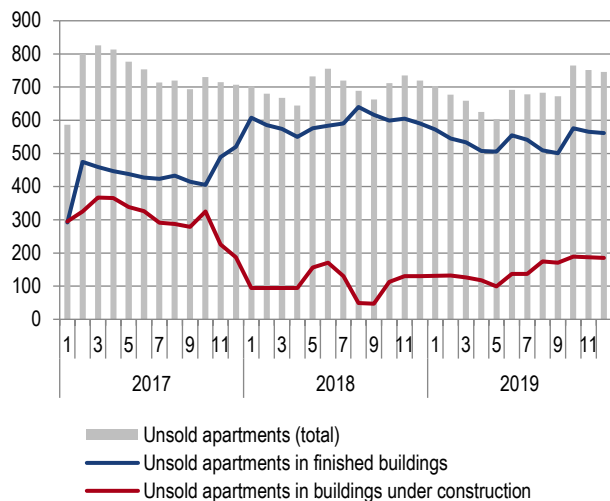
Source: INREAL

Apartment sales under classes in Palanga (percent)



Source: INREAL

New construction apartments, unsold in Palanga (units)



Source: INREAL

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



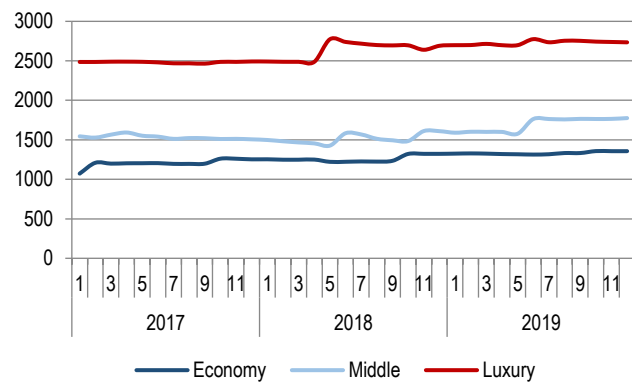
Source: INREAL

In the primary RE market of Neringa, both the buyers of new apartments and the developers were a lot more active in 2019. The former bought 89 new apartments, or 2.5 times more than previously. This spike in demand was influenced

by a new and attractive project that was presented to the market, which boosted the activity of the buyers. The builders also added 98 apartments, which is 2.8 times more than in 2018. However, this market is very narrow and specific, so significant shifts in the results are not unexpected and are expected again in the future.

Since the start of the year, the average prices of newly-built apartments in Palanga have increased. In the economical segment they increased by 2.5%, and are now priced at up to 1,356 EUR/sq. m, in the mid-range segment they increased by 10.3% and cost 1,775 EUR/sq. m, and in the prestigious segment they increased by 1.6% and cost 2,734 EUR/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 nine years and is a specialist in the fields of commercial property as well as in investments and development.

COMMERCIAL REAL ESTATE MARKET REPORT

2019 was a great year for the real estate market. The low profitability of alternative investment options was very significant for the attractiveness of RE, not only in terms of residential but also in terms of the commercial real estate.

But in spite of the favourable economic circumstances for RE, every sector faces its own challenges. While the buyers are happy with the higher returns, the developers keep borrowing more and more, which has a significant impact on adjusting the initial development plans.

There were no significant changes in the business centre market in the second half of 2019. The economic environment is still favourable, and the growing revenue of the service industry companies as well as the active expansion of international and local companies are keeping the office segment extremely dynamic and liquid. The highlights of the year were the sales of the Quadrum and S7

business centre complexes. These transactions redefined the attractiveness of the Lithuanian market for modern business centres. They have allowed us to predict that we will see more high-end projects in the future.

Lower-class office managers will face most of the challenges, especially given the relatively decreasing impact of the differences between the rent rates when choosing business premises.

There are some new projects planned in the shopping mall segment, but the greatest period of expansion is already behind us, while the most important task now is the competition with online stores. Although people still buy groceries in regular stores, more and more often they are purchasing other goods without leaving the house.

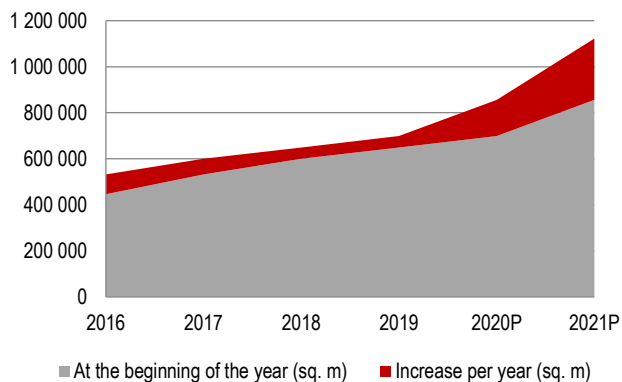
The number of hotels in Lithuania is continually rising, especially in the capital. However, since the online booking platforms are getting stronger, the lower-class hotels need to compete with Airbnb apartments. The occupancy of these of apartments, which initially seemed like a particularly good investment, is no longer increasing and is sometimes even decreasing.

To sum up 2019, the motto for the next few years could be: "The good projects will succeed, but not all projects are good".

