

A person is climbing a grey rock wall with various colorful holds (red, blue, yellow, green, purple). The climber is wearing a grey t-shirt, black shorts, and a climbing harness. Two yellow ropes are visible, one on each side of the climber. The background is a textured grey rock surface.

*created by*  
**in real**

**LITHUANIAN ECONOMIC  
AND RE MARKET REPORT  
2020 – 2021**

WITH PARTNERS ŠIAULIŲ BANKAS AND LAW FIRM COBALT

Photo by Allan Mas from Pexels

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## Tomas Kipišas, Šiaulių Bankas Savings and Investment Products Manager

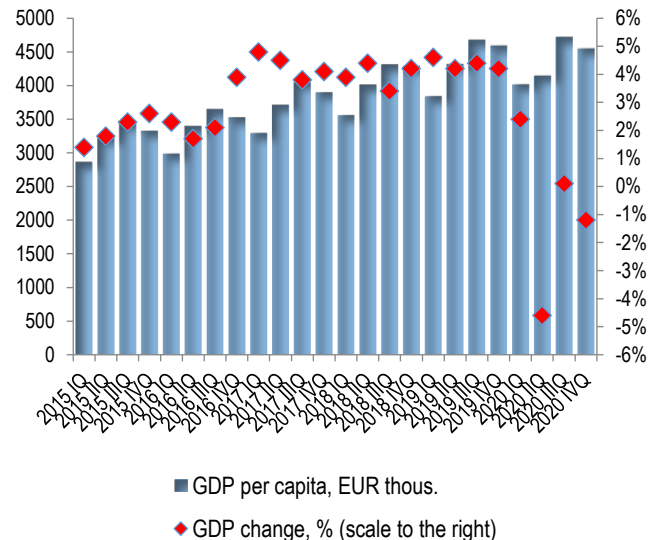
*Tomas has many years of experience in financial markets brokerage, management of investment portfolios, market analysis and administration of investment products. He advises clients on market investment issues, prepares articles and provides market comments to the media.*

## ECONOMY OVERVIEW

The Lithuanian economy suffered relatively small losses during the pandemic. The country's GDP shrank by 1.3% last year, but this decrease was one of the lowest in the EU. Although the epidemiological situation deteriorated significantly at the end of the year, the country's economy did not suffer any losses in the last quarter of last year and grew by 1.1%, even compared to the highly expansionary third quarter. The annual result was significantly better than the mid-year forecast of a possible annual contraction of the country's economy by as much as a tenth. The downturn was not uniform in nature, as difficulties affected individual sectors of the economy.

The factors that significantly contributed to resilience were rapid recovery after the first wave of the pandemic, good financial situation of households, effective state aid and expansionary nature of fiscal policy.

### Lithuania's GDP



Source: Statistics Lithuania, estimates of Šiaulių Bankas

After the first wave, domestic consumption recovered, exports showed a balanced development, and the real estate (RE) market avoided the crisis. The action plan to stimulate the economy and combat the pandemic provided for over EUR 6 billion. It created a central government budget deficit of almost 10% of the GDP (forecast for 2021 – 7%). Budget deficits in the euro area countries increased almost 10 times last year to 8.9% of the GDP (0.8% at the end of 2019). The forecast is that the impact of these measures on the growth of the Lithuanian economy may reach up to 2.3% in 2020 and 2.6% in 2021. Tight quarantine restrictions in the country will affect the start of 2021, but with the acceleration of vaccination efforts, the situation should change in the second half of the year. This year, a growth of GDP by 3.1% is forecasted.

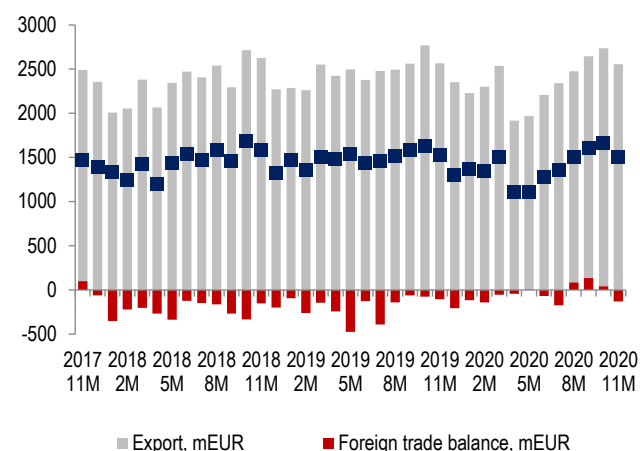
The impact of the pandemic on the country's economic sectors has been mixed, but the main ones have shown good results.

The most affected were the businesses that involve social contact – business engaged in accommodation and catering, cultural, entertainment and recreation activities, and the aviation sector. At the end of the year, the activities of these sectors were generally restricted by the introduction of strict quarantine measures. However, significant fiscal support from the government and a solid financial buffer of households made it possible to keep one's head above water. According to the Bank of Lithuania, deposits of Lithuanian residents in banks rose to record highs.

Positive consumption trends in the second half of last year strengthened domestic business. Sales increased the most in the chemical and pharmaceutical, furniture, food and tobacco segments. Surprisingly positive results were achieved by carriers – the turnover of the carriage of various

goods increase by 2.3% compared to 2019. Economic activity was also noticeably accelerated by good crop yields. Last year, the harvest was 16% larger compared to the same period a year ago. This increase in grain harvest boosted the annual growth of the country's economy by more than 0.5%. Lithuania's foreign trade, on the other hand, shrank rather significantly during the pandemic. The virus outbreak in the rest of Europe was much stronger than in our country.

### **Foreign trade**



Source: Statistics Lithuania

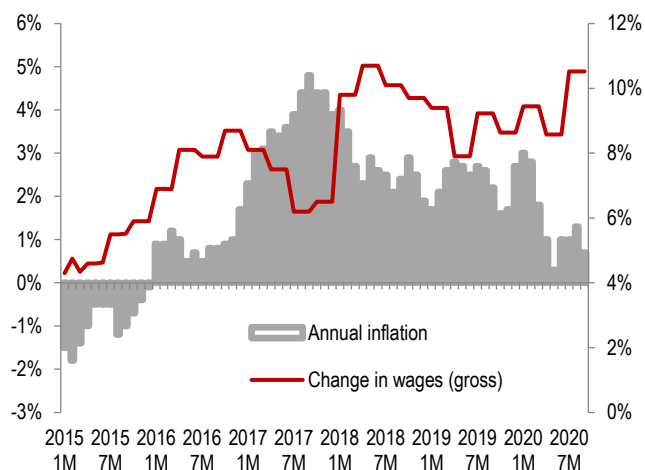
Looking ahead to 2021, a second recession in the euro area seems increasingly inevitable. The restrictions imposed by the governments of most countries reduced the activity of the world economy, which negatively affected the volume of Lithuania's foreign trade. During the 11 months of the previous year, Lithuanian exports fell by 5% and imports – by 10.2%. The decline in exports of Lithuanian origin (excluding mineral products) was 7%. However, extensive export diversification has saved the country from even greater losses. The slowdown in the EU markets was partly offset by increased volumes of trade with Russia, the US, Sweden, the Far East and Africa, to which agricultural products (mainly

grains) were exported. Among the sectors, exports of timber and timber products, machinery and equipment, and agricultural and food products suffered the most last year. The highest growth of demand was observed in the sectors of machinery and mechanical appliances, electrical equipment, and the chemical industry.

The results of the second half of 2020 show that the country's consumer expectations and revenues have recovered markedly.

Positive expectations were supported by an increase in the wage bill and social transfers to households. While the labour market situation remains tense, annual wage growth returned to pre-pandemic levels last year and was over 10%. Wages grew the most in human health and social work (+17%) and transport and storage (+15%) sectors. Due to tight restrictions in the recent months, however, wage growth is expected to slow down by more than two times in 2021, reaching around 3%.

### ***Inflation and wages***



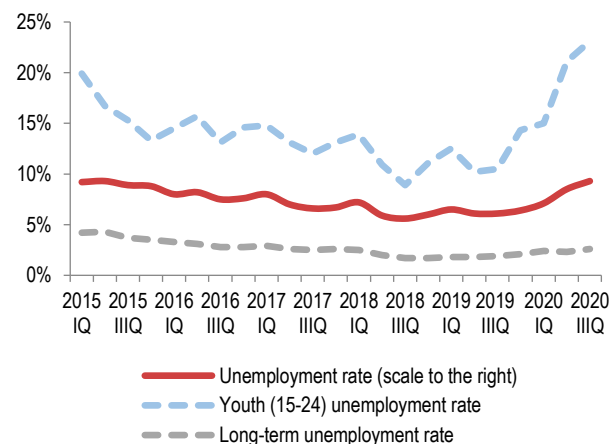
Source: Statistics Lithuania, estimates of Šiaulių Bankas

The pandemic significantly restricted price growth in the country. Declining steadily, the annual inflation fell to 0.7% in October, although it was at 3% in the beginning of 2020. If at the beginning of the pandemic the rise in prices was restricted by cheap fuel, in the second half of the year, greater impact was observed with the slower rise in prices for services and foodstuffs. High levels of uncertainty will place constraints on the employers' ability to raise wages and, consequently, on price increases in the country. Inflation forecast for 2021 is 1.5%.

The unemployment rate was growing consistently last year and reached 9.3% at the end of the year, which is 3.2% higher than in 2019. With tight restrictions on business sectors in which young people usually find employment, the youth unemployment rate has jumped well above 20%.

The long-term unemployment rate increased by 0.7% – to 2.6%. The situation has been stabilised by state subsidies to employers for downtime and other economic stimulus measures.

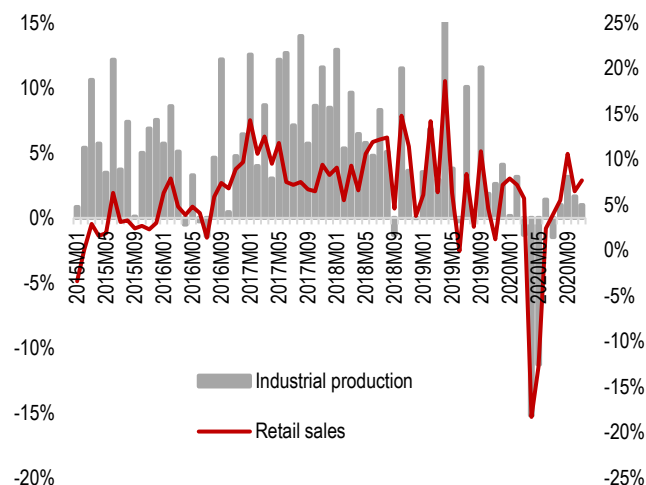
### ***Unemployment rate***



Source: Statistics Lithuania

The most important sector in the country, i.e., industrial production, shrank by 1.5% in 2020; however, excluding oil products, it grew by 1.8%. The corresponding result for the fourth quarter was growth of 1.5% and 4.8%.

### ***Economic activity indicators (annual change)***



Source: Statistics Lithuania, estimates of Šiaulių Bankas

The manufacturing industry (excluding oil), which carries the highest weight, increased its volumes by 2% last year, and by 5.6% in the fourth quarter alone. The turnover of the second largest sector of the Lithuanian economy – retail trade – increased by 2.1% last year, and in the fourth quarter it was 3.6% higher than a year ago. This is one of the best results among all EU countries. Clearly, in anticipation of the quarantine, retailers started the Holiday trade early and achieved great results. Even in December, limited by strict quarantine measures, retail sales fell by only 0.5% compared to December of 2019. Thus, despite high levels of economic and social uncertainty, stagnation in domestic demand has

been avoided. Stable household incomes have prevented a decline in consumption. The pandemic has also adjusted the working, social activity and consumption habits.

Businesses that are sensitive to physical contact have come under great strain, while "contactless" businesses have increased their volumes significantly: retail sales of information and communications technologies have grown by 20%, and online sales have jumped by as much as 50%.

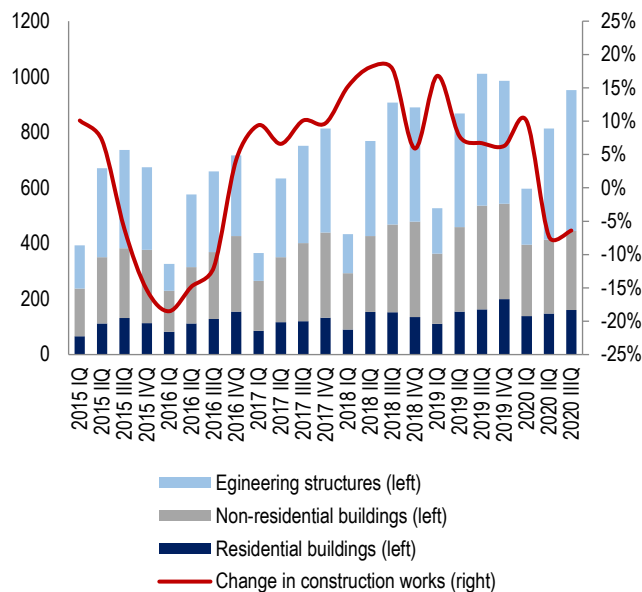
The pandemic along with the Brexit also negatively affected remittances from abroad to Lithuania, the volumes of which, despite their annual decrease, remain significant. During the nine months of the previous year, personal transfers to Lithuania amounted to EUR 510 million, i.e., 38% less than in the same period in 2019.

The pandemic and increased economic uncertainty have adjusted the volume of private investment. Businesses have limited their investment in production equipment and vehicles. During the 9 months of the previous year, the volume of construction work was 1.7% lower than in the same period in 2019. The overall decline was due to a 13.2% decline in construction of non-residential buildings. Construction of engineering structures and residential buildings, on the other hand, increased by 6% and 4.4%, respectively. Construction of engineering structures accounted for almost half of all construction work performed in the country. Construction of non-residential and residential buildings accounted for 34% and 19%, respectively.

The overall negative trends in the construction and investment sectors were due to reduced foreign trade and lower economic activity. It is important to note that changes in the organisation of work have led to a sharp increase in

investment in information and communications technology equipment. In line with the forecast, private investment in 2020 fell by 7–8%, but this year, growth in the sector will recover to 6–7%. The growth of public investment due to various fiscal initiatives is expected to contribute to the boost as well.

### **Construction activity in Lithuania**



Source: Statistics Lithuania

Having survived 2020 rather easily, our country should not relax too soon. The beginning of the year will still be severely constrained by strict quarantine, and returning to the 'normal' way of life may take time. Nevertheless, in the second half of the year, as we start reaching herd immunity, stronger economic growth trends are expected in the world and in Lithuania. Acceleration in vaccination, aggressive fiscal response of countries to the crisis, record-high savings of the Lithuanian population and flexibility of exporters provide encouragement for the future.





