



LITHUANIAN ECONOMIC AND RE MARKET REPORT 2022 H1

WITH PARTNERS ŠIAULIŲ BANKAS, COBALT, CITYNOW

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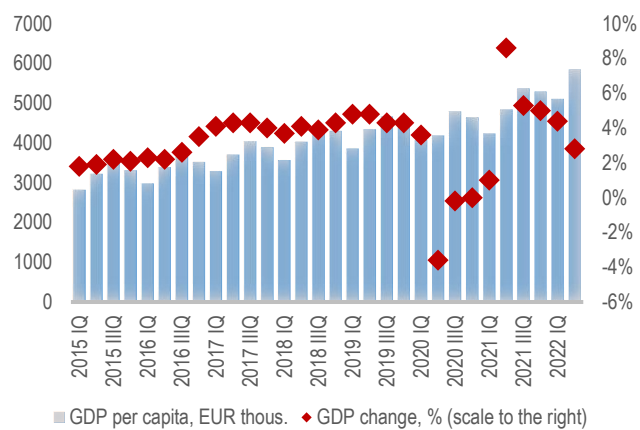
ECONOMY OVERVIEW

The past few years have been a period of huge challenges for the Lithuanian and global economies. As we were about to free ourselves from the clutches of the pandemic, we were faced with new challenges. The Russian military invasion in Ukraine early in the year caused a major geopolitical crisis, and the Baltic states were directly affected. The resulting considerable increase in the price of energy resources further fuelled inflation that was already high. It can be said that post-pandemic imbalances were coupled with a strong upward spiral in prices. Nonetheless, even under the circumstances the country still manages quite well, and the worst expectations regarding the prospects of the Lithuanian economy on account of the war didn't materialise. The

country's export figures are at historic highs and the effects of the war on household expectations and business activity are not as strong as in the case of the Covid-19 crisis.

The Lithuanian economy continues to show resilience to geopolitical tensions, the energy crisis and disruptions in the supply chain. In the second quarter, the country's GDP increased by a further 2.8 per cent, on top of the 4.4 per cent growth in the first quarter, reaching EUR 16.4 billion in June.

Lithuania's GDP

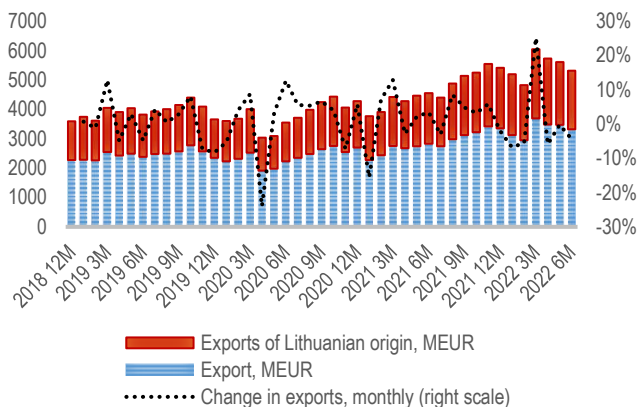


Source: The Department of Statistics of Lithuania

That said, in the recent quarter economic growth was 0.4 slower than in the first quarter. Growth was constrained by a decline in domestic demand, slow retail trade and high inflation. The performance of companies in the sectors of transport, warehousing and property had the biggest adverse effects. In the transport sector, there was a decline in freight transport by railways and in stevedoring volume at Klaipėda seaport. Despite that, the majority of sectors were resilient and showed confident growth.

The Lithuanian export of goods and services made a significant contribution to economic growth in the first half of this year - nominal export increased by nearly 30 per cent year-on-year. However, exports and imports have declined for three consecutive months, and the trend is likely to accelerate. The export of goods originating from Lithuania, which accounts for more than 60 per cent of total exports, increased by 16 per cent in June year-on-year - the slowest in the last 1,5 years, and it was 7 percent lower than in May. Imports, on the contrary, unexpectedly grew in June due to the increased need to fill fuel tanks after repairs.

Foreign trade

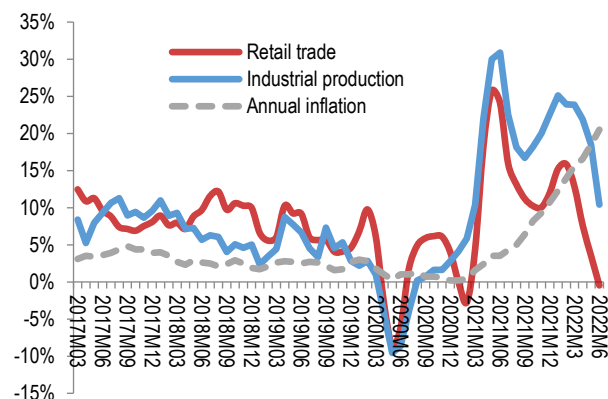


Source: The Department of Statistics of Lithuania

Exports were slowed down by the decreased export volume of mineral and energy products due to the repair of “Orlen Lietuva” AB. As inflationary shock, a rapid increase in interest rates and geopolitical tensions continue to cause the slowing down of international trade activity, Lithuania’s export markets may move into stagnation or even decline. The demand for export goods and services will be adversely affected by the obvious slowing down of the economic activity of the EU – Lithuania’s main trading partner.

The dynamics of the country’s retail trade presented an unpleasant surprise in the second quarter of this year. The rise in uncertainty and high inflation rates had an adverse effect on consumer sentiment and purchasing power. With reports of an imminent economic crisis becoming increasingly frequent in the public space, consumers tend to refrain from intensive consumption and start saving more. Buyers are cutting down their spending on non-essential goods and services because high inflation causes the basic basket of goods and services to become increasingly expensive. After reaching the peak of its growth in January this year (18 per cent annual growth), retail trade activity started slowing down during the remaining months and reported a 4.2 per cent slump in June. Similar trends prevail throughout the Western world. That said, not everything is so gloomy in this segment. Recently, the growth of the country’s retail trade was mostly hampered by the declining sales of food, drink and tobacco products – amounting to 7 per cent in June – possibly caused by the rise of Lithuanian outbound tourism and the associated decline of spending on those products. Nonetheless, the prospects for the second half of the year remain negative. Deteriorating expectations of the population, high prices and rising fears regarding global recession will reduce the wish to spend. The decline in spending may become even more notable in the autumn.

Economic activity indicators



Source: The Department of Statistics of Lithuania

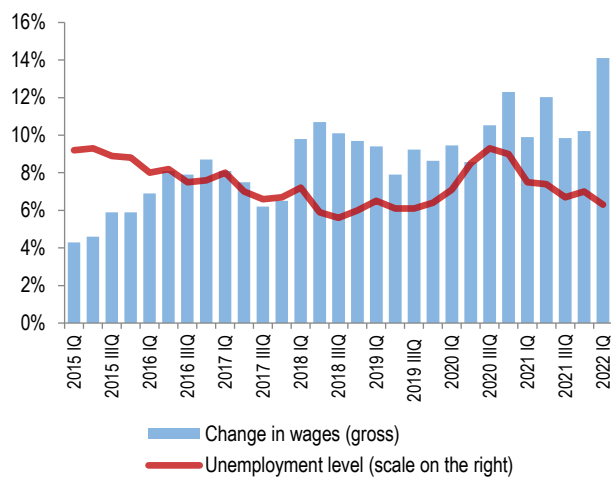
Although export orders still exceed the long-term historical average, the growth of industry is already losing momentum. During January–June 2022, total industrial output amounted to EUR 14.2 million in

current prices – 16 per cent more compared with the same period in 2021. Manufacturing grew by 15 per cent during the six months of the year; its development was among the most favourable in all economic activities. Nonetheless, industrial production volumes have been on decline for three months in a row; the decline might accelerate in the second half of the year or even cause an annual decline. There are objective reasons for this. The country's industry faces multiple challenges – disruptions in the supply chain are causing an ever-more prominent deficit of raw materials and equipment along with a significant rise in their prices, as well as a lack of human capital and higher wage costs that have a low degree of correlation with productivity growth. Lithuania's manufacturing remains largely dependent on contract manufacturing, and the products manufactured by the majority of businesses are not intensive with regard to

high technological progress. The production of basic pharmaceutical products and preparations, chemicals and chemical products, refined petroleum products, wood and wood products except furniture are among the worst affected industries in the recent months. That said, the overall performance was also adversely affected by the scheduled repair works at Orlen Lietuva and the shut-down of Lifosa.

One of the most acute challenges for business in the recent post-pandemic period is the rising wage cost. Wages are still increasing rapidly, particularly in the private sector. In the first quarter of the year wages grew at a spectacular rate of 14 per cent year-on-year. The particularly rapid growth of wages in the country that has been ongoing for the fourth year in a row affects business competitiveness in foreign markets. The financial cushion created by rising income only partially offsets the negative effects of inflation. The growth of wages in real terms in Lithuania became negative for the first time in the past ten years – inflation was growing faster than wages, causing a decline in the purchasing power of the population. Strong demand for hiring will continue to support wage growth trends. According to the Ministry of Finance, average wage growth will amount to more than 13 per cent, reaching a monthly average of EUR 1,789 (before tax) this year, and 8.4 per cent next year. Next year, wages will depend on the Government's decisions regarding minimum monthly wage and public sector wage. As employee hiring continues to rise, no growth in the level of unemployment is expected either this year or in 2023. Moreover, the level of unemployment dropped to 5.2 per cent in the second quarter of this year - the lowest level since 2008. Tensions in the labour market have remained high for some time and the level of unemployment has been consistently on a decline since the second half of 2020. Unemployment should not be more than 7 per cent both this year and next.

