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LITHUANIAN ECONOMIC
AND RE MARKET REPORT

2021 – 2022

DRAUGE SU ŠIAULIŲ BANKU, COBALT IR CITYNOW

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Tomas Kipišas, Šiaulių bankas Savings and Investment Products Manager

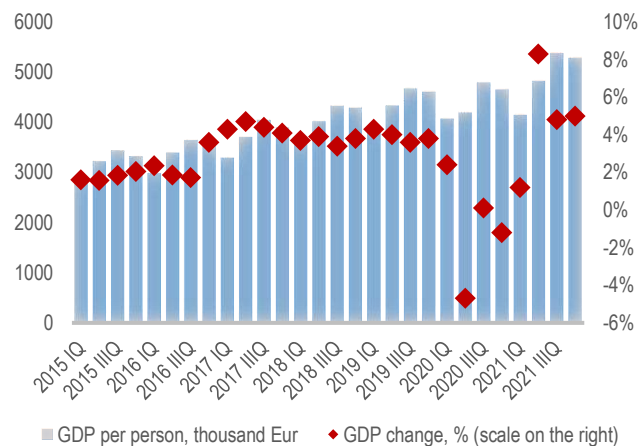
Tomas has many years of experience in intermediating in financial markets, managing investment portfolios, analysing markets, and administering investment products. He advises clients on investment issues in the markets, prepares articles and provides market commentary to the media.

ECONOMY OVERVIEW

Lithuania's economic growth remains one of the strongest in Europe. Last year, the country's GDP grew 5.1 percent, despite major pandemic challenges, strict quarantine and disrupted supply chains. This result should not be undermined by the relatively low comparative base in 2020, when the world was hit by the COVID-19 crisis, as quite strong economic activity was felt in many segments. The resilience of the Lithuanian economy has been determined by a fairly balanced structure. While in the first half of the year, international trade saved the situation due to the pandemic's heavy grip, in the second half of the year domestic consumption shot up like a released squeezed spring, fueled by both consumer optimism and double-digit

wage growth. Last year, it could be said that there were no major factors holding back growth. Domestic demand was also further stimulated by record activity in the housing market. However, it is worrying that the price component has been responsible for most of this growth over the past few quarters. This is one of the side-effects of extensive economic support.

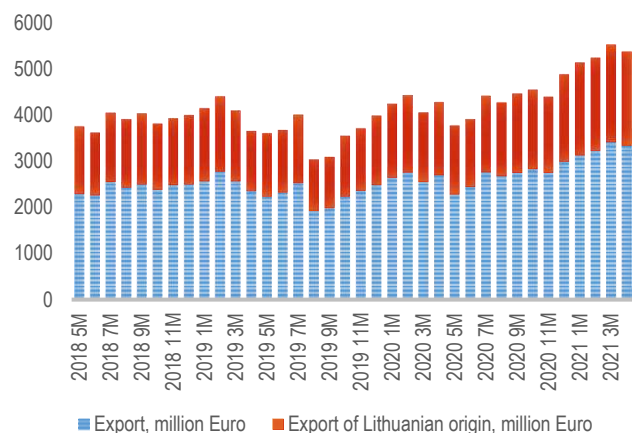
Lithuanian GDP



Source: Lithuanian department of statistics

Western markets have also experienced a good upswing, with international trade growing and unemployment approaching pre-pandemic levels. After a slowdown at the start of last year, the world economy showed an impressive pace of growth in the second half of the year. The declining outbreaks of the virus and accelerating vaccination have facilitated the easing of restrictions on businesses and households. Lithuania has made excellent use of these processes. The strong recovery of the Western economy has hit global producers unprepared and unable to meet global demand for goods and raw materials. Lithuanian manufacturing companies have shown flexibility and have successfully taken over some of the orders.

Foreign trade



Source: Lithuanian department of statistics

Exports of goods grew by a fifth (20.5%) in 2021, reaching a record high, while exports of goods of Lithuanian origin grew even more - by 25.9%. Such a large change was due to the low base of the previous year and the high growth of export prices. The country's manufacturing industry has shown excellent export results. Exports of oil products, furniture, plastics and articles thereof grew the most. Lithuania mainly

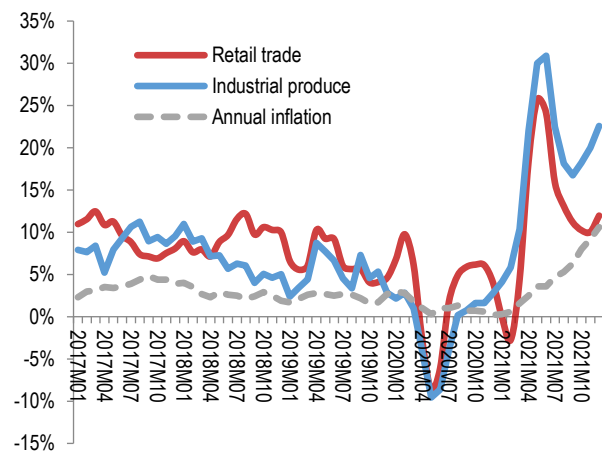
exported products of the chemical industry (15.1%), machinery and mechanical equipment, electrical equipment (13.6%) and mineral products (10.4%). Exports of oil products, furniture, plastics and articles thereof grew the most. The main export directions remained the same - Russia, Latvia, Germany and Poland. Goods of Lithuanian origin were shipped to Germany, the United States, Poland, Latvia and the Netherlands. Among the goods of Lithuanian origin, the largest exports were in the chemical industry (13.9%), miscellaneous manufactured articles (12.5%) and petroleum products (12.4%).

Despite the impressive last year, Lithuania's export future remains cloudy due to both geopolitical tensions and rising prices in Western markets, which on the one hand are raising producers' costs and on the other hand cast doubt on the sustainability of the recovery. A significant slowdown in exports is expected this year, as the closing of the Russian market alone, to which Lithuania exported the most last year, will cause a number of losses. With the addition of the energy crisis in Europe and the turmoil in the Chinese real estate sector, we may have a potential time-bomb at our hands that will increase uncertainty and limit the development of international trade.

However, inflation was the biggest headache last year. The price increases, which are at their highest level since 2009, came as a huge surprise to many economists. This price shock is the result of a number of factors: pandemic constraints, supply chain disruptions, China's zero COVID-19 policy limiting the availability of raw materials, the energy crisis, and large-scale economic stimulus programs. Consumer price inflation in Lithuania and Estonia exceeded 10%. Last December, annual inflation in Lithuania was the second highest in the European Union. However, this rise in prices should not have come as much of a surprise, given

the uncontrolled rise in energy prices, which has been passed on to final consumers with some delay. High prices curtailed purchasing power and posed a serious threat to consumption patterns. The rising cost of basic necessities encourages people to move away from non-essential or luxury goods and services. This year, due to the global processes already mentioned and the easing of pandemic restrictions, further price increases are still expected in the first half of the year. The European Commission forecasts that the rate of price growth will slow down slightly in the second half of the year and the average annual inflation in Lithuania will reach 6.7%. Meanwhile, in 2023, inflation in the country will fall to 2.2% as the challenges of shortages of intermediate and final consumption goods are addressed.

Indicators of economic activity



Source: Lithuanian department of statistics

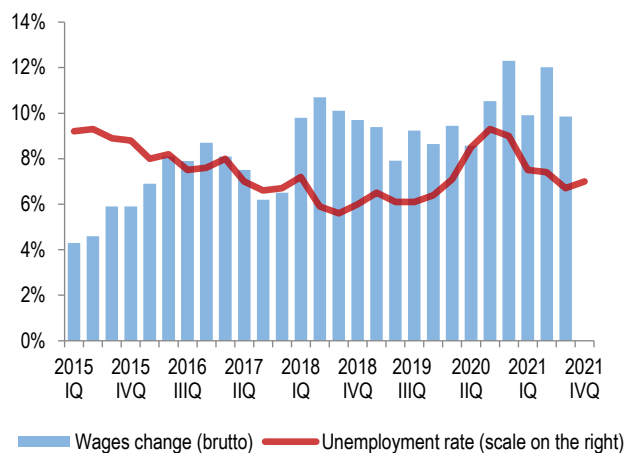
Despite rising prices, consumer optimism has not waned. Consumers have opened their wallets wide thanks to advances in vaccination, having freed themselves from the grip of the pandemic and accumulated considerable sums of money during the quarantine. Neither pandemic waves nor a

spike in inflation have dampened consumer appetite. This behavior gave a strong impetus to domestic-oriented activities, with retail sales up 12% last year. The change in December alone was 17 percent. The sectors most affected by the pandemic are the accommodation, catering, tourism, sport, recreation, entertainment and culture sectors. The turnover of the catering sector alone at comparable prices was 79 percent higher than a year ago. Last year, everyone consumed - not only the richest, but also the less affluent, who received more solid wages and higher pensions. However, the first quarter of the year will be much worse for retailers, both due to lower shopper flows and higher prices.

The industry, which is considered to be the main artery of the country's economy, was as high as 23 percent higher in the last quarter of last year (excluding oil products) than a year ago. Industrial companies have successfully met the challenges related to the supply chain and responded to increased demand for orders. The sector was most driven by the manufacturing industry, which showed double-digit growth in both manufacturing and exports. The largest growth in the last quarter was in the manufacture of chemical products, computer, optical, medical equipment, electronics and other equipment. Despite the successful results, the situation for industrial companies is challenging, due to staff shortages, high raw material prices and a negative geopolitical backdrop.

Despite consumer optimism and rising wages, the labor market situation is quite tense, with job vacancies at record levels and wages or business costs rising by a tenth or more for the fourth year in a row. One in three companies complained of a lack of staff, limiting expansion opportunities. True, the unemployment rate fell to 7 percent in the last quarter of last year and fell to a lower level than before the pandemic.

Labor market



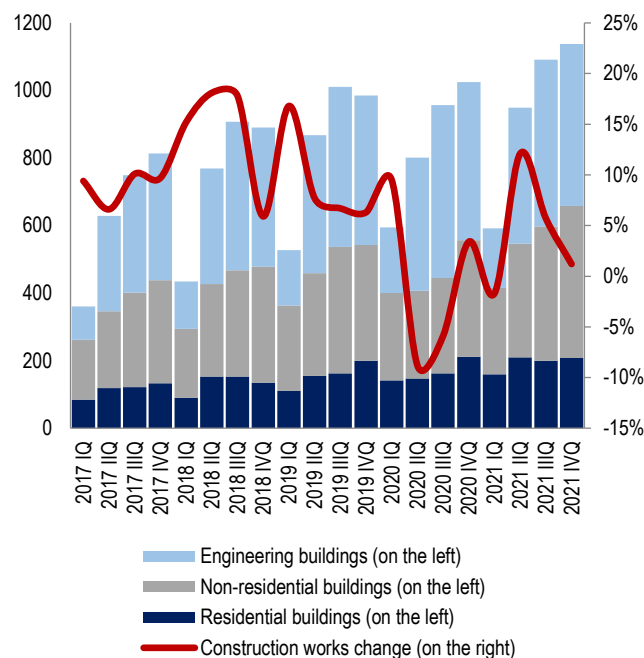
Source: Lithuanian department of statistics

Addressing the challenges of dependence on bloating labor costs, the country's industry has significantly increased its productive investment, which grew by a tenth last year. True, the results of the construction sector were not homogeneous. While housing market growth was record-breaking, other segments stagnated. Non-residential development was sluggish enough and the civil engineering segment did not even reach the 2020 pace. In the last quarter of last year, the impact of the construction sector on the change in the country's GDP was even negative. The processes may have been hampered by high prices for construction materials, disruptions in the supply of materials, and a shortage of staff.

Despite the impressive last year, the beginning of this year is not very grateful to the Lithuanian economy. The risk flashpoint number increased significantly, which will limit the development of our country's economy. Development will be hampered not only by double-digit inflation, but also by a significant increase in geopolitical tensions due to the war in the neighborhood. The latter could severely cut export

volumes, slowing down population expectations and consumption. Last year, exports were one of the most important sources of economic development in Lithuania. Worried about the energy crisis that has engulfed Europe, it is difficult to predict when it will ease. Consumers are likely to prefer essential goods to non-essential or luxury goods and services. Living without quarantine and allowing the economy to breathe more freely should provide some protection against a further slowdown in domestic consumption, and record savings for businesses and citizens and EU support will act as an additional 'pillow'. The European Commission forecasts that Lithuania's economic development will reach 3.4 percent annually this year and next.

Construction activity in Lithuania



Source: Lithuanian department of statistics



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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

The most important events and factors in 2021 that affected the real estate sector were the infrastructure tax and the resolution on compensation for development on state-owned land, the A++ energy efficiency class requirement, rising prices of construction works and materials, high employment of contractors, particularly high demand for housing, its dangerously shrinking supply, and increasing attractiveness of commercial real estate.

People bought a record amount of housing, and developers introduced a record number of projects to the market. The fast primary market train has somewhat slowed down due to the end of the spring effect, the significantly shrinking supply,

and the increased housing prices. In 2021, particular attention was paid to commercial housing lease, and developers have undertaken both to develop such projects, and to sell apartment buildings specifically for lease purposes.

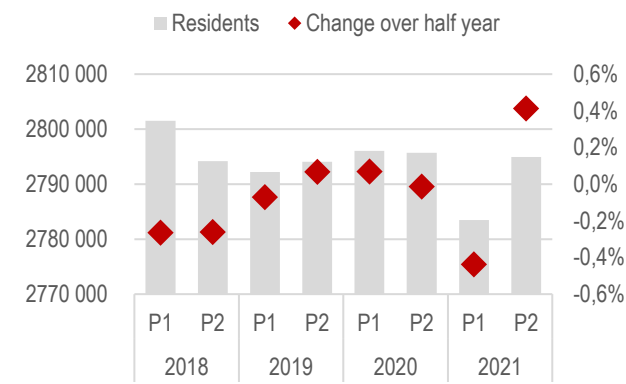
Quarantine drove employees out of their offices, but gradually most companies opted for a mixed-activity model, enabling to maintain the need for administrative facilities and even plan for further expansion. However, the impact of the pandemic on the business centre segment is evident, and the continued development of these projects has pushed up vacancy rates.

In order to optimize the supply chains, a strong focus is being placed on the logistics segment which continues to have a particularly high occupancy rate, development of new segments (stock-office), and decrease in annual profitability requirements as this segment is taking on greater importance.

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 2,794,961 people residing in Lithuania by the end of 2021. This number was 2,797,223 a year ago. The population grew by three thousand in 2020, and decreased by almost the same amount in 2021 due to the pandemic, excess deaths and declining birth rates.

Population in Lithuania



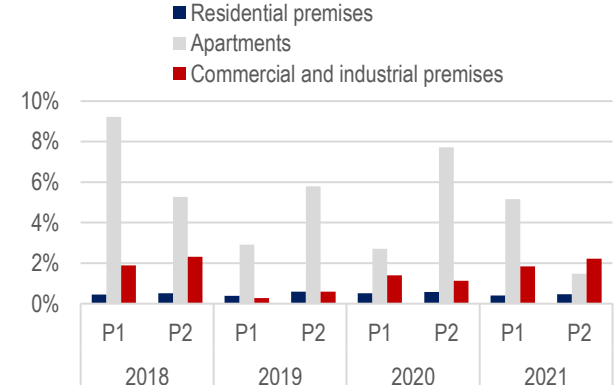
Source: Lithuanian department of statistics

Talking about further population changes is difficult, since each new year brings new challenges. In 2020, a pandemic broke out, the United Kingdom withdrew from the European Union, migration of the Belorussian IT sector began, and Russia launched a war in Ukraine in 2022. These are only a few factors that have determined and will determine migration to and from Lithuania. It is almost impossible to assess all the existing factors as well as the possible "black swans". On the other hand, the RE market is mainly concentrated in three largest Lithuanian cities and resort

areas. Population is growing in the first segment and is not of such importance for the second one as buyers there are mostly purchasing second homes.

The pool of housing and facilities suitable to be used as housing continues to gradually grow. The number of residential facilities is increasing by 0.5% every six months. The supply of leisure and hotel facilities grows by 2-9% every six months, and the number of commercial facilities by 1-2%. It is important to note that there are over 900 thousand residential facilities in Lithuania, and only slightly over 10 thousand of other types of facilities.