**Tomas Sovijus Kvainickas**, *Chief Investment and Analytics Officer at INREAL Group*

*Tomas Sovijus has been working as a real estate (RE) analyst for over 10 years, specializing in data analytics and development of calculation models. He is responsible for finding and evaluating investment opportunities for the INREAL Group, as well as providing consultations to clients and comments to the media on matters related to the real estate market.*

## REAL ESTATE MARKET OVERVIEW

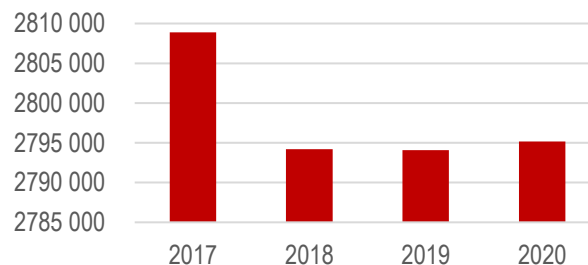
In 2020, the real estate (RE) market was particularly dynamic. Exceptional optimism at the beginning of the year was quickly replaced by uncertainty about the future. In an attempt to understand and adapt to the pandemic, people have briefly paused their plans, and the quarantine forced businesses to suspend their activities as well. In the second half of the year, with the announcement of vaccines against COVID-19, the market gradually returned back on track.

## HOUSING MARKET

Housing is primarily required by the country's population, thus the plans of RE developers depend on its needs. According to the preliminary data of the Lithuanian

Department of Statistics, there were 2,797,223 people residing in Lithuania by the end of 2020. This was the first year in at least a couple of decades when a small but positive change in the population has been recorded – 3,162.

### Population in Lithuania



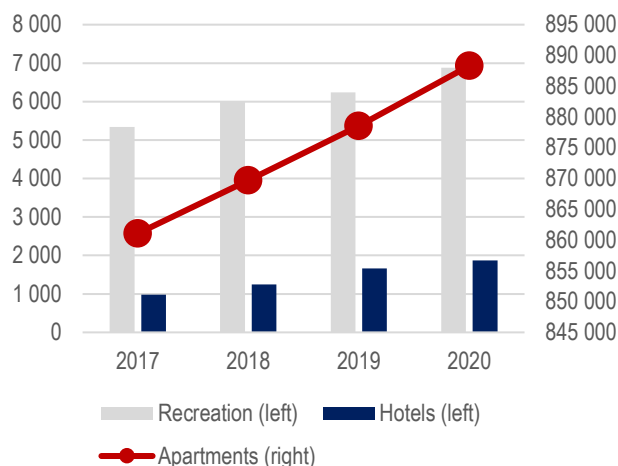
Source: Lithuanian Department of Statistics

The housing fund in Lithuania continues to grow. According to the data of the State Enterprise Centre of Registers, there are a total of 888,313 apartment units in the country. As of 2018, this number continues to grow by about 1% per year. In relative terms, the number of hotels and recreational facilities has been growing much faster – by 10% (6,877 units) and 12% (1,868 units), respectively. Despite the fact that RE developers often offer to buy lofts (creative workshops), the number of production facilities is decreasing



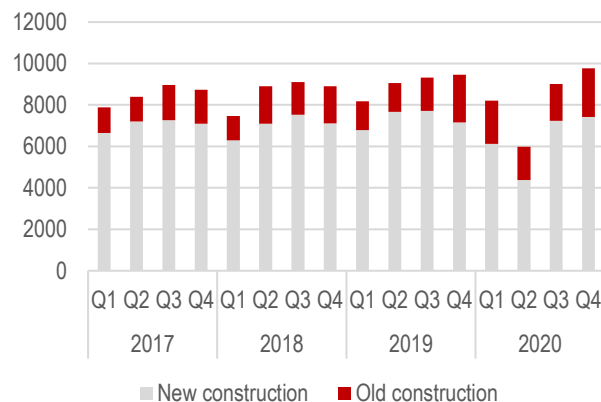
and currently stands at 1,259 units. Developers often change the purpose of this type of facilities to, for example, administrative facilities.

#### Number of premises in Lithuania



Source: SE Centre of Registers

#### Number of purchase and sale transactions of residential premises in Lithuania



Source: SE Centre of Registers

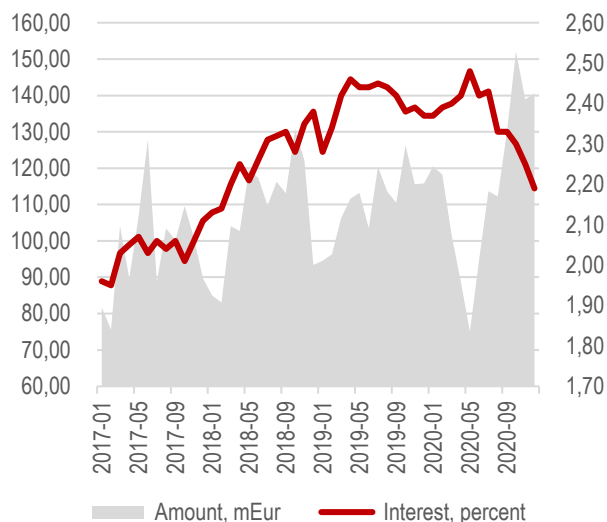
According to the data of the SE Centre of Registers, the number of residential facility transactions in Lithuania in 2020

amounted to 32,966 units, which is 8.5% less than in 2019 (36,011) and 4.1% less than in 2018 (34,381).

There is a clear increase in the relative percentage of new housing in the overall housing sales, and this trend is gaining momentum. In 2017, new housing accounted for 17% of all transactions, in 2018 – 18%, in 2019 – 19%, and in 2020 this percentage has already increased to 24%.

According to the data of the Bank of Lithuania, the volumes and interest rates of housing loans, as well as the housing market itself, were quite dynamic in 2020. The beginning of 2020 was basically in line with the trends of 2019, with an average of 110-120 million euros in actual new loans issued each month at an average interest rate of 2.4%.

#### Real new housing loans (EUR million) and interest rates (per cent)



Source: Bank of Lithuania

The situation changed in March, when the volumes of issued loans dropped by about 15% due to quarantine. The volumes of loans decreased to around 85 million euros per month in

the second quarter, while the interest rate jumped to almost 2.5%. In the third quarter, the situation returned back to normal, with loan volumes increasing to 110-130 million euros per month, and interest rate gradually dropping to 2.3%. By the end of the year, there was an improvement in financing conditions, with volumes increasing to 140-150 million euros/month, and interest rate staying at about 2.2%. This jump looks impressive, especially compared to the second quarter of the year and given that we have still not overcome the pandemic. On the other hand, these changes are much smaller if looking at longer comparative periods. In 2017, 98 million euros of loans were issued on a monthly basis at a weighted interest rate of 2.04%. In 2018, both loan volumes and interest rate have increased by about 10% to 108 million EUR/month and 2.27%. In 2019, loan volumes increased by about 2% to 111 million EUR/month, and interest rate by 6% to 2.4%. In 2020, the increase in the volume of loans amounted to 4.5% to 116 million EUR/month, while interest rate slightly decreased to 2.35%.

The country's major cities – Vilnius, Kaunas and Klaipėda remain the main markets for new construction apartments, however if we had to name the absolute winner of the housing market in 2020, it would undoubtedly be the seaside region. After restrictions were imposed on travelling abroad and social contacts, and after a person's freedom of movement within the country was "tied down" to his owned real estate, a significant number of people decided to invest in seaside housing.

In the segments of individual residential houses and land plots, the country's three major cities and their district municipalities were the most active. For these markets, 2020 was not as successful as for the seaside region, but they weathered the pandemic better than the urban apartment market, and even managed to grow.

## HOUSING MARKET IN VILNIUS

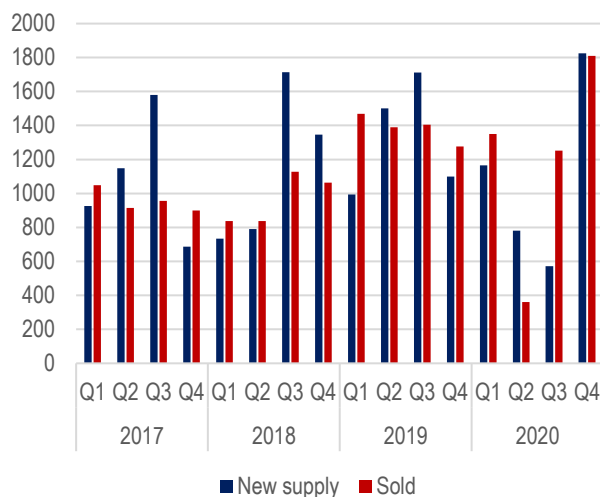
The year 2020 began with new supply and sales records in the Vilnius primary housing market, which were replaced in March by a market freeze due to the COVID-19 pandemic. During spring, only symbolic sales took place in the capital's new housing market, with only 190 transactions recorded in March, which was three times less than in February (634) or in March of 2019 (654). On the other hand, the particularly active beginning of the year made it possible to complete the first quarter successfully, since there were a total of 1,350 sold apartments. Only 361 such transactions were recorded during the second quarter or the year. These numbers were almost four times worse than those recorded in the same period of 2019 (1,389) and among the worst in history. Nevertheless, market participants waited out the quarantine period in a low-start position, and the number of housing transactions began to grow rapidly as early as in June. There were 1,252 housing transactions during the third quarter – only 11% less than during the same period in 2019 (1,405) and 14% more than the average of 2017–2019. The fourth quarter marked the market's recovery with 1,810 housing transactions, i.e. 42% more than in the same period in 2019 (1,277) and 62% more than the average of 2017–2019.

Although the overall annual result of the new housing market (4,773) was 14% less compared to 2019 (5,540), it improved by 8% compared to the average of 2017-2019.

It can be stated that the housing liquidity problems caused by the quarantine period in the primary market of major cities were short-lived, however as many as 236 agreements have been cancelled in housing projects for various reasons, which is three times more than in 2019 (71). There were undoubtedly many more cancellations, however their impact on the overall number of sales agreements was not

significant, since there were new clients replacing those that were withdrawing. Buyers were quick to withdraw from concluding any transactions, as evidenced by the stalled sales in the second half of March and the modest results in April and May. The reaction of RE developers could not be as sudden, since the development of real estate is a very inert process, therefore, when sales stopped in the second quarter of the year, as many as 781 new homes were offered in the market at the time. This number is lower than in the same period in 2019 (1,500), however in the second quarter of 2018, 790 new apartments were offered to the market, so it is obvious that not all RE developers could stop or wanted to stop the processes that were already underway.

#### **Dynamics of the new supply and sales of apartments in Vilnius**



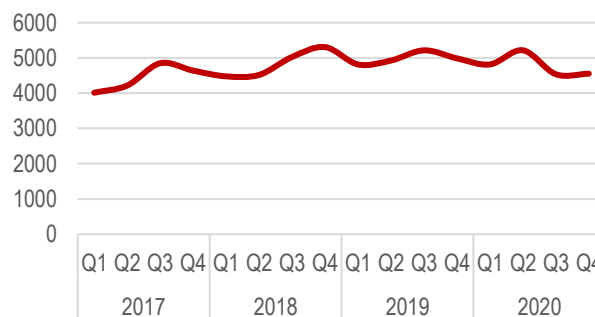
Source: INREAL

With growing uncertainty about the future, an even lower increase in housing supply was recorded in the third quarter of 2020, at just 572 housing units. This number is three times less than in 2019 (1,711) and 2018 (1,713) in the respective period. The fourth quarter boosted not only housing sales but also new housing supply. Vilnius RE developers offered

1,825 housing units to the market, which was two-thirds more than in the same period in 2019 (1,100) and almost the same number as was offered during the record second quarter of 2014 (1,829). In 2020, Vilnius RE developers offered a total of 4,344 new housing units, which was 18% less than in 2019 (5,305), and 7% less than in 2018 (4,680).

At the beginning of 2020, there were almost 5,000 new housing units on offer. Given that there were about 5,300 of them at the beginning of 2019, this number did not seem threatening, especially considering the fact that sales in 2020 exceeded 5,500. With declining market activity due to quarantine, the highest volume of new housing units was recorded in May – at 5,261, which was 10% more than during the same period in 2019 (4,762). After developers suspended the launch of new projects, supply began to decline in the second half of the year. This trend continued until the end of the year, when supply shrank to around 4,500 new apartments. It should be noted that almost 1,000 of them are already reserved, thus the actual supply of housing units is even smaller.

#### **Supply volume in the primary housing market in Vilnius**



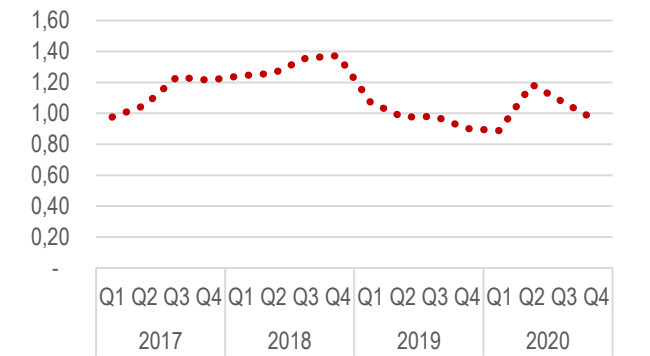
Source: INREAL

However this decline in supply did not encourage buyers to snap up the available housing. In 2018, it was possible to choose from an average of 45 to 50% of all apartments in

Vilnius, 35 to 40% in 2019, and only approximately 35% in 2020. Such relative change means that a lot of new housing projects have appeared on the market with "leftovers" that do not seem attractive to buyers.

In 2019, developers were able to enjoy a particularly favourable housing liquidity ratio.<sup>1</sup> During that period, it reached around 1.0 (12 months) and dropped to 0.9 (11 months) at the end of the year. In May-June 2020, due to stalled sales, the value of the ratio jumped to 1.2 (14 months), but due to developers limiting the supply of new objects, the value of the liquidity ratio returned to its previous level of 1.0 (12 months) by the end of the year.