Labour market



Source: The Department of Statistics of Lithuania

The rates of inflation both in Lithuania and globally, which have reached the levels not seen for a quarter of a century, deserve a separate mention. It can confidently be claimed that the record-high growth of prices in the Baltic states is actually out of control. In June, the prices in Lithuania soared by as much as 20 per cent – nearly twice more than the average price increase in the EU Member States. This is the price we are forced to pay for irresponsible policies towards managing the consequences of the pandemic, disruptions in supply chains, the war that has provoked the energy crisis and other reasons. Differently to other EU Member States, in Lithuania inflation is also exacerbated by the rapid wage growth that has continued to be high in the past four years. This poses a risk of spiralling inflation when price growth leads to higher wages, encouraging businesses to shift costs on to the end consumer. The war caused a shock in the sector of energy resources – gas prices increased by several times rather than by per cent. Europe seeks to rid itself of Russian energy but securing alternative sources is likely to take some time, which leads to the risk of further increase in

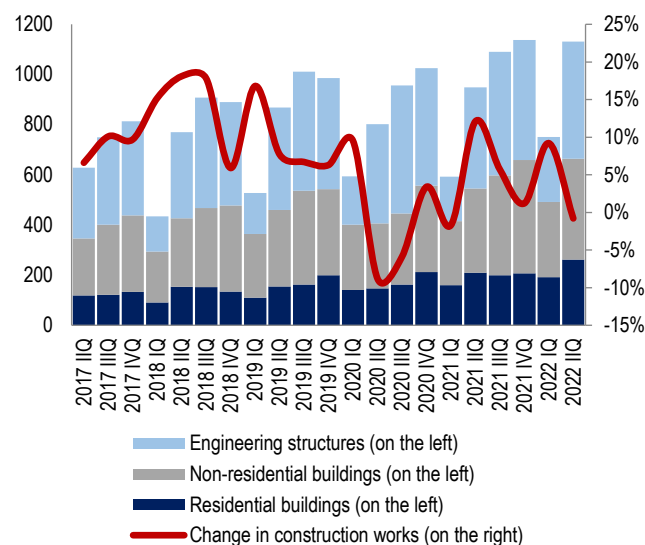
prices, or even deficit. The adverse effect of high inflation on economic development is clear: high prices reduce the real income and consumption of the population and limits business investments.

In an effort to control inflation, central banks are rapidly raising reference interest rates. This year the US Federal Reserve has already increased the reference interest rate twice (by a total of 200 base points). Eurosystem also rapidly normalises its monetary policy. In July, the ECB announced the completion of asset purchases and increased the reference interest rate for the first time in more than ten years. It raised it by 50 base points in a single action, and EURIBOR became positive for the first time since 2016. With the prospects of inflation persisting, further gradual increases in interest rates are in sight. It may sound like a paradox, but high inflation may cause global recession which in turn should cool off the rise in prices considerably. The shrinking demand caused by high inflation might hamper the ability of business to shift the ever-increasing costs on to the end consumer. According to the Ministry of Finance and the International Monetary Fund, inflation will reach its peak in Lithuania this year due to the high prices of raw materials, tensions in the labour market and ongoing disruptions in supply. The average price growth should amount to 16–18 per cent this year, and fall to 6–8 per cent next year.

Geopolitical tensions and rising prices of construction materials are slowing down construction in the country, but the first half of this year was strong. The construction market, which grew by almost a tenth in the first quarter, came 1 percent lower in the second quarter year-to-year. Investments in property is one of the ways for the population to escape inflation, while material investments are an essential tool for business in dealing with the challenges of increasing productivity in response to the tension in the

labour market. The volume of engineering structures expanded by a third this year, while the construction of residential structures grew by 20 per cent. However, the prospects for the rest of the year should be viewed in a more reserved way. The prevailing uncertainty, the high risk of global recession and the rising price of debt should cause companies to scale down their plans for technological upgrading and slow down the development rate of property projects. This year, the growth of capital investments in Lithuania is projected to stand at more than 3 per cent – considerably below the rate reported for last year (7 per cent).

Construction activity in Lithuania



Source: The Department of Statistics of Lithuania

Despite the strong performance during the first half of the year, the impact of adverse factors affecting Lithuania's economy might intensify in the second half. So far, Lithuania's economy is shielded from external shocks by the country's strong macroeconomic fundamentals, sustainable

household and business balances, and a flexible labour market, but the prospects are shifting to the negative side. According to the Bank of Lithuania, the negative balance of risks to the country's economy has further deteriorated, while the adverse effect of some of the factors on the country's economic development has become even more pronounced. Different factors undermine the prospects for the major global economies and the effects will soon be felt by Lithuania's economy, which exports approximately 80 per cent of the goods and services created in the country. The escalation of the war and disruptions in the supply chain, the lack of structural reform and the tightening of financial conditions will affect the resilience of the country's economy. High inflation alone will undermine the demand both domestically and in foreign markets, and tighter fiscal and monetary policies will raise the price of debt and increase the risk of insolvency of businesses. The trends of economic slow-down continue to fuel the risk of stagflation where economic decay leads to high prices and unemployment. All these above reasons make the contraction of Lithuania's GDP in the third quarter of the year very likely. Despite the challenges, the economic growth of Lithuania in the medium term should continue. In the view of different organisations, the country's GDP should grow by 1.6–2 per cent this year – nearly half of the pre-war forecast – and should rebound up to 2–3 per cent next year.



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REAL ESTATE MARKET OVERVIEW

HOUSING OVERVIEW

There was a slowdown in the housing market in the first half of 2022 due to inflated real estate development costs, energy efficiency requirements, infrastructure costs, and compensation for development on state land. From the second half of the year, increased loan interest will also be added to the "basket of effects".

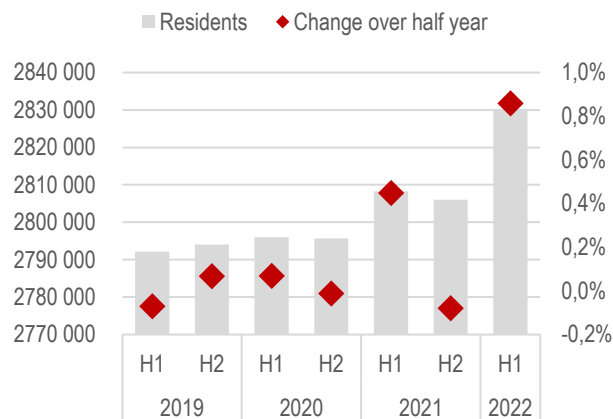
In January, increasingly rising housing prices which limit the preferences of buyers as well as the very shallow supply of housing and lack of built homes were listed as one of the most important factors affecting the housing market. In

February, Russia's invasion of Ukraine dealt a significant blow not only to the housing market, but also to the entire global economy. In terms of the impact on RE alone, material markets were closed in three countries, further exacerbating issues in the supply chain. While observing the rising prices, we began to also assess the potential impact of rising interest rates. Taxes for development on state-owned land came into force in March, forcing developers to recalculate the pricing of their projects. The war refugees who flooded Lithuania and other European countries in spring caused a shortage of rental housing. Under normal circumstances, this would have boosted sales, however both the uncertainty of sustainability of demographic changes and the pre-existing shortage of built housing meant that there was no significant change in sales. We continued to observe a slowdown in the market in May–June, and the last "bastion of the seller's market" in the capital fell as developers offered new projects. Of course, we still cannot say that the market is on the side of the buyer at the end of the half-year, since the buyer's purchasing power has lagged far behind the growth of housing prices, and a whole series of challenges does not create opportunities for them to decrease. In the near future, it is important to answer the question whether the potential decline in supply prices

will coincide with the recovery of buyer activity, or will it occur separately.

Demographic changes remained the most important driving force of the housing market. The need for a new housing fund increases as the population grows, and vacant (not bought and not rented) housing appears on the market as the population decreases. Although the main population growth is concentrated in the country's three largest cities and their ring municipalities, where the majority of new housing developments are taking place, small but positive changes in the population throughout Lithuania mean that the demand for housing remains. According to the data of the Department of Statistics, the population in the country increased by almost 1% in half a year – from 2,805,998 to 2,830,097 people.