Number of premises in Lithuania



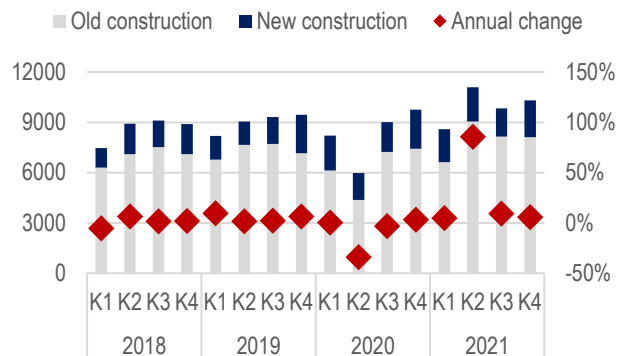
Source: SE Centre of Registers

Based on the data of the SE Centre of Registers, the number of residential housing transactions in Lithuania in 2021 amounted to 39,849 and was 21% higher than a year ago (32,966), and 11% higher than in 2019 (36,011).

In 2019, the sales of new construction housing accounted for 19% of all transactions. In 2020, this amount increased to 24%. However, after the pandemic adjusted development plans and slowed down new project development, and due to the growing secondary housing market, the number of new

construction apartment transactions has decreased to 20% in 2021.

Number of purchase and sale transactions of residential premises in Lithuania



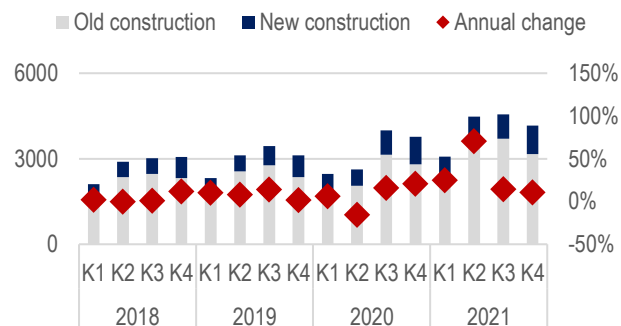
Source: SE Centre of Registers

Rising housing prices and the need for larger housing caused by the pandemic have also contributed to further growth in the individual residential house segment. A total of 16,271 residential houses were sold last year (3,447 new construction and 12,824 old construction), which is 27% more than a year ago (12,854, 3,011, 9,843, respectively). New construction houses accounted for about 20-23% of all housing transactions over the last few years. According to historical data, only about half of all new residential houses are being built for sale, therefore it is likely that over 3,000 people have built their homes for themselves in the past year.

Based on the data of the Bank of Lithuania, the volumes of housing loans and interest rates in 2021 were favourable for buyers. First of all, interest rates, which have slightly increased in early 2020, have been steadily dropping since the second half of 2020, and were below the 12-month moving average throughout 2021. This means that borrowing conditions improved and reached the level of 2017 at the end

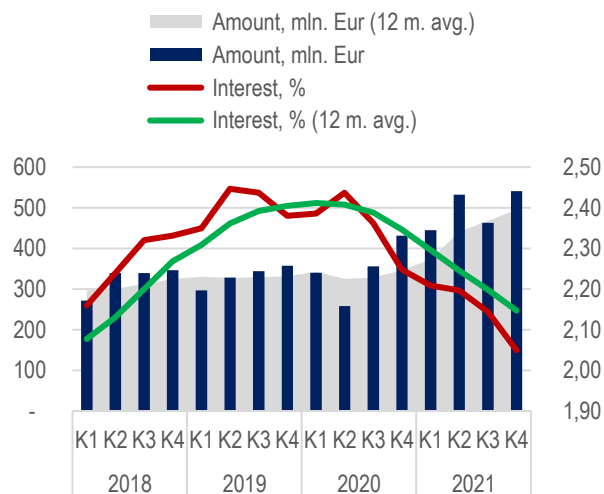
of 2021, thus people were able to receive loans at an annual interest rate of about 2%. Given that the Euribor rate is still negative and loan interest consists only of the margin of credit institutions, the decline in this rate is significant as it remains constant over the duration of the loan.

Number of purchase and sale transactions of residential buildings in Lithuania



Source: SE Centre of Registers

Real new housing loans (EUR million) and interest rates (percent)



Source: Bank of Lithuania

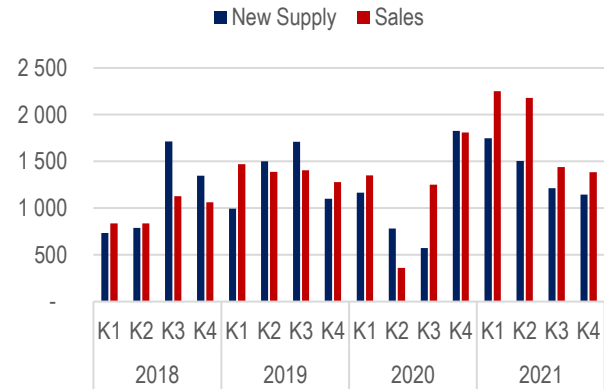
Compared to the start of the pandemic, the volume of loans issued in 2021 has doubled. In 2021, an average of 165 million euros of new housing loans were issued each month, with loan peaks reaching EUR 189 million and EUR 181 million in December and May, respectively. No such volumes have been recorded in the last five years. EUR 116 million in loans were issued per month in 2020, EUR 111 million in 2019, EUR 108 million in 2018, and EUR 98 million in 2017.

APARTMENT MARKET IN VILNIUS

2021 was a record year for the primary housing market of Vilnius. According to the data published by real estate developers, 7,255 homes (6,963 apartments, 106 lofts, 186 townhouses) were sold during the year. It should be noted that the loft segment is separated as of the second half of the year (lofts were previously classified as economy-class housing), and townhouses were not included in previous observations (i.e. their statistics are calculated as of July 2022).

Excluding townhouses, 7,069 homes were sold in 2021 which is 48% more than in 2020 (4,773), 28% more than in the record-breaking 2019, and 83% more than in 2018.

Dynamics of the new supply and sales of apartments in Vilnius



Source: INREAL

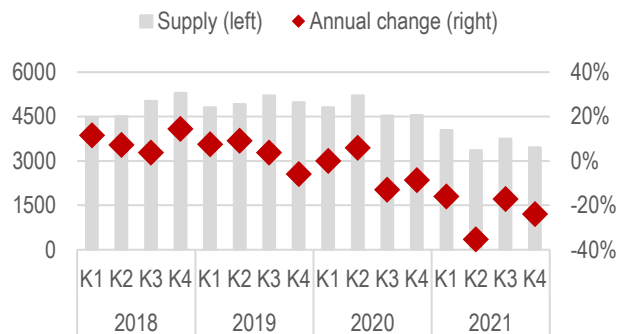
Despite the annual record, market activity declined in the second half of the year. 2,253 homes (excluding townhouses) were sold in 2021 Q1, and 2,179 in Q2. These are record quarterly results, which are well ahead of those of previous periods. For example, 1,469 homes were sold in 2019 Q1 (35% less), and 1,389 were sold in Q2 (36% less).

Meanwhile 1,439 and 1,384 homes (including townhouses) were sold in 2021 Q3 and Q4, respectively. 2021 Q3 surpassed the corresponding periods of both 2020 (1,252) and 2019 (1,405). 2021 Q4 was slightly behind 2020 with 1,810 sold homes, although even fewer homes were sold during the same period in 2019 (1,277).

The steady decline in the number of contracts indicates that market activity is weakening. On the other hand, the market is still active – the indicators of recent periods are similar to those of 2019.

A total of 5,608 new homes were offered to the Vilnius market during the year (288 of which were townhouses in H2 of the year). Excluding townhouses, this is 22% more than in 2020 (4,344) and symbolically more than in 2019 (5,305).

Supply volume in the primary housing market in Vilnius



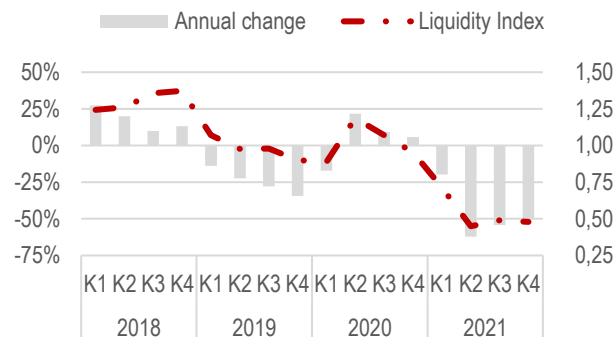
Source: INREAL

Despite record growth and the inclusion of townhouses in primary market monitoring, record market activity has also led to a steady decline in housing supply since 2020 H2. With the stagnation of sales in 2020, the market offered 5,216

housing units during that year (excluding townhouses). Since then, supply has been declining on a quarterly basis (except for a slightly more significant increase from 3,370 homes in mid-2021 to 3,755 in Q3, after townhouses were included in the statistics).

In 2021, the liquidity index¹ continued to decline to 0.7 in Q1 (realization period – 8.5 months), and for the rest of the year its value fluctuated at 0.5 (realization period – 6 months).

Liquidity rate of new apartments in Vilnius



Source: INREAL

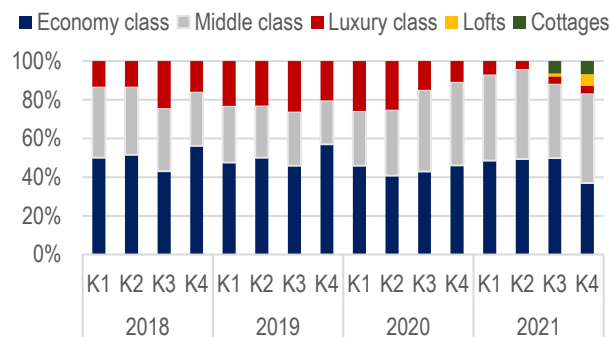
A rapid decline in supply could lead to two radically different trends. On the one hand, if there is a perception that buyers will buy "anything" or will buy homes based on blueprints, the final product can be very disappointing. On the other hand, with market activity still at a particularly high level, developers may undertake riskier, non-standard projects in less urbanized or less attractive parts of the city, as well as offer non-standard solutions based on current remote work and changed lifestyle trends since people are now spending more time at home. Migration from the south to the north of Žirmūnai and from the north to the south of Naujamiestis is

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

accelerating, and adjacent areas such as Vilkipėdė, Lazdynai, Visoriai and Burbiškės are also under development.

Last year, economy-class housing (including the loft segment separated in the middle of the year) sales accounted for 48% of total sales, middle-class – 44%, prestigious-class – 5%, townhouses (half-year data) – 3%. Compared to 2020, economy-class housing sales remained virtually unchanged (45%), however the prestigious-class segment gave up some of its positions (15%) to the middle-class segment (38%). The reason for this is fewer projects in the very centre of Vilnius. It should be noted that this change was also influenced by adjustments in the INREAL calculation method, after requirements for the prestigious-class segment were more strictly defined (central part of the city, higher project quality, etc.).

Apartment sales under class in Vilnius (percent)



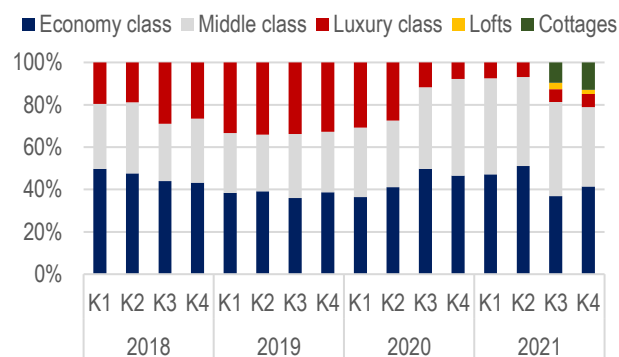
Source: INREAL

As of 2020 H2, market activity of the prestigious-class segment continues to decline due to further shrinkage of supply and lack of available development areas in the central parts of the city. This means that prestigious-class projects in the Old Town, Žvėrynas and Paupys neighbourhoods will become a bit rarer due to the need to consolidate areas more and more often. Meanwhile, the need for consolidation is also relevant in Šnipiškės, however first projects are already

emerging to form a new modern block in Krokuvos and Lvovo street areas.

In mid-2020, the economic segment shrank by a large margin as buyers of cheaper housing became more sensitive to economic uncertainty. However the segment has recovered in 2021, which shows both a changed approach to the pandemic and an increased interest in housing investments (lower costs than in more expensive segments). On the other hand, as prices rise, buyers in the economic segment are gradually beginning to face the problem of housing affordability. Of course, we must not forget about the declining supply of housing which encourages buyers to consider postponing the purchase of housing until more attractive offers appear on the market.

Apartment sales under class in Vilnius (percent)



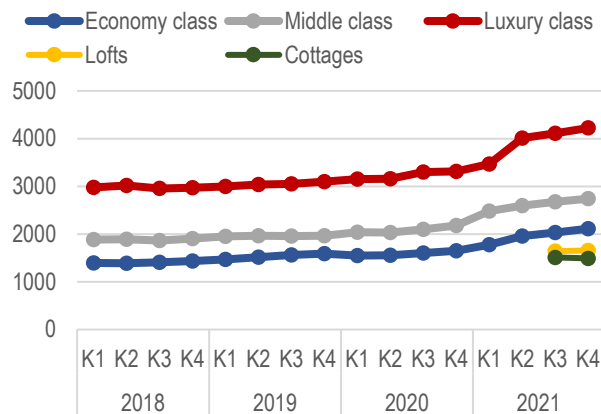
Source: INREAL

Similar trends are also observed in the supply structure by housing class. The growth in the economy-class housing segment observed at the beginning of the pandemic has stabilized in 2020 H2, but increased again in 2021 H2 due to a relatively declining purchasing power of buyers (housing prices grew faster than household income).

2021 was characterized not only by record activity, but also by a particularly rapid rise in prices. At the end of 2020, the

average cost of economy-class housing was 1,648 EUR/sq.m. During the year, its price has increased by 28% to 2,113 EUR/sq.m. At the end of 2020, it was possible to purchase middle-class housing at such a price, which at the time cost an average of 2,179 EUR/sq.m. Annual price growth was 26% – up to 2,742 EUR/sq.m.

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



Source: INREAL

The average price of prestigious-class housing increased by 27% – from 3,313 EUR/sq.m to 4,223 EUR/sq.m. At the end of the year, only townhouses (1,512 EUR/sq.m) and lofts (1,659 EUR/sq.m) could offer average prices lower than 2,000 EUR/sq.m. Of course, there are projects and individual housing units in each segment that are far from the average price of a segment or project. In the economy-class segment, housing can still be found for 1,500 EUR/sq.m, but such housing are located much further away from the city centre. Meanwhile, prestigious segment housing with exceptional window views and particularly high ceilings can also cost 10,000 EUR/sq.m.

Price changes in the last year were due to both rising development costs (higher prices for new projects) and

imbalance in the primary market, where demand significantly exceeded supply (market price increases for already developed or soon to be finished projects). This jump in prices is twofold. On the one hand, housing price increase by 25% over the year raises a reasonable suspicion that a price bubble is forming, however at least part of the rise in prices linked to rising construction costs and application of stricter requirements for housing development will limit the possibility to decrease prices in the future.

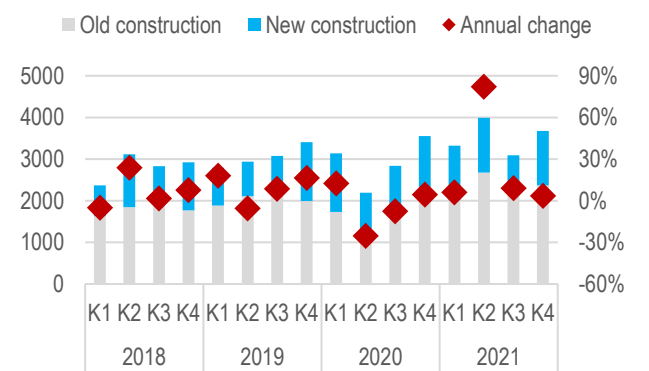
The situation in Ukraine at the end of 2021 was not as significant as it became at the time this overview was written. The Russian invasion will undoubtedly affect resource prices and the population's attitude towards real estate. In 2021, the most important aim of investment in real estate was to protect funds from inflation. In 2022, one of the main needs will be to ensure the liquidity of one's assets.

Growth in market activity was also recorded in the data of the SE Centre of Registers. 14,079 residential facilities were purchased in 2021, i.e. 20% more than in 2020 (11,721). Among the transactions are the acquisition of 4,758 new construction and 9,321 old construction apartments. The peak of activity was recorded in 2021 Q2, when 3,987 homes were purchased, of which 1,310 were new construction housing.