**Liquidity rate of new apartments in Vilnius**

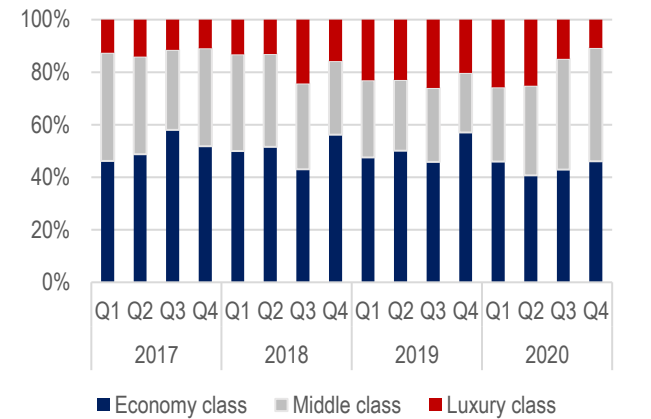


Source: INREAL

The economy-class segment was affected by the pandemic the most. In 2019, new economy-class housing accounted for 50% of all housing sales in Vilnius, however in 2020 this number decreased to 44%. However the supply of middle-class housing projects has increased. In mid-2020, INREAL analysts updated their assessment of the class of new housing projects offered on the market by moving some of the

projects from the prestigious segment to the middle-class segment. This was influenced not only by the gradually growing technical requirements regarding the energy class of buildings, but also by the changes in the projects themselves since the market was offering more and more interesting housing units. In the second half of 2020, about 40-45% of housing sales comprised of economy and middle-class housing units, and about 10-45% of prestigious apartments.

**Apartment sales under class in Vilnius (percent)**



Source: INREAL

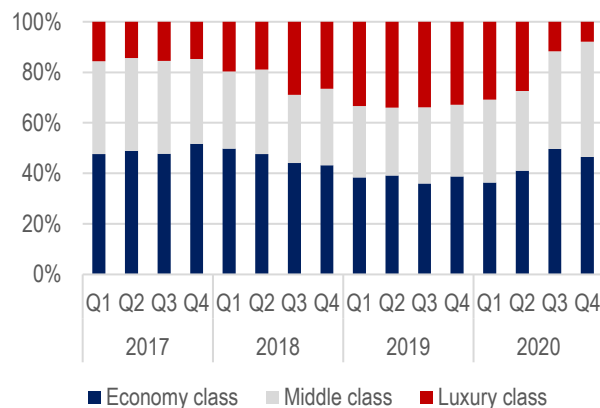
The slowdown in sales of economy-class housing was also reflected in the dynamics of supply by class. The number of housing units in the economy-class segment, which has been steadily declining until mid-2019, has reached 45-50% of supply in the second half of 2020. This segment is particularly sensitive to changes in technical requirements, construction materials and prices of work, thus, since the relative price difference between the economy-class and middle-class segments has decreased, it is likely that this segment may face a liquidity problem. In the second half of

<sup>1</sup> The liquidity ratio predicts the realization period of the current supply, if the sales indicators correspond to the results of the last 12 months.



2020, the middle-class and prestigious-class segments accounted for 50 - 55% of housing supply, therefore their liquidity is currently better than that of the economy-class segment.

#### ***Apartments supply under class in Vilnius (percent)***

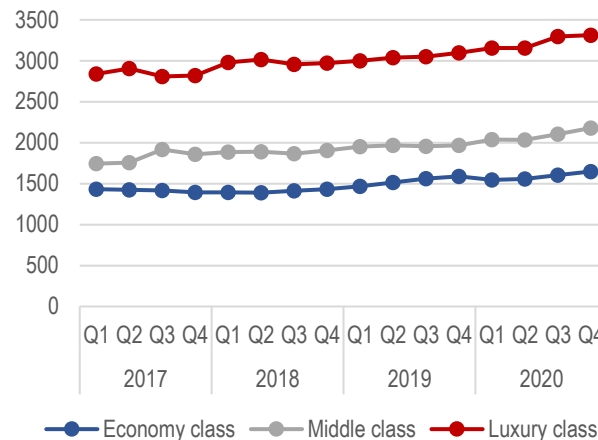


Source: INREAL

Despite the large number of apartments in the middle-class and prestigious-class housing segment, buyers may face a lack of diversity as these projects include housing units with either significantly large or small areas of space, since the most popular homes are sometimes acquired before the project is presented to buyers. On the other hand, at least several new high-end housing projects developed in the capital or stages thereof will be offered to the market in 2021: in Markučiai, Paupys, on the bank of the Neris River near Vilkipėdė, in Lazdynai, and around Stotis neighbourhood. The transformation of the area should fundamentally change the perception of this location in the capital.

Reclassification of housing project classes was also reflected in the prices of the housing supply "leftovers" – the prices of middle-class and prestigious-class housing increased more than the prices of economy-class housing.

#### ***Average prices of apartments under class in Vilnius (EUR/sq. m)***



Source: INREAL

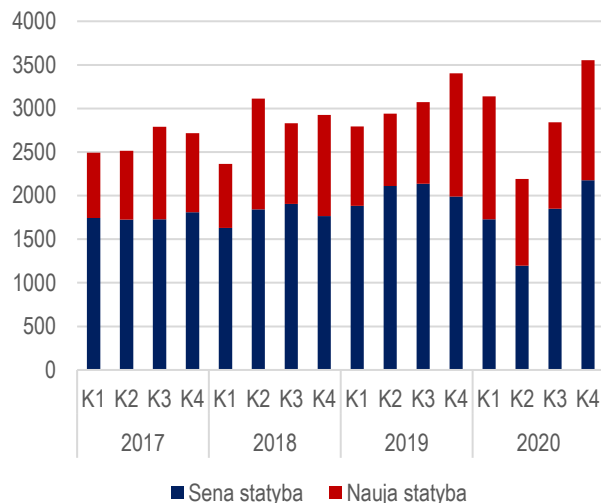
At the end of 2020, economy-class housing in Vilnius cost about 1,648 EUR/sq. m, i.e. 3.8% more than at the end of 2019 (1,588 EUR/sq. m), middle-class housing – 2,179 EUR/sq. m, i.e. 10.8% more than a year ago (1,967 EUR/sq. m), prestigious-class housing – 3,313 EUR /sq. m, i.e. 6.9% more (3,098 EUR/sq. m).

Positive changes in the second half of the year are also shown by the data of the SE Centre of Registers in terms of concluded notarial transactions. Overall, the situation is very similar to the forecast drawn by primary market data – a particularly promising start of the year, market stagnation during mid-year, and a recovery by the end of the year.

The effects of the first and second quarantines were rather different on notarial transactions. 2,191 transactions were concluded (1,197 of old construction housing and 994 of new construction housing) in the second quarter of the year – during the spring quarantine period, which is 25% less than in the same period in 2019 (total – 2,940, old – 2,110, new – 830). If the transactions of new construction apartments were

“saved” by previously concluded agreements in unfinished multi-apartment buildings, then the 43% decrease in the transactions in the old construction apartment segment clearly demonstrated the impact of the pandemic on the real estate market. Following the announcement of the second quarantine in autumn, restrictions imposed during that time were not reflected in the results of the fourth quarter of the year. During the fourth quarter of the year, 3,553 transactions were concluded (2,176 of old construction housing and 1,377 of new construction housing), which is 4% more than in the same period in 2019 (total – 3,404, old – 1,988, new – 1,416).

#### **SE Center of Registers registered apartment transactions in Vilnius (units)**

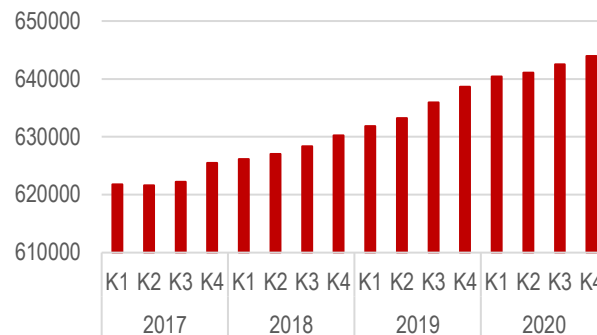


Source: SE Centre of Registers

A total of 11,721 housing transactions were concluded in 2020, which is only 4% less than in 2019 (12,208). The decline in transactions was mainly due to a 14% drop in the number of old construction housing transactions. Meanwhile, the number of new housing transactions increased by as much as 17%. The ratio of old and new construction housing

transactions has also changed significantly. In 2017-2019, new construction housing accounted for about a third of all transactions. In 2020, the number of these transactions increased to 40%.

#### **Number of persons registered in Vilnius medical institutions**



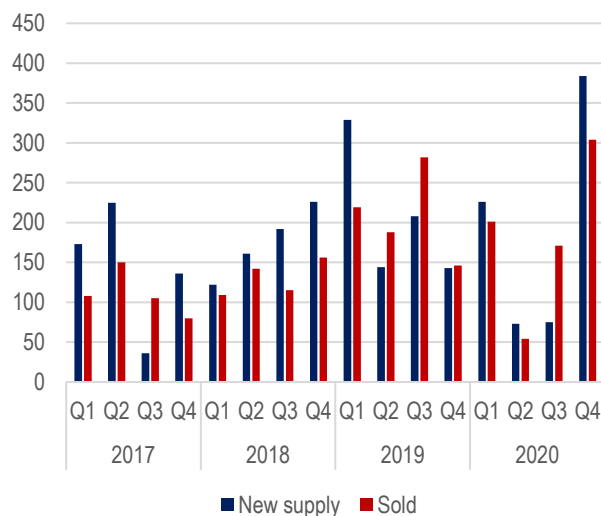
Source: Vilnius Territorial Health Insurance Fund

Rapid recovery of the primary housing market naturally raises the question of the sustainability of this trend and the risk of overheating. A couple of years ago, the standard number of concluded primary market agreements per year was about 4,000, however around 5,000 or more of such agreements have been concluded both in 2019 and 2020. Nevertheless, the new construction apartment segment is expanding not only at the expense of the older construction housing segment, but also due to positive demographic changes. The population of Vilnius has been steadily growing for several years now.

## HOUSING MARKET IN KAUNAS

Like in the capital, the primary market of apartments in Kaunas seemed particularly promising at the beginning of the year. January (62 transactions) slightly exceeded December 2019 (57), while February (81) overtook both the last few months as well as similar periods of last year (72 transactions in 2019 and 45 in 2018). Despite the slight decline in March (58), the results of the first quarter of the year also remained relatively good (201), albeit 8% worse than in 2019 (219). Quarantine hit Kaunas probably the hardest during the second quarter – only 54 apartments were sold, which is 71% less than in the same period in 2019. The market began to recover during the third quarter, with 171 housing sales transactions, however this number was still 39% lower than in the same period in 2019. The 304 transactions registered during the fourth quarter not only doubled the results of the end of 2019 (146), but also reduced the annual gap.

### *Dynamics of the new supply and sales of apartments in Kaunas*



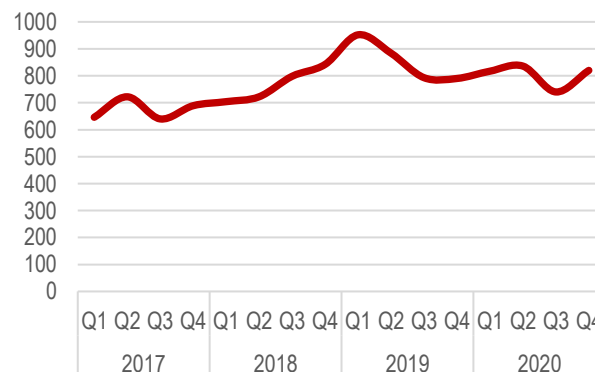
Source: INREAL

730 housing units were sold in 2020, which is 13% less than in 2019 (835), but 22% more than the average of 2017-2019.

The number of cancelled transactions in Kaunas was not particularly high (53), but still three and a half times higher than in 2019 (15). April and May were exceptional months in the real estate market of Kaunas, during which there was a small probability that “negative” transactions could occur where the number of cancelled transactions exceeds the number of new transactions.

New housing supply in Kaunas was moderate. Even before the announcement of the first quarantine, RE developers offered 226 new housing units to the market – a third less than in the same period in 2019 (329). In the second and third quarters, an average of 74 housing units were offered, i.e. twice less than in mid-2019 (144 and 208 housing units, respectively). However, the end of the year was unusually active in Kaunas – developers provided the market with 384 housing units, i.e. two and a half times more than in the fourth quarter of 2019 (143). The total annual result of the new housing supply in the primary housing market of Kaunas was 758 new housing units, i.e. 8% less than in 2019 (824) and 8% more than in 2018 (701).

### *Supply volume in the primary housing market in Kaunas*

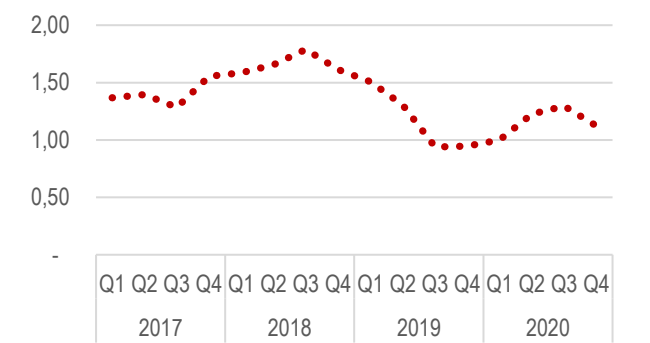


Source: INREAL

The year 2020 was marked in Kaunas with 790 apartments in the primary market supply. This number corresponds to the average of 2018-2019 (798). Considering the city's population, this amount of supply is more than three times lower than in Vilnius during the same period, therefore there was no significant risk of excess supply. Slower introduction of projects to the market as well as their division into stages enabled to keep the supply volume unchanged in 2020, therefore the year ended with only a 4% increase in the supply of housing (820) in the primary market. As in Vilnius, the number of available housing units in projects developed in Kaunas gradually decreased from about 55% in 2018 to 40% in 2020.

The year 2020 was marked in Kaunas with a liquidity ratio that is not typical for this city — its value reached 0.95 (12 months), however market stagnation has increased this ratio to 1.2 – 1.3 (14 – 15 months) by mid-year. Even though the realization period has increased by a third, the significance of this indicator remains particularly low in the historical context. With the recovering sales at the end of the year, the value of the indicator reached 1.1 (13 months) and it is likely that the realization period of the primary market supply volume may shorten in the next few months.