Population in Lithuania

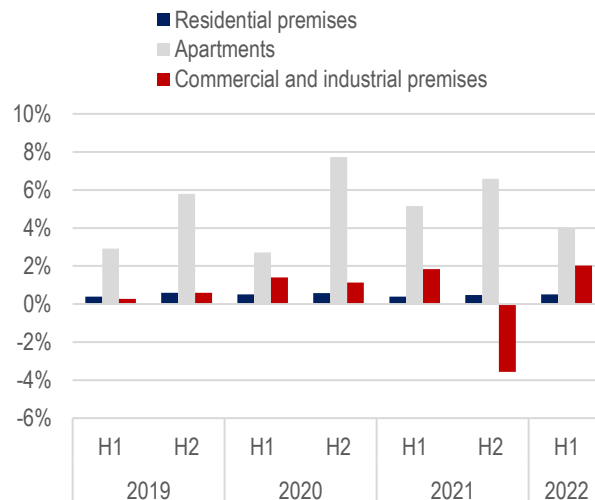


Source: The Department of Statistics of Lithuania

In half a year, the number of residential premises (apartments, townhouses, etc.) increased by 0.5% – up to 930,840 units. Leisure and hotel facilities increased by 4% to 10,194 units, and administrative and production facilities (including lofts) by 2% to 11,194 units.

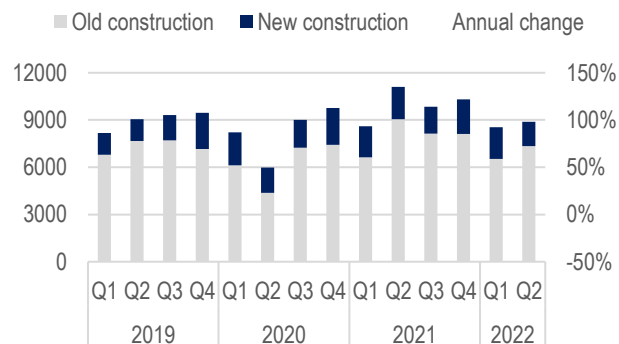
According to the data of SE Centre of Registers, the number of residential housing transactions in Lithuania has reached 17,432 in 2022 H1, which is 13.5% less than in 2021 H2 (20,153) and 11.5% less than during the same period last year (19,696).

Number of premises in Lithuania



Source: SE Centre of Registers

Number of purchase and sale transactions of residential premises in Lithuania



Source: SE Centre of Registers

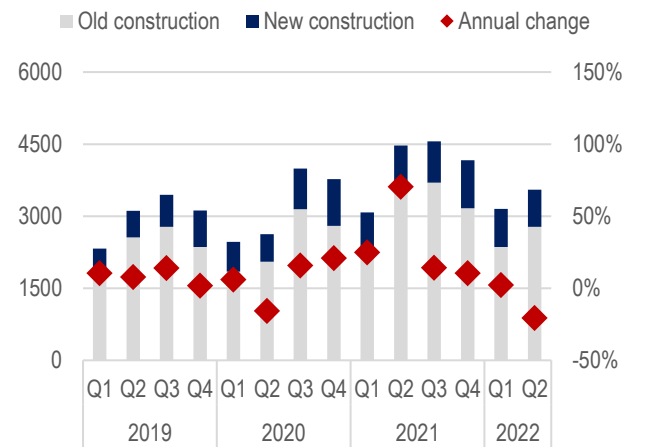
Before the pandemic, there was an increased interest in new construction housing – such transactions amounted to 27% in Q2 of 2020. Due to reduced supply, the relative share of new construction housing sales has decreased in 2021. Accumulating disturbances in 2022 resulted in the situation remaining similar in Q2 with the share of new construction housing sales amounting to 18%. We will continue to see a relative increase in the sales of new construction housing both this year and in 2023, since in the middle of the year there were over 8,500 apartments and townhouses under construction in Vilnius, of which about 6,000 have already been sold. There were almost 2,500 housing units under construction in Kaunas, of which about 1,500 have been sold, while Klaipėda had about 750 and 450 of such housing units, respectively.

According to the data of SE Centre of Registers, the number of residential building transactions in Lithuania has reached 6,700 in 2022 H1, which is 23% less than in H2 of 2021 (8,718) and 11% less than during the same period last year (7,553). More pronounced fluctuations can be observed in the segment of old construction housing. 5,143 of such housing were sold this year, i.e. 25% less than half a year ago (6,865) or almost 14% less than in the same period last year (5,959). Meanwhile, new construction housing sales amounted to 1,557, which is 16% less than half a year ago (1,853) or 2% less than a year ago (1,594).

Greater changes in the old construction housing segment can be associated with both the increased prices of energy resources and the changes in the needs of buyers. Residential buildings built at the beginning of the country's independence were characterized by a larger area as well as basement and garage facilities, which is not usual for newly built houses. It is also necessary to consider the fact that after a person sells his property, he must buy a new one, and the

price differences between new and old construction housing limit the opportunities for sellers to become buyers.

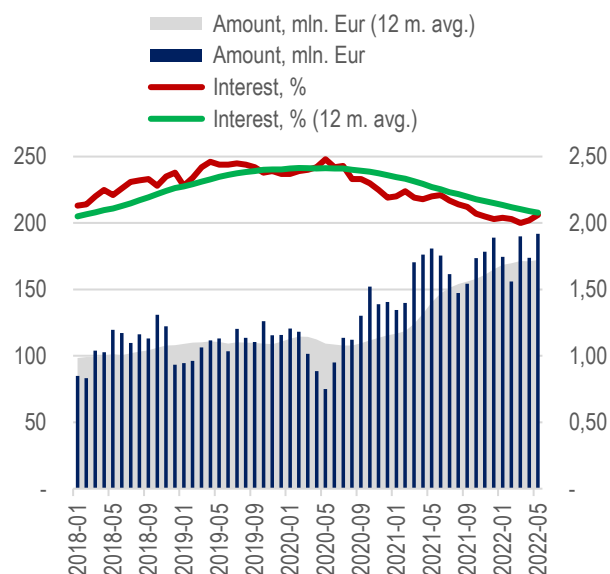
Number of purchase and sale transactions of houses in Lithuania



Source: SE Centre of Registers

According to data from the Bank of Lithuania, housing loan volumes and interest rates still remain favourable for buyers in 2022, however an increase in interest rates was already visible at the end of H1 due to increased Euribor rates. The twelve-month rate turned positive in April, and the six-month rate turned positive in June. It is difficult to estimate what part of the new loans consisted of loans with increased Euribor rates. Buyers fixed their interest rates for a while, however it is likely that we will see lower margins as the profitability of loans grows, which would benefit those seeking to refinance them. The volumes of loans are not decreasing – 521 and 557 million euros of actual new loans, respectively, were issued in Q1 and Q2 of 2022, i.e. about one and a half times more than during the period of 2019-2020 and slightly more than in 2021. This is mostly influenced by the secondary housing market and the record number of preliminary contracts concluded in 2021 or earlier.

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

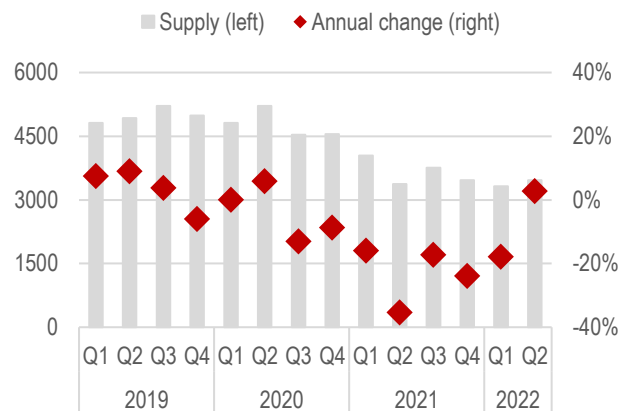


Source: Bank of Lithuania

APARTMENT MARKET IN VILNIUS

As the market activity decreased, the supply of new apartments in Vilnius remained stable, reaching 3,462 units in mid-2022. This number essentially corresponds to what it was at the end of 2021 (3,463). This level of supply had no significant changes for a year and a half now. If earlier developers were in a hurry to supplement the supply and take advantage of the increased demand for housing, some of them are now making decisions not to start selling housing at the early stage of development in order to reduce the risk of inability to control development costs. On the one hand, this means that the period between the preliminary sales contract and the notarial transaction will decrease in the future, i.e. buyers will be able to move into their new homes sooner, but options will continue to be extremely limited.

Supply volume in the primary housing market in Vilnius



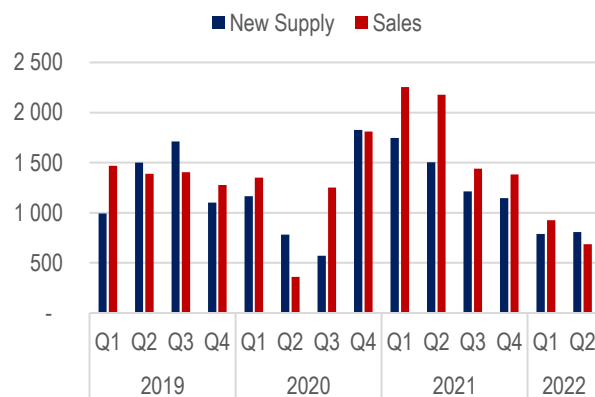
Source: INREAL

1,594 new housing units in the city of Vilnius were included in our observations in 2022 H1, which is twice less than in the same period last year (3,251), despite the fact that this year we have also included the townhouse segment. Quarterly results have been declining since the end of 2020 with 1,825

apartments offered to the market, however the overall supply of new housing has increased due to reduced demand. Buyers could choose from 788 new offers in Q1 and from 806 offers in Q2 of 2022.