Prior to the pandemic, the percentage of new construction housing in notarial transactions grew steadily, amounting to more than 40% in mid-2020. Due to quarantine restrictions and the suspension of new projects, the market share of new housing fell to around 30% in 2021 H2. It is likely that this share will increase again in the coming years with the completion of construction of new projects, and may continue to grow as the gap between the technical solutions of new and old construction housing widens. This is especially relevant due to rising energy resource prices.

It should be noted that notarial transactions do not yet reflect the peak of primary market activity, since a large percentage of housing is purchased in buildings that are still under construction, and notarial contracts will be concluded later on, usually after about one year. For example, the decline in the number of new construction apartment transactions in Q3 2021 (833, with 1,310, 1,310 and 1,305 new construction apartments sold in the remaining quarters) correlates with the stagnation of the primary market in mid-2020.

Center of Registers registered apartment transactions in Vilnius (units)

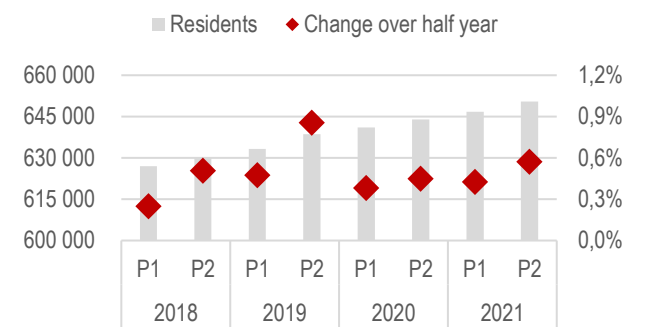


Source: SE Centre of Registers

The population of Vilnius typically grows by about 2% per year, and such growth has been recorded for several years. This trend is driven by both internal and external migration. At the end of 2021, the population of the capital exceeded 650,000. The data of territorial health insurance funds does not match the information published by the Department of Statistics or the Centre of Registers, however in our overviews we assume that, in the absence of a mandatory declaration of residence, the population is most accurately reflected in the data of medical institutions, since people tend to choose the nearest health care facilities. Whereas people moving to Vilnius or other major cities from smaller towns may

face restrictions from landlords to declare their place of residence, or the simple fact that their paid personal income tax would contribute to the infrastructure of their hometown.

Number of persons registered in Vilnius medical institutions



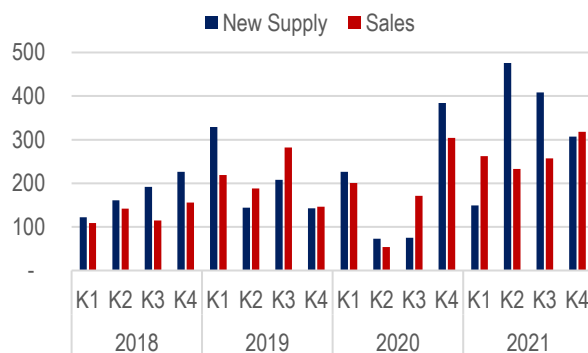
Source: Vilnius Territorial Health Insurance Fund

In 2021 H1, the stability of the new housing market was threatened by the rapid growth in the number of contracts, and the sharp decline in supply. Although market activity has slowed, not enough time has elapsed for supply to recover. This poses new risks, and developers should pay more attention to market analysis. An overly conservative approach will lead to further shortage of supply and greater financial benefits for competitors, while overly optimistic actions in the face of declining market activity could lead to oversupply, and negatively affect the profitability indicators of companies. This is especially relevant in the face of rising development costs, where more and more projects will be subject to infrastructure tax, A++ energy efficiency class requirements, and compensation for development on state-owned land. Costs are increasing both due to the rising prices of construction works and materials, as well as general inflation caused by rising energy resources whose prices in the context of Russia's invasion of Ukraine may remain significantly higher for some time, compared to the last few years.

APARTMENT MARKET IN KAUNAS

The trends of the primary housing market in Kaunas only partially corresponded to those of the capital. The same as in Vilnius, there was also a spurt in Kaunas market activity in 2020 H2, however it did not accelerate much further in mid-2021. Sales in Kaunas gradually grew throughout the year, thus the highest market activity was recorded not in 2021 Q1 or Q2 (262 and 233 sales, respectively), but in Q4 (318 contracts). This was a record quarter that could only be matched by the end of 2020 (304) or 2019 Q3 (282). It is worth noting that townhouses were included in statistics in H2 of the year, however the end of the year was active even without them (280).

Dynamics of the new supply and sales of apartments in Kaunas



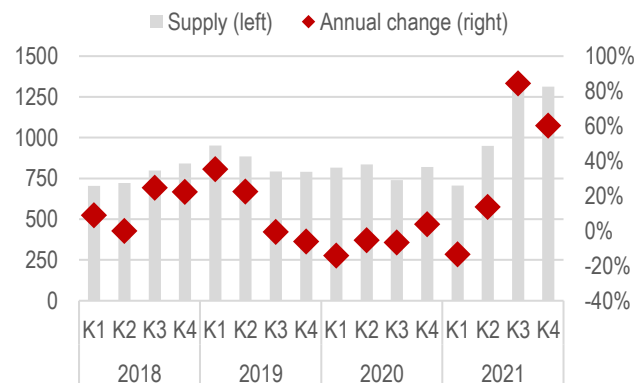
Source: INREAL

In 2021, a total of 1,070 homes were sold in Kaunas, of which 93 were townhouses, which is 47% more than a year ago (730) (34% more without townhouses). This is 28% more (17% without townhouses) compared to 2019 (835). 1,340 homes (including 66 townhouses in H2 of the year) were offered to the market during the year, i.e. 77% more than a year ago (758), (68% more without townhouses). This is 63% compared to 2019 (824). Among the last three years, 2021 is

also distinguished by the fact that developers offered significantly more housing during the year, compared to what was purchased.

As developers offered more housing than what was purchased, townhouse projects were included in the statistics, it was obvious that the supply of housing in Kaunas would increase. Since 2018, the average supply of housing was around 800 (fluctuating between 700 and 900). At the end of 2021, this number reached 1,313 (of which 144 were townhouses). Such supply of housing is unusual for Kaunas, however it should not be insurmountable given the demographic changes and relatively steady market growth.

Supply volume in the primary housing market in Kaunas

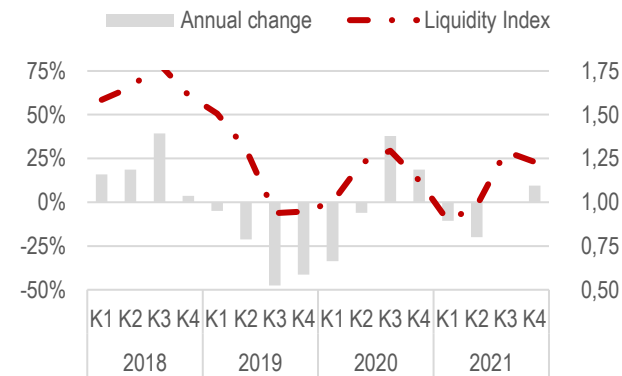


Source: INREAL

The pandemic stagnation of the housing demand in Kaunas was the most evident among all the major cities. The first market boost was given by the sales of lofts which have the lowest total price. A number of middle-class projects were introduced to the market later on, especially those developed on the banks of the Neris and the Nemunas rivers. Given the relatively steady growth in sales and the higher volume of housing projects, the value of the liquidity index fluctuated between 0.9 and 1.2 in 2021, and the market ended the year

with a value of 1.23 (realization period – 15 months). Since developers are showing interest in Kaunas, the value of the indicator is likely to also fluctuate somewhat in the near future.

Liquidity rate of new apartments in Kaunas

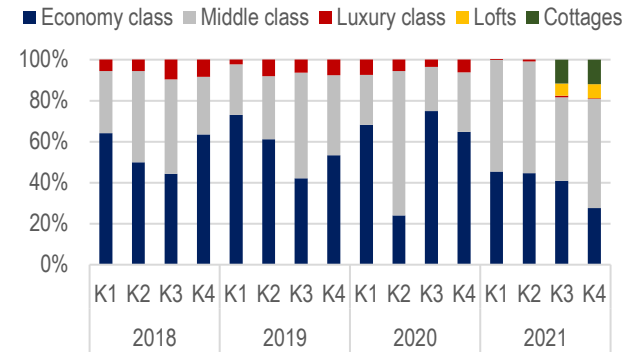


Source: INREAL

Looking at the supply data, it is good to see that developers are offering more and more higher-class housing in Kaunas, which is particularly welcomed by buyers. In 2021, the percentage of economy-class housing fell from 65% to 39% (plus 3% of sales in the loft segment). Meanwhile, middle-class sales rose from 29% in 2020 to 50% in 2021. The townhouse segment, which has been monitored for only half a year, accounted for 6% of all annual contracts.

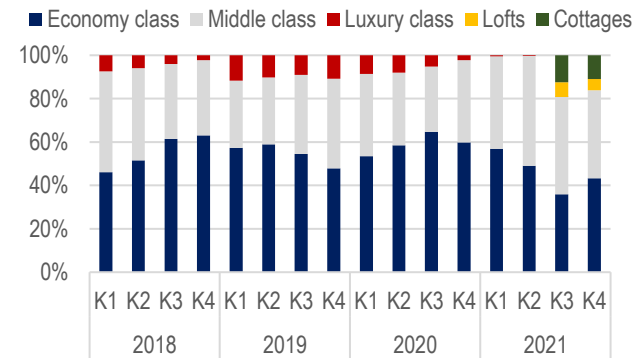
In 2021, the supply of prestigious projects in the Kaunas market has completely vanished, however the middle-class segment has slightly increased (from 38 to 41%). It is worth noting that the middle-class segment grew to 51% in the middle of the year, but with the market favouring higher-end housing, its percentage in the supply structure has declined in the H2 of the year. The supply of economy-class housing shrank from 60 to 43%. The loft segment accounted for 5% and townhouses for 13% of the supply.

Apartments supply under class in Kaunas (percent)



Source: INREAL

Apartment sales under class in Kaunas (percent)



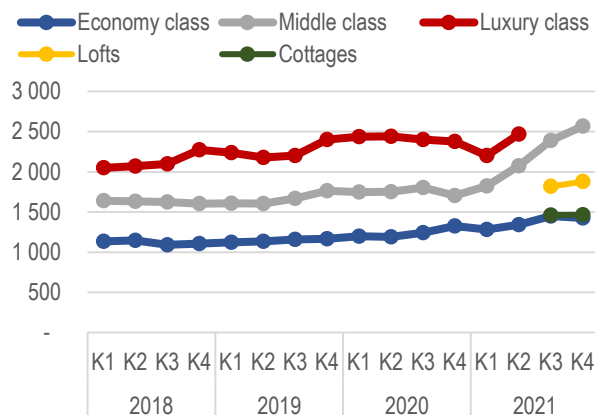
Source: INREAL

Kaunas was also not immune to price changes. At the end of 2020, the price of economy-class housing was 1,325 EUR/sq.m, growing by 8% over the year (to 1,426 EUR/sq.m). It is important to mention in this segment that, when calculating supply prices, we also assess the price offers of reserved homes. It is assumed that reservation data is not as sustainable as that of sales, since reserved apartments are often returned back to the supply pool. In the case of Kaunas, there are a number of previously reserved homes (e.g., at 2020 prices) which are decreasing the supply

price indicators. When assessing only available apartments, the average price of economy-class housing was about 10% higher at the end of 2021.

Price changes in Kaunas are perhaps best illustrated by the increased prices of middle-class housing. At the end of 2020, such housing cost 1,704 EUR/sq.m. Whereas, at the end of last year, its average price increased to 2,566 EUR/sq.m, i.e. one and a half times, since the market of Kaunas was supplemented by really interesting middle-class projects, thus it is not surprising that buyers were choosing more expensive apartments. When assessing the impact of reserved apartments, it is worth emphasizing that in this segment it works in contrast to the economic one. If excluding reserved better housing, the average price in the middle segment would be lower by about 100 EUR/sq.m.

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



Source: INREAL

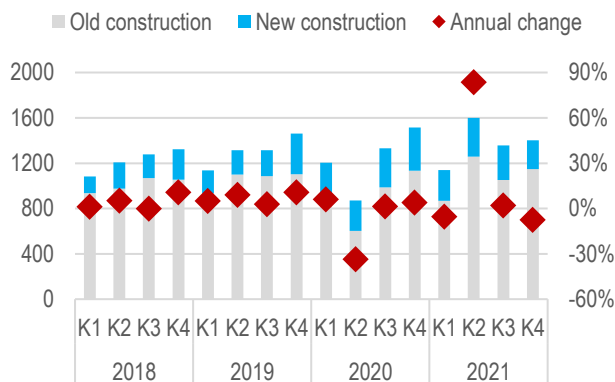
Prestigious segment supply basically no longer exists in Kaunas. This does not mean that there are no exclusive housing units in Kaunas, however the projects themselves are classified as middle-class, because although their architecture, interior spaces, technical solutions, and well-

being are of a high standard, they are under development in newly developed areas where existing objects are not considered prestigious. With continuing development, the example of Vilnius Paupys may be reproduced with the creation of new, attractive and completed parts of the city.

In the middle of the year, prestigious-class housing cost about 2,467 EUR/sq.m. At that time it was about 20% more than the price of middle-class housing (2,075 EUR/sq.m). At the end of 2021, the average price of lofts was 1,877 EUR/sq.m, and of townhouses - 1,463 EUR/sq.m.

The 2020 Q2 period stands out in notarial transactions, however significant price fluctuations in Kaunas have been avoided with developers offering a number of new apartments that almost perfectly meet the needs of buyers. More apartments (5,495) were sold in 2021 compared to previous periods (4,923 in 2020 and 5,226 in 2019, or 12 and 5% more, respectively).

Center of Registers registered apartment transactions in Kaunas (units)

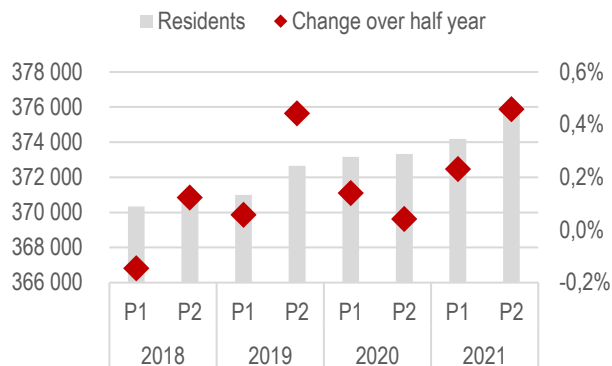


Source: SE Centre of Registers

A reasonable assumption can be made that the decrease in the number of transactions in 2020 determined the activity in 2021 in the real estate sales transactions recorded by the SE

Centre of Registers. On the other hand, with active sales in the primary market in 2021, it is almost certain that the number of notarial transactions will increase significantly in 2022-2023.

Number of persons registered in Kaunas medical institutions



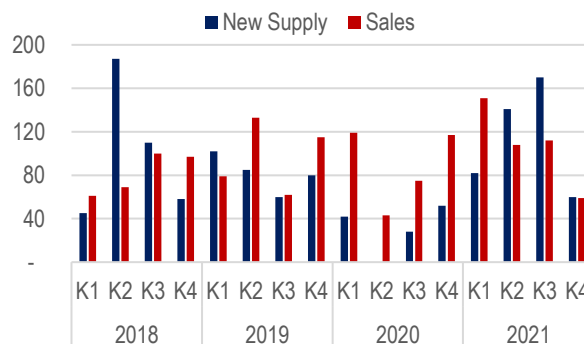
Source: Kaunas Territorial Health Insurance Fund

Population growth in Kaunas has been observed from 2018 – 2019, amounting to 1,856 people in 2019, 681 in 2020, and 2,581 in 2021. Every new resident, every household requires housing. With the growing population and development of interesting projects, it is likely that both the primary and secondary housing markets of Kaunas will remain active this year as well.

APARTMENT MARKET IN KLAIPĖDA

As in the other two major cities, the beginning of the pandemic had slowed down the demand in the primary housing market of Klaipėda, however such market slowdown was the smallest in the port city, both in relative and absolute terms. Klaipėda recovered from the initial shock fairly quickly, however market activity which accelerated in 2020 has dropped by mid-2021, with Q4 (59 contracts, 21 townhouse contracts) being the slowest since 2020 Q2 (43 contracts excluding townhouses), when the first quarantine was imposed. Nevertheless, due to a record Q1 (151 contracts), the annual result for 2021 – 430 contracts (of which 62 were for townhouses) was 21% better than in 2020 (354) and 11% better than in 2019 (389). On the other hand, excluding the influence of townhouses (62 contracts), the growth was symbolic at 4% and minus 5% respectively.