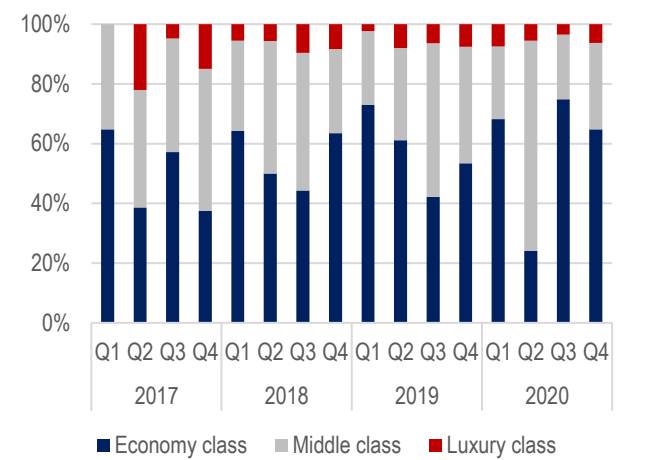
**Liquidity rate of new apartments in Kaunas**



Source: INREAL

At first glance, sellers of economy-class housing suffered the biggest losses in the second quarter of the year. Sales in this segment have dropped from 70% to 24%. On the other hand, the fact of such decrease is not surprising, since buyers of cheaper housing are more sensitive to economic uncertainty. However the quarterly sample size was only half a hundred transactions, and the results of the third and fourth quarter show a significant contribution of economy-class housing to the recovery of the market and, at the same time, the growth of buyers' expectations for the future.

**Apartment sales under class in Kaunas (percent)**



Source: INREAL

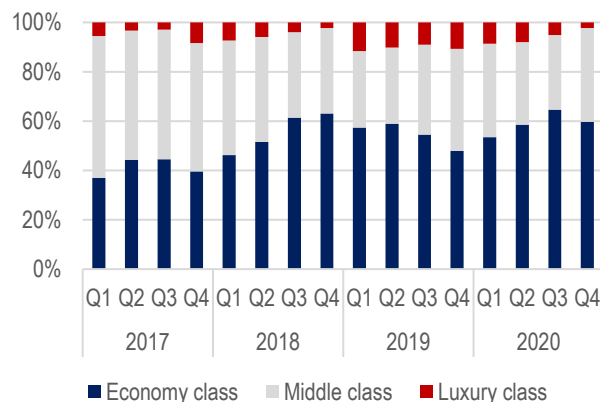
The 2019 jump in the supply of prestigious housing in Kaunas has been coming to an end, and by the end of 2020 it accounted for only 2% of the total housing supply. The growing supply of middle-class housing in 2019 was welcomed by buyers and gradually decreased by the end of the third quarter of 2020. New projects offered by developers during the last quarter of the year compensated for the loss of the said supply. Currently middle-class housing accounts for 38% of the apartments available on the market. The



economy-class segment currently accounts for about 60% of housing offered on the market and is slightly larger than in 2017-2019.

In the future, the housing supply in Kaunas should be significantly supplemented by new residential projects on the banks of the Nemunas and Neris rivers: on H. and O. Minkovskių Street, A. Juozapavičiaus Avenue, and further expansion on Brastos Street.

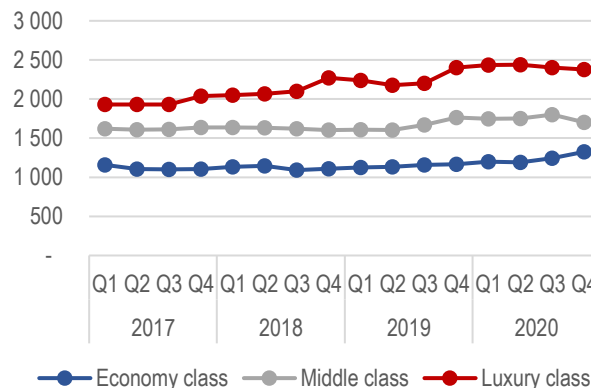
#### **Apartments supply under class in Kaunas (percent)**



Source: INREAL

In terms of price changes in 2020, only the economy-class segment experienced significant change in Kaunas, since the apartments of the said segment became more expensive by almost 14% (from 1,167 EUR/sq. m to 1,325 EUR/sq. m). However, it should be noted that the structure of the housing supply also has a significant effect on price changes. Given that in the second half of the year buyers purchased almost exclusively economy-class housing, more expensive objects in this segment remained on offer. The prices of middle-class housing changed only symbolically – decreasing by about 3% (from 1,763 EUR/sq. m to 1,704 EUR/sq. m). Prestigious-class housing prices have hardly changed (from 2,435 EUR/sq. m to 2,378 EUR/sq. m).

#### **Average prices of apartments under class in Kaunas (EUR/sq. m)**

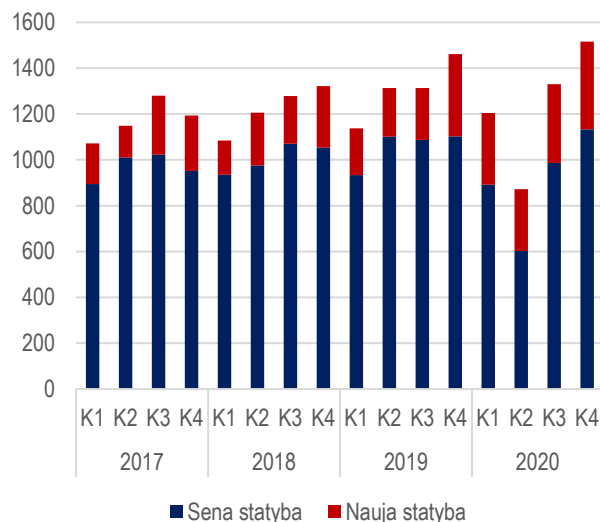


Source: INREAL

According to the data of the SE Centre of Registers, 1,205 apartment purchase and sale transactions were concluded in Kaunas in the first quarter of the year, which is 6% more than during the same period in 2019 (1,137). A drop to 872 transactions was registered in the second quarter, which is 34% less than in 2019 (1,314). The market recovered with 1,330 transactions during the third quarter, i.e. 1% more than in 2019 (1,314). And the housing market was even more active by the end of the year with a total of 1,516 concluded transactions, i.e. 4% more than by the end of 2019 (1,461). As in Vilnius, the main "driving force" of the housing market in Kaunas is new apartments. In 2020, 1,309 new construction apartment transactions were concluded, i.e. 31% more than in 2019 (1,002).

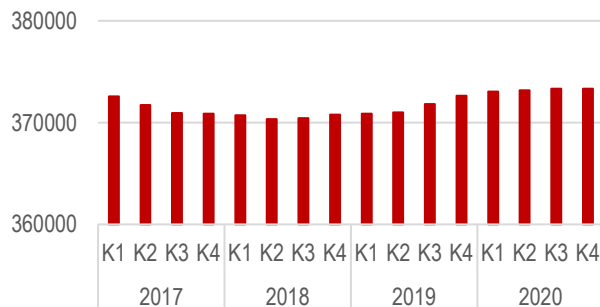
Meanwhile, old construction housing exceeded the results of 2019 only during the fourth quarter, and the annual result (3,614) was worse by 14% compared to that of 2019 (4,224). Such distribution of transactions resulted in the fact that the number of new construction apartments grew from about 20% in 2019 to just over 25% in 2020.

### SE Center of Registers registered apartment transactions in Kaunas (units)



Source: SE Centre of Registers

### Number of persons registered in Kaunas medical institutions



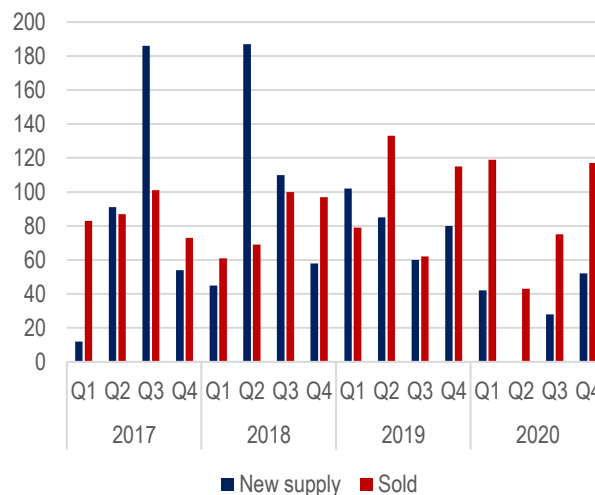
Source: Kaunas Territorial Health Insurance Fund

Among the most important catalysts for the housing market are positive demographic changes, which could also explain the increased interest in new construction housing. Population growth in Kaunas has been observed from 2018 – 2019, amounting to 1,856 persons in 2019 and 681 in 2020.

## HOUSING MARKET IN KLAIPĖDA

In the first quarter of 2020, 119 transactions were registered in the primary apartment market of Klaipėda, which is as much as 51% more than during the same time in 2019 (79). As in Vilnius and Kaunas, the second quarter of the year was affected by the first quarantine, during which only 43 housing units were sold – 67% less than during the second quarter of 2019 (133). There was an increase to 75 transactions during the third quarter – 21% more than during the same period in 2019 (62). 117 transactions were concluded during the fourth quarter of the year, which is 2% more than at the end of 2019.

### Dynamics of the new supply and sales of apartments in Klaipėda

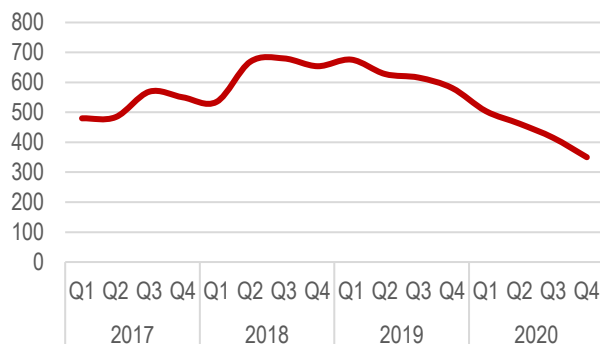


Source: INREAL

The overall annual result in Klaipėda was 354 new housing sales transactions. This number is 9% lower than the number in 2019 (389), but is not far from the 2017-2019 average. In 2020, Klaipėda had the lowest number of cancelled transactions – 20, compared to Vilnius and Kaunas.

The port city's RE developers have been more affected by the pandemic and the quarantine than the buyers. During 2020, only 122 new housing units were put on the market. This number is two-thirds lower than the 2017-2019 average (357) and the supply increase of 2019 (327).

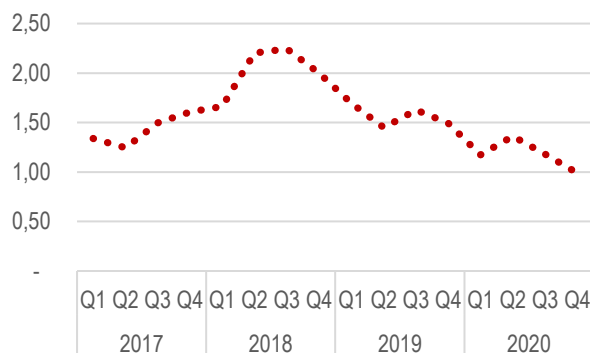
#### Supply volume in the primary housing market in Klaipėda



Source: INREAL

Due to lack of new supply, the current supply of housing in Klaipėda has been steadily declining since the beginning of 2019. In the first quarter of 2020, there were 504 new housing units on offer, which is 25% less than in 2019 (676). By the end of 2020, buyers could choose only from 350 apartments – 40% less than in 2019 (581).

#### Liquidity rate of new apartments in Klaipėda

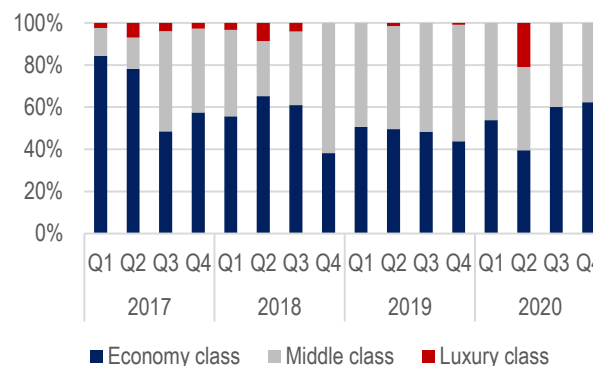


Source: INREAL

With a declining supply of housing, the value of the liquidity ratio has decreased from 1.5 (18 months) in 2019 to 1.0 (12 months) by the end of 2020. A jump in the value of the housing liquidity ratio was observed only in the middle of the year, when it increased to about 1.4 (16 – 17 months). On the other hand, a large part of the current supply is comprised of older projects, where housing is sold more slowly than the housing of new projects, therefore in the absence of new supply, buyers will have only a formal choice of housing that is less suitable for them.

Changes in the sales structure by class in Klaipėda were largely determined by the lack of supply. Buyers mostly bought economy-class housing, which accounted for about 60% of all sales during the second half of the year. In the previous few years, the number of economy-class housing accounted for only about half of all the concluded housing transactions.

#### Apartment sales under class in Klaipėda (percent)

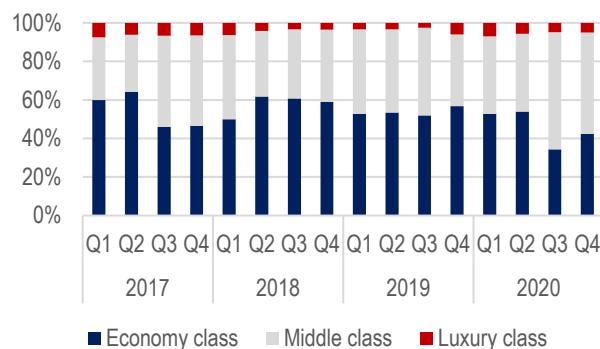


Source: INREAL

Since buyers were focusing on economy-class housing, its supply has decreased in the second half of the year and currently reaches about 40%. Prior to mid-2020, it accounted for about half of the total number of apartments offered to buyers.

However, it is likely that by the end of 2021 at the latest, the primary housing market in Klaipėda will be supplemented by truly interesting projects which should propel the city's new housing segment. Among the largest future projects are the conversions of the "Mėmelio miestai", "Bastionų namai", "Švyturio" and "Lindenau" factories.

#### **Apartments supply under class in Klaipėda (percent)**



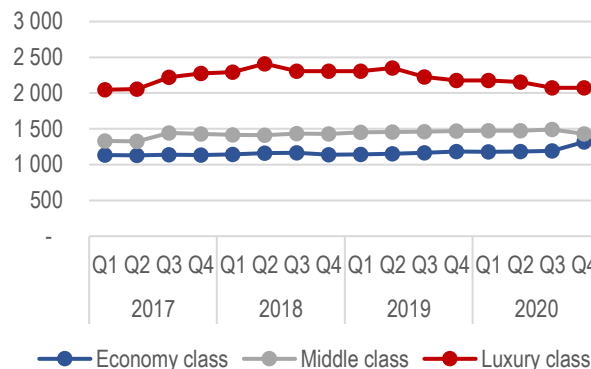
Source: INREAL

The main reason for the price increase in the slow market was individual projects, which raised the housing prices of the economy-class segment by 11% in 2020 (from 1,185 EUR/sq. m to 1,318 EUR/sq. m). Over the year, the prices of middle-class and prestigious-class housing decreased by 3% (from 1,470 EUR/sq. m to 1,429 EUR/sq. m) and 5% (from 2,177 EUR/sq. m to 2,074 EUR/sq. m), respectively. It should be noted that the prices of "leftovers" in older middle-class projects are approaching the limits of economy-class prices in new projects. On the other hand, due to increased construction costs and stricter technical requirements, there is almost no doubt that housing prices in new projects will grow in both the middle-class and prestigious segments.