Developers agreed on the sale of 1,611 homes in 6 months, thus the result of this half-year is almost two times poorer compared to last year (2,823), and three times poorer compared to the result of 2021 H1 (4,432). Such modest sales can be compared to those in 2020 H1 (1,711) after the onset of the COVID-19 pandemic, when all commercial activity was essentially banned in the second quarter.

Dynamics of the new supply and sales of apartments in Vilnius



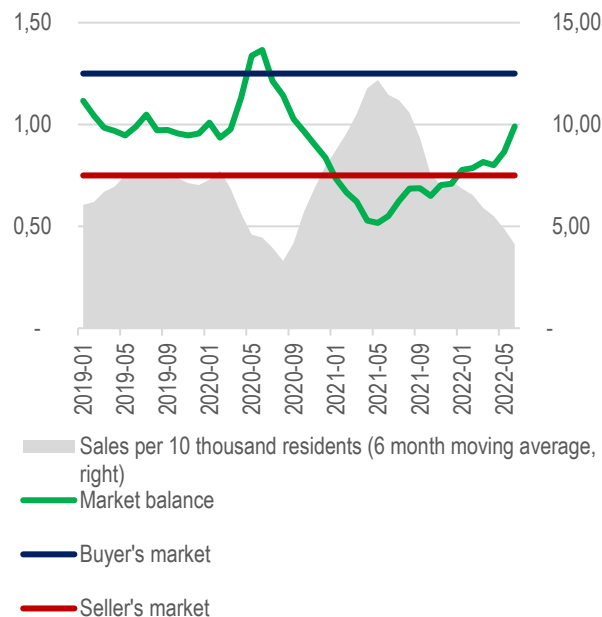
Source: INREAL

The figure "Dynamics of new housing supply and sales in Vilnius" clearly shows a consistent decrease in market activity. This quite unambiguously indicates that buyers are not provided with enough housing offers, not all projects are acceptable, and buyers would like to purchase housing that has already been built or its construction is nearly finished, as well as pay for the housing slightly less, especially in the context of rising base interest rates, Euribor and the possibility of a recession. There are two main reasons for the

downward trend in new supply. First one is that developers are beginning to sell housing in their projects in the later stages of construction. This helps to avoid excessive pricing changes as construction costs rise and to manage the resulting risk of potential conflicts with early buyers. The second reason is that the regulation of RE development that has changed over the last couple of years has complicated the development of new projects, which makes it very difficult to ensure sufficient supply.

As buyers buy fewer new homes, the market balance indicator is showing a balanced market for the first time since the start of the pandemic (mid-year value – 0.99, balanced market – 1.00). The achieved market balance is almost certainly not sustainable, since buyer activity is about one and a half times lower than in 2019.

Balance indicator of the new housing market in Vilnius

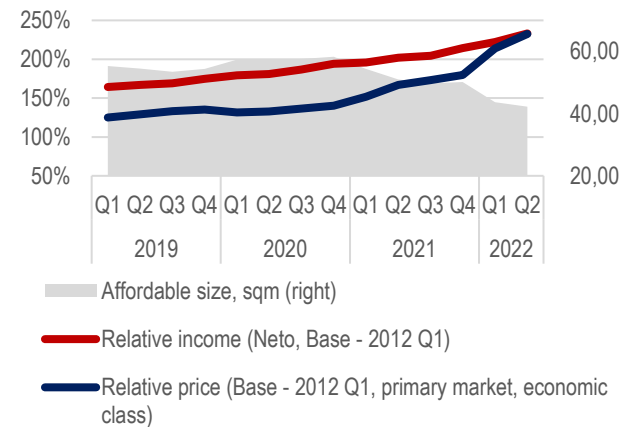


Source: INREAL

It is likely that a new "compressed spring" is forming as the population grows, the rebound effect of which will be felt after the growth of development costs is managed and new projects are added to the supply. On the other hand, if changes in supply correspond to the trends of previous months, it is possible that we will soon return to the level of 2021 after an increase in the options of buyers and the affordability of housing, when new supply will be absorbed quickly, and the remaining housing will be sold at increasingly higher prices, until buyers face the problem of affordability once again.

In mid-2022, the area of affordable housing (economy-class, when housing is purchased with a loan by one person earning an average municipal salary) decreased to 45 sq. m. Such housing affordability was recorded in 2012 – 2016. In 2017-2020, housing prices grew slower than wages, and housing affordability gradually increased to almost 60 sq. m at the end of the period. In 2022, increased housing development costs and an imbalance between supply and demand meant that the five-year housing affordability progress was wiped out.

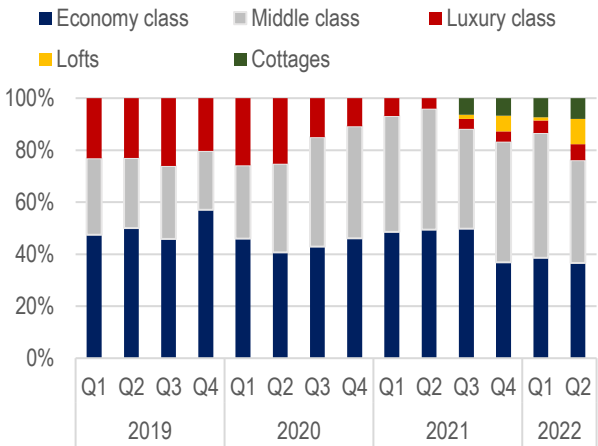
Housing affordability in Vilnius



Source: INREAL

The division of housing into classes is based not on price, but on location as well as architectural and engineering solutions. On the other hand, all of these characteristics correlate to housing prices, and price is the main indicator by which economy-class buyers choose their housing. This group is the most sensitive to economic fluctuations and its funds are elastically related to labour income, thus buyers can no longer afford new construction housing when prices grow faster than their wages. Starting in mid-2021, there was a decline in the purchasing power of economy-class home buyers. In theory, once buyers can no longer afford middle-class housing, they can "step down" to economy class, however such migration has been slow due to lack of built housing. This led to the fact that economy-class housing sales decreased from 50% in Q3 of last year to 35-40%.

Apartment sales under class in Vilnius (percent)



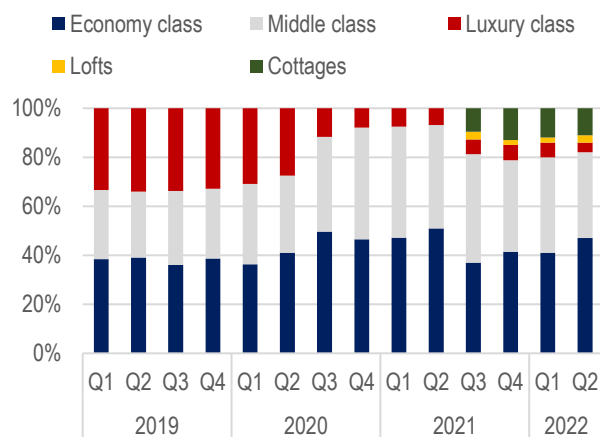
Source: INREAL

Cheaper loft projects have become a "lifeline" in the market. The sales in this segment grew from 6% to almost 10% during the year. The sales in the middle-class and prestigious-class home and townhouse segments have also

increased by several percent. These groups are characterized by greater differentiation, while the differences between townhouses and standard apartments are reducing the competitive pressure in other segments.

Due to the declining affordability and supply of built housing in the primary market, buyers are forced to move to the secondary market where prices are lower and buyers can move in to their new homes immediately after buying them. On the other hand, there is also a lack of supply in this market, since sellers cannot sell their only property without having something to replace it with, therefore the new supply here is mostly comprised of investment properties.

Apartments supply under class in Vilnius (percent)



Source: INREAL

Decreased economy-class sales are also reflected in the supply structure. Similarly to when the activity of economy-class housing buyers has dropped at the beginning of the pandemic, the supply of economy-class housing is increasing. When comparing Q3 of 2021 with Q2 of 2022, we can see that the supply of economy-class housing has increased from 37 to 47%. Despite the observed increase

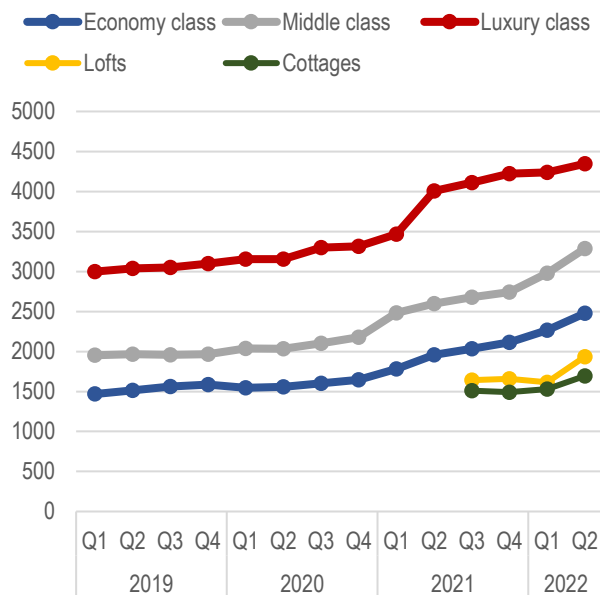
in supply, it is evident that economy-class housing will experience the greatest pressure as the market recovers.