VILNIUS BUSINESS CENTRES

In 2019, the construction of 4 business centres was completed in the capital. They added 50,000 sq. m of leasable area to the market – half of what was planned. The development of some of these projects took a longer time than intended, so they are going to open in 2020. In total, the market is expected to expand by about 150,000 sq. m of leasable area in 2020, including some overdue projects. 2021 is expected to be even more intense, as the planned expansion will exceed 250,000 sq. m.

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

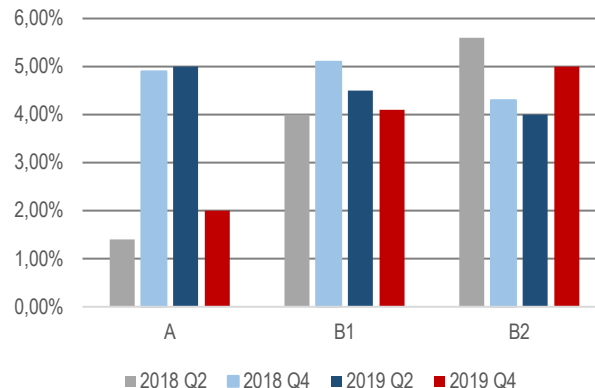


Source: INREAL

Vacancy rates for Class A business centres dropped to just 2% at the end of the year, which gave a lot of confidence to the developers that are looking to bring some more exciting projects to the market. The unleased share of B1 business centres has remained unchanged, and compared to last year, decreased slightly, by less than 1% and currently remains at 4%. The Class B2 business centre occupancy remains similar and declined by only 1% over the past year. Although it is likely that the attractiveness of Class B2 business centres will decrease in the future, to say that this

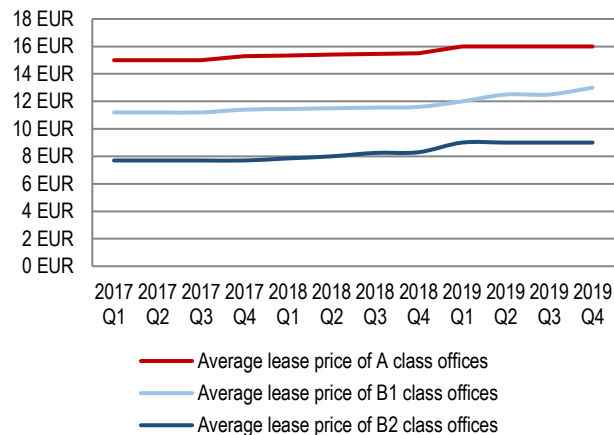
process has already begun would be premature. Traditionally, the strengths of Class B2 include not only a lower rent but also the ability to rent out smaller spaces.

Dynamics of vacancies in Vilnius business centres under classes



Source: INREAL

Dynamics of lease prices in Vilnius business centres



Source: INREAL

In recent years, more and more co-working offices are available in the capital. Even though they are significantly more expensive than Class A offices, the spatial flexibility

offered by co-working spaces is acceptable to the tenants, which will further complicate the competitive position of the lower-class business centres.

The rent rates in Vilnius remain stable, and a change has only been recorded in the Class B1 segment, where the lower price limit has increased. The price range for Class A business centres is still in the range of 14-17 EUR/sq. m, for Class B1 it is 11-14 EUR/sq. m, while Class B2 remains unchanged at 7-10 EUR/ sq. m. It is important to keep in mind that the prices of new agreements are moving closer to the middle of the range, and that's why a wider fluctuation of prices is only achieved in particular cases.

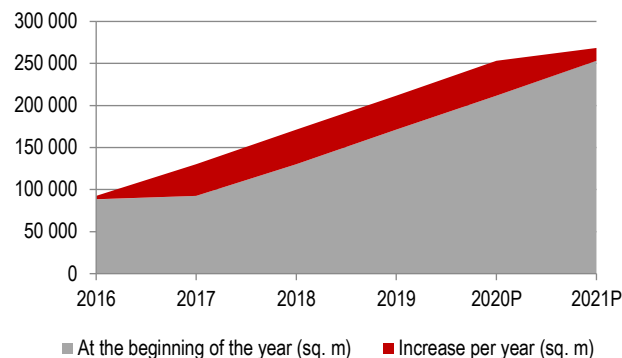
KAUNAS BUSINESS CENTRES

In 2019, 6 business centres opened in Kaunas, offering about 40,000 sq. m of leasable area. The opening of two projects was moved to 2020. Currently, it is planned that 6 business centres will be opened in 2020 and they will provide the market with an area of over 40,000 sq. m. The plans for 2021 are not yet complete, as the awaited openings of new projects only involve 3 business centres that will offer 15,000 sq. m to the market. The largest changes in the expansion plans happened in the Minkovskiu St. territory, where apartment buildings are now planned to be constructed along of offices.