In the first quarter of 2020, the SE Centre of Registers registered 630 apartment sales, which is as much as 40% more than during the same period in 2019 (732). A drop to

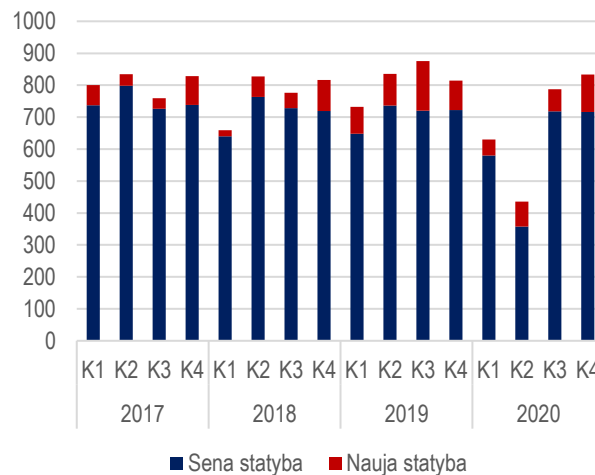
436 transactions was registered in the second quarter, which is 48% less than in 2019 (835). The market recovered in the third quarter with 787 transactions – 10% less than in 2019 (876). 833 transactions were concluded in the fourth quarter – 2% more than by the end of 2019 (814).

#### **Average prices of apartments under class in Klaipėda (EUR/sq. m)**



Šaltinis: INREAL

#### **SE Center of Registers registered apartment transactions in Klaipėda (units)**



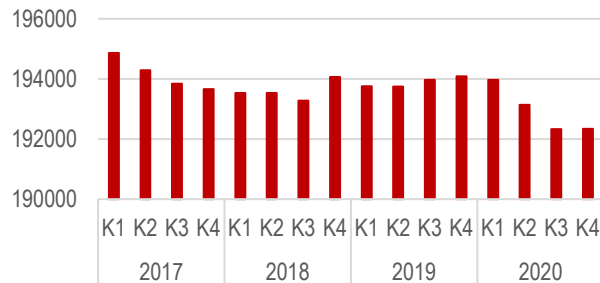
Source: SE Centre of Registers



In contrast to Kaunas or Vilnius, new construction housing did not give a significant boost to the apartment market in Klaipėda due to lack of supply. A total of 2,372 old construction apartments – 16% less than in 2019 (2,826), and 314 new construction apartments – 27% less than in 2019 (431) were sold during the year. The number of new construction apartments in the overall housing supply has slightly decreased from an average of 13% in 2019 to 12% in 2020. The total number of transactions in 2020 was 2,686 – 18% lower than in 2019 (3,257).

The demographic indicators of Klaipėda are currently worse than those in Vilnius or Kaunas. In 2019 and 2020, there were no significant changes in the port city's population. Although a decrease in population by 1,746 persons was recorded in 2020, it is related to the assignment of one of the city's medical institutions to Klaipėda District Municipality, where the population increased by 1,744 in 2020.

#### **Number of persons registered in Klaipėda medical institutions**

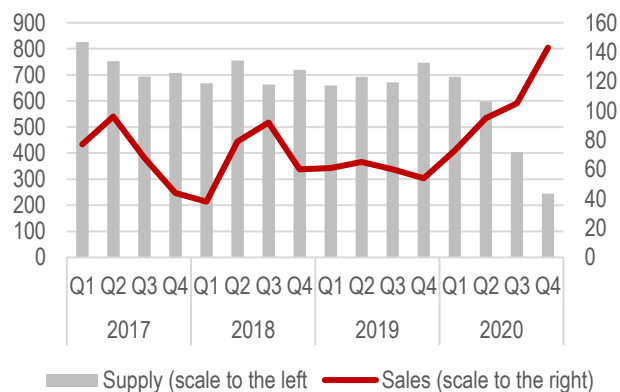


Source: Klaipėda Territorial Health Insurance Fund

## **HOUSING MARKET IN PALANGA AND ŠVENTOJI**

An increase in the number of housing sales in Palanga and Šventoji has been recorded throughout the year. At least 73 apartments were sold in the first quarter of 2020 – 20% more than in 2019 (61). In the second and third quarters, 95 (46% more (65)) and 105 (75% more (60)) more apartments were sold, respectively. 143 housing transactions were concluded by the end of 2020, which is two and a half times more than in the fourth quarter of 2019 (54). The total result of 2020 (416) was better by 73% compared to 2019 (240) and 57% higher than the 2017–2019 average. A similar number of sales was recorded only in 2014, when 405 housing units were sold.

#### **Supply and demand of the primary housing market in Palanga and Šventoji (units)**



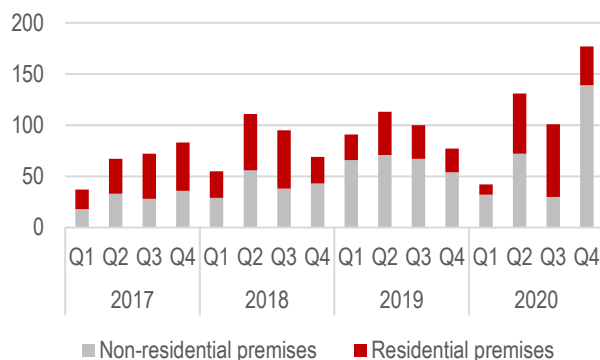
Source: INREAL

In 2020, there was no significant increase in supply in the housing markets of Palanga and Šventoji. The main supply volume has been formed back in 2019. By the end of 2020, buyers were able to choose from just over 200 new housing units, i.e. 3 times less than during the same period in 2019. Such interest of buyers has encouraged more RE developers to try to enter the primary housing market of Palanga and

Šventoji, therefore active development of new projects is expected in 2021.

The SE Centre of Registers also recorded a jump in sales in the entire housing market. According to the said institution, in 2020, the sales of new construction facilities have decreased only in the first quarter of the year with 42 transactions, compared to the same period in 2019 (91 transactions – 54% less). A decline in the number of transactions was recorded in both residential (52% less) and non-residential (60% less) facility segments. In the second quarter, the number of transactions has increased (131 transactions, which is 16% more (113)). The third quarter repeated the result achieved a year ago (101/100), and, by the end of the year, the number of transactions exceeded the results of the fourth quarter of 2019 by almost two and a half times. 177 transactions were concluded (77 in the fourth quarter of 2019). The annual result (451) was better by 18% than in 2019 (381) and better by 37% than in 2018 (330).

**SE Center of Registers registered sales transactions of new construction premises in Palanga municipality (units)**

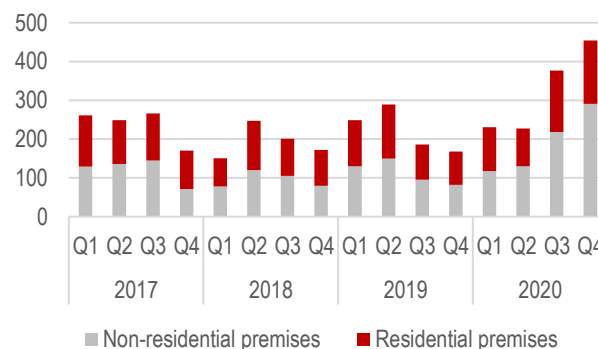


Source: SE Centre of Registers

It seemed that the sales of old construction housing could experience a stagnation by the end of the first half of the year due to a likely indifference among buyers in terms of older housing and the reluctance of property owners to sell their

property during the pandemic. 231 transactions were concluded during the first quarter – 7% less than at the beginning of 2019 (249). There was also no increase during the spring quarantine with 227 concluded transactions, i.e. 21% less than during the same period in 2019 (289). The situation has significantly changed in the second half of the year not only due to the changing attitudes of market participants, but also due to the possibility that projects completed more than two years ago or those that were identified as a reconstruction were put on sale. 377 transactions were concluded in the third quarter – twice more than a year ago (186), and as many as 454 sales were made by the end of the year, i.e. almost three times more than in the fourth quarter of 2019 (168). In 2020, a total of 1,289 old construction facility units were sold in Palanga City Municipality – 45% more than in 2019 (892) and two-thirds more than in 2018 (771). The sales of non-residential facilities (apartments and other commercial premises) increased the most. By 66% – compared to 2019, and by 98% – compared to 2018.

**SE Center of Registers registered sales transactions of new construction premises in Palanga municipality (units)**

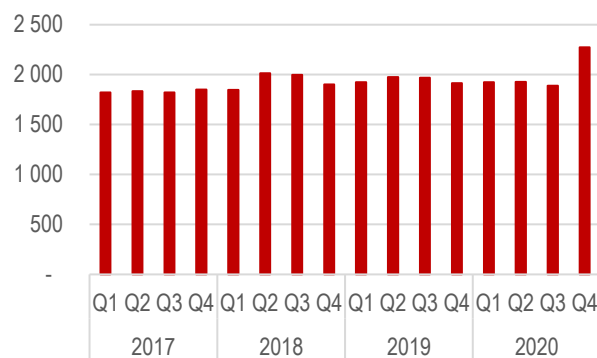


Source: SE Centre of Registers

Housing prices in the primary market of Palanga and Šventoji continued to remain at similar levels, fluctuating between 1,900 - 2,000 EUR/sq. m by mid-2020. However, due to the

sudden activity in the market, prices jumped to about 2,250 EUR/sq. m by the end of the year.

**Average prices of apartments in primary housing market Palanga (EUR/ sq. m)**

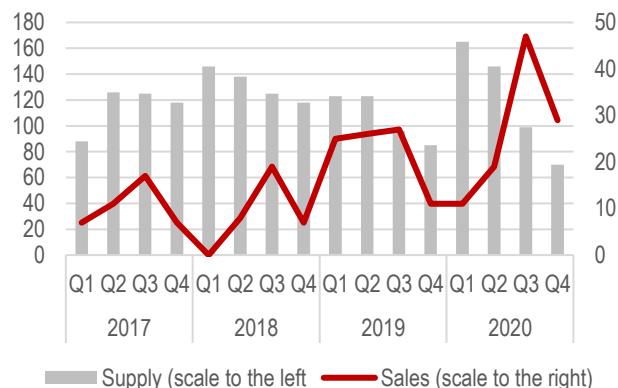


Source: INREAL

## HOUSING MARKET IN NERINGA

The real estate market in Neringa is exceptional, characterized by the most limited housing development and supply in Lithuania. Housing market activity is never even in this unique patch of land, where both the supply and sales are particularly dynamic. There is no other region where the supply has such an effect on the activity of buyers. 11 housing units were sold in the first quarter of 2020, which is 56% less than in the same period in 2019 (25). Sales in the second quarter of the year were almost twice as high (19), but this was also a worse result than in 2019 (26). Increase in sales was observed in the third quarter, with 47 sold housing units, i.e. 74% more than a year ago (27). 29 housing units were sold by the end of 2020, resulting in two and a half times better results than in 2019 (11). RE developers announced that they have sold a total of 106 housing units in Neringa in 2020 – 19% more than in 2019 (89) and twice more than the 2017–2019 average.

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

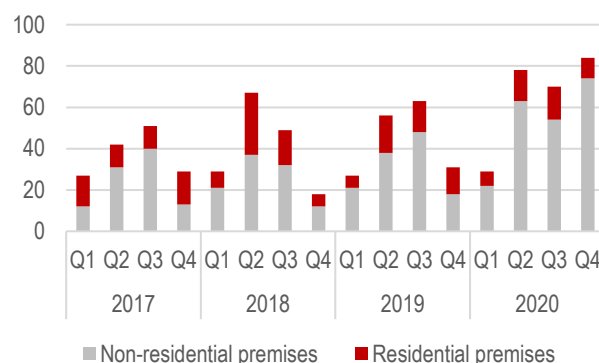


Source: INREAL

However, this number does not reveal the full picture, since not all housing projects are presented to the public. And, due

to the small market, even individual projects can significantly change the general trend. In 2020, INREAL Group started developing a new project "Marių vėtrungės". More than half of the project's preliminary sales agreements were signed in the period between obtaining the construction permit and the start of construction works, leaving only a few individual housing units on offer by the end of the year. There are more such projects in Neringa, therefore the annual indicators could be confidently doubled.

#### **SE Center of Registers registered sales transactions of premises in Neringa municipality**



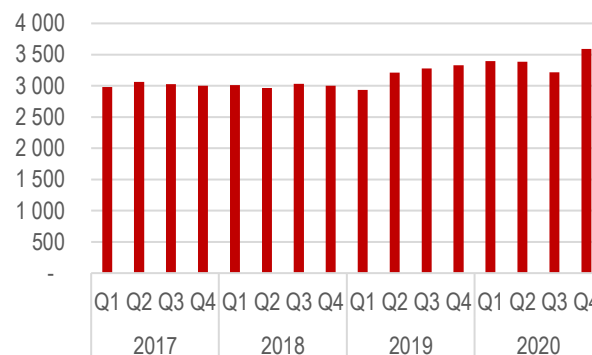
Source: SE Centre of Registers

In 2020, RE developers publicly offered the market 130 new housing units. Buyers can currently choose from around 70 of them, which is one and a half times less than the 2017–2019 average. However, these numbers are only part of the new supply, since there are projects sold without public disclosure.

An increase in the number<sup>2</sup> of transactions in Neringa has been observed throughout the year. 29 transactions were concluded during the first quarter of the year – 7% more than in the same period in 2019 (27). The second and third

quarters resulted in 78 (39% more (56)) and 70 (11% more (63)) transactions, respectively. By the end of 2020, 84 transactions had been concluded – almost three times more than in the fourth quarter of 2019 (31). Annual sales in Neringa (261) were as much as 47% better than in 2019 (177), and 60% higher than in 2018 (163). The largest jump in sales was recorded in the non-residential facility segment: 70% compared to 2019, and 109% compared to 2018. Sales of residential facilities decreased by 8% and 21%, respectively.