The relative share of loft and townhouse supply in the structure remains similar, whereas the prestige-class and middle-class supply is shrinking faster than that of other segments. This is also influenced by the fact that these projects are often developed on land leased from the state, and this process has become more complicated due to legislative changes.

We are talking about sharper price changes from the middle of 2021. The impact of legal regulation (energy efficiency class, infrastructure tax, and compensation for development on state land) is relevant for new projects, while the impact of supply shortages and rising construction costs also affects the already started projects. As supply dwindles, the prices of remaining homes, especially in later stages of development, are pushed up due to lack of competition. The prices of projects developed for a longer period of time are also rising, since previously concluded contracts at lower sales prices no longer enable to ensure economic efficiency, i.e. housing development costs are exceeding the housing sales prices. In some cases, attempts are made to solve this by transferring part of the unplanned costs to buyers who have already reserved the housing, while in other cases the costs are transferred to the buyers of the remaining housing. This leads to the fact that part of the homes in the project can be sold at significantly (sometimes twice) higher prices compared to the prices of the first sold homes, especially if project sales were launched at a very early stage, for example, at the turn of 2020-2021. In this case, the buyers pay not only the objectively increased price of the housing that they are buying, but also compensate part of the increased costs of the entire project. This model of changes in pricing can be seen in economy-class and middle-class

housing projects. However, it is difficult to determine it in the prestigious-class segment, where there are few projects and the differences between them limit the possibilities of comparing prices.

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



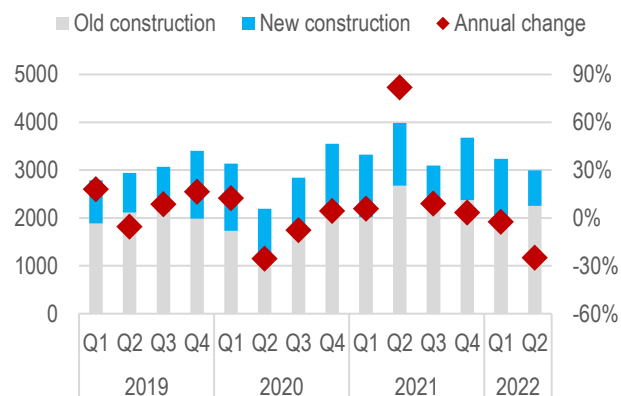
Source: INREAL

In half a year, the prices of economy-class housing increased by 17% – from 2,113 to 2,477 EUR/sq. m. Middle-class housing became more expensive by about 20% – from 2,742 to 3,286 EUR/sq. m. Price changes in the prestigious-class segment were insignificant – about 3%, from 4,223 to 4,346 EUR/sq. m. It should be noted that a large part of (especially of more expensive) prestigious-class housing developers do not announce their prices publicly, thus the actual price level of this segment is undoubtedly higher. Loft prices jumped by 17% – from 1,659 to 1,935. This segment is small, making up only a few percent of the entire market, and each new project has a significant impact on price averages, since lofts

are being developed both in Naujamiestis and Paneriai. The prices of townhouses have increased by about 14% – from 1,492 to 1,694 EUR/sq. m.

6,236 notarized housing sales contracts were concluded in Vilnius municipality during the first half of 2022, which is 8% less than in the previous half-year period (6,770) and 15% less than during the same period last year (7,309). New construction apartment transactions decreased by 6% – from 2,138 to 2,014, and old construction by 9% – from 4,632 to 4,222.

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



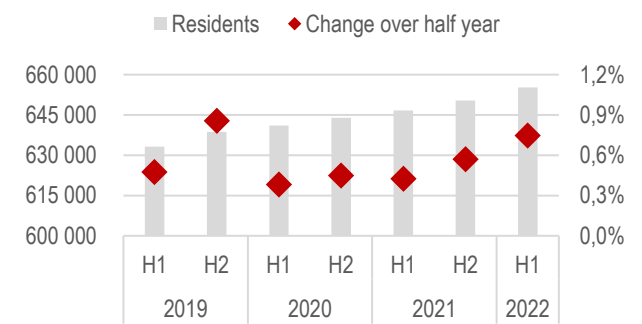
Source: SE Centre of Registers

The results of the first half of 2022 were uneven. In Q2, the number of new construction apartment transactions have almost doubled (from 1,271 to 743), however the number of old construction apartment transactions have increased by slightly more than a tenth (from 1,969 to 2,253). This led to the fact that the percentage of new construction housing transactions in the market, which was usually around 40%, fell to 25% in Q2 of 2022. A similar number was recorded only during the pandemic in Q3 of 2021 (27%). This structural change shows not only the reduced attractiveness of new

construction housing, but also a slower development process of new projects, since the transactions recorded by the Centre of Registers are only a reflection of the preliminary housing sales contracts concluded a year or six months ago.

According to the data of Vilnius Territorial Health Insurance Fund, the population in the capital has increased by 5,000 (from 650,408 to 655,273) people in half a year, which is about 0.75%. This is a somewhat faster growth than the usual increase of 0.5%. The population in Vilnius district municipality has decreased only slightly (from 89,219 to 88,963). The overall population, the average size of households, and the number of apartments and houses enable to identify whether there is a surplus or shortage of housing only in particularly pronounced situations. On the other hand, the trends of the last decade show that conditions are forming for a "rebound spring" effect as the population grows and housing sales decline, thus it would be reasonable to expect that the market will become more active after the recovery of the purchasing power. If it remains difficult for the population to purchase housing, it is likely that more commercial entities will enter the rental market and potentially increase the profitability of residential sector rentals in the face of increased demand.

Number of persons registered in Vilnius medical institutions

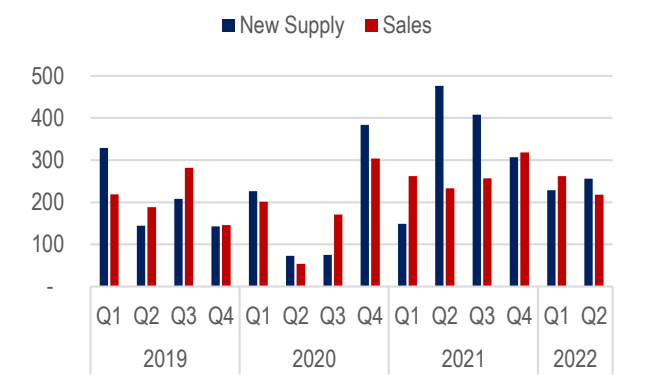


Source: Vilnius Territorial Health Insurance Fund

APARTMENT MARKET IN KAUNAS

The housing market in Kaunas is less active than in the capital, and though it was also affected by the slowdown in sales, the intensity of this trend was much less pronounced. 480 new agreements (after assessment of cancellations) were recorded in 2022 H1, which is almost 17% less than half a year earlier (575) and 3% less than during the same period last year (495). If the activity of the capital's primary market has returned to the level of around 2015 in mid-2022, the market in Kaunas can be compared to the record pre-pandemic period of 2019.

Dynamics of the new supply and sales of apartments in Kaunas



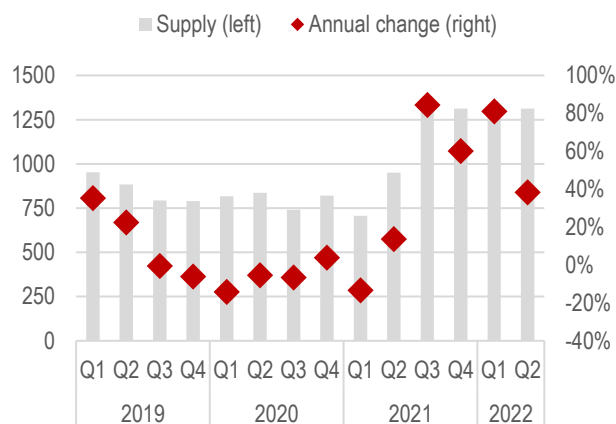
Source: INREAL

More significant changes were recorded in the statistics of new supply. 485 housing units were publicly offered on the market during the past six month, which is a third less than in 2021 H2 (715) and a fifth less than a year ago (625). The example of Vilnius forces to closely monitor the formation of a possible shortage of supply, however, although new supply has decreased, its amount is comparable to the same period in 2019. Meanwhile, 2021 was a non-typically active year, creating a larger supply which ensured a sufficient selection

of housing offers.

There were no significant jumps in the amount of supply in Kaunas in the first half of 2022. For the past year, it has hovered at around 1,300 objects, which is about one and a half times more than during the pre-pandemic year. As sales decline, a larger supply could become a problem for RE developers, especially if their sales volume expectations are close to the results of Q4 of 2020 or 2021. Larger supply limits the possibility to raise prices due to an imbalance between supply and demand. On the other hand, given the fact that the population of Kaunas is gradually growing and thus forming a demand for housing, the market slowdown in Kaunas may be less painful than in the capital.