Dynamics of the new supply and sales of apartments in Klaipėda



Source: INREAL

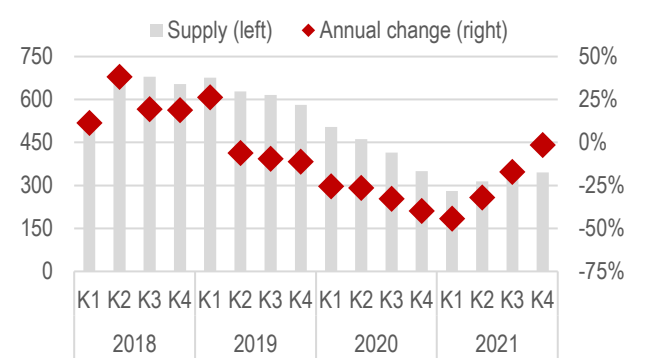
The primary housing market supply is much slower than the demand. In order to present a project to buyers, it is necessary to purchase a land plot (or buildings for reconstruction), prepare and coordinate development documents, obtain the necessary permits, conclude

construction contracts, prepare promotional material, etc. Stopping and re-launching a process also takes time, since new construction contracts must be concluded, and changes in the competitive environment as well as risks have to be assessed. This is only part of the reasons why it took as long as three quarters to supply new projects and revive the market in the port city.

A total of 453 new objects in Klaipėda were included in the observations of 2021, i.e. almost four times more than a year ago (122) and 39% more than in 2019 (327).

After summarizing the changes in supply and demand, it can be seen that the results of 2021 enabled to restore the level of supply that existed at the end of 2020, but only because the townhouse segment (which was not monitored in 2020) was included in the data of 2021. When comparing "apples to apples", we could state that the supply has decreased from 350 units by the end of 2020 to 243 apartments by the end of 2021. The new supply of townhouses amounted to 102 offers. Such quantity of housing units enables to avoid an oversupply, however a shortage of supply is unfavourable for buyers.

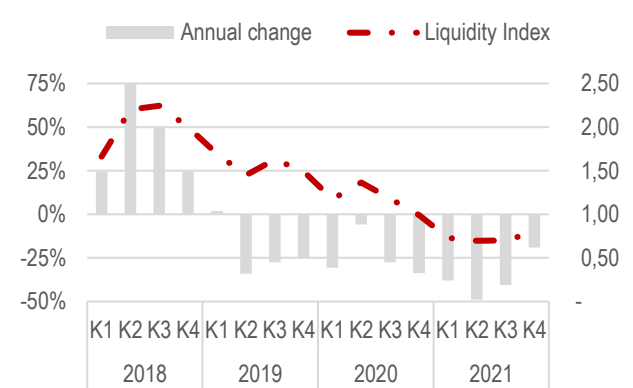
Supply volume in the primary housing market in Klaipėda



Source: INREAL

The liquidity index of the primary housing market of Klaipėda changes evenly with supply, and seems to indicate that the optimal level of housing supply in Klaipėda is about 400 housing units. The index has been steadily decreasing since mid-2020, and is currently at 0.8 (with sales taking about 10 months). A number of projects are planned in Klaipėda, but due to their scope planning, design and obtaining of permits, it will take a long to complete all the works, therefore their impact on the market (and liquidity index) will be visible only after a year or even later.

Liquidity rate of new apartments in Klaipėda

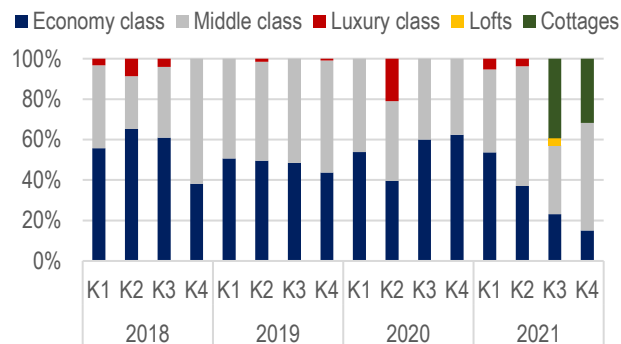


Source: INREAL

Although Kaunas is often called the housing capital of Lithuania, it is worth giving a similar title to the port city due to the townhouse segment percentage in the primary market of Klaipėda. In 2021 H2, townhouse transactions accounted for 30 to 40% of all primary market transactions. The sales of prestigious and loft-class housing do not comprise a significant demand. The supply in this segment is rather limited. The rest of the demand is shared by economy-class and middle-class housing, whose segment activity directly depends on the structure of supply.

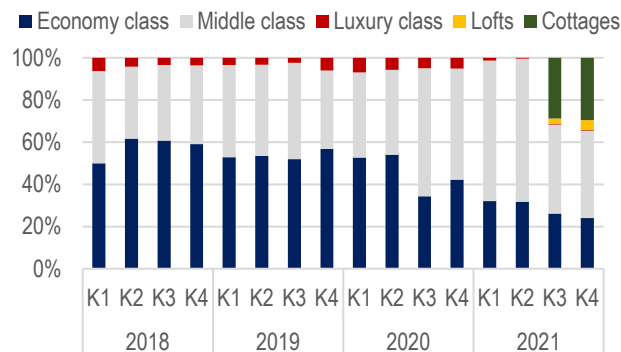
Since buyers paid more attention to economy-class housing in 2020, especially in H2, its supply has decreased, reaching about 40% by the end of the year. Meanwhile, with buyers prioritizing the middle-class segment in 2021, economy-class housing supply increased from 32% in H1 of the year to 37% at the end of the year (excluding townhouses and lofts).

Apartments supply under class in Klaipėda (percent)



Source: INREAL

Apartment sales under class in Klaipėda (percent)

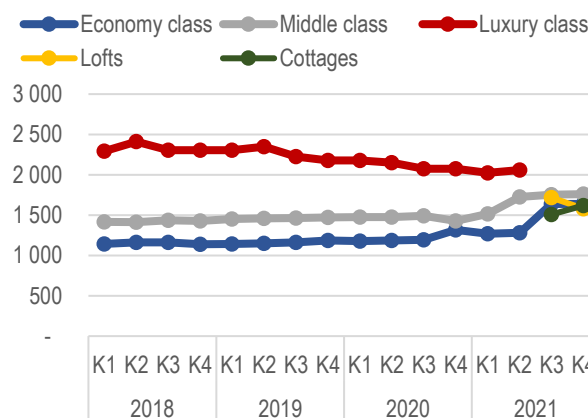


Source: INREAL

Housing prices in 2021 had a clear vector, which is going up. Economy-class housing has become more expensive by 24% over the year (from 1,318 EUR/sq.m to 1,639 EUR/sq.m), and middle-class by 23% (from 1,429 EUR/sq.m to 1,760

EUR/sq.m). The supply of prestigious housing is currently non-existent in the primary market of Klaipėda. Looking at lofts or townhouses at the end of 2021, buyers had to pay an average of 1,579 and 1,619 EUR/sq.m respectively for this type of housing.

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



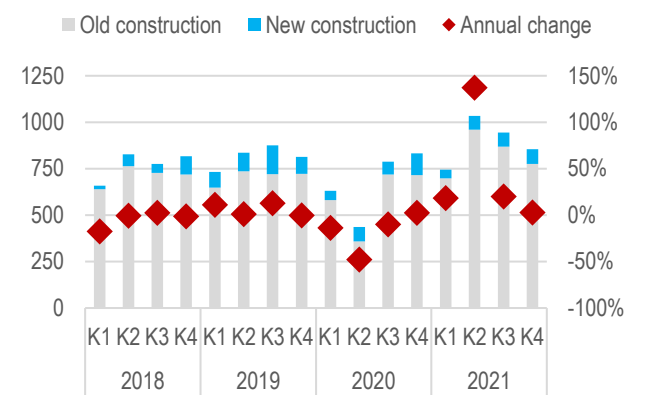
Source: INREAL

At the beginning of 2021, it was expected that larger projects would be delivered to clients in Klaipėda by the end of the year, however preparatory work seem to have stalled. Looking at the location of these projects, expected architectural solutions and changes in development costs, it is almost certain that the housing prices in Klaipėda will increase further, reaching the level of housing prices in Kaunas. It should be noted that the planned projects (Mėmelio Miestas, Bastionų Namai, conversion of Švyturys and Lindenau factories) should offer higher-class housing at prices that are also higher.

New construction housing does not form a significant part of notarial transactions in Klaipėda, and this part continues to gradually decrease due to lack of supply. It was 13% in 2019, 12% in 2020, and 8% in 2021. Due to the small impact of

notarial delays caused by this segment, the total data of notarial transactions in Klaipėda illustrates the changing situation in the housing market quite well. The 2020 Q2 period showed a slowdown in the market due to uncertainty caused by the pandemic, which was gradually replaced by a spring effect and a greater focus on the RE market. As in other cities, the number of transactions that grew until 2021 began to decline in the H2 of the year, but is still ahead of or at least not lagging behind previous periods.

Center of Registers registered apartment transactions in Klaipėda (units)

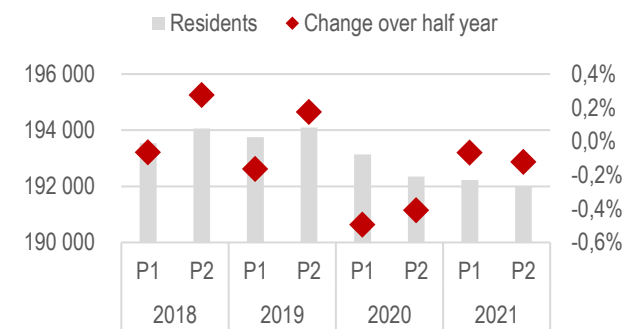


Source: SE Centre of Registers

A total of 3,578 residential facilities were sold in the port city in 2021 – 33% more than a year ago (2,686) and 10% more than in 2019 (3,257).

In contrast to Kaunas and Vilnius, the demographic indicators of Klaipėda remain negative. The population of the city municipality has been gradually declining since the beginning of the pandemic. In two years, the population of the port city has decreased by two thousand (1%) people – from 194,091 to 191,988. The population has slightly increased in the city's ring municipality, however this does not deny the need to attract new residents to Klaipėda.

Number of persons registered in Klaipėda medical institutions



Source: Klaipėda Territorial Health Insurance Fund

HOUSING MARKET IN PALANGA AND ŠVENTOJI

Factors that stimulated the country's housing market: remote work possibilities, travel restrictions, aim to protect funds from inflation, and likelihood of selling property in the future at a higher price did not bypass the seaside region of Lithuania.

The focus on the housing market of Palanga and Šventoji was not caused solely by the pandemic. Since the introduction of the euro in 2015, housing sales in these resort towns have fluctuated between 250 and 300 transactions per year. The global pandemic did not essentially have any negative effect on market activity in this region, which was reflected in the number of concluded contracts after the public got accustomed to the restrictions. 2020 H2 and 2021 H1 corresponded to the total results of the previous year.

However, as in the major cities of the country, the peak in housing sales in the primary market of the seaside region was reached in 2021 Q2. 172 objects were sold during that period, which is the largest number since 2012, when INREAL started monitoring the primary housing market of Lithuania. The market has calmed down significantly later on due to increasing housing prices and already purchased property. 83 homes were sold in 2021 Q3 (21% less than in the same period in 2020, but 38% more than in 2019, when 60 objects were sold), and 114 were sold in Q4 (20% less than a year ago but 111% more than in 2019, when 54 homes were purchased).

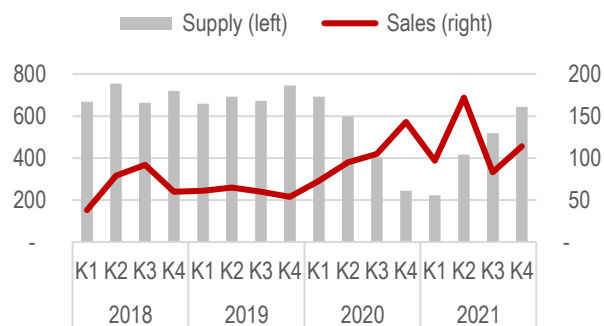
The annual result due to a surge in market activity in H1 of the year was 466, which is 12% more than in 2020 (416) and 94% more than in 2019 (240).

It can be said that the peak of activity is already in the past, although the market is still more active than before the start of the pandemic.

It is also worth noting that the sudden jump in activity in H2 of

2020 has rapidly consumed the previously relatively stable housing supply, which was about 700 housing units in the last few years, including a number of already built objects. On the other hand, a new supply almost always includes housing that is still in the drawings, which can often discourage cautious buyers from buying very expensive property, especially when it is not their first home.

Supply and demand of the primary housing market in Palanga



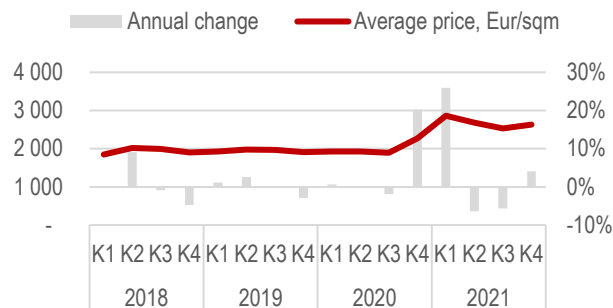
Source: INREAL

We included 4 projects in our observations in Q3, in which 153 homes were offered to buyers, and as many as 7 projects with 238 options for buyers in Q4. This was enough to restore the level of supply at the end of the year to the usual level of 643 housing units.

Increased activity of the primary housing market at the beginning of 2021 also affected average housing prices. In the last few years before the pandemic, the average housing price in Palanga and Šventoji was about 2,000 EUR/sq.m. With accelerating purchases, it is not surprising that housing prices have jumped significantly. In 2021 Q1, prices increased almost one and a half times to 2,862 EUR/sq.m, but gradually stabilized reaching 2,678 EUR/sq.m in Q2, 2,527 EUR/sq.m in Q3, and 2,629 EUR/sq.m by the end of the year. The decrease in average prices at the end of 2021 is due to lower-level projects which are developed further away from central areas and/or which have simpler

architecture. At the end of 2021, the prices of projects with publicly announced prices ranged from 1,500 to 4,000 EUR/sq.m.

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



Source: INREAL

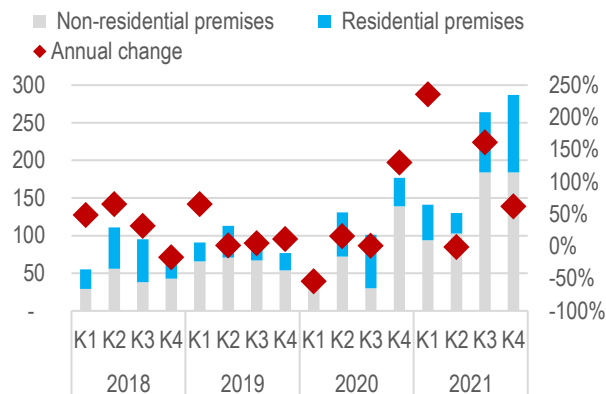
Changes in primary market activity are partly illustrated by the data of the SE Centre of Registers (CR). The visible increase in the number of transactions reflects a link between contracts in the primary market for housing that is still under construction, and notarial transactions which are formed only after the completion of construction work. A more active second half of the year reflects the notarial registration of previous contracts, and the decline in market activity that occurred in 2021 H2 is likely to be clearly visible in mid-2022.

It is worth noting that CR data reflects transactions for both residential and non-residential facilities, since a significant percentage of housing sold in the seaside region may be not only apartments but also recreational facilities and hotels. The number of transactions for non-residential facilities also includes exclusively commercial objects (corporate offices, cafes, shops, etc.), however their percentage is insignificant in the overall flow. This statement is partly supported by the secondary market (old construction, existing housing pool) transaction data. The time difference between preliminary and notarial contracts of such housing is much smaller –

usually up to one month during which a visit to the notary is registered and a housing loan is secured (if necessary).