Such changes in the development plans could also have been influenced by the increased vacancy of business centres in Kaunas. The previous lack of modern business centre premises and the untapped opportunities of the city promised particularly favourable operating conditions for the new market participants. However, the development must have been too rapid, and the city now needs a little more time to occupy the newly-developed premises. It is almost certain

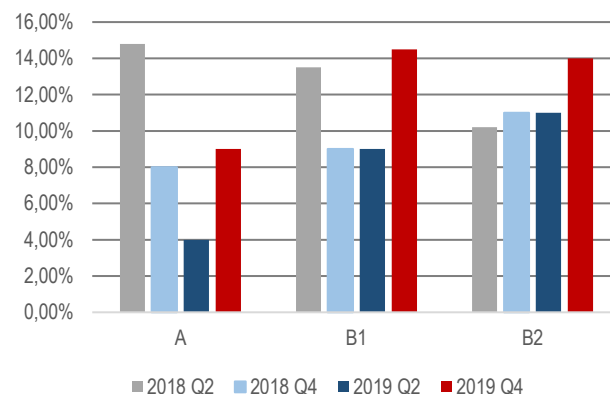
that the Kaunas office market will continue to develop successfully, but it is also likely that the pace will need to slow down slightly to ensure the sustainable development of this real estate segment.

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



Source: INREAL

Dynamics of vacancies in Kaunas business centres under classes

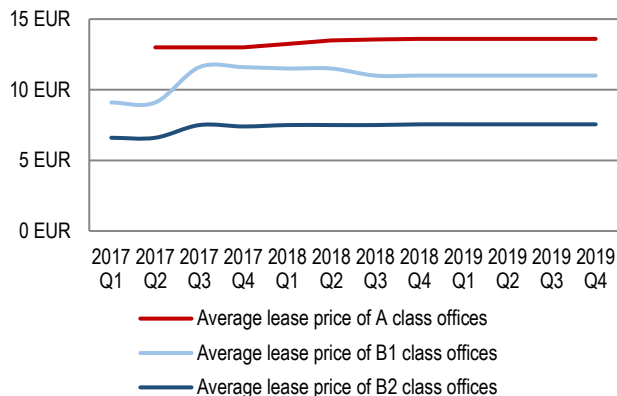


Source: INREAL

Currently, the vacancy rates of Class A business centres are at about 9%, which is 1% more than in the same period last

year and 5% more than in the middle of last year. The vacancy rates for Class B1 premises increased from 9% to 14% in 12 months and for Class B2 premises increased from 11% to 14%.

Dynamics of lease prices in Kaunas business centres



Source: INREAL

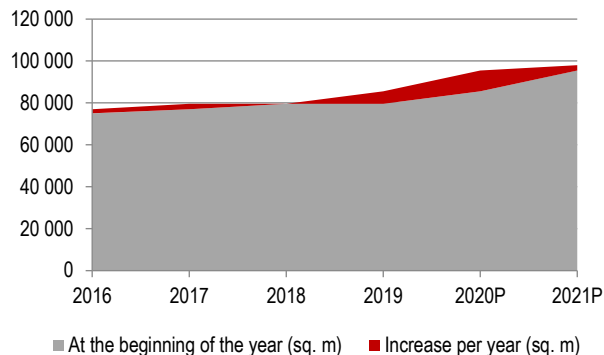
The slightly larger amount of vacant spaces did not have a significant impact on the rent rates and these remain unchanged. The price range for new contracts is 12-14 EUR/sq. m. in Class A premises, 9-12 EUR/sq. m in Class B1, and 6-9 EUR/sq. m in Class B2 business centres.

KLAIPĖDA BUSINESS CENTRES

The office market in Klaipeda falls behind compared to the cities of Kaunas and Vilnius, but development plans are being implemented without major delays. As expected, one business centre opened its doors in 2019, providing the market 6,000 sq. m of leasable space. The plans for 2020 remain unchanged, with the completion of 4 business centres – 2 Class A and 2 Class B – that will provide additional 10,000 sq. m of leasable space. The first plans for the year 2021 have already been announced and they

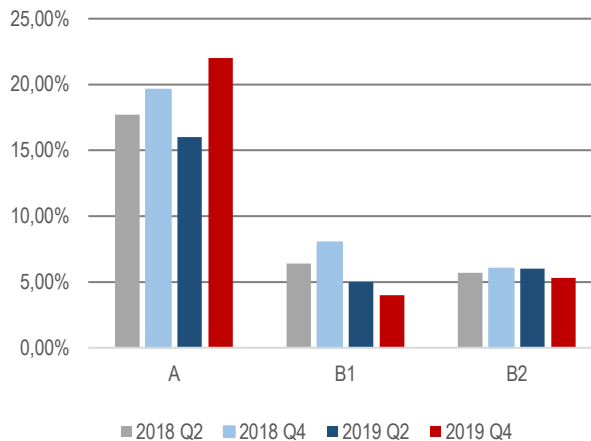
include a small 2,500 sq. m business centre. However, Klaipėda’s business centre market potential is yet to be fulfilled, so in the long run the pace of development should further increase.

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



Source: INREAL

Dynamics of vacancies in Klaipėda business centres under classes



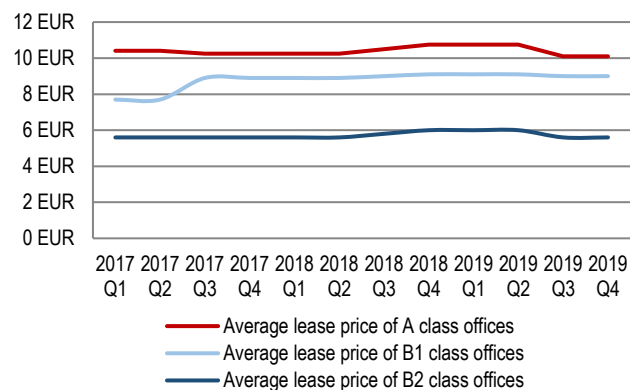
Source: INREAL

The moderate development of new business centres has had no significant impact on the occupancy of the business

centres. The occupancy of Class A business centres decreased and the vacancy rates are now at around 22%, but the supply of this type of space is not large and several transactions could change the situation significantly. The vacancy rate of Class B1 premises has steadily declined since the end of 2018. Currently, it is at 4%, which is only 1% less than in 2018. There are also no changes in the Class B2 premises where the vacant spaces make up about 5% and have decreased by 1% since last year.