Supply volume in the primary housing market in Kaunas

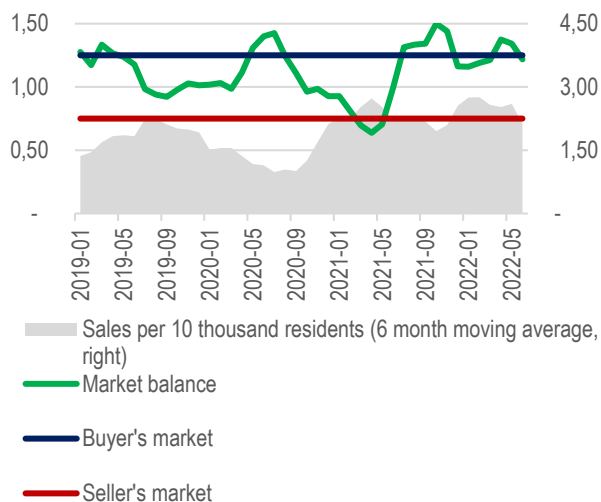


Source: INREAL

The increased supply in 2021 led to the formation of a marginal buyer's market in Kaunas with a market balance indicator of 1.22 in mid-2022. On the one hand, it seems that such a situation is less favourable for the seller, but on the other hand, given the significant decline in housing affordability in Vilnius, Kaunas is gaining a competitive advantage due to higher supply and lower prices, which can

encourage residents to rethink the directions of internal migration and increase market activity in the temporary capital.

Balance indicator of the new housing market in Kaunas



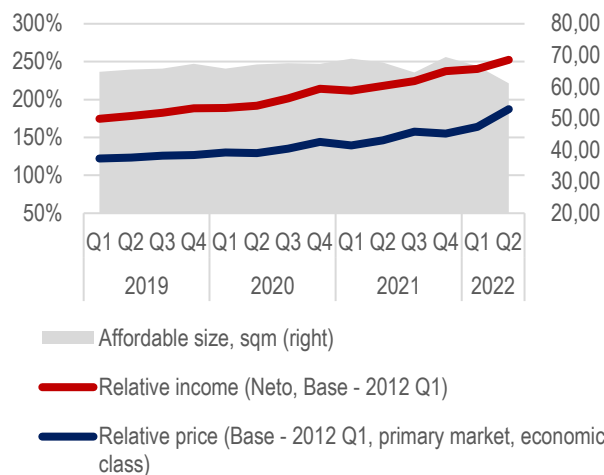
Source: INREAL

The population of Kaunas has decreased by several thousand people over the past decade. The peak of this trend was reached in 2017, and the city has grown by 5,000 people since then. At the same time, unlike in Vilnius, there was also growth in the supply of the primary housing market.

It is likely that these two processes – both population growth and increase in new supply – could have boosted each other. The growth of housing prices was offset by rising wages and limited by competition, thus housing affordability in Kaunas remained much better than in Vilnius, corresponding to the level of 2018-2019 by mid-2022.

As more middle-class projects were supplied to the market in 2021, their sales percentage has increased, accounting for about half of all housing sales in the first half of 2022.

Housing affordability in Kaunas



Source: INREAL

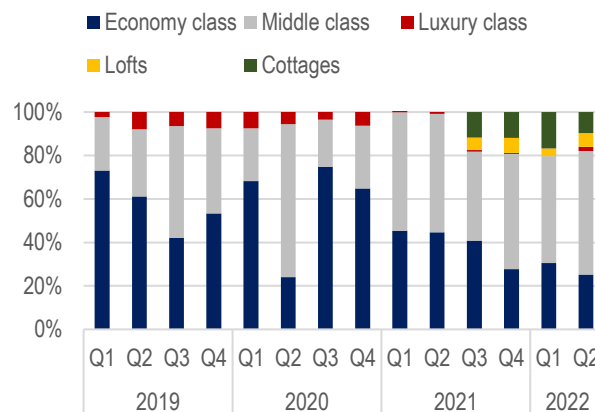
Accordingly, increased interest in higher-end housing has led to a decline in economy-class segment sales, part of which have fluctuated between a quarter and a third of all new deals over the past couple of quarters. This decrease is not compensated for by loft sales which amount to slightly more than 5% (lofts were separated from economy class into a separate segment as of July 2021). The number of townhouse sales in Kaunas is stable, covering 10-15% of the market.

The growth in the demand for middle-class housing was induced not only by the increased supply, but also by suitable projects offered to the market. Such an assumption is based on changes in the supply structure. The number of middle-class housing sales has increased in the first half of 2022 despite the decreasing percentage of this segment in the overall supply structure.

Currently, middle-class housing accounts for only a third of the total supply, while economy-class housing accounts for almost a half. The supply of townhouses and lofts

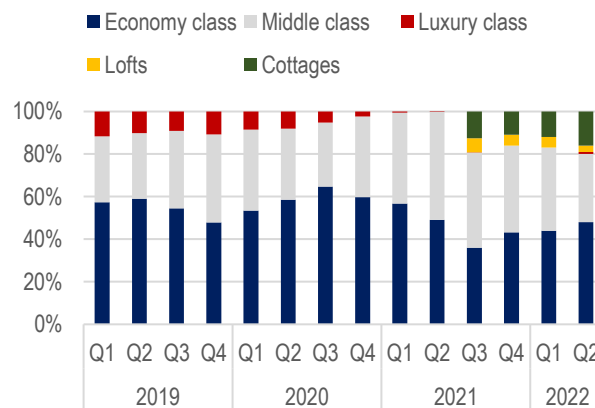
corresponds to the demand, making up, respectively, 10-15% and 5% of the total supply. After a long break, a prestigious class project was offered in the primary market of Kaunas, however a significant part of its housing were sold without public marketing, therefore the indicators depicted in the structure of both demand and supply are somewhat lower than the actual results of Q2 of 2022.

Apartment sales under class in Kaunas (percent)



Source: INREAL

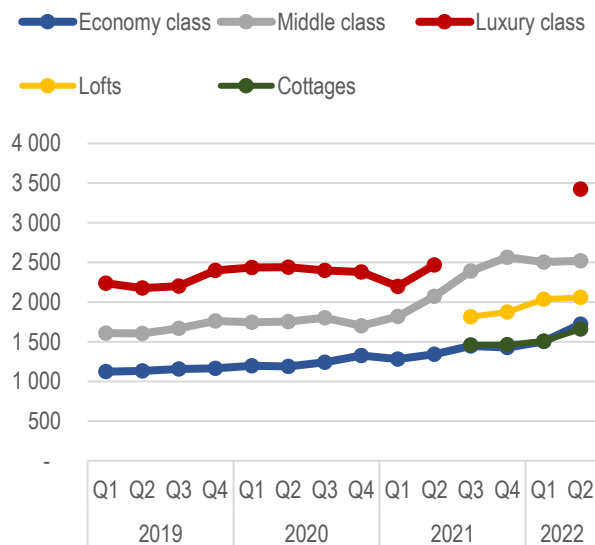
Apartments supply under class in Kaunas (percent)



Source: INREAL

Prices were changing unevenly in the first half of 2022. Economy-class housing became more expensive by about 21% – from 1,426 to 1,722 EUR/sq. m. This was influenced not only by increased construction costs, infrastructure tax or changes in energy efficiency requirements, but also by previously reserved housing with a fixed published price¹.

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



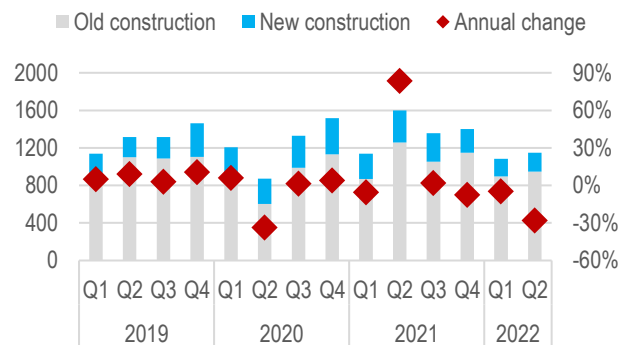
Source: INREAL

It should be noted that there are still such housing in Kaunas, thus buyers looking for actually unoccupied apartments should focus on the price of around 2,000 EUR/sq. m. A 2% price decrease was recorded in the middle-class segment – from 2,566 to 2,521 EUR/sq. m. This price dynamics is also associated with structural changes (more expensive-better homes were bought, cheaper-worse homes remained

available). In this segment, the impact of reserved housing on the actual price is much lower. A price comparison with the previous half-year is not possible due to lack of available prestigious-class housing, however the publicly announced prices of the most attractive projects reached about 3,423 EUR/sq. m. There was an approximate 10% rise in loft prices – from 1,877 to 2,060 EUR/sq. m, while the prices of townhouses have increased by 13% – from 1,463 to 1,660 EUR/sq. m.

2,233 notarized housing (residential premises) sales contracts were concluded in Kaunas municipality during the first half of 2022, which is 19% less than in the previous half year (2,757) and 18% less than a year ago (2,738). New construction apartment transactions decreased by 6% in H1 – from 555 to 389, and old construction by 16% – from 2,202 to 1,844.