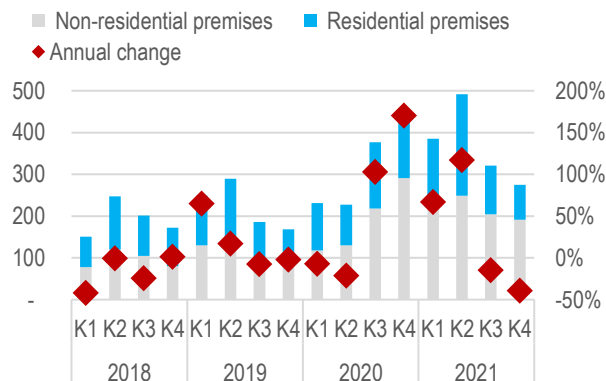
There was a clear jump in market activity in the first half of the year both in the primary and secondary housing market, when 385 and 492 objects were purchased per quarter. The end of the year was slightly calmer with 321 and 275 purchased objects.

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



Source: SE Centre of Registers

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



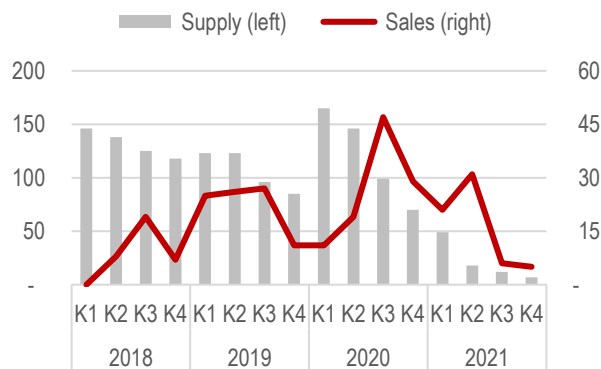
Source: SE Centre of Registers

HOUSING MARKET IN NERINGA

Neringa is a unique place in Lithuania. The housing market here is affected by both the size of the area and by exclusive ownership of the land by the state of Lithuania. Limited development possibilities create an unusual situation where the supply shapes the demand, and each new project attracts tremendous interest. Difficult development conditions, requirements for architecture, and distance from major cities mean that new projects are rarely presented to the market.

The interest in purchasing both first and second homes which significantly increased during the pandemic did not bypass Neringa. Almost all publicly available new construction housing units were purchased here, leaving only a few unsold objects.

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

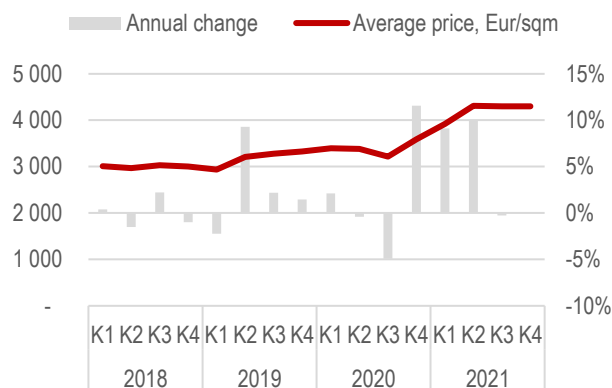


Source: INREAL

Virtually all new construction (reconstruction) objects which are currently on offer are partially finished. It is worth emphasizing that such a solution of developers is not typical for this region of Lithuania due to difficult organization of finishing works, which is inconvenient for the client.

Another effect of the pandemic on Neringa is the increasing number of projects not publicly sold in the market. Developer specialization, exclusive offered product, limited supply, and increased demand currently provide an opportunity to reduce marketing costs and advertise available housing by "word of mouth". Such a sales strategy is justified under current circumstances, especially since the shortage of supply has developed even among non-advertised objects.

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

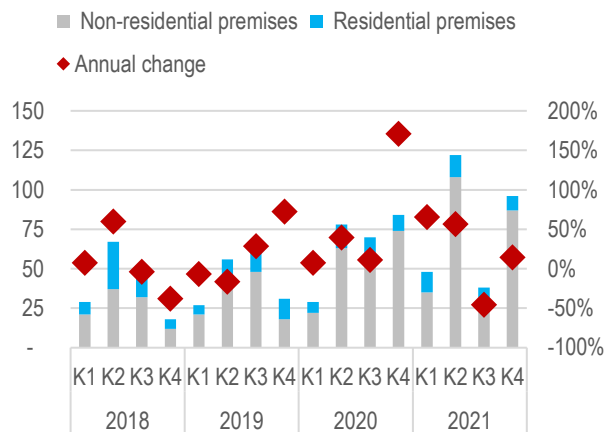


Source: INREAL

The uniqueness of Neringa is also reflected in its housing prices – the average price of currently sold projects is about 4,300 EUR/sq.m. Such price level is exceeded only by housing prices in Vilnius Old Town and certain projects in Palanga. On the other hand, these prices apply only to the already mentioned partially finished housing, which are more of an exception than a rule in Neringa. Those who want to buy a home with full finishing must be willing to pay almost one and a half times more.

Uneven market activity is also recorded in the transactions of the SE Centre of Registers, where higher sales are recorded only during the completion period of developed projects.

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



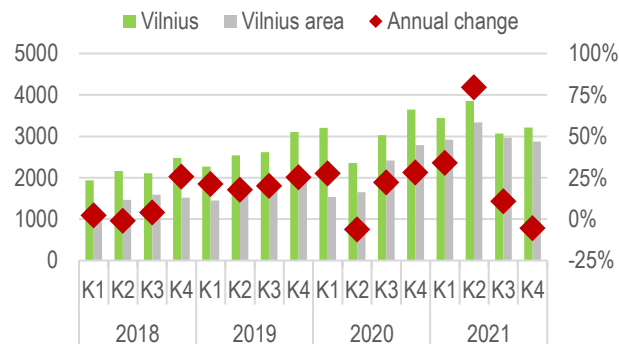
Source: SE Centre of Registers

LAND PLOT MARKET

Just like the housing segment, the land plot market has somewhat cooled in the second half of 2021. The total number of transactions in the **Vilnius** region (city and ring district municipalities) has decreased by 10% from 13,553 to 12,119, almost matching the results of the same period in 2020 (11,871), when recovery was recorded after the first months of the pandemic and quarantine.

A closer look at these transactions reveals that the decline in market activity was not instantaneous. The third quarter typically matches or even surpasses the second quarter in terms of activity. Although last year there was a record 11% increase in the number of transactions compared to 2020 (6,035 and 5,439, respectively), market activity was lower by 16% compared to 2021 Q2 (7,193), and the last quarter (6,084) was already lagging behind 2020 by 5% (6,432).

Land transactions in Vilnius city and district municipalities



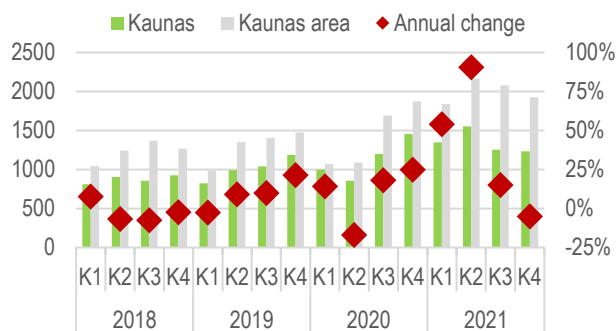
Source: SE Centre of Registers

Despite the market slowdown in H2 of the year, 13,582 land plot transactions were concluded in Vilnius, i.e. 11% more than a year ago (12,228), and the number of transactions in Vilnius district municipality increased almost one and a half times from 8,392 to 12,090. This is the highest number of transactions since 2005.

Similar trends were recorded in **Kaunas** region. The number of transactions decreased by about 6% from 6,912 to 6,493 in H1 of the year, however this number was 4% higher than in the same period a year ago (6,223)

Quarterly changes in Kaunas were in line with the trends in Vilnius. There was a 15% increase in market activity compared to the previous year (3,332 and 2,896), however it was 10% lower than in Q2 (3,719). A decrease of 5% (3,191) was recorded in Q4 compared to both the previous year (3,327) and the previous quarter.

Land transactions in Kaunas city and district municipalities



Source: SE Centre of Registers

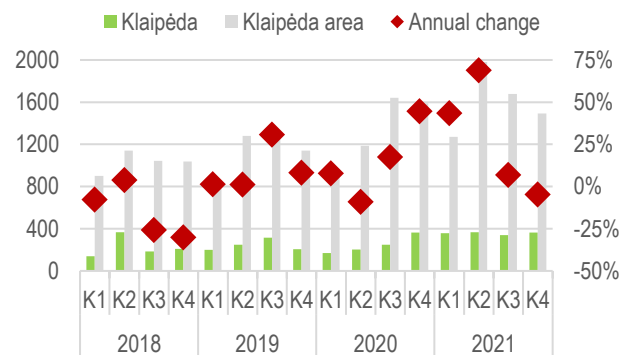
As in the capital, the annual results of land plot transactions have increased significantly compared to last year. The number of transactions in Kaunas increased from 4,515 to 5,390, i.e. by 19%, and in Kaunas district municipality – from 5,729 to 8,015, i.e. by 40%.

The smallest market change was recorded in **Klaipėda** region. 3,875 land plot transactions were concluded over a period of half a year, i.e. almost 3% less than in 2021 H1 and 1% more than in 2020 H2 (3,840).

As in Vilnius and Kaunas, there was an increase of 7% in Q3 compared to last year (2,016 and 1,888), and a decrease of 14% compared to Q2 (2,347). Q4 (1,859) lagged behind Q3 by 8% and the same period last year by 5% (1,952).

When comparing the relative changes in city and district areas, Klaipėda city wins with a 46% increase in the number of transactions (from 981 to 1,428) over the year. Whereas the increase was a bit more modest in the district municipality, reaching 19% – from 5,384 to 6,422.

Land transactions in Klaipėda city and district municipalities



Source: SE Centre of Registers

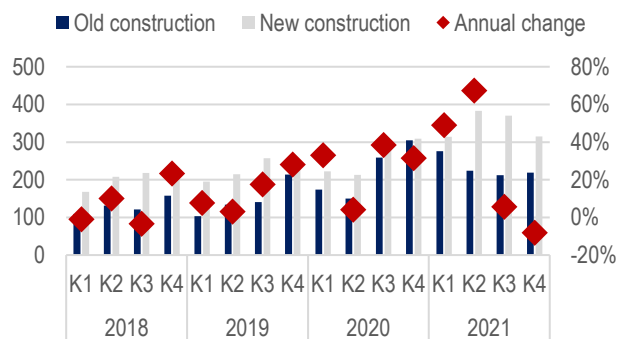
Despite the market slowdown, the third quarter of 2021 was the busiest compared to the same periods in over 15 years. And the last quarter of the year was surpassed only by 2020 in terms of activity, when the spring effect was clearly felt in the market, after buyers were able to better assess the risks posed by the pandemic. Nevertheless, such spring effect is not infinite, and we are gradually seeing the market return back to a normal level, which is likely to be much lower in the near future compared to what we have seen over the last year and a half. Nevertheless, such spring effect is not infinite, and we are gradually seeing the market return back to a normal level, which is likely to be much lower in the near future compared to what we have seen over the last year and a half. This is the result of not only the end of the spring effect but also the imbalance between supply and demand, caused by the rush of thousands of buyers to buy property on favourable terms at the end 2021, the rising prices, and the fluctuating supply chains.

RESIDENTIAL BUILDING MARKET

Land plot trends have partly shifted to the residential building segment. The shortage of construction materials and the resulting rise in prices affected not only the buildings that are still under construction (both for own use and for future sale), but also those that are already built (favourable competitive environment). Buyers continued to buy single-family homes despite the rising prices, which created a shortage of supply and boosted activity in the segment of older construction homes. On the other hand, there will also be a shortage in the supply of this type of housing, since homes are not stocks which could be easily sold. You need to live somewhere, thus after selling your own home you will have to either buy another home or build it yourself. Those who want to improve their living conditions can take advantage of the current market situation and start building their "dream home", however the speculative manoeuvre to sell at a high price and to buy cheaply may also fail.

1,116 residential houses were sold in the **Vilnius** region during the last six months, i.e. 7% less than in the first half of last year (1,197), and 4% less than in the same period in 2020 (1,165)

Residential buildings transactions in Vilnius city and district municipalities



Source: SE Centre of Registers

A total of 2,313 homes were sold last year (of which 931 were of old construction and 1,382 of new construction), which is 20% more than a year ago (1,924, of which 888 were of old construction and 1,036 of new construction). Vilnius city was more active than its district (1,456 and 857 transactions, respectively).

The overall picture was a bit more dynamic in terms of quarterly results, with 582 homes sold in Q3, i.e. 6% more than a year ago (551), but 4% less than in the previous quarter (607). Sales in Q4 were 13% lower than a year ago (534 and 614), and 8% lower than in 2021 Q3.

The prices of standard fully built old construction houses in Vilnius range from 750 to 2,200 EUR/sq.m (prices were from 650 to 2,000 EUR/sq.m half a year ago). Newer construction houses with full finish cost from 1,300 to 2,500 EUR/sq.m (1,200 – 2,300 EUR/sq.m). New construction houses with partial finish cost from 1,200 to 1,800 EUR/sq.m (1,000 – 1,400 EUR/sq.m).

The prices in Vilnius district are slightly lower. Old construction houses cost 500 – 1,100 EUR/sq.m (500 – 1,100 EUR/sq.m), fully finished newer construction houses 1,100 – 2,000 EUR/sq.m (1,000 – 1,800 EUR/sq.m), and houses with partial finish 1,100 – 1,500 EUR/sq.m (900 – 1,300 EUR/sq.m).

1,206 residential houses were sold in the **Kaunas** region during the last six months, i.e. 10% more than in the first half of last year (1,093), and 5% more than in the same period in 2020 (1,154).

A total of 2,299 homes (933 old construction and 1,366 new construction) were sold during the year, i.e. 17% more than a year ago (1,968 – 963 old construction and 1,005 new construction). The district municipality was a bit more active in this region with 1,208 sold homes, compared to 1,091 that were sold in the city.

573 residential houses were sold in Q3 of the previous year, i.e. 2% less than a year ago (583), and 7% less than in the previous quarter (630). Sales in Q4 were 11% lower than a year ago (633 and 571), and 10% higher than in 2021 Q3.

Residential buildings transactions in Kaunas city and district municipalities



Source: SE Centre of Registers

The prices of standard fully built old construction houses in Kaunas range from 600 to 1,400 EUR/sq.m (prices were from 500 to 1,100 EUR/sq.m half a year ago). Newer construction houses with full finish cost from 1,000 to 2,200 EUR/sq.m (900 – 1,900 EUR/sq.m). New construction houses with partial finish cost from 1,200 to 1,600 EUR/sq.m (1,000 – 1,400 EUR/sq.m).

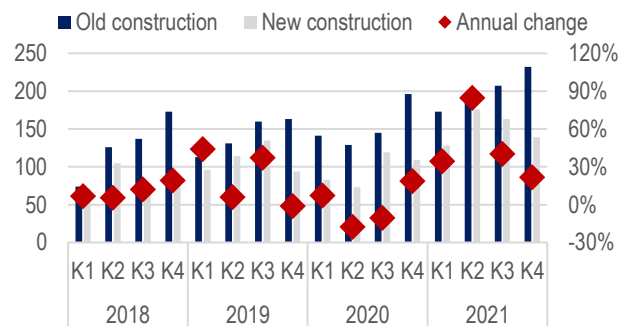
Houses in the district municipality were cheaper. Old construction houses cost 400 – 900 EUR/sq.m (400 – 900 EUR/sq.m), fully finished newer construction houses 1,000 – 2,000 EUR/sq.m (900 – 1,600 EUR/sq.m), and houses with partial finish 1,100 – 1,400 EUR/sq.m (900 – 1,250 EUR/sq.m).

741 residential houses were sold in the **Klaipėda** region during the last six months, which is 10% more than half a year ago (674) and 30% more than a year ago (569). Such jump in market activity was largely due to the sales of old construction homes (439 in half a year).

A total of 1,415 homes (809 old construction and 606 new construction) were sold during the year, which is 42% more than a year ago (995 – 611 old construction and 384 new construction).

In terms of quarterly results, Q3 results increased by 40% compared to last year (370 and 264, respectively), which was in line with 2021 Q2 results (373). Market activity maintained its pace in the last quarter, thus the end of the year (371) was 22% more active than a year ago (305).