#### **Average prices of apartments in primary housing market Neringa (EUR/ sq. m)**



Source: INREAL

No significant changes in prices were recorded in Neringa. Publicly announced prices ranged at an average of 3,200 EUR/sq. m to almost 3,400 EUR/sq. m over the last couple of years. Prices also jumped to about 3,600 EUR/sq. m by the end of 2020. It is important to take into account that almost all the housing units offered in the primary market of Neringa are fully finished. Neringa is also the most expensive municipality in terms of real estate prices in Lithuania.

<sup>2</sup>There are basically no new construction facilities in Neringa municipality, since this area is dominated by reconstruction and conversion projects, therefore we do not

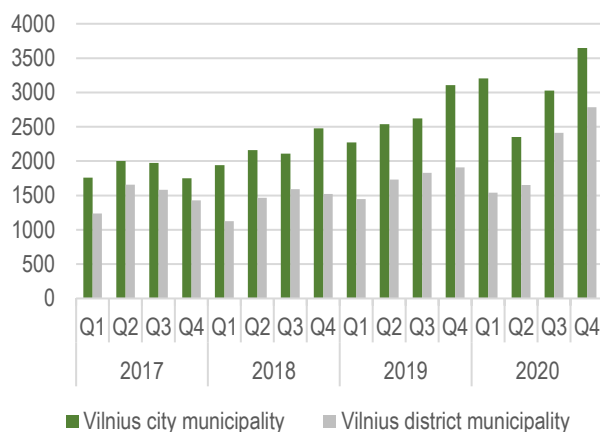
divide the data of SE Centre of Registers by the age of buildings.



## LAND PLOT MARKET

The land plot market in 2020 can be perfectly described with the word "more". Although this market was also affected by COVID-19 during the first half of the year, the impact of the pandemic was significantly smaller than in other real estate segments. Meanwhile, in the second half of the year, the impact of the pandemic on the land plot market<sup>3</sup> can be assessed as positive due to a record number of sales observed in the country's major cities and their surrounding areas. This was likely influenced by the fact that people were feeling trapped in a "concrete jungle" and felt the need for more space in their homes.

### Land transactions in Vilnius city and district municipalities (units)



Source: SE Centre of Registers

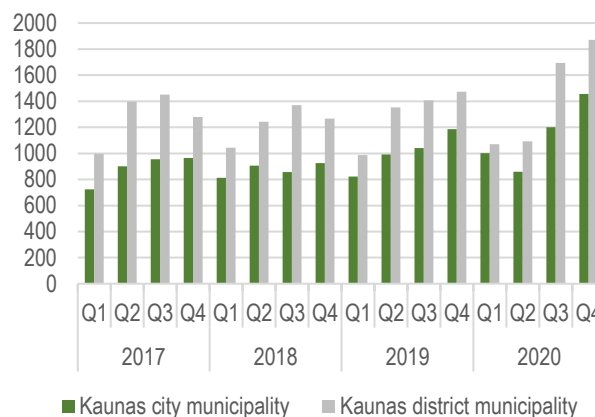
In the first quarter of 2020, a record number of 3,205 land plots were sold in **Vilnius** (excluding its surrounding municipality), however the fourth quarter of the year further improved this record with 3,647 land plot sales. A total of 12,228 land plots were sold in the capital in 2020, which is

16% more than in 2019 (10,535 transactions) and 78% more than the average for 2012–2019 (6,872 transactions).

The numbers of the capital were closely followed by those of Vilnius district municipality, where a record number of 2,785 sales were observed during the fourth quarter of the year. The annual result (8,392 transactions) was 21% better than in 2019 (6,917) and 55% better than the average for 2012–2019 (5,428 transactions).

There is less available land in **Kaunas** than in the capital, so there are slightly less land plot sales in the city itself than in its surrounding municipality. The first half of 2020 was not exceptional, however the last quarter of the year became a record for both of the said regions. 1,455 land plot transactions were concluded in Kaunas city, and as much as 1,872 transactions were concluded in its district. A total of 4,515 land plot transactions were concluded in Kaunas city in 2020, which is 12% more than in 2019 (4,043) and 58% more than the average for 2012–2019 (2,866).

### Land transactions in Kaunas city and district municipalities (units)



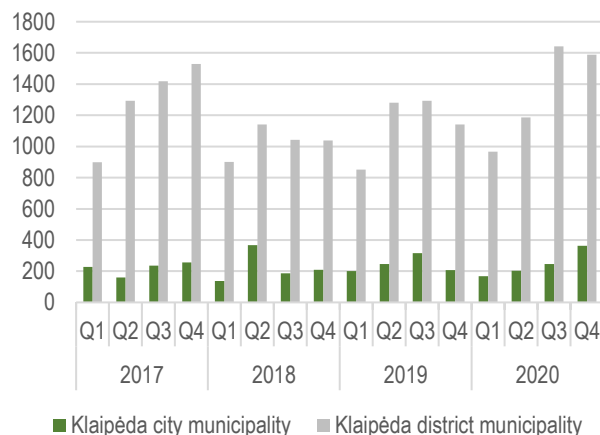
Source: SE Centre of Registers

<sup>3</sup> Land plot sales include not only land used for residential construction, however the latter make up a large percentage of these sales.

5,729 transactions were concluded in Kaunas district over the last year, which is 10% more than in 2019 (5,221) and 22% more than the average for 2012–2019 (4,701).

Among the three major Lithuanian cities, the least land plot transactions are made in **Klaipėda** city, since most of the individual residential houses are built in the city's district. On the other hand, 363 transactions were concluded in the port city during the last quarter of this year, which is almost a repeat of the previous record (367 transactions in the second quarter of 2018). In Klaipėda district municipality, a record number of 1,641 transactions was recorded in the third quarter of 2020. The city's annual results were also excellent with 981 concluded transactions, which is 1% more than in 2019 (969 transactions) and 32% more than the average for 2012–2019 (741). 5,384 transactions were concluded in the district, which is 18% more than in 2019 (4,566) and 31% more than the average for 2012–2019 (4,096).

#### **Land transactions in Klaipėda city and district municipalities (units)**

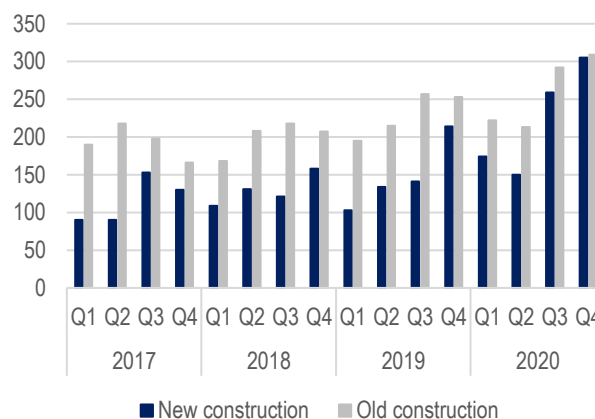


Source: SE Centre of Registers

## **RESIDENTIAL BUILDING MARKET**

2020 was a volatile year for the residential building market. The beginning of the year was very promising, however the quarantine which was announced in March changed the plans of the market participants. Nevertheless, the residential building segment withstood the challenges of the quarantine much better than the apartment market. The interesting fact is that buyers became particularly interested in the new construction residential buildings in Vilnius, Kaunas and Klaipėda regions (both city and district municipalities). Meanwhile, compared to 2019, the sales of old construction individual houses increased only in the Vilnius region.

#### **Residential buildings transactions in Vilnius city and district municipalities (units)**



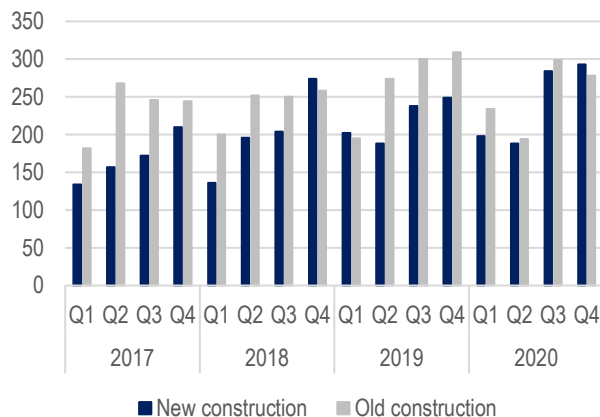
Source: SE Centre of Registers

A record number of new construction residential buildings (305) were sold in **Vilnius** region during the last quarter of 2020. The annual result (888) was as much as 50% better than in 2019 (592), and more than twice better than the 2012–2019 average (416). A similar situation was observed in the segment of old construction residential buildings. As many as 309 transactions were concluded in the fourth quarter of 2020, resulting in a total of 1,036 transactions per

year, which is 13% more than in 2019 (920) and 39% more than the 2012-2019 average (744).

The region of **Kaunas** did not present any surprises over the last year and continued to be the "capital of residential buildings" in Lithuania. 293 new construction residential buildings were sold here in the last quarter of 2020, resulting in a total of 963 such sales per year, which is 10% more than in 2019 (877) and 70% more than the average for 2012–2019 (567). The number of sold old construction residential buildings did not break any records over the past year. The highest number of such sales was recorded during the third quarter (299), which was 3% less than in the record third quarter of 2019. All in all, the sales of old construction buildings have slightly dropped in 2020, with a total of 1,005 transactions, which is 7% less than in 2019 (1,078), but 12% more than the average for 2012–2019 (894).

#### ***Residential buildings transactions in Kaunas city and district municipalities (units)***



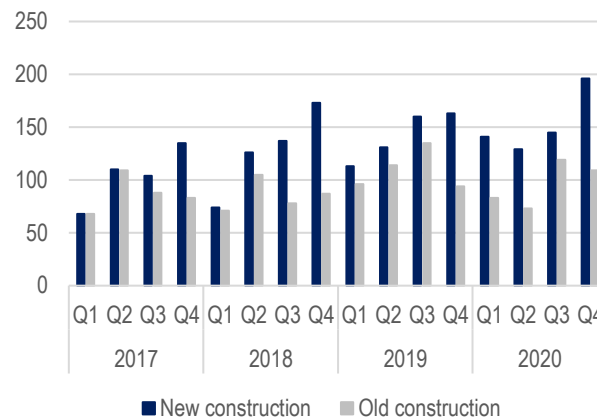
Source: SE Centre of Registers

The number of transactions in new construction residential buildings has also increased in the **Klaipėda** region, with as many as 196 transactions concluded in the fourth quarter of 2020, and an annual result (611) which was 8% better than

in 2019 (567). Compared to the period of 2012–2019, Klaipėda achieved a record growth with 131% more sales than the statistical average (264).

The number of transactions in old construction residential buildings was the highest in the third quarter of the year (119), but it was still 19% lower than in the third quarter of 2019 (135). Although the annual number of transactions (384) decreased by 13% compared to 2019 (439), it still remains 17% higher than the average for 2012–2019 (328).

#### ***Residential buildings transactions in Klaipėda city and district municipalities (units)***



Source: SE Centre of Registers

## COMMERCIAL REAL ESTATE MARKET

The year 2020 was the most difficult for the commercial real estate market. Many years of work have been erased with one sweep of the wings of a bat. After the announcement of the quarantine, business centres became empty, factories stopped working, and hotels, sports clubs, concert halls, as well as industrial goods stores have been closed.

However, businesses did receive financial support – both in the form of lease compensations and campaigns such as "Holidays for Doctors". Although the former support measure helped preserve part of the lease contracts, it resulted in a 30% income loss for the lessors. The latter measure allowed overworked healthcare workers to breathe a sigh of relief, but was still just a small drop in the ocean compared to the loss of business income.

Only a small number of hotels were able to enjoy an influx of local tourists during the summer. The rest either closed down or had to start providing non-traditional services, such as long-term lease. Some hotels have already sold their buildings which will likely be turned into separate apartments or will offer long-term housing lease.

Catering establishments have managed to continue their business activities by offering takeaway and delivery options, however this business model is not a successful alternative to restaurant catering and does not justify leasing facilities in the city centre.

The same can be said about sports clubs and non-food stores. Holding online training classes and selling via the internet does not require the use of specially equipped facilities and does not cover the costs incurred.

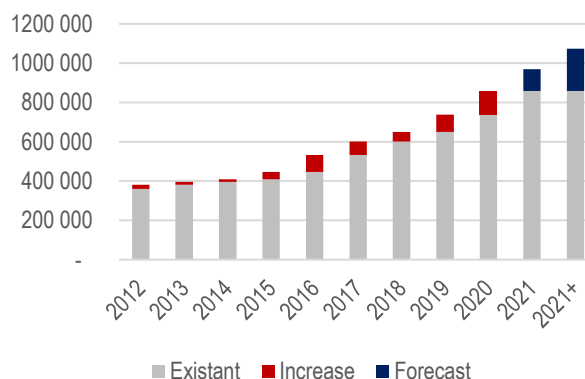
The costs of cafes, cinemas and sports clubs are not compulsory – people choose to spend their money on these

services themselves. However, since people were not able to enjoy these things for more than half a year, they are likely to flood the sector at least briefly and help restore at least part of the suffering businesses.

## VILNIUS BUSINESS CENTRES

11 business centres were opened in Vilnius in 2020, with a total area of over 120 thousand square meters. There are over 200 thousand sq. m of facilities in the active development stage and the same number in the early development stage. It is not yet entirely clear whether all the planned projects will reach the market in the next couple of years, since the pandemic may have significantly changed the future plans of business centre managers. On the other hand, these objects are located in attractive areas, enabling to use part of the built spaces as residential facilities instead of offices, which would likely be received positively by buyers.

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

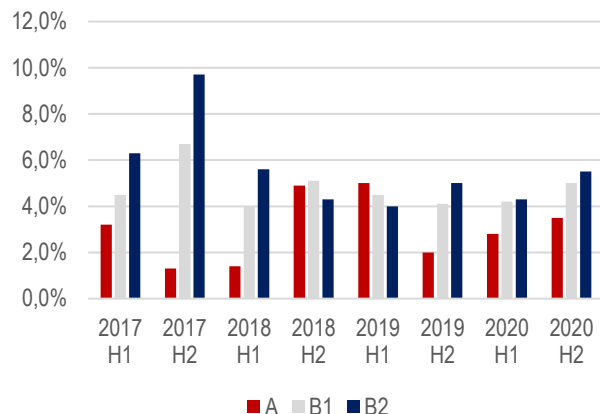


Source: INREAL

In 2020, the number of vacant facilities in Vilnius has slightly increased. This was affected not only by the opening of new business centres, but also by the pandemic. Due to the

uncertainty brought by the pandemic, some companies slowed down their planned expansion and did not increase the space to be offered for lease. The strategy of other companies was even more cautious – in addition to suspending all of their expansion, they also subleased part of their managed spaces. Currently, the area of vacant premises in Class A business centres is about 3.5%, in Class B1 – about 5.0%, in B2 – about 5.5%.