The asset managers seem to be taking active steps towards reducing the number of the aforementioned vacancies. Average rent rates in Klaipėda's Class A business centres decreased by 10% in a year. Currently, such premises can be rented for 9 -12 EUR/sq. m. It should be noted that the Class A business centres of the port city are in direct competition with the Class B1 premises, where the rent is about 7-11EUR/sq. m. The increased competition between the higher class offices has also reduced prices in the B2 segment, where premises can currently be rented for 5-7 EUR/sq. m.

Dynamics of lease prices and vacancies in Klaipėda business centres

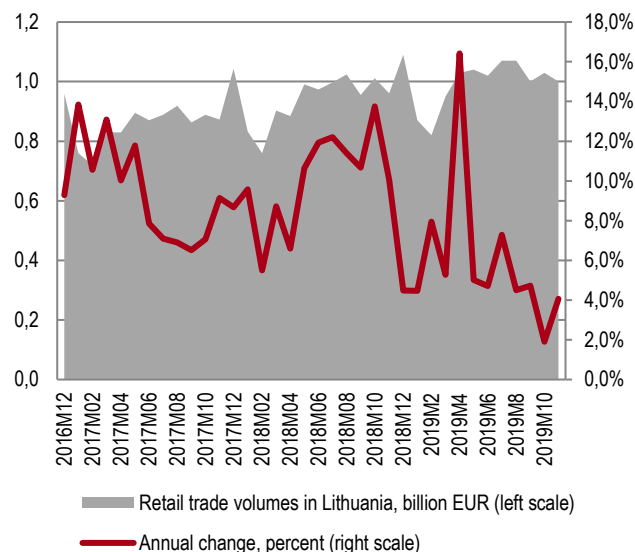


Source: INREAL

RETAIL MARKET

Retail sales in Lithuania continue to grow, but the tempo of this growth is gradually slowing down and the annual growth is hovering around 5%.

Retail trade volumes in Lithuania (billion EUR)



Source: Department of Statistics

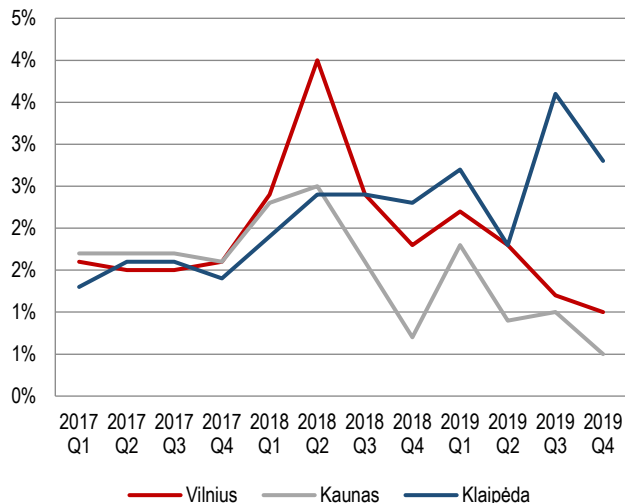
The expansion of shopping centres and the entry of new franchises into the market in 2019 should be viewed more as a search for niches (both geographically and in terms of customers) than as a sign of intensive growth.

The development and reconstruction of the large chain stores did not bring any major surprises. The most important changes are awaited in the future. During the upcoming years, there are plans not only to open the Vakarinis (Pavilnioniai St., Vilnius) and Vilnius Outlet (V. Pociūnas St., Vilnius) shopping malls, but also the Vingis Akropolis (Geležinis Vilkas St., Vilnius). Meanwhile, the development

of commercial properties is still pending in the territory of the former Audėjas factory.

The relative stability of the market is also confirmed by an almost unchanged occupancy of retail spaces. In the three largest cities of the country, the vacancy rates are 1-3%.

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



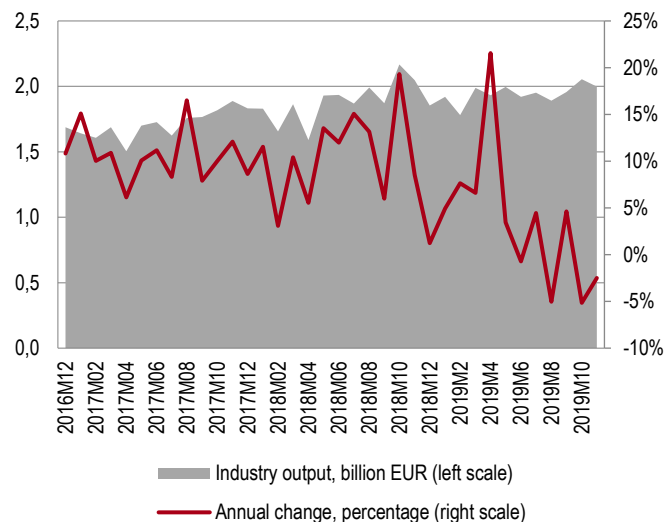
Source: INREAL

Obviously, finding innovative solutions must become one of the most important tasks for commercial property managers. The amount of e-commerce in Lithuania, as well as throughout the world, is growing, and this type of shopping is especially popular among the younger age groups. The idea that some goods will not find their place in online commerce is declining, while the variety of choices is increasing not only in foreign but also in local shopping platforms. Kesko Senukai acquired the 1A shopping platform back in 2018, and grocery deliveries from supermarkets are now simple and are increasingly popular among customers.