Residential buildings transactions in Klaipėda city and district municipalities



Source: SE Centre of Registers

The prices of standard fully built old construction houses in Klaipėda range from 800 to 1,700 EUR/sq.m (prices were from 600 to 1,600 EUR/sq.m half a year ago). Newer construction houses with full finish cost from 1,200 to 2,000 EUR/sq.m (900 – 1,800 EUR/sq.m). New construction houses with partial finish cost from 1,200 to 1,700 EUR/sq.m (1,000 – 1,450 EUR/sq.m).

Houses in the district municipality were cheaper. Old construction houses cost 600 – 1,000 EUR/sq.m (400 – 850 EUR/sq.m), fully finished newer construction houses 1,200 – 1,600 EUR/sq.m (1,000 – 1,450 EUR/sq.m), and houses with partial finish 1,000 – 1,300 EUR/sq.m (850 – 1,200 EUR/sq.m).

COMMERCIAL REAL ESTATE MARKET

This commercial RE report was prepared together with Inreal RE agents Rokas Rudys (Vilnius), Gediminas Dranginis (Kaunas), and Algimantas Švanys (Klaipėda)

2021 was a relatively easier year for the commercial real estate market than the first year of the pandemic. There were no significant work culture changes, companies did not give up their offices, however the changed approach to work organization gave employees and employers the opportunity to choose the best business model for them, whether it would be remote, on-site, or combination of both. With the growing number of COVID-19 cases and stagnation in the supply of materials, the development of some projects has taken longer, however this has made it easier to overcome the challenge of somewhat increased vacancy.

Due to fears that the demand for business centres could decline and due to an evident shortage of housing, some small commercial projects were converted into residential facilities, which contributed to stabilization in both segments.

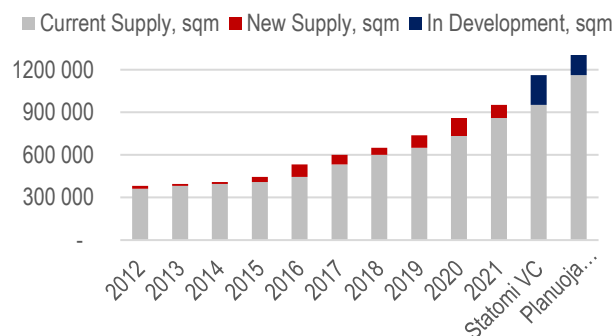
Changes in logistics chains have made it possible to expand logistics facilities by hundreds of thousands of square meters, by mostly using new areas exclusively for own needs without overflowing the market with supply.

Lessors and lessees welcomed 2022 with different moods. The low-inflation environment that lasted for many years provided a surprise in the second half of 2021 and revived the need to read leases carefully, and to assess the need to limit the indexation of lease prices.

VILNIUS BUSINESS CENTRES

The pandemic somewhat adjusted and delayed the development of business centres in Vilnius. While 11 business centres were opened in Vilnius in 2020, only 7 were opened in 2021 (Bokšto Skveras, Business Garden, Cloud, Lvovo 37, Office 100, S7 Stage IV, Žalgirio 112). The total annual increase in leased area was about 94,000 sq.m (just over 120,000 sq.m in 2020). More than 15 business centres are currently under development (with total leasable area of about 200,000 sq.m), and almost the same area amount is in the planning or construction stages that have not yet started. Just like a few years ago in Kaunas, some developers have reconsidered the development plans of certain business centres, especially in Naujamiestis, deciding to build residential buildings instead of offices.

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



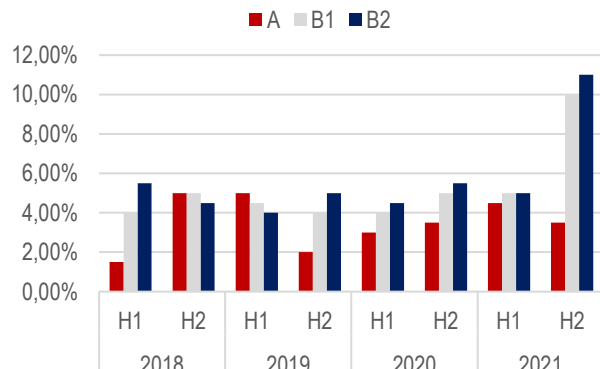
Source: INREAL

Due to higher development in Class B segments and migration of clients to new business centres, higher vacancy rates were recorded in Class B1 and B2 offices. The vacancy rate increased from 5% (B1) and 5.5% (B2) at the end of 2020 to 10% and 11% respectively. The vacancy rate of Class A business centres has slightly decreased compared to the middle of the year (4.5%), returning to the level of the end of 2020 (3.5%).

At the beginning of 2021, there was concern regarding the growing vacancy rate in business centres, however the overall rate did not reach 10%. The widening gap between old and new construction buildings will have a positive impact on finding tenants. More and more public institutions are moving into offices, and fears regarding the popularity of the remote work model have not materialized.

As the public is gaining immunity and pandemic restrictions are slowly being lifted, more and more companies are deciding to return back to their offices. Businesses still need offices since a large number of employees are unable to create suitable working conditions for themselves in their homes, both due to lack of space and due to increased housing prices which limit the possibilities of changing housing. Lack of social contact and the need to change one's environment are also significant factors.

Dynamics of vacancies in Vilnius business centres under classes



Source: INREAL

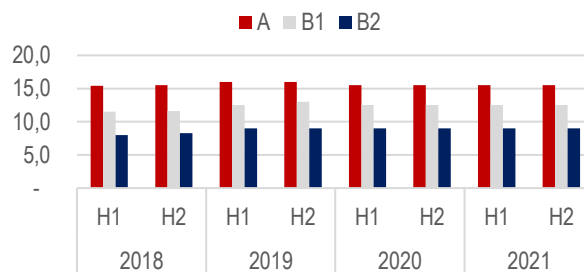
Office lease prices depend on many factors, which are relatively stable but began to slightly change during the pandemic. Despite the policy of cheap money, inflation rates have remained relatively low for a long time, making both construction costs and lease price indexation rates relatively easy to manage. Inflation has accelerated in the second half

of 2021, which will affect both existing and new leases, as well as flow estimation and development costs. For example, the cost of installing the facilities of a business centre whose development began two years ago may no longer match the increased construction costs, meaning that a larger percentage of the installation cost may be passed to the tenant.

However, the lease price is not the only way to increase the revenue stream generated by the business centre. Some business centres only include the area of the offices themselves, while others also include internal partitions, and some can even include external walls. The calculation of common areas also differs. In some cases, only corridors are included, while in other cases stairwells and even elevator shafts are included as well. Differences also include administration fees and utilities, therefore specified lease prices are only indicative.

No significant price changes were recorded in the second half of 2021. The prices of Class A office premises were 14 – 17 EUR/sq.m, Class B1 were 11 – 14 EUR/sq.m, and Class B2 were 7 – 10 EUR/sq.m. This was both due the ongoing pandemic and due to other reasons: slightly slower development of business centres, relatively high new area absorption rates and, of course, inflation. It is expected that there will be more significant lease price changes in 2022.

Dynamics of lease prices in Vilnius business centres

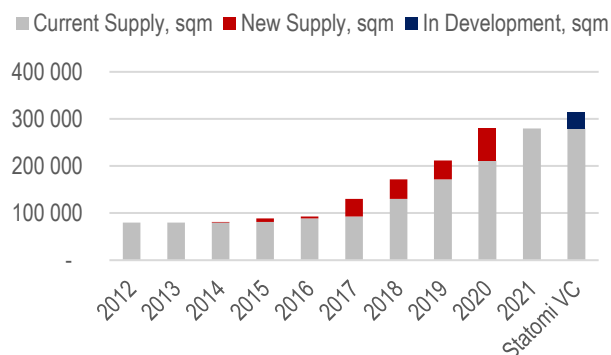


Source: INREAL

KAUNAS BUSINESS CENTRES

The Drovės Fabrikas business centre with an area of 22,000 sq.m was opened in 2021. It is expected that there will be more new business centres in 2022–2023 when the market will be supplemented by offices with an area of about 35,000 sq.m, which will also be developed in newly formed apartment building blocks. This will enable creating mixed-use urban areas with both work and leisure activities. Improved demographic indicators and higher-quality housing projects provide Kaunas with an even greater stimulus for development, as well as increase the competitiveness of the city both in Lithuania and internationally, by attracting not only local but also foreign companies.

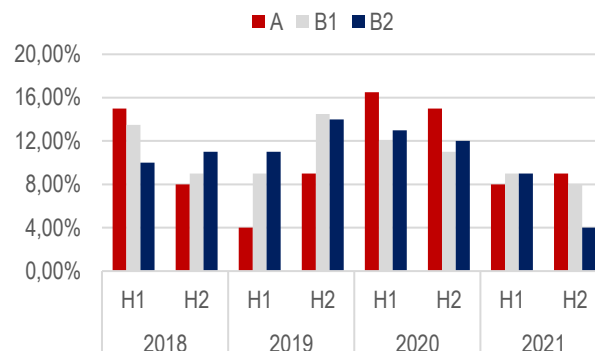
Development of modern business centres in Kaunas (sq. m)



Source: INREAL

As growth slowed down in 2021, business centre managers were able to fill up their premises more easily, resulting in better vacancy rates. The vacancy rate of Class A business centres has increased only slightly to 9% (8% in 2021 H1, and 15% at the end of 2020). B1 vacancy has decreased from 9% to 8% during the first half of the year (11% at the end of 2020). The most significant change occurred in Class B2, where the number of available premises fell from 9% to 4% (4% at the end of 2020).

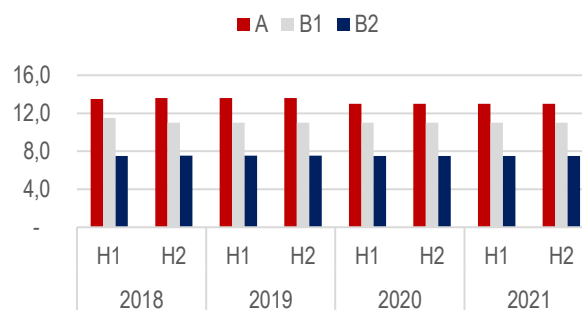
Dynamics of vacancies in Kaunas business centres under classes



Source: INREAL

Similarly to the situation in the capital, there were no significant lease price changes in 2021 H2. Due to newer projects, the price level in Class A business centres has slightly increased, currently reaching 12 – 14 EUR/sq.m. Whereas the prices of Class B have remained similar, i.e. 9 – 11 EUR/sq.m of Class B1 and 6 – 9 EUR/sq.m of Class B2. 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

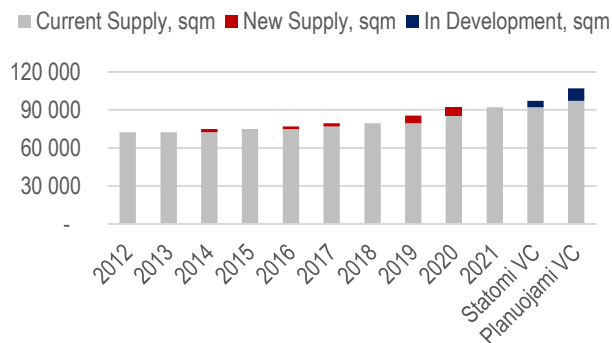


Source: INREAL

KLAIPĖDA BUSINESS CENTRES

There is still no intensive development of business centres in Klaipėda, however we can see the development of small administrative buildings with an area of several thousand sq.m, including co-working spaces. On the other hand, pre-design proposals for larger mixed-purpose complexes have been prepared and construction permits have even been obtained, therefore, with a stabilizing population and lack of modern office buildings, it is likely that there will be a renaissance in Klaipėda in the next few years, repeating the acceleration of development in Kaunas.

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



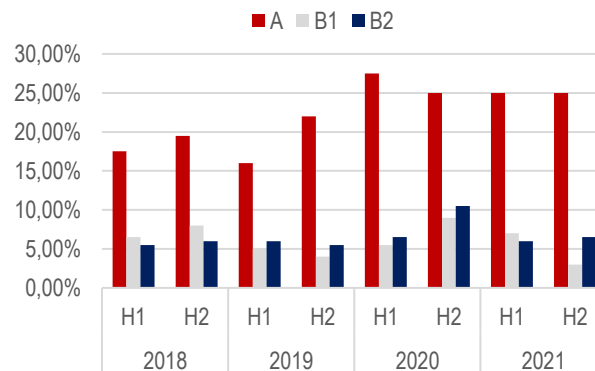
Source: INREAL

The amount of vacant premises in the port city is gradually decreasing. Tenants had access to over 12,000 sq.m of premises at the end of 2020, about 10,500 sq.m in mid-2021, and about 10,000 sq.m by the end of the year. Compared to the scale of Vilnius or Kaunas, such changes are insignificant, however a need for offices is gradually forming, which should be favourable for developers of new projects.

Despite these positive trends, the occupancy rate could be higher. Currently, the vacancy rate in Class A business centres is still about 25% (not changed over the year), however the number of vacant B1 premises has decreased

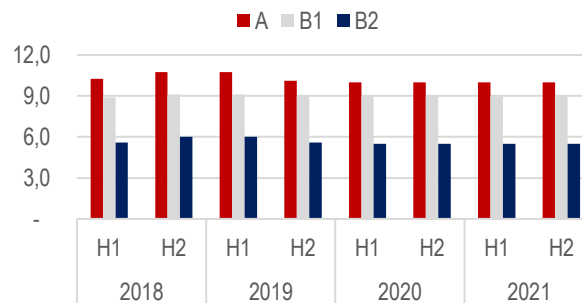
significantly to 3% (9% a year ago), and of B2 to 6.5% (10.5% a year ago).

Dynamics of vacancies in Klaipėda business centres under classes



Source: INREAL

Dynamics of lease prices in Klaipėda business centres



Source: INREAL

A relatively high vacancy rate means that the conditions for leasing premises in the port city remain the same. Class A premises are currently still available for lease 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. The current price level may become an obstacle for new projects, since increased construction costs limit the competitiveness of new projects in terms of prices in Klaipėda. On the other hand, given the limited development over the past decade, more expensive but modern new projects may pay off.

LOGISTICS CENTRES AND STORAGE FACILITIES

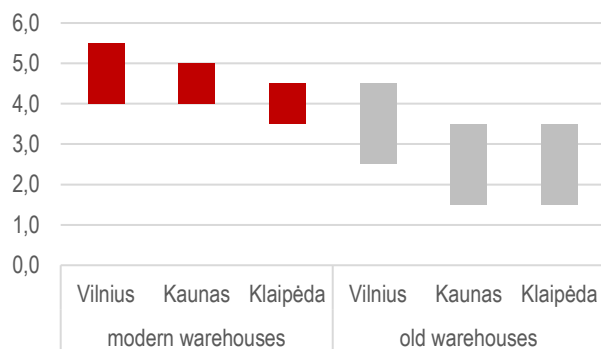
The situation in the logistics sector in 2021 H2 has changed little compared to the beginning of the year. Lease offers for logistics centres that have not yet been built continues to dominate the supply. In some cases it is possible to vacate and lease facilities to new tenants, however such offers are quite rare.

Based on the data of INREAL, there are currently virtually no larger vacant areas in modern logistics facilities. Vacancy rate in Vilnius region remains at about 2%. In Kaunas it has increased to 5%, and in Klaipėda it has decreased to 4%.

There were no significant changes in lease prices. Currently, the lease prices of modern logistics centres are 4.0 – 5.5 EUR/sq.m in Vilnius region, 4.0 – 5.0 EUR/sq.m in Kaunas, and 3.5 – 4.5 EUR/sq.m in Klaipėda. You can find older facilities for lease for 2.5 – 4.5 EUR/sq.m in Vilnius region, and for 1.5 – 3.5 EUR/sq.m in Kaunas and Klaipėda.

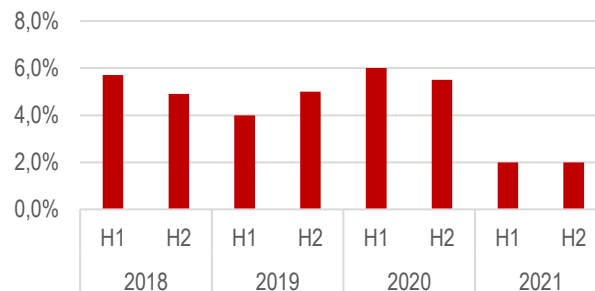
The logistics sector is also experiencing growth in the stock-office segment, with more and more mixed-purpose facilities being offered to tenants for product storage, administration and retail.