#### ***Dynamics of vacancies in Vilnius business centres under classes***



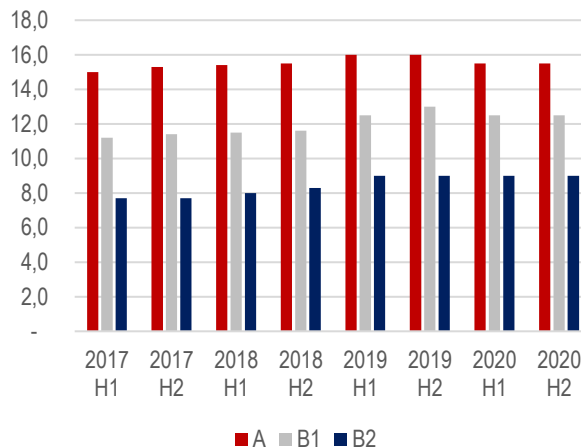
Source: INREAL

For several years, due to a particularly high level of employment, the possibilities of tenants to lease an area suitable for their business in Vilnius were significantly limited. At times they had to choose between premises that were either too small or too large for their needs. Their choice resulted in either employee discomfort or higher rental costs. With the new alternative of working from home and a wider choice of options, it is likely that, in 2021, tenants will be able to choose from a wider range of premises offered for lease.

There were no significant changes in rental prices in 2020. The price of Class A office premises reached 14–17 EUR/sq.

m, Class B1 – 11–14 EUR/sq. m, Class B2 – 7–10 EUR/sq. m. On the other hand, the bargaining power of tenants has been growing since mid-2020 and is currently slightly higher than in 2018-2019.

#### ***Dynamics of lease prices in Vilnius business centres***



Source: INREAL

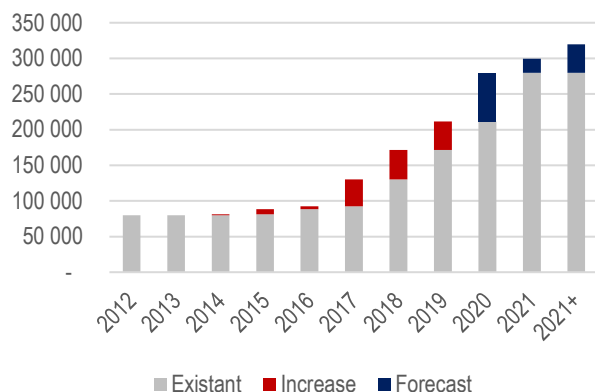


## KAUNAS BUSINESS CENTRES

The business centre market of Kaunas, which was stagnant for some time, has been going through a real renaissance since 2017. Growing office spaces have made it possible to attract more companies, form clusters and increase the attractiveness of RE in the city.

In 2020, the area of Kaunas business centres has increased by almost 70 thousand sq. m, and there are plans to add around 40 thousand sq. m of office space in the future.

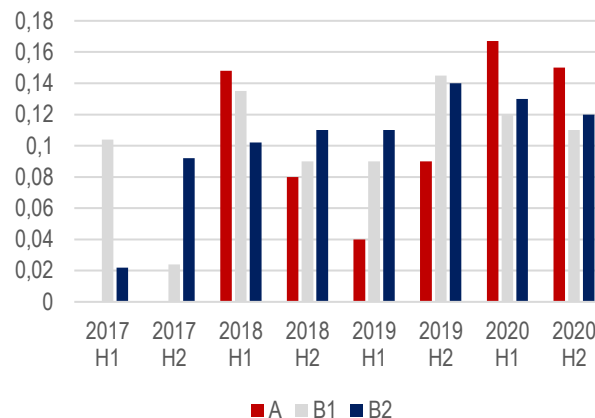
### Development of modern business centres in Kaunas (sq. m)



Source: INREAL

Development has been so rapid that tenants are not able to keep up with the supply, at least for the time being. This trend has led to a significant increase in the amount of vacant premises, which at the end of 2020 exceeded 10% in all of the segments. There are about 12% of vacant Class B2 premises, about 11% of B1 premises, and about 15% of vacant premises in Class A business centres. Vacant office spaces have already adjusted the plans of some RE developers who have launched their projects, as well as likely reduced the appetites of those who have not yet started development, therefore the opening dates of new business centres may be postponed slightly further than 2021-2022.

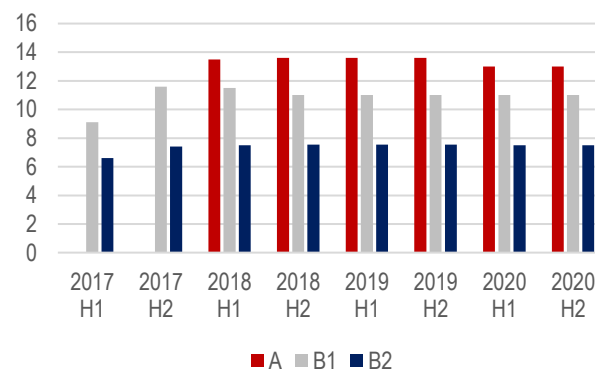
### Dynamics of vacancies in Kaunas business centres under classes



Source: INREAL

Although the vacancy rate remains relatively high, there are so far no significant changes in office rental prices. The price range for newly concluded contracts in Class A business centres is 12–13 EUR/sq. m, Class B1 – 9–11 EUR/sq. m, Class B2 – 6–9 EUR/sq. m. On the other hand, as in the capital, tenants in Kaunas are gaining more and more bargaining power, with the average price level slightly decreasing over the past year.

### Dynamics of lease prices in Kaunas business centres

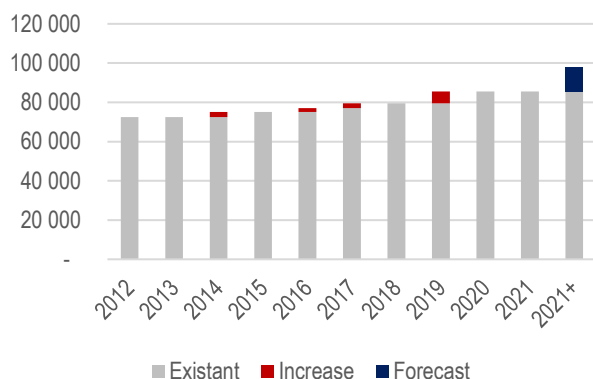


Source: INREAL

## KLAIPĖDA BUSINESS CENTRES

So far, RE developers have shown hardly any activity in the development of both residential and commercial real estate in Klaipėda. No new business centres were registered in the port city in 2020. On the other hand, previously planned projects may be replaced by others, such as the commercial part of the "Mėmelio miestai" project.

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



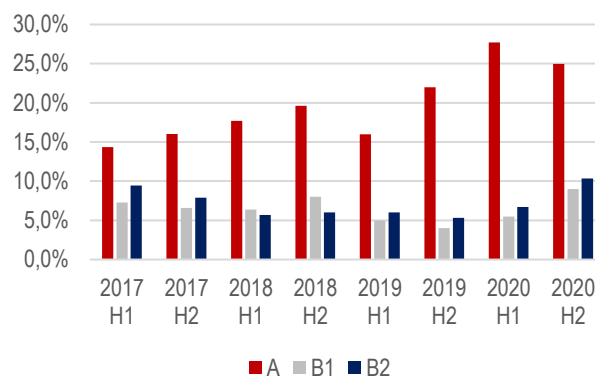
Source: INREAL

The number of vacant premises in the port city has increased from over 9 thousand sq. m at the beginning of the year to 10 thousand sq. m in the middle of the year, and to approximately 12 thousand sq. m by the end of 2020. More than half of this area is comprised of Class A business centres, where about a quarter of the premises are not leased, however this area is gradually decreasing. The situation in Class B1 and Class B2 business centres is slightly better, since the amount of vacant premises in them comprise 9% and 10%, respectively. Nevertheless, these number are almost one and a half times higher than a year ago.

The conditions for renting premises in the port city essentially have not changed. Class A premises are currently still available for rent for 9-12 EUR/sq. m, Class B1 premises –

for 7–11 EUR/sq. m, and Class B2 premises – for 5-7 EUR/sq. m.

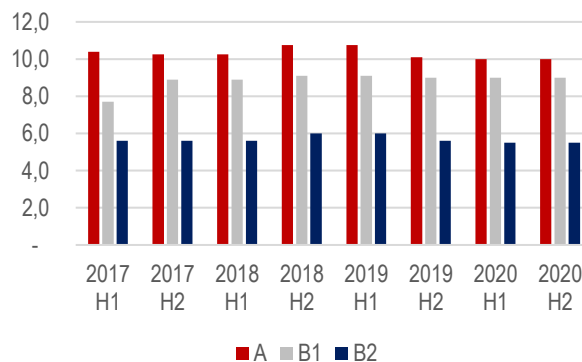
### Dynamics of vacancies in Klaipėda business centres under classes



Source: INREAL

It is doubtful that the situation in the port city will change substantially in the near future. On the other hand, with stabilizing population and preconditions for its growth, as well as accelerating development of residential housing, it is possible that Klaipėda will break free from stagnation and repeat the success of Kaunas in commercial real estate development and attraction of businesses.

### Dynamics of lease prices in Klaipėda business centres



Source: INREAL

## INDUSTRIAL AND STORAGE FACILITIES

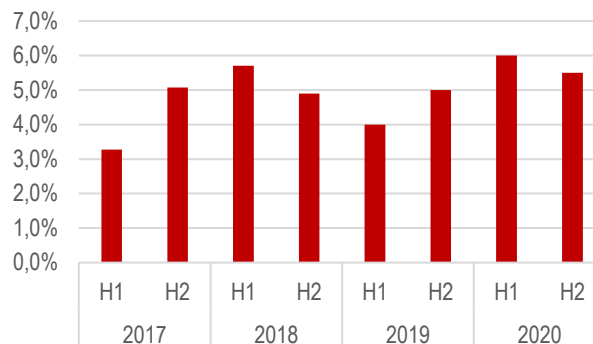
In the first half of 2020, there was a small increase in the supply of logistics and warehousing facilities in all the three major cities of the country, which was managed within half a year. Employment rates are fairly conditional in the logistics sector, since a large percentage of storage facilities are built for own use, therefore they are not always included in the general statistics.

In view of the consequences of the pandemic, supply chain schemes for localizing production have been revised. Industry representatives announced that they have received more orders, which their clients have moved from the East, thus the need for storage facilities may increase significantly in the near future and have an additional positive impact on investments in this area. Increased e-commerce may also contribute to new development, if existing redistribution objects will not be geographically suitable or physically able to service new clients. On the other hand, an increased interest in storage facilities does not mean that investors will seek to buy them and tenants will seek to rent any product offered to the market solely for its intended purpose.

The total area of vacant facilities in logistics centres and warehouses in Vilnius jumped from 5.0% at the end of 2019 to 6.0% in the middle of 2020, and at the end of the year reached approximately 5.5%, i.e. about 40 thousand sq. m were offered to the market.

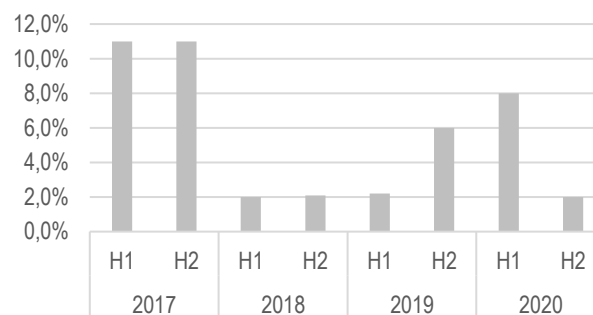
There was a more significant increase in the area of vacant storage facilities in Kaunas, compared to the capital. Back in the middle of 2019, there were about 2% of vacant facilities offered to the market, however this number jumped to 8% by the middle of 2020. By the end of the year, the volume of vacant facilities offered to the market has dropped to 2%, or less than 10 thousand sq. m.

**Dynamics of vacancies in modern logistics centres in Vilnius (percent)**



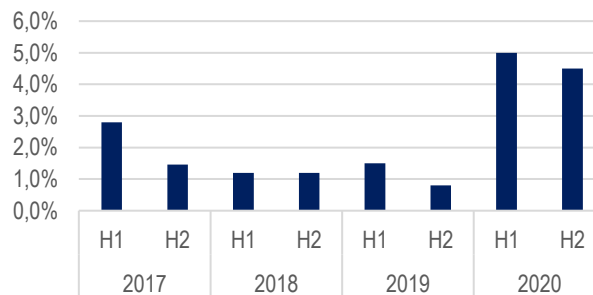
Source: INREAL

**Dynamics of vacancies in modern logistics centres in Kaunas (percent)**



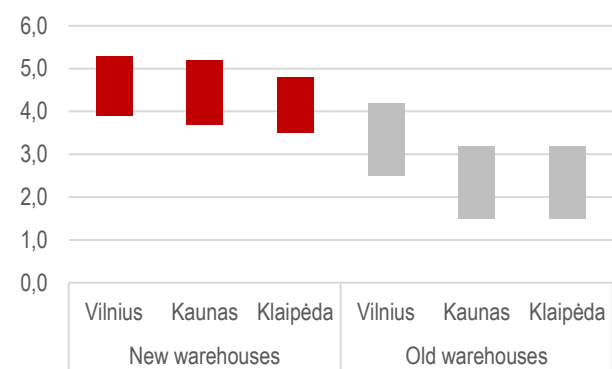
Source: INREAL

**Dynamics of vacancies in modern logistics centres in Klaipėda (percent)**



Source: INREAL

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



Source: INREAL

The volume of vacant facilities in Klaipėda has increased from 1.5% at the end of 2019 to 5.0% by the middle of this year, however supply dropped to 4.5% by the end of 2020 (to slightly less than 20 thousand sq. m).



***Artūras Kojala, Partner at Law Firm COBALT***

## **OVERVIEW OF REAL ESTATE LAW AND TAXATION**

The previous year 2020 was undoubtedly marked by extraordinary events that prompted changes in the greater part of the world. The global pandemic of the COVID-19 virus and the measures enacted by governments to curb the spread of the virus have undoubtedly affected the business environment as well. Lithuania is no exception in this case. After the introduction of quarantine and the approval of its regime in March 2020, the feeling of uncertainty and indefiniteness intensified. Later, when it became obvious that the situation was under control and the measures taken by the governments had slowed down the spread of the virus, life had returned to normal at least in part.

Today, it can already be stated that the business related to real estate development and the real estate segment in general has more or less come in sync with the situation.