INDUSTRIAL AND STORAGE PREMISES

This was one of the main sectors that boosted the Lithuanian economy and grew in the first half of 2019, but suffered a slight downturn at the end of the year. On the other hand, the need for storage premises remains huge, because despite the newly-opened objects, the low vacancy rates of the logistics centres and stable rent prices remain.

Industry output in Lithuania (billion EUR)

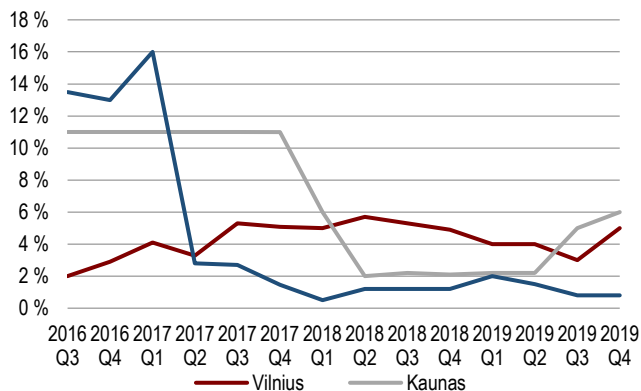


Source: Department of Statistics

The logistics centres that were opened in Vilnius in 2019 offered more than 70,000 sq. m of space. By the end of 2020, it is planned that the developers will offer another 25,000 sq. m. In 2019, Kaunas' storage market increased by about 60,000 sq. m, and in 2020 logistics centres with an area of about 25,000 sq. m are going to open their doors. In 2019, about 35,000 sq. m. of storage spaces were opened in Klaipėda, and in 2020 around 40,000 sq. m more are planned to open.

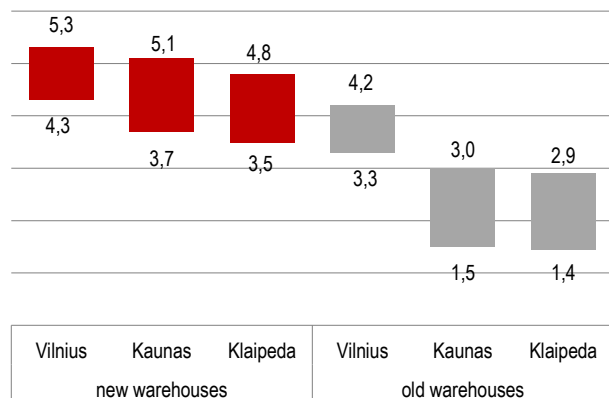
The percentage of vacant spaces in the modern logistics centres in Kaunas and Vilnius increased slightly in the second half of the year and currently amount to about 5%. Meanwhile, in Klaipėda the vacancy rate is only 1%.

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



Source: INREAL

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



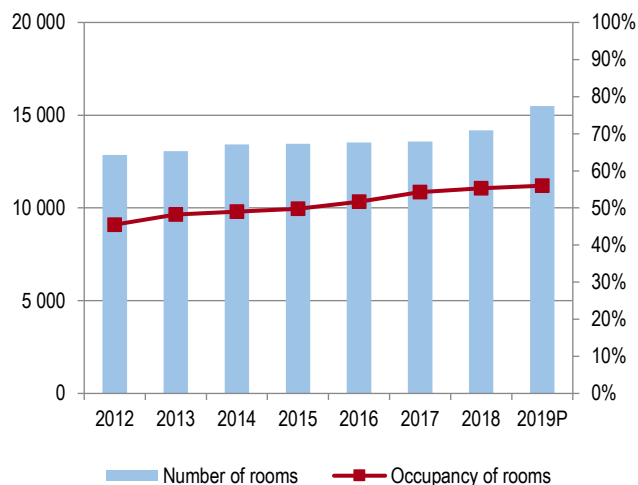
Source: INREAL

The prices of storage spaces have remained unchanged. In Vilnius, they are about 4.3-5.3 EUR/sq. m for new warehouses and 3.3-4.2 EUR/sq. m for the older ones. The prices in Kaunas and Klaipėda are similar. Premises in new warehouses in Kaunas can be rented for 3.7-5.1 EUR/sq. m, and in Klaipėda they are 3.5-4.8 EUR/sq. m. Older warehouses cost about 1.5-3.0 EUR/sq. m and 1.4-2.9 EUR/sq. m, respectively.

TOURISM AND HOTELS

In 2019, the Lithuanian airports (Vilnius, Kaunas and Palanga) served a record number of travellers – more than 6.5 million. The passenger traffic of the aforementioned airports increased by 3% compared to the number in 2018.