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



Source: SE Centre of Registers

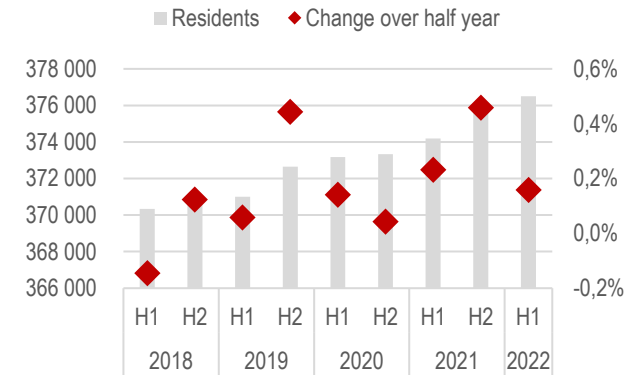
Due to the greater contraction in new construction apartment transactions, their percentage in the overall sales structure

¹ Inreal lists as sold only those homes in the primary market that the developers themselves mark as sold. Whereas reserved properties are considered to be still in supply due to the high volatility of this status.

has also decreased. In Q2 of 2020, new construction apartments accounted for 31%, and in Q2 of 2022 – only for 18% of sales. This is linked to increased market activity after the first shock of the pandemic, when buyers were able to choose from already built housing, and new supply was formed mainly in 2021 with new housing still being under construction. It is likely that the number of these transactions will jump significantly after the completion of development of new projects at the end of 2022 – in mid-2023, which will become a sustainable trend depending on whether the expectations of developers are met or not.

The population of Kaunas continues to gradually grow. In half a year, it has increased by about 0.2% – from 375,908 to 376,502. During the same period, the population in the ring municipality has increased by about 0.5% – from 66,844 to 67,162. This means that both municipalities grow in parallel and not at the expense of each other. Another important factor for the RE market is that a larger population creates demand for new housing stock, encourages developers to develop new projects, and maintains a good market balance and prices.

Number of persons registered in Kaunas medical institutions



Source: Kaunas Territorial Health Insurance Fund

APARTMENT MARKET IN KLAIPĖDA

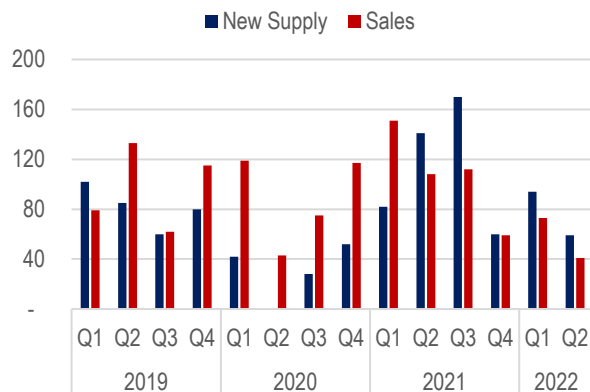
Klaipėda is a city of expectations where a boom in the real estate market is anticipated but still not yet seen. The housing market in Klaipėda is the smallest among the three largest cities in Lithuania. This is influenced not only by the size of the city, but also by its demographic changes – Klaipėda lost about 7,000 inhabitants over the past decade. On the other hand, its population has increased in 2022, and perhaps this direction of changes will be maintained. In terms of the demographic situation of the port city, developers have to determine whether it is worth developing new projects if the activity of buyers is low, or whether the activity of buyers is low because developers are not offering any suitable projects. The second statement is supported by the growing activity in the individual residential house construction segment within the ring municipality.

The potential spurt in the housing market in Klaipėda still remains unclear. Interesting, planned housing projects have not yet started to be developed, and residents prefer individual residential houses outside the city. Kaunas can be an inspiring example for Klaipėda. Although it is a city that prioritizes individual houses and townhouses, the sales of middle-class housing have also increased with developers offering more of such projects. On the other hand, blindly following the experience of other cities is also risky, thus we will probably have to wait for any changes in the port city.

114 new housing agreements were recorded in the first half of 2022 – a third less than in 2021 H2 (171) and twice less than a year ago (259), when townhouses were not included in the observations.

153 new objects were included in the observations in 2022 H1 – a third less than in 2021 H2 (230) or a year ago (223).

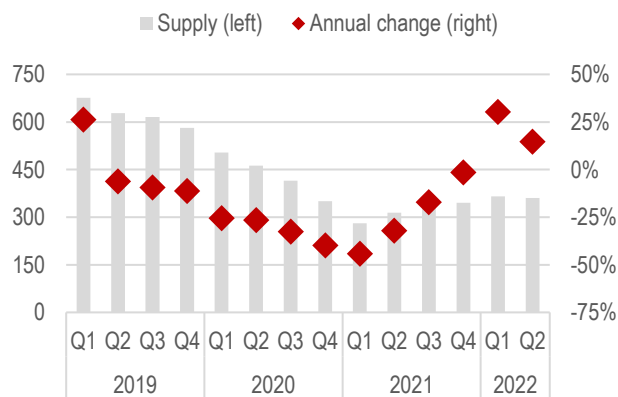
Dynamics of the new supply and sales of apartments in Klaipėda



Source: INREAL

In mid-2022, buyers could choose from 360 new homes in Klaipėda, which is 15% more than a year ago (314). The amount of supply has remained similar over the last 12 months, and its growth was mostly influenced by retrospective addition of around fifty townhouses to the observations. Thus, there was no actual increase in supply during the year.

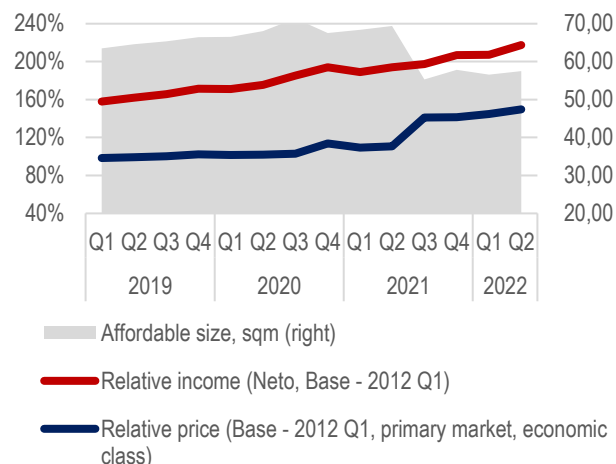
Supply volume in the primary housing market in Klaipėda



Source: INREAL

The relative price level in Klaipėda is not high, and housing in this city is more affordable than in the capital. It is more likely that buyers are not finding properties that suit their needs, and demographic changes is an insufficient factor to encourage the development of new housing.

Housing affordability in Klaipėda



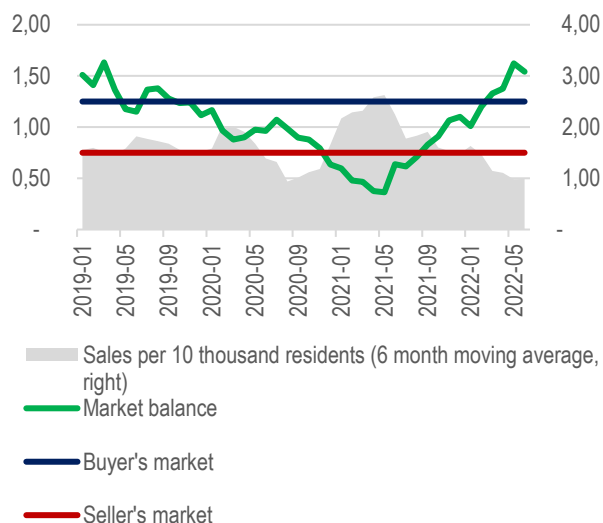
Source: INREAL

Despite the depleted supply and relatively good housing affordability, Klaipėda currently has a clear buyer's market. The cooling of the market started in mid-2021, which coincides with rising prices and steadily decreasing sales.

The supply in the port city varies unevenly. Limited sales and a population decline still prevent the formation of a stable flow of new supply.

A decrease in the attractiveness of economy-class housing was observed in 2022 H1. RE prices in Klaipėda are significantly lower than in Vilnius, therefore housing here is more affordable. Greater opportunities for buyers mean that they are more interested in higher-class or larger-area housing.

Balance indicator of the new housing market in Klaipėda



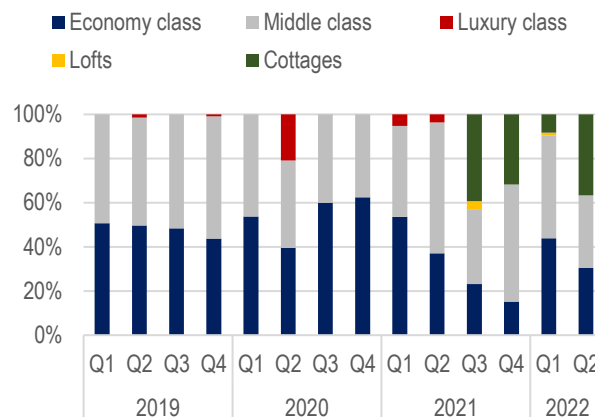
Source: INREAL

With such buyer expectations, the economy-class segment has to compete with townhouses, given the similar price per square meter and the popularity of individual and semi-detached residential houses in Klaipėda and its surround area. The townhouse segment in the port city accounts for about a third of all sales, which is the largest amount among all three major cities. Middle-class projects are also attracting the attention of buyers, however their limited supply this year, especially in Q2, has reduced sales due to limited options for buyers. The loft segment in Klaipėda is experiencing challenges with probably more cancellations than signed housing agreements.