The real estate market was very active in 2020 and the number of transactions concluded, which was almost the

same as in the record year 2019, only confirms this. According to the data of the Centre of Registers, in 2020 the number of real estate purchase and sale transactions registered in Lithuania amounted to 129 thousand and was just 0.6% lower than in 2019<sup>4</sup>.

Changes triggered by the pandemic and related measures have played an important role in the real estate deals market. This involves both the boom of the so-called "second" housing market and the changes in the office rental market, where landlords and tenants are looking for answers to the questions of how we will live tomorrow and how our work and office habits will change. At the same time, this constitutes higher activity in such field as development and acquisition of warehousing facilities. Real estate law legislative activity was also persistent in 2020, bringing amendments to territorial planning, construction and other related laws and secondary legislation. The Law on Municipal Infrastructure Development, which was adopted in 2020 and came into force on 1 January 2021, is undoubtedly one of the most important legal norms. Although there was enough time to prepare for its entry into force and application, both municipalities and entrepreneurs still have questions and



need answers regarding its application. The year 2021 is the year when the practice of application of this law will be formed.

The Law on Territorial Planning, one of the key norms of real estate development and enlargement, has been amended and supplemented on numerous occasions. Significant and noteworthy such amendments to the law that are related with the development of objects of importance to the State and large objects, the climate change impacts, the need to prepare detailed plans (these amendments were adopted already in 2021), as well as amendments related to the Law on Municipal Infrastructure Development and its implementation.

The Law on Real Estate Tax did not escape changes as well. Important amendments have been adopted in connection with the increase of the lower tax threshold, the change in the value of tax-exempt assets.

Again, however, lawmakers have not been very proactive so far in addressing some issues of particular importance to business. The issue of real estate development on state-owned land still remains open. The entire real estate market is still waiting for changes in this very important area, which is holding back a large number of investment projects. Although 2020 has not brought changes here, we hope that the impetus will be regained this year and that the necessary amendments (which make space for smart development) to the Law on Land and secondary legislation will finally be adopted after a satisfactory compromise has been reached.

Despite the rather significant legislative changes that took place in 2020, we expect that 2021 will be also an active year. The above-mentioned issue of lease and development of state-owned land requires solutions. It cannot be ruled out

that the Law on Municipal Infrastructure Development and related legal norms will be supplemented and revised.

## REAL ESTATE LAW NEWS

The following legal acts were adopted or entered into force in 2020, and their amendments are significant in the real estate market:

**The Law on Municipal Infrastructure Development** is undoubtedly the most important legal norm, which was adopted in 2020 and has become effective since **1 January 2021**. The rather chaotic, sometimes more customary, law-based combination of relationship of municipal infrastructure development and real estate development has finally come to terms with clear rules of the game;

The key aspects of this Law on Municipal Infrastructure Development are as follows: (i) priority and non-priority infrastructure development territories are distinguished in municipal territories, (ii) the procedure for financing municipal infrastructure development is established, (iii) responsibilities are divided between entities in implementing municipal infrastructure development, (iv) real estate developers will have to and will be able to contribute to the development of municipal infrastructure by paying a duly calculated contribution or by participating in the infrastructure development process; (v) the compensatory mechanism for the installation of municipal infrastructure is envisaged for real estate developers; (vi) the municipal infrastructure development contract, which is required to obtaining a construction permit, is an instrument proposed by this law for municipal and real estate developers to agree on such infrastructure development; (vii) the municipal administration performs the functions of the municipal infrastructure development organiser;

Several amendments to the **Law on Territorial Planning**, adopted both in 2020 and at the start of 2021 (we also include them due to their importance for real estate development), are significant and it is worth summarising them in brief:

- 1) The Law Amending the Law on Territorial Planning adopted on 7 May 2020 (which became effective on 1 January 2021) is mainly related to the implementation of the Law on Municipal Infrastructure Development. Significant changes include (i) the obligation of the planning initiator to conclude a municipal infrastructure development contract, (ii) the identification of urbanised territories, territories under urbanisation and non-urbanised territories as solutions to general planning documents, determination of the scope of development of such territories, priority and of other possible activities and priority municipal infrastructure development stages;
- 2) The Law Amending the Law on Territorial Planning, which was adopted on 25 June 2020 and came into force on 1 January 2021, is intended for the development of large and important projects. The draft law proposes to establish that territories intended for large projects (as those projects are understood under the Republic of Lithuania Law on Investment) are developed and construction therein is carried out in accordance with the solutions of either local-level comprehensive plan or, if it is not prepared – municipal-level comprehensive plan. In cases where the development of a territory intended for the implementation of a large project is not provided for in the comprehensive plans at the municipal or local level, the development of such territories could be commenced on the initiative of a Government-authorised body. Although such an initiative would not

be obligatory for municipalities, it is proposed that the Government-authorised body be given a right to choose: to prepare territorial planning documents either in accordance with the general procedure or with the procedure laid down in Article 23 of the Republic of Lithuania Law on Territorial Planning (territorial planning of projects of importance to the State). Where territorial planning documents, approved before the entry into force of the law or initiated before the entry into force of the law but approved after the entry into force of the law, are valid in the territories where large projects are to be implemented or in which large projects are to be attracted, the development of these territories will be enabled according to the approved territorial planning documents. Such approved documents will be made available for revision, if this is necessary for the development of a large project.

- 3) Although the significant Law Amending the Law on Territorial Planning was adopted after the close of the year 2020, i.e. on 22 January 2021, we consider it appropriate to discuss these amendments in at least a few words. The essential amendments include: (i) **Climate change**. The law includes an additional goal of territorial planning - to provide conditions for addressing the climate change-related challenges, to create a climate-resilient living environment and to promote the development of alternative energy sources and technologies that increase energy efficiency, (ii) **Return of detailed plans**. Detailed plans (or local-level comprehensive plans establishing the regulation on the use of the territory covered by the detailed plans) are prepared when (1) the existing or designed engineering or social infrastructure of the municipality is insufficient and needs to be planned; (2) the detailed plan

regulation is amended; (3) the solutions of the local-level or municipal-level comprehensive plans provide for the development of residential areas, territories important for the preservation of natural and cultural identity, (iii) **Public interest**. For public interest entities, the mandatory time limit for submitting claims against the approved territorial planning documents (except for territorial planning documents of projects of importance to the State), their solutions or administrative acts approving them is 5 years from the entry into force of the approved territorial planning document (prior to the amendment to the law – 2 years). Other, less significant amendments related to the procedures for re-parcelling of land plots have also been made.

The **Law on Construction** was amended once in 2020 (the amendment was adopted on 22 May 2020 and became effective on 1 January 2021) and these amendments are mainly related to the amendments to the Law on Municipal Infrastructure Development: (i) the amendment to the law clarifies the right of the builder (client) to choose whether to use utility engineering networks or to construct local ones, if the solutions of territorial planning documents providing for the construction of utility networks assigned to priority municipal infrastructure have not been implemented within the deadlines set in territorial planning documents. Where a municipal infrastructure development contract is signed, before the construction permit is issued, this contract must be amended prior to the start of construction operations or construction completion procedures, (ii) **The construction permit may be revoked** if the initiator (builder) of the municipal infrastructure development changes and the municipal development contract is not amended before the start of construction operations or construction completion procedures, and the construction permit may be revoked if

the municipal infrastructure development contract is terminated.

Amendments to Technical Regulation of Construction STR 2.01.02:2016 '**Design and certification of energy performance of buildings**', effective from 29 September 2020, clarified that buildings under construction, for which the application for a permit to build a new building was submitted after 1 January 2021, when construction permits are not required and **construction operations started after 1 January 2021, the energy efficiency class must be at least A ++**. It should be noted that if the said application is submitted on or before 1 January 2021, but is not accepted under the requirements of Article 27(8) of the Law on Construction, and will be submitted and accepted after 1 January 2021 following the remedy of the shortcomings, then the requirement for a building energy efficiency class of at least A ++ is not applied. In this case, the requirements of paragraph 20 of Regulation STR 2.01.02:2016 apply and the building must have at least class A + rating.

Amendments to **STR 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'**, adopted on 30 October 2020, are related to the quarantine announced in the aftermath of the COVID-19 virus pandemic. During quarantine, construction completion procedures are organised, and builders and other clients are serviced remotely, except when such functions need to be performed at a specific location. The technical regulation of construction does not specify such cases and leaves this up to the participants of the construction process. It also imposes an obligation on the builder to ensure safety

requirements for members of the commission visiting the construction site.

With effect from 1 January 2020, **a new procedure for the preparation of land plot formation and reformation projects came into force**. In both urban and rural residential areas, the preparation of land plot formation and reformation projects is organised by the director of the municipal administration. Therefore, from 1 January 2020, persons entitled to initiate the preparation of land plot formation and reformation projects must submit applications for preparation of land plot formation and reformation projects to the director of the municipal administration and not to the National Land Service, as previously.

With effect from 1 January 2021, **amendments to the Law on Special Land Use Conditions** came into force, providing that in **road protection zones** falling within cities, towns, compactly built-up rural areas it will be possible to build new and/or reconstruct existing buildings (even if the external dimensions of the building increase during the reconstruction) that are not related to the servicing of road vehicles and road users, with the approval (coordination) of the road owner or manager. It has also been added that in the **protection zones of public railway infrastructure roads and their facilities** falling within the land plots or parts thereof occupied by urban railway stations (if the railway station does not occupy the entire land plot), construction and/or reconstruction of buildings not related to railway transport activities is prohibited (if the external dimensions of the building increase during the reconstruction) not closer than 10 m on either side of the margins of the railway tracks and not closer than 5 m to the railway structure (railway and its appurtenances), without the approval (coordination) of the public railway infrastructure manager for the project or planned activities obtained in the manner prescribed by the

Law on Construction, the Law on Territorial Planning or the Minister of Transport and Communications.

With effect from 1 January 2021, **amendments to the Law on Land** came into force. The Law on Land was supplemented with the provision that state-owned land is leased without an auction in the cases specified in the Republic of Lithuania Law on Investment, when it is needed for the implementation of large projects. An additional provision is also introduced that easements are established by an administrative act for state-owned, municipal and private land plots, where in the cases provided for in the Law on Investment, easements are required for the implementation of large projects.

With effect from 1 January 2020, **amendments to the Law on Immovable Property Tax** came into force. **The lowest limit of the tax rate has been increased to 0.5 percent. The natural person's immovable property** – structures (premises) intended for dwelling purposes, gardens, garages, homesteads, greenhouses, farms, subsidiary farms, science, religion, and recreation, fish-farming structures as well as engineering structures, with the total value not exceeding **EUR 150,000, is not subject to tax. For persons raising three or more children** under 18 years of age, or raising a disabled child under the age of 18, as well as an older disabled child with a special need for permanent care, the immovable property owned with total value not exceeding **EUR 200,000** is not subject to tax.

## RELEVANT CASE LAW

In 2020, the Supreme Court of Lithuania (hereinafter – **SCL**) and the Supreme Administrative Court of Lithuania (hereinafter – **SACL**) developed the following case law, which may prove relevant and useful for market participants:

SCL ruling of 6 January 2021 in civil case No e3K-3-166-969/2021, where the SCL summarised the legal regulation on the lease of state-owned land and provided a conclusion that the state-owned land lease agreement can be amended in accordance with the general procedure, i.e. by an agreement of the contracting parties, or in the absence thereof, by a court decision issued on a request of one of the contracting parties, in compliance with the requirements of the mandatory legal norms regulating the conditions of lease of state-owned land.

SCL ruling of 6 February 2020 in civil case No 3K-3-701/2020, where SCL reminded of the established practice:

the general rule that the ownership right to an object passes from the moment of transfer of the object does not apply only when the parties have an agreement on the moment of transfer of ownership.

SACL ruling of 14 October 2020 in administrative case No eA-1111-492/2020, where SAČL singled out the conditions under which the purpose and manner of use of land plots may be changed without the preparation of a territorial planning document and a land holding project: (i) the land plot must be in an urbanised territory or in a territory under urbanisation; (ii) the territory does not have a valid detailed plan; (iii) the planned change in the purpose and/or manner of land use must be in line with the solutions of the municipal-level and local-level comprehensive plan (if any).

SCL ruling of 15 October 2020 in civil case No e3K-3-260-684/2020, where SCL concluded that the failure by the parties to the private land lease agreement to agree on the amount of the land rent and the change of the payment procedure, the vagueness of the lease terms regarding the amount of the lease rent do not form the basis for unilateral termination of the lease agreement in accordance with

Articles 6.564 and 6.217 of the Civil Code. It must be acknowledged that failure to agree on the amendment to the terms of the agreement constitutes a basis not for unilateral termination of the agreement, but for recourse to a court regarding the amendment to the terms of the agreement.

SCL ruling of 18 November 2020 in civil case No e3K-3-294-695/2020. The SCL has made it clear that the site and/or sidewalk constitute an independent object with an independent purpose. The holding of such an object by the right of ownership forms the basis for the right to lease the state-owned land plot necessary for the operation of this object. The change is significant in that in practice, it is not uncommon when such buildings (sidewalks, sites, etc.) exist in the territories built up some time ago, and the relationship between them and the lease of state-owned land raises many questions and difficulties.

SCL ruling of 23 December 2020 in civil case No e3K-3-262-969/2020. The ruling is important in interpreting dispute situations where there are several owners of real estate objects in one state-owned land plot, but the entire area of the plot is leased only to one of them. In order to correct errors resulting from the conclusion of a state-owned land lease agreement with a person not entitled to the lease of the entire land plot, an error correction method is not possible when the lease agreement is terminated unilaterally in its entirety, and efforts must be made to amend the agreement. It is the lessor of state-owned land who has the obligation to initiate the amendment to the lease agreement in cases when such necessity directly results from the errors made by the lessor.



## ABOUT / CONTACTS

### INREAL GROUP

INREAL is a brand 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 11 cities in Lithuania. The company has engaged in business operations for 25 years and implemented more than 70 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.

Žalgirio str. 94, 09300 Vilnius | Ph. +370 5 273 0000 | [www.inreal.lt/en](http://www.inreal.lt/en)



### ŠIAULIŲ BANKAS

Šiaulių Bankas – the largest Lithuanian capital bank and a financial partner that demonstrates stable and consistent growth with particular focus on business financing and consumer financing solutions – was established in 1992. Šiaulių Bankas operates 59 branches in 37 cities and towns throughout Lithuania. Its shares are listed on the Baltic Main List of the NASDAQ Stock Exchange.

Tilžės str. 149, 76348 Šiauliai | Ph. +370 37 301 337 | [www.sb.lt](http://www.sb.lt)



### COBALT

COBALT is a seven-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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