Number of hotel rooms and occupancy in Lithuania



Source: Department of Statistics

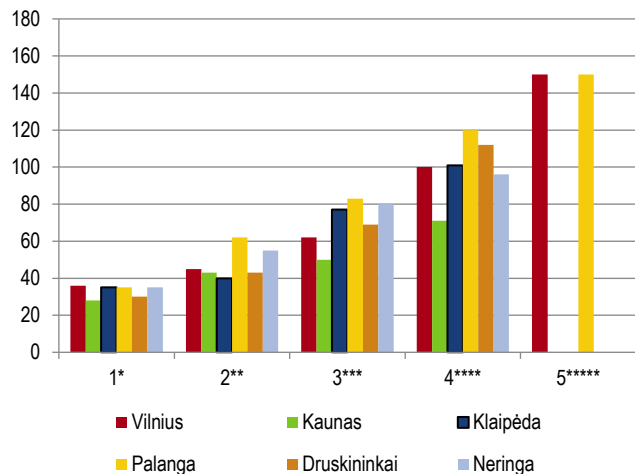
In 2019, hotel development also remained an active industry in Lithuania. The first Hilton brand hotel was opened in Vilnius and the second one is currently under construction. In Kaunas, the construction of the Moxy hotel that is a part of the Marriott chain is about to be finished. It is likely that this hotel will open its doors in mid-2020. The development of a 213-room hotel in the territory of the former Britanika is planned as well. At the end of 2019, the 29-room 5-star Amsterdam Plaza hotel opened its doors in Palanga. In the future, another Marriott 4-star hotel with 173 rooms is also awaited, which will definitely improve the image of the resort town.

We are also noticing a more active hotel development in smaller towns. The plans include a 19-room hotel in Zarasai, as well as a 24-room 4-star hotel in Plungė and a 51-room hotel in Utena. In the summer of 2019, a modern aparthotel opened its doors in Šilutė. It is likely that these developments will encourage not only Lithuanian but also foreign tourists to visit the smaller towns of our country.

Hotel	Class	Rooms
Hilton Garden Inn	4****	164
Apartamentų viešbutis Somnia	-	25
Grotthuss Boutique Hotel	5*****	42
DoubleTree by Hilton	4****	175
Neringa	4****	117
Radisson Red	4****	210
Park Inn by Radisson Vilnius Airport Hotel& Business Centre	3***	120
Aludarių	4****	250
Moxy	4****	175
Amsterdam Plaza	5*****	29
Marriott	4****	173
Taurus (reconstruction)	3***	36
Amberton Green SPA Druskininkai	5*****	79
Nidos banga	3***	100
Total:		1695

Source: INREAL

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



Source: INREAL

In the summer season of 2020, the cheapest stay for 2 people in a standard double room will be found in Kaunas. Depending on the class of the hotel, the prices in this city range from 28 to 71 EUR per night. Meanwhile, in Vilnius, Klaipėda, Palanga and Neringa, the hotel stays are more expensive at 35 to 150 EUR per night. Compared to 2019, the prices for 2020 are slightly higher due to the new high-end hotels, operating costs and increasing competition with short-term rental platforms.



Artūras Kojala, Partner in Real Estate and Infrastructure Department

Mr Kojala brings over 15 years of experience in the areas of real estate, logistics, business development and waste management matters. Prior to joining COBALT, he practised at the leading law firms in the Baltics, advising major local and international companies. Mr Kojala advises local and foreign clients on such matters, including real estate development, acquisitions and disposals, leasing, contracting, design and more.

Liucija Bitinaitė, Associate at COBALT, a member of Real Estate and Infrastructure Practice Group

Ms Bitinaitė's specialisation is real estate, construction law, infrastructure and public-private partnerships. She advises clients on real estate development, sales and acquisitions, leasing and other related matters.

UPDATES IN REAL ESTATE LAW AND TAXES

Statistics show that the previous year was extremely active in the real estate market, with record levels of real estate deals reported. Meanwhile, real estate legislation was somewhat calmer, albeit with changes, some of which are quite significant for both real estate developers and other property owners. One of the major changes worth

highlighting is the Law on Specific Conditions for Land Use, which has been discussed on numerous occasions, regulating the terms and conditions for establishing and applying, among others, the specific conditions for land use.

Passed in June 2019, the Law on Specific Conditions for Land Use came into force with the beginning of the new 2020 year. Thus, everyone had sufficient time to get familiarised with the provisions of this new Law, to prepare for its appropriate implementation, and to verify whether the operations in a land plot/area concerned would still be subjected to a specific area of protection and what other restrictions could be imposed. It must be also borne in mind that it will be necessary to make changes to relevant data in the documents and in the public register. Notwithstanding the above, a number of questions arise as to how some of the requirements or rights under the new Law will be implemented in practice and how compliance therewith will be ensured. The coming year will show how well this Law is being implemented, what problems arise and whether any loopholes in the Law will have to be patched up with new amendments which started appearing immediately after the adoption of the Law.

One of the key aspects both for real estate developers and for any other real estate managers remains the issue of state land lease. It has to be stated that there is still no substantial change in this important area of business, which would allow to see and understand the state's position on this issue. Nor are there any indications implying that such changes might be initiated in the near future.