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



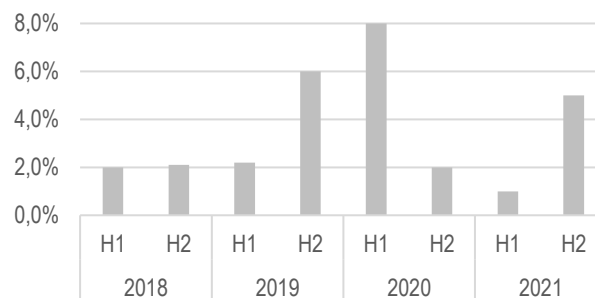
Source: INREAL

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



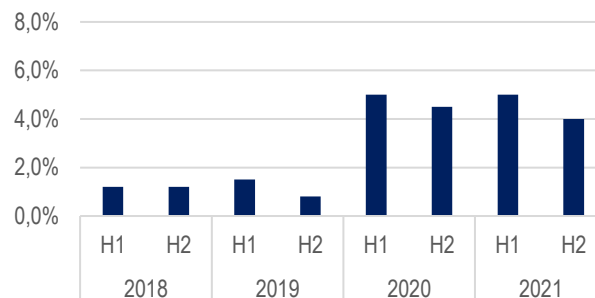
Source: INREAL

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



Source: INREAL

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



Source: INREAL



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Artūras has over 15 years of experience in real estate, logistics, business development, and waste management matters.

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NEW DEVELOPMENTS IN REAL ESTATE LAW

A year marked by active development across various real estate segments and abundant in investment transactions. At the same time, a year of a continued active legislative process and greater clarity, a year of efforts to adapt to the virus. This is a description of the year 2021, reflecting both the situation in the real estate market and summarising the abundance of adopted legal norms and the impact they had on the market.

Just as it could be anticipated towards the close of 2020, the global COVID-19 pandemic became more common in 2021.

Instead of being seen as a factor disrupting the business process, it was now seen as a shaping factor that needs to be considered and taken into account by businesses in the decision-making process. Mass vaccination and other measures adopted to contain and control the virus have undoubtedly produced results and provided a strong impetus for business development.

In this context, it appears that it is the lack of supply of more suitable properties, rather than the looming shadow of the pandemic, that poses a more severe headache in the segments of both commercial and residential real estate. The situation as it stands has facilitated and continues to facilitate business expansion and an active real estate development process. Surely, a sharp rise in the price of construction operations and building materials has also impacted on the whole process, but given the numerous projects currently under development, it seems that adaptation to this aspect is also ongoing.

The long-awaited introduction of clear-cut rules for construction and real estate development on state-owned land has undoubtedly had a significant positive impact on the

entire real estate segment. The amendments to the Law on Land and the Law on Construction, governing the payment of remuneration for the right to build on state-owned land and thus finally enabling such development to be conducted legally, should inspire to re-launch frozen development projects.

The state has resolved to expand the list of persons responsible for compliance of the design documentation of a building with the established requirements. On the one hand, this will enable to ensure the quality of the solutions of the design documentation, and, on the other hand, this is likely to raise the bar for the quality of services provided by persons included in the list (experts and other persons who check the quality of the design documentation). The case law cited in this review also significantly contributes to the interpretation of topical issues of state-owned land use and construction law.

The year 2022 can be anticipated to be a busy one for several reasons. The first, as mentioned above, is the lack of supply of commercial and residential real estate properties, and there will be attempts to meet the supply. Second, such an assumption relies on the fact that there is a large number of properties that are yet in the stage of preparation, on paper, or the development of which has only just started. Finally, again, as mentioned above, the introduction of the conditions for development on state-owned land will enable to re-launch frozen or start fresh real estate development projects.

However, in today's light, all these assumptions are conditional. The effects of military actions taking place as we prepare this review will definitely be felt on the situation in our country. And today this situation is hard to predict. Accordingly, in the context of these events, all the assumptions and generalisations stated above are subject to

the condition that no drastic changes will occur.

TERRITORIAL PLANNING

The Master Plan of Vilnius City was a hot topic in the first half of 2021. Finally, it was approved and entered into force as of 5 June 2021. The preparation of this general planning document was started back in 2016. Its approval is a significant event for real estate developers, as the master plan provides the long-awaited clarity and eliminates practices that are particularly unfavourable to developers, when decisions taken by the municipality used to be influenced by the solutions contained in the master plan that had not yet been approved.

Climate change resilience remains a relevant legislative topic reflected in the **amendments to the Law on Territorial Planning** which were adopted on 12 January 2021 and entered into force on 1 July 2021. These amendments have added **climate resilience** to the objectives of territorial planning, aimed at “creating a healthy, safe, harmonious and climate resilient living environment” and “addressing the challenges of climate change in an integrated manner”. While it is not entirely clear how such criteria will be applied in practice and how territorial planning documents will achieve these objectives, the change is significant because of the environmental requirements that have been introduced. Climate resilience and the **sustainable development vision** are reflected at the level of preparation of national-level and municipal-level master plans that (i) should take account of the principles to be applied in mitigating the effects of climate change and (ii) should set the directions to be followed in strengthening resilience to extreme climatic events, thus promoting going green, the development of the renewable energy infrastructure, and the

long-term preservation of nature. However, rather abstract wordings contained in the law leave room for interpretation, so it is very important how these provisions will be applied in practice.

The amendments to the Law on State Supervision of Territorial Planning and Construction, adopted on 23 November 2021 and due to come into force from 1 May 2022, assigned a new function to the State Territorial Planning and Construction Inspectorate (the **Inspectorate**), i.e. **inspection of the lawfulness of construction completion procedures**. Such inspection is carried out on the basis of the Inspectorate's annual activity plans or on the basis of complaints that can be submitted by a very wide range of entities. There is no doubt that construction completion procedures must be carried out in strict compliance with the legal requirements. However, the introduction of a new complaints procedure in the law may cause concern. Based on the amendments, there is a large number of entities (listed in the law) who are entitled to lodge a complaint concerning such a procedure, and this is likely to cause a delay in construction of the projects concerned and their completion procedures. The role of the Inspectorate's annual activity plans in such procedures is also unclear.

LEGAL REGULATION CONCERNING LAND

The amendments to the Law on Land, adopted on 22 April 2021 and having entered into force on 1 November 2021, introduced **a new instance when land can be taken for public needs – formation and management of separate public greenery areas** in cities, towns, small towns and resorts, in order to comply with the provisions governing separate public greenery areas. By introducing this basis for the taking of land for public needs the legislator probably intended to create conditions for the creation of urban green

spaces and greenery areas and to increase access to them by local residents. However, we note that such flirtation with the property right and its protection, both enshrined in the Constitution, has not been accepted by all. Some members of the Seimas opposed the proposal and applied, but with no success, to the Constitutional Court for an interpretation whether the legal regulation was in conformity with Article 23 of the Constitution establishing the inviolability of property. In our view, the creation of public greenery areas on the ground of taking of land for public needs should also be viewed upon with caution, and it only remains to see how this provision will be applied in practice.

Construction and real estate development on state-owned land has been and remains by far the hottest topic in the real estate market. **The amendment to the Law on Land**, adopted on 25 November 2021 and due to enter into force on 1 March 2022, has finally offered a solution by providing for the cases in which remuneration is payable for the right to build on state-owned land and the amounts of such remuneration. The amount of remuneration to be paid for the right to build on state-owned land depends on the built-up area and is as follows:

Change of the built-up area	Amount of remuneration (average market value of the state-owned land plot or its part)
does not increase or decreases	5%
increase up to 10 %	10%
increase of 10-20 %	20%
increase of 20-30 %	30%
increase of 30-40 %	40%
increase of more than 40 %	50%
It should be noted that the statutory cap on remuneration is 75% of the average market value of the state-owned land plot or its part.	

It is also noteworthy that the right and possibility to build on state-owned land must be discussed in the state-owned land lease agreement (a relevant clause is included, at the lessee's request, in the state-owned land lease agreement or an agreement to amend it). The possibility of constructing new and/or reconstructing existing buildings or installations may be provided only **if the state-owned land plot is leased for a period longer than 3 years and if such construction and/or reconstruction is possible in accordance with the existing solutions of the territorial planning documents and corresponds to the main land use and type of land use specified for the state-owned land plot in the lease agreement.** Thus, before applying to the National Land Service for a relevant amendment to the state-owned land lease agreement, it is necessary to make sure that all the conditions mentioned above are present.

The consent of the manager of state-owned land that is issued for the purpose of transferring of buildings located on such land, as well as the role and necessity of such consent, is often the subject of debate among lawyers. New winds in this field have started to blow with an introduction of a new set of rules – **the Rules governing the issuance of consents to the transfer of the right of lease to the state-owned land plot (a part thereof) necessary for the operation of the building or installation (a part thereof) to be transferred,** approved by the Order of the Director of the National Land Service under the Ministry of Agriculture dated 26 May 2021. The Rules, among other things, set the assessment criteria applied in deciding matters related to the transfer of the right of lease of land. In addition to the other grounds set out in the Regulations, consent is denied in the case of transfer of temporary structures, engineering

networks or structures with no clearly defined functionality or use or economic activity and serving the main building or installation or its appurtenance; or where the lessee of the state-owned land plot fails to properly perform the lease agreement, i.e. to use the land plot for its intended purpose, to allow the use of an easement established over the land plot, to pay the rent or to fulfil other obligations assumed under the lease agreement; or where it is established that the buildings or installations to be transferred are not suitable for use in accordance with the main purpose of use entered in the Real Estate Cadastre.

We would like to draw attention to the amendment to the Rules for the sale and lease of state-owned land plots in use intended for other purposes, adopted by Government Resolution of 25 August 2021. The amendment provides that a person willing and entitled to take out a lease of a state-owned land plot is required, in addition to other documents and information, to submit to the territorial division of the National Land Service data, not older than one year, on the depreciation of the building, as indicated in the real estate cadastral data file. Moreover, the owner of the buildings is also obligated to provide the same data to the manager of the state-owned land also in the instances when he intends to transfer the buildings and seeks to obtain consent mentioned above. The introduction of a new, additional obligation to provide the above-mentioned data, as well as a rather vague wording of the legal provision has caused difficulties in practice both for the owners of buildings, who were faced with the question of which document should justify such depreciation data, and for the employees of the National Land Service, who are not always able to answer that question. Finally, the very need for such information is questionable.

CONSTRUCTION LAW

The amendment to the Law on Construction, adopted on 20 May 2021 and having entered into force on 1 November 2021, has introduced more clarity into the definitions of the Law. Among other amendments, the Law provides that a developer may consist of several natural and/or legal persons or several foreign organisations. This change is significant in that it finally takes account of the practical situation when the developer consists of not one but several entities and the identification of only one of them in the document authorising construction used to cause difficulties.

Another significant amendment (Article 24(21)) has resolved the issue of liability by providing that liability for **compliance of the design documentation of the building with the established requirements** rests with: (i) the persons who signed the design documentation of the building and the expert examination report of the design documentation of the building (a part thereof) (where an expert examination of the design documentation of the building (a part thereof) is mandatory) in accordance with the statutory procedure; (ii) the entities referred to in Article 27(9) and (10) of the Law who inspect the design documentation of the building, when they were obligated, according to their competence specified in Article 27-1 of this Law, to inspect the design documentation of the building. This change is of major significance because, unlike previously, when only those having signed the design documentation of the building were responsible, now the persons who check the design documentation are responsible for its compliance jointly with the former. In our view, this step represents logical formalisation of the responsibility of such persons, which will be reflected in the respective contracts for an expert examination of the design documentation.

Another **amendment to the Law on Construction**, adopted on 25 November 2021 and due to enter into force on 1 March 2022, complemented the amendments to the Law on Land which provide for remuneration payable for the right to build on state-owned land and thus harmonising the regulation of interrelated legislation. The key difference between them is that the amendment to the Law on Land provides for an imperative obligation to pay remuneration, its amount, payment procedure and ceiling value (up to 75%), whereas the amendment to the Law on Construction has linked this obligation to the issuance of documents authorising construction on state-owned land. This means that notwithstanding the properly prepared design part of a building required for issuance of a document authorising construction, the latter cannot be issued and construction procedures cannot start without the payment of an additional fee.

The amendment to Construction Technical Regulation **STR 2.06.04:2014 “Streets and local roads. General requirements”**, having entered into force as of 23 February 2021, provides for the minimum parking space requirements:

Type of building	Useful floor space	Required parking spaces
Residential (one-flat or two-flat) building	More than 140 m ²	2
	One additional space for each area of up to 50 sq. m of useful floor area (the previous version of the Regulation provided for 35 sq. m) above 140 sq. m	
	For this type of buildings with an area of more than 140 sq. m the number of required parking spaces determined based on the total floor space of the building has slightly decreased	

Residential building for various social groups (children's homes, shelters, foster homes, family child care homes, monasteries)	Not relevant, account is taken of the number of flats and/or rooms in the building	0.4 spaces per flat or room, depending on the type of accommodation
	The previous version of the Regulation did not specifically distinguish this type of building. The amendment allows to provide fewer parking spaces for this type of buildings than would be required under the previous version of the Regulation (these buildings were classified as residential buildings (for various social groups) for which 0.8 spaces per flat or room, depending on the type of accommodation, were provided)	
Specialty store selling one product group	60 sq. m of the sales area	1
	The previous version of the Regulation did not specifically distinguish this type of building. The amendment allows to provide for considerably fewer parking spaces for this type of stores than would be required under the previous version of the Regulation (based on the latter, 1 space per 20 or 30 sq. m of the sales area would be required)	
Attention is drawn to the amendment to paragraph 112.1.2 of the Regulation, providing that up to 30% of mandatory parking spaces (except parking spaces for special vehicles and disabled persons) may be provided outside the boundaries of the land plot of the building or group of buildings , except on national roads (the previous version of the Regulation did not exclude national roads)		

RELEVANT CASE LAW

In 2021, the Supreme Court of Lithuania (the SCL) and the Supreme Administrative Court of Lithuania (the SACL) developed case law and ruled on relevant issues of real estate law. In our opinion, the following case law may be relevant for the market participants:

LAND ISSUES

The SCL ruling in civil case No e3K-3-166-969/2021 summarised the procedure for the use of a common land plot by tenants of state-owned land, i.e., where a common land plot is leased to tenants in certain parts, they have no right to determine the procedure for the use of the state-owned land leased to them by mutual agreement, nor can they decide themselves as to the area and configuration of the state-owned land plot that should be allocated to the building (a part thereof) owned by them by right of ownership or leasehold, because only the lessor of the state-owned land has such a right, and only what is expressly permitted by law is permitted in the disposal and management and use of state-owned property.

The SCL ruling in civil case No e3K-3-180-611/2021 reminded about the rule that when deciding on the establishment of an easement over a plot of land in respect of which solutions have been approved in accordance with the established territorial planning procedure, for example, a detailed plan has been approved determining the size of the land plots, the layout of the buildings and other structures on the land plots, the court must take into account the applicable territorial planning documents. For the purpose of establishment of easements by a court decision, the plan (scheme) of the part of the land plot for which an easement

encumbrance would reasonably be requested must be submitted, i.e. precise details of the size, configuration and location of the easement.

The SCL ruling in civil case No e3K-3-177-421/2021 clarified that not every owner of a building located on a state-owned land plot has the right to lease the state-owned land plot without an auction, and such right is limited only to the owner whose building has a defined purpose of use or nature of economic activity, and to be able to use such building it is necessary to have a right of lease of the state-owned land plot, while the fact of the building being located on a state-owned land plot is not per se (in itself) sufficient to acquire on a preferential basis a right of lease of the built-up state-owned land plot.

The SCL ruling in civil case No e3K-3-229-916/2021 reminded about the principle of establishment of easements that an easement may be compulsorily established only in a case where it is objectively necessary, i.e. the courts examining the case on the establishment of an easement must first of all assess whether the owner of the property, in exercising his or her right of ownership and in seeking to have the easement established for the purpose of the proper use of the property, has exhausted all objective and available opportunities so that the right of ownership could be exercised without limiting the rights and interests of other owners. The fact that there is no other appropriate way to exercise the property right than to restrict another person's property right is essential to justify the necessity of an easement.

The SCL ruling in civil case No e3K-3-57-421/2021 summarised that an agreement reached during public discussion procedures between the drafter of the plan and

the owners of the adjacent land plots (the specific outcome of public discussion) regarding the construction of a road parallel to the road on which an easement exists is binding and enforceable on the defendant.