The taxation of real estate owned by natural persons in order to drop the tax-exempt value by half is another relevant question worth of mention. However, this issue is still being debated further today, no amendments to the Law on Real Estate Tax have been adopted on this issue and are likely to remain a hot topic in 2020.

The new year 2020 is a year of elections. Traditionally, this brings an increase in initiatives for introducing legislative amendments. There are already ongoing intense debates on certain issues that are important to real estate developers, including issues related to the relationship between developers and the public concerned (for example, amendments to the Law on Construction are currently being discussed to introduce measures encouraging greater public involvement in the construction process and tightening responsibility of other participants in the construction). From our point of view, it is important to maintain a reasonable balance in this respect by avoiding favouring either side and by preventing the abuse of their existing rights. Therefore, any changes in this area should not be adopted on an urgent basis, quite the opposite, they should be made by devoting efforts in the legislative process and by assessing the impact of the proposed legislation on the business.

The following legal acts and their amendments, which came into effect last year, should be mentioned in the review of the year 2019:

By amendments to the Law on the Taking of Land for Public Needs in Implementing Projects of Special National Significance, which came into force on 1 July 2019, the procedure for taking land for public needs was revised. One of the more significant changes is that the project implementing body is granted the right to perform (implement) part of its functions by authorising budgetary institutions and state enterprises whose owner rights and obligations it implements, and state-owned (controlled) joint stock companies or private limited companies. The amendment also allows an extension of the period for moving out from the property being taken for public needs, which shall not be less than 3 months and which shall start to run from the date of transfer of the amount of compensation to the account specified by the landowner and/or another user;

Amendments to Technical Construction Regulation 1.05.01: 2017 "Documents allowing Construction. Completion of Construction. Suspension of Construction. Elimination of Results of Arbitrary Construction. Elimination of Results of Construction resulting from Illegal Issuance of Documents allowing Construction", which came into effect on 17 January 2019, establish that in order to reconstruct a simple structure into a structure of non-exceptional significance or a structure of exceptional significance and to carry out overhaul or ordinary repair of a simple building, where the building category is changed to a building of non-exceptional or exceptional significance, the document allowing construction must be obtained. The amendments also stipulate that the construction of engineering structures of non-exceptional significance (communications, engineering networks, hydrotechnical structures, other civil engineering structures) shall be completed by drawing up, approval and registration of a declaration of completion of the construction.

Amendments to Technical Construction Regulation 2.01.02: 2016 “Design and Certification of Energy Performance of Building”, effective as of 1 February 2019, update the energy performance requirements for newly constructed buildings.

It should be recalled that the energy performance class of the buildings in progress, for the construction of which application for a permit to construct a new building was submitted after 1 January 2018, shall be at least A +, and with effect from 1 January 2021, buildings with A+++ energy performance class, i.e. near-zero energy buildings, will have to be designed and constructed.

Amendments to the Law on Real Estate Related Credit, effective as of 1 May 2019, establish that in all cases of non-fulfilment of financial obligations under the credit agreement penalties cannot be charged for a period exceeding 180 days. No other penalties and payments for the non-fulfilment of financial obligations may be imposed on the borrower;

Amendments to the Civil Code, effective as of 1 July 2019, provide that in the course of enforcement proceedings (governed by Part VI of the Code of Civil Procedure), there will be a possibility to mortgage the auctioned property by a conditional mortgage. Conditional mortgage will take effect from the moment the acquirer becomes an owner of the auctioned property;

Amendments to the Law on the Management, Use and Disposal of State and Municipal Assets, which came into effect on 1 October 2019, establish that managers of the centrally managed state-owned assets have been granted broader powers related to the management of the state-owned assets, which include the right to reallocate for maximum utilisation the administrative assets used, to initiate and implement state real estate renovation projects, to sell unused assets, etc. The state and municipal property

rental institute was also revised. The amendments aim at making the management of the state-owned assets more efficient.

With effect from the new year 2020 (namely, from 1 January 2020), the following legal acts and their amendments came into force:

The Law on Specific Conditions for Land Use came into force on 1 January 2020, with the exception of certain parts of the Law which will become effective in subsequent years. The purpose of the Law was to establish a clearer and more transparent application and validity of the specific conditions for land use by laying down, at the statutory level, the terms for establishing, amending and cancelling such conditions, their legal force and the procedure for compensating damages sustained by virtue of the conditions set. The content of the land use conditions itself is not substantially changed by the Law; however, the Law also introduces some major innovations - specific land use conditions can also be established on unformed land plots; the moment at which the application of the specific land use conditions commences is linked to the categories of land plots outlined in the Law (to newly formed land plots, land plots registered with the Real Estate Register, and territories wherein land plots are not formed). The Law specifies the time limits and procedure for issuing the consents of the land plot owners, state or municipal trustees, as well as the obligation to provide relevant data to the public registrar;

Amendments to the Law on Land, effective from 1 January 2020, envisage that all land formation and rearrangement projects will be organised by the director of relevant municipal administration, regardless of whether or not the project is being developed in urban areas, townships or rural residential territories;

Amendments to the Law on the Acquisition of Agricultural Land, which came into force on 1 January 2020, establish not only the right of owners of private land plots to purchase without auction the plots of up to 3 ha edging in between the land plots owned by them, but also enshrine the pre-emption right for the owner of the land plot to purchase the state-owned agricultural land plot edging in between, which he takes on lease or uses on a provisional basis. The Law on Land Reform was also revised accordingly. Its amendments, which came into force on 1 January 2020, provide that non-forest land covered by naturally generated trees, which forms separate plots of up to 3 hectares, may be sold without auction to the owners of adjacent land plots;

By the amendments to the Law on Protected Areas and the Law on the Coastal Zone, which came into force on 1 January 2020, the conditions for activities in protected areas and the coastal zone have been revised, and the provisions of the laws have been harmonised with the new Law on Specific Conditions for Land Use. It is noteworthy that the amendments to the Law on Protected Areas set the restrictions on new construction in protected areas, except for homestead buildings, and provide for the preparation of a plan for coastal zone management. Correspondingly, the Law on the Coastal Zone specifies the conditions for the construction of structures of exceptional and non-exceptional significance;

Amendments to the Forestry Law, which became effective on 1 January 2020, establish that a person or related persons is/are allowed to acquire the maximum total amount of the forest land of 1,500 hectares. It is also foreseen that individuals will be allowed to acquire forestry land or more than 20% of the shares in a legal entity that owns more than 400 hectares of forestry land in the territory of Lithuania, only with the consent of the National Land Service.

Technical Construction Regulation 2.03.01: 2019 “Availability of Structures”, which became effective on 1 January 2020, establishes requirements that must be adhered to when dealing with construction, reconstruction, renovation (modernisation), overhaul of disabled-friendly buildings/structures;

The Law on the Implementation of the Metro, which came into force on 1 January 2020, establishes the fundamentals of the implementation of new public transport systems – namely metro systems. The Law sets forth that a metro system project is implemented and is the responsibility of the municipalities that decide to install the metro system. It is important to emphasise that land and subsurface cavities are supplied for the building of a metro system as subsurface, and the requirement for the builder to manage a plot of land by the right of ownership does not apply to the building of an underground part of the metro.

UPDATES IN REAL ESTATE TAXES

Amendments to the Law on Land Tax and the Law on Immovable Property Tax, which came into force on 1 January 2020, are related to the determination of the rates of land tax and, consequently, immovable property tax. The amendments remove the obligation for municipal councils to set rates for these taxes each year - municipal councils will have the right to choose whether to set a new tax rate (in which case they will be required to do so by 1 July of the current tax period) or to uphold the previous rates of the land tax that were specifically set for the previous tax period. The two laws also introduce the notion of collective investment undertaking, which accordingly provides that the taxes of a collective investment undertaking other than a legal person are to be paid by the management company of the collective investment undertaking.

Other amendments to the Law on Land Tax, which also entered into force on 1 January 2020, establish that a new exception will apply to the calculation of land tax for the 2020 tax period and for subsequent tax periods – tax exemption will be applied to the land that falls within the areas specified in the Law on Specific Conditions for Land Use, which are determined in the public interest, where as a result of the application of the specific land use conditions in these areas the landowner is deprived of an opportunity to use the land plot according to the principal purpose and/or method(s) of land use, except where the landowner would be able to use the land plot according to a newly established principal land use purpose and/or method.

At the same time, other amendments to the Law on Real Estate Tax came into force regarding the tax-free amount of real estate owned by natural persons, which is reduced to EUR 150,000 (previously – EUR 220,000), and for families with three or more children (adopted children) or a disabled child, the said tax-free amount is reduced to EUR 200,000 (previously – EUR 286,000). Moreover, the minimum rate of real estate tax on all taxable real estate of natural and legal persons has been harmonised, by increasing it from 0.3% to 0.5%.

With effect from 1 January 2020, amendments to the Law on Tax Administration came into force bringing changes in the limitation period for calculating and re-calculating taxes - both taxpayers and tax administrators can calculate or re-calculate the tax in respect of a period not exceeding the current calendar year and three preceding calendar years. The amendment introduces several exceptions when the tax administrator will be entitled to re-calculate taxes also for a longer period than the one determined (5 or 10 years).

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"](#), [UAB "Inreal GEO"](#), [UAB "Inreal valdymas"](#) and its managed companies, develops unique real estate (RE) projects and 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 25 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. Four years in a row INREAL Group was named as the National Winner during the prestigious European Business Awards.

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Founded in 1992 Šiaulių Bankas is the biggest Lithuanian capital share bank, stably and constantly growing financial partner focusing on business and consumer financing solutions. Šiaulių Bankas services its customers in 60 customer service points operating in 37 cities and towns throughout Lithuania. The Bank's shares are quoted on the Official List of the NASDAQ Baltics. According to Mystery Shopper Survey conducted by "Dive Lietuva" in 2018 and 2019, Šiaulių Bankas is the first in Lithuania by the customer service quality.

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COBALT is a six-time winner of the Baltic Law Firm of the Year award. COBALT lawyers are consistently ranked highly by the most prestigious legal directories, such as Chambers Global, Chambers Europe, The Legal 500, and IFLR 1000. COBALT was recognized as the Most Innovative Law Firm of the Year 2019 in the Baltics at the IFLR European Awards ceremony in London. COBALT won the CEE Legal Matters Deal of the Year award for Estonia, Latvia, and Lithuania, as well as the overall Baltic Deal. Over 190 lawyers provide integrated services to local, regional and international corporations, foundations, credit institutions, companies and individuals across all areas of business law.

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