The SCL ruling in civil case No e3K-3-65-684/2021 established that although the applicable legislation provides for the possibility, subject to the conditions set out therein, for the owners of buildings and installations to purchase state-owned land for a house holding, inter alia, even in protected areas, and the possibility in such a case, when the dwelling house is jointly owned by several persons, to purchase up to 0.2 ha by each of them, does not in itself imply that the plaintiffs, having already exercised their right to acquire state-owned land for their private house holding on a preferential basis under the previous legislation, can benefit from such legal regulation. Subsequent changes in the legislation do not in themselves imply that the previous legal framework was flawed and that there is a need to remedy the existing situation. In order for a person to be able to acquire state-owned land on preferential terms, there must exist legal and factual grounds for such right, and the existence of such grounds cannot be assessed and interpreted broadly.

CONSTRUCTION OPERATIONS

The SCL ruling in civil case No e3K-3-176-823/2021 reminded about the rules for interpretation of contracts in design works contracts, i.e., if the contract stipulates that the performance and delivery of design works is for the purpose of obtaining a building permit, then, in the case of delay in performance of design works connected with the need to obtain a building permit after the issuance of the building permit, such works are not considered to have been duly

carried out, and the contractor may not expect to be paid a consideration for the works as stipulated in the contract (otherwise payable for works performed in a timely manner), where the delayed works are no longer meaningful for the client.

The SCL ruling in civil case No e3K-3-57-421/2021 stated that the technological sheet must be coordinated with the technical design: where the technical design drawn up for the client sets out certain preparatory works and their performance as cumulative conditions, the same works may not be included as alternative works in the technological sheet drawn up for the contractor, where the technical design states that all preparatory works are necessary for the proper performance of the contract works and the cumulative nature of the conditions does not flow from the content of the technical design; otherwise, the technological sheet would refute one of the fundamental provisions of the technical design.

The SCL ruling in civil case No 3K-3-219-701/2021 established that the courts, when deciding on the issue of elimination of the consequences of construction under an unlawfully issued document authorising construction, were not justified in recognising as legally irrelevant the circumstances established in the case concerning the possible change of the boundaries of a nature reserve. In the view of the chamber of judges, in a situation where the procedures for changing the boundaries of the nature reserve are suspended pending the entry into force of the court judgments repealing the document authorising construction and other related administrative acts, there existed procedural preconditions for adopting a partial judgment annulling the document authorising construction

and other related administrative acts, as provided for in Article 261 of the Code of Civil Procedure (CCP).

The SCL ruling in civil case No e3K-3-235-1075/2021 established in interpreting legal provisions that are relevant for deciding on the lawfulness of construction of the disputed pergolas that in order to achieve the objectives of protection of valuable areas as set out in the Constitution and in other legislation, only structures of specified nature may be built in public parks and only in designated areas within such parks (in the places set in the planning schemes of public parks (boundaries delimitation and management plans) and/or in master plans).



Vilius Visockas, *Product Developer and Manager at CityNow.*

At the beginning of his career, Vilius has worked as a real estate market analyst in Lithuania since 2006. Later he has developed IT products for the global technology companies Facebook and Spotify. After gaining valuable experience, as of 2018, Vilius has been developing the CityNow platform, which is both a map of new projects and a RE analytics tool. He regularly reviews new projects and market news in the press, and is a member of the board of the Proptech Lithuania association.

15 BIGGEST APARTMENT BUILDING PROJECTS (OR THEIR STAGES) LAUNCHED IN THE SECOND HALF OF 2021

VILNIUS

▪ Žvėryno city

The Žvėryno City block at Paribio str. 12 is the largest project launched in Vilnius over the past six months. It is an area conversion project implemented by Rewo, in which a residential complex of seven new A+ energy efficiency class blocks will be built in place of the former warehouses and

industrial buildings. 6 and 7-storey apartment buildings will be built along the street, including 3-storey buildings within the block. There will be a total of 313 apartments.

The project stands out with its location near Karoliniškių Park and Vilnius CBD, large selection of apartments (22 – 104 sq.m), and spacious balconies/terraces.



Žvėryno city @Rewo

▪ Verkių sodas

Hanner has started implementing the last 3rd stage of Verkių Sodas in Žirmūnai – construction of a 9-storey, A+ energy efficiency class building with 216 apartments. The newest E

building will be the last building of the block, which will include courtyards with an orchard, children's playgrounds and sports grounds. Buyers can choose between 1-4 room apartments of 26-94 sq.m.

The location of the project is distinguished by its convenient access to other areas of the city, either by car, public transport or bicycle, as well as a wide selection of nearby shopping and entertainment centres, cafes and restaurants.



Verkių sodas III @Hanner

▪ Skylum

Skylum is the largest project currently developed in the Viršuliškės neighbourhood. At the same time it is also the tallest (70 m) residential complex in Lithuania built from prefabricated reinforced concrete structures.

Omberg is developing this project in two stages. 414 apartments have been offered for sale in two 20-storey towers. In the A+ energy efficiency class apartment building developed during stage I, buyers can choose from 209 1-4-room apartments.

The project is distinguished by its modern architecture, exclusive city views and roof terraces, which will include recreational spaces. There will be 352 spaces in the

underground parking lot and 67 more spaces in the above-ground parking lot.



Skylum @Omberg

▪ City Yard

Another project developed at Kareivių str. 2D, which is among the 15 largest Hanner apartment building projects in Žirmūnai.



City Yard @Hanner

City Yard is an industrial building conversion project in which two 7-8-storey, A energy efficiency class apartment buildings will be built within a complex of three buildings. Buyers can choose from 189 apartments (1-3 room, 26-63 sq.m).

The developer will also invest in nearby infrastructure by renovating the square next to the project area with the inclusion of pedestrian paths and recreational areas. A

section of Riterių str. will be built by connecting it with Kareivių str. to facilitate access throughout the block.

▪ **reVINGIS River Space**

Galio Group has started the construction of its largest project, which is also the largest project in Vilkipėdė. A new block will appear along the Neris River, where 14 apartment buildings with around 580 apartments will be built in 4 stages. Modern living spaces with all the necessary infrastructure for comfortable movement and high-quality leisure will be developed in place of the former industrial area. Development started with the River Space block comprised of four 6-7-storey, A+ energy efficiency class apartment buildings, offering 153 apartments.

The project is distinguished by its modern architecture, newly created infrastructure for residents, and good location near the river and Vingis Park. A new shopping, recreational and business complex "Akropolis Vingis" will be built nearby.



reVINGIS River Space @Galio Group

▪ **Naujasis Skansenas (stage III)**

YIT Lietuva has started the stage III constructions of the Naujasis Skansenas project in Šnipiškės. This stage includes the construction of E and N blocks comprised of 6-

storey, A+ energy efficiency class apartment buildings, offering 144 apartments (1-4 room, 29-95 sq.m) to the market.

The project includes one of the largest enclosed courtyards in the city, with children's playgrounds and recreation areas. A special highlight of this project is a running track with a special surface, allowing residents to enjoy active sports in the courtyard.



Naujasis Skansenas (stage III) @YIT Lietuva

▪ **Aitvarų namai (stage IV)**

Aitvarų Namai is the continuing project of Eriadas, which is the largest project developed in Lazdynėliai over the past six months.



Aitvarų namai (stage IV) @Eriadas

In stage IV, three 3-4-storey, A+ energy efficiency class apartment buildings will be built, offering 144 apartments.

The project is distinguished by its low building height and a harmoniously formed block with recreation areas and children's playgrounds. The block is located near Bukčių forest and the Neris river bend.

▪ Smilgos (stage II)

Construction of the second Smilgos apartment building has started in Pašilaičiai, at Perkūnkiemio str. 49.

In this stage, KŪB Smilgos is developing a 12-storey, B energy efficiency class apartment building with 144 apartments.

Perkūnkiemio Skveras, a space for active recreation with areas for both children and adults, will be built next to the project. The project is distinguished by its convenient access to other areas both by car (western bypass) and by public transport.



Smilgos (stage II) @Smilgos, KŪB

▪ Lazdynėlių vingis (stage VII)

Homa has started the construction of the last 7th stage of the Lazdynėlių Vingis project in Lazdynėliai. Two 4-storey, A

energy efficiency class buildings will be built, offering a total of 112 apartments. This stage will be the last step in completing the development of the entire block.

The project is distinguished by its large courtyards with playgrounds and recreation areas, low building height, and spacious balconies/terraces.



Lazdynėlių vingis @Homa

▪ B Kvadratu

Borgus has started the development of its 5-storey apartment building project B Kvadratu in Bajorai, at Bajorų rd. 8. The A+ energy efficiency class residential building offers 72 apartments.



B Kvadratu @Borgus

The project is distinguished by its quiet location, popularity among young families, modern architecture, and the nearby Visorių-Bajorų Forest Park. Bajorų kindergarten is being built next to the project, and the new Bajorai progymnasium will be built in the future.

▪ Skvero namai

Development of the Skvero Namai project of 3 low-rise buildings has started in Naujamiestis, at T. Ševčenkos str. 25, offering a total of 131 apartments.

In stage I, the developer Rewo has offered two 5-storey, A+ energy efficiency class buildings with 61 apartments.

The project is distinguished by its quiet location in the city centre, modern architecture and developed infrastructure – inner courtyard and nearby Konarskio Square.



Skvero namai @Rewo

KAUNAS

▪ O5 namai

Etapas Group has started developing the O5 Namai apartment building block on the land plot located at

Žeimenos str. 82, at the intersection of Žaliakalnis and Eiguliai neighbourhoods.

The block will include three 7-storey and two 9-storey, A++ energy efficiency class buildings with 192 apartments. Two apartment buildings were sold to the Eften Capital fund and their apartments will be used for long-term lease. And 96 apartments in three 7-storey buildings are offered for sale.

The project is distinguished by its convenient access to other areas of the city, nearby sports infrastructure, and spacious terraces on the roofs of the buildings.



O5 namai @Etapas Group

▪ Naujapilis

Development of Naujapilis, which is another major project, has started near the O5 Namai project, on the land plot located at Žeimenos str. 147. A block of 10 apartment buildings will be developed in one of the highest places in Kaunas, on the slope of Žaliakalnis.

In stage I, the developer Nuova has offered the market three 4-storey, A+ energy efficiency class apartment buildings with 60 apartments.

The project is distinguished by its convenient and safe location, harmonious infrastructure, and a wide selection of apartments.



Naujapilis @UAB Nuova

▪ **Parko namai (stage III)**

Realinija has started the construction of the last stage of the Parko Namai project. Two 4-storey, prestigious class apartment buildings of A energy efficiency class are being built and will offer 56 apartments.



Parko namai (stage III) @Realinija

The project is under development in the very centre of Kaunas, near the largest parks of the city, by paying particular attention to high-quality architecture and well-being, and by providing options to choose from housing with a larger area, spacious terraces and balconies.

KLAIPĖDA

▪ **Saulės butai**

The developer Force Palace has started the construction of stage VI of the project. Two 4-storey, A+ energy efficiency class apartment buildings will be built on land plots located at Ragainės str. 9 and 11, offering a total of 126 apartments.

The Saulės Butai block is distinguished by its wide selection of housing options, convenient access to the city centre, and well-being solutions for both active sports and quiet recreation.



Saulės butai @Force palace

5 BIGGEST COMMERCIAL REAL ESTATE PROJECTS LAUNCHED IN THE SECOND HALF OF 2021

■ Business centre FLOW

Construction of the Flow business centre has started in the capital's central business district, near Vilnius city municipality, on the land plot at Lvovo str. 21A. Eika will develop a complex of two 15 and 20-storey interconnected buildings with a total area of 15,000 sq.m. Flow will aim to receive a BREEAM Outstanding rating, and the building itself will meet the highest criteria for energy efficiency (A++), environmental impact and human well-being.

The project is distinguished by its excellent location, well-being solutions for future office workers, and a 490 sq.m roof terrace on the 16th floor. This is the largest business centre among the projects developed by Eika company group.



Verslo centras „Flow“ @Eika

■ Teltonika IoT Group headquarters

Construction of the Teltonika IoT Group headquarters has started on the land plot at Saltoniškių str. 14, next to the Panorama and other business centres of the capital.

The project, which will be developed by way of conversion, will include a 5-storey, nearly 18,000 sq.m building with A+ energy efficiency class, and a concentration of 500 jobs. Investments in the project will reach approx. 26 million euros.



„Teltonika IoT Group“ HQ @Teltonika IoT Group

■ Kauno Baldai manufacturer

The upholstered furniture manufacturer Kauno Baldai, a company owned by the SBA Group, has started a conversion project in Kaunas during which a modern 28,000 sq.m factory will be built in the existing territory of the company in Žemiejį Šančiai.



„Kauno baldai“ manufacturer @SBA grupė

The new A++ energy efficiency class factory will be distinguished by its modern architecture and environmentally friendly solutions, enabling to implement the company's ambitious development plans.

▪ **Business centre Sky Office**

YIT Lietuva has started the development of the 18-storey business centre Sky Office in Viršuliškės high-rise district, at Spaudos str. 7.

The project will be of A++ energy efficiency class and will be developed with the aim to receive the Breeam Excellent sustainability certificate. The total area of the building will be 13,000 sq.m, of which 8,800 sq.m will be leased out.

The project is distinguished by its sustainable ventilation, humidification and climate control system solutions, convenient location, and a terrace on the 18th floor with panoramic view of Vilnius for the tenants of the building.



Business centre „Sky Office“ @YIT Lietuva

▪ **IKI office and store**

Construction of a new IKI retail chain office and store has started on a 2.78 ha land plot at Pilaitės Ave. 42, Vilnius. The

area of this 3-storey, A++ energy efficiency class complex will reach 5,850 sq.m.

On the first floor of the building there will be a shopping hall with auxiliary facilities, a staff canteen and premises for rent. Administration office facilities will be installed on the second and third floors.

UAB Palink also undertook to install convenient entrances from Pilaitės Ave. and Papilėnų str., as well as build new sidewalks and a bicycle path. There will be two parking lots for customers and employees next to the building, as well as a square with greenery and benches.



„Iki“ office and store @Palink

2 MOST SIGNIFICANT PUBLIC INFRASTRUCTURE PROJECTS LAUNCHED IN THE SECOND HALF OF 2021

- **Science Centre of the Faculty of Medicine of Vilnius University**

The construction of the Science Centre of the VU Faculty of Medicine has started on a 2.83 ha land plot in the Santara Valley of Vilnius, next to the Vilnius University Hospital Santaros Klinikos.

The 4-storey, approx. 19,000 sq.m Science Centre will include specialized scientific laboratories and surgery facilities of the centre of genetic research, physiology, biochemistry, microbiology and laboratory medicine, infectious diseases and dermatovenerology, chest diseases, immunology and allergology, dentistry, neurology and neurosurgery, cardiovascular, as well as other departments and clinics.



Science Centre of the VU Faculty of Medicine @ Vilniaus universitetas

Some of the medical study programmes will also be relocated here, and a Simulation Centre will be established to develop practical skills in an environment which will be as close as possible to actual working conditions. There will be

conference halls, auditoriums, consultation, meeting and seminar rooms, rooms for researchers, doctoral students, and practical classes.

This state-of-the-art project will pave the way for a breakthrough in health sciences, and provide new opportunities for interdisciplinary collaboration between researchers.

- **The reconstruction of the Lithuanian Zoo**

The project for renovating the infrastructure of the Lithuanian Zoo has started in Kaunas, near Ažuolynas Park. A new exotarium of almost 4,000 sq.m (a building for warmth-loving animals) is being built, which will be connected to the "lion building" built in 1954, while also maintaining its authenticity. The exotarium will be equipped with open desert and jungle animal expositions, meerkat, lion, reptile, amphibian, insect and other animal expositions, aqua-terrariums of various habitats around the world, and laboratories.





The reconstruction of the Lithuanian Zoo

New, larger buildings and enclosures will also be renewed or built, and new educational spaces and laboratories will be installed during the renovation, which will take several years to complete.

APIE ĮMONES / KONTAKTAI



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ŠIAULIŲ BANKAS

Šiaulių bankas AB was established in 1992 and is the largest bank with Lithuanian capital, a steadily and consistently growing financial partner, paying special attention to business financing and consumer financing decisions. Šiaulių bankas serves customers in 37 Lithuanian cities. The Bank's shares are listed on the Baltic Main List of the NASDAQ stock exchange. In 2021, the results of the "Dive Lietuva" secret shopper survey showed that the quality of Šiaulių bankas customer service is at the highest level, and the total scores of individual categories reach 100 percent out of 100.

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CITYNOW

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