Demand trends are also shaping the structure of available housing. Townhouse development is the simplest among new construction projects, therefore their quantity can be adjusted quickly in response to the needs of the market. On the other hand, with the slowing down sales in the economy-

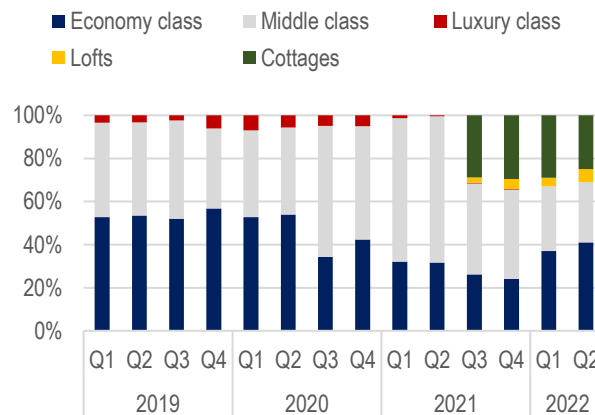
class segment and with buyers focusing on larger living areas, a larger number of smaller economy-class apartments remain in supply. A shrinking middle-class segment indicates the formation of a non-liquid property pool that is less attractive to buyers and may encourage developers to take on new projects, since existing supply is not competitive.

Apartment sales under class in Klaipėda (percent)



Source: INREAL

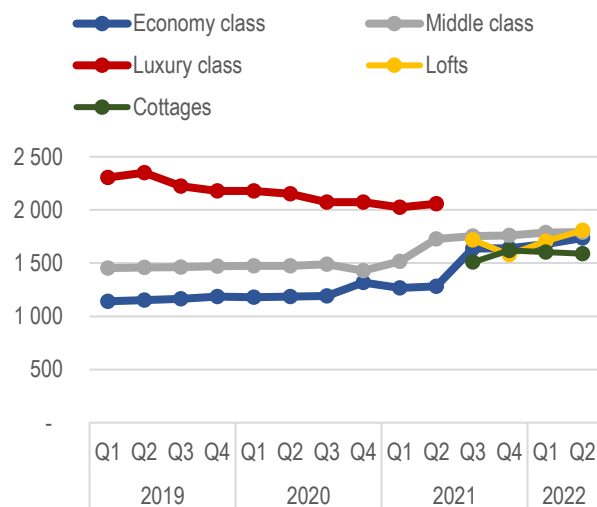
Apartments supply under class in Klaipėda (percent)



Source: INREAL

Unlike in Vilnius or Kaunas, where there are rather sharp price differences between housing classes, a square meter cost about 1,700 euros in the first half of 2022 in both economic and middle-class projects in Klaipėda with publicly announced prices. Housing prices in higher class projects are usually not publicly announced and reach 2,500 EUR/sq. m or more. The overall price change in the port city during Q2 of 2022 was insignificant, reaching just 2%. On the other hand, the prices of new housing in Klaipėda have already jumped in the middle of last year, when cheaper segments became more expensive by several hundred euros per square meter.

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



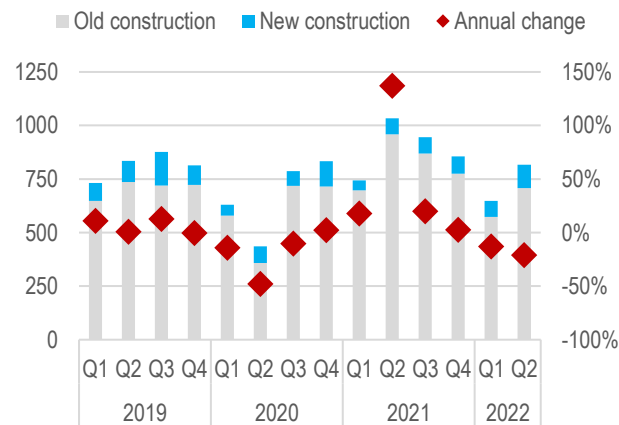
Source: INREAL

The market launch of conversion projects from factory to residential facilities, i.e. "Mémelio miestai", "Bastionų namai", "Švyturys" and "Lindenau", is still pending. At the beginning of 2021, it was expected that these projects would be presented to clients in Klaipėda by the end of that year,

however preparatory works have stalled. Given the location of these projects, the expected architectural solutions and changes in development costs, it is almost certain that new housing prices in Klaipėda will increase further, reaching the level of prices in Kaunas. It should be noted that the planned projects should offer higher class housing with appropriately higher prices.

1,465 residential premises were sold in Klaipėda during the first half of the year, which is 19% less than in 2021 H2 (1,800) and 18% less than a year ago (1,778). On the other hand, there were different trends in the transactions of new and old construction apartments. 184 of new construction apartments were sold in half a year – 18% more than half a year ago (156) and one and a half times more than during the same period last year (121). This contraction of the market occurred at the expense of old construction housing. 1,281 old construction apartments were sold in half a year, i.e. 22% less than half a year ago (1,644) and 23% less than during the same period last year (1,657).

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

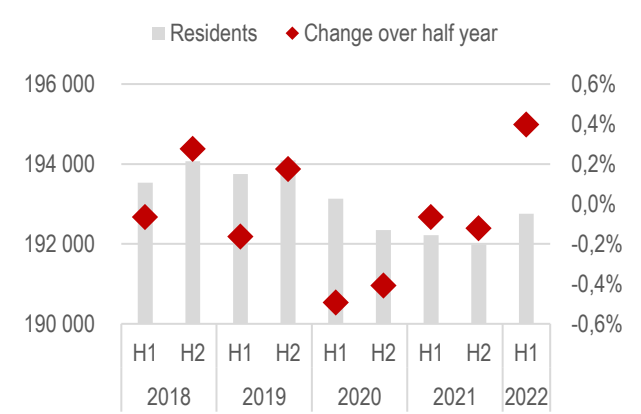


Source: SE Centre of Registers

Such separation of vectors led to an increase in the number of new construction apartments from 9% to 13% in half a year. It is also important to take into account that, excluding investment housing transactions, buyers purchasing a new home also sell their old one. As the sales of new construction apartments are increasing and the sales of old construction ones are decreasing, it can be assumed that the relocation of residents is taking place from old to new construction housing (i.e. relocation from one old construction housing to another such housing is decreasing). This may indicate a declining appeal of old construction housing as the target buyer pool narrows, and potential sellers of old construction housing are deterred from moving due to rising property replacement costs.

The demographic indicators of Klaipėda have improved over the past half a year. A population of 192,752 was recorded in July 2022 (data for June was not published) – 764 more people than at the end of 2021 (191,988). This 0.4% increase did not compensate for the population loss in 2020-2021, however the positive change indicates that the population curve in the port city may be moving upwards. It should be noted that this change did not occur solely at the expense of the ring municipality, where the increase in population during the same period amounted to 378 – from 42,263 to 42,641. Although the correlation does not indicate a causal relationship, the increased supply in, for example, the primary housing market of Kaunas correlates with population growth, thus it can be expected that once the primary housing market in Klaipėda is presented with new interesting housing projects, a surge may occur in both the city's population and its RE market.

Number of persons registered in Klaipėda medical institutions



Source: Klaipėda Territorial Health Insurance Fund

HOUSING MARKET IN PALANGA AND ŠVENTOJI

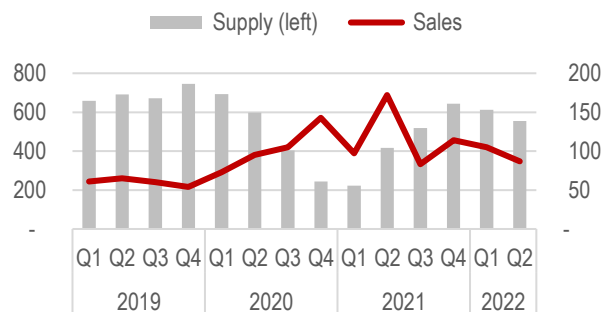
Palanga is the most popular resort town in Lithuania, which definitely affects its housing market. For most Lithuanians, Palanga, Šventoji and their surrounding areas are associated with vacation. Unsurprisingly, these locations became one of the main winners in the competition for buyers' attention during the pandemic. Unlike Neringa, this coastal area is not characterized by a factor of limited supply. On the other hand, buyers do not have an identical portrait, therefore there is little direct competition.

It was estimated that this year buyers bought 192 new homes in Palanga and surrounding resorts, which is just a few homes less than in 2021 H2 (197), but 29% less than in 2021 H1 (269). The reasons for this are the same as elsewhere in Lithuania: increased prices, decreased supply (especially in the segment of built housing), and the deflated "rebound spring" effect. Lower steady sales indicate that the attractiveness of Palanga has decreased over the past year, but still remains higher than before the pandemic, when an average of around 130 homes were bought in the primary market within a period of six months since the introduction of the euro.

Housing supply in Palanga has decreased from 643 to 554 units over a period of six months. Such supply both at the beginning and in the middle of the year is lower than before the pandemic (housing supply reached 746 units at the end of 2019).

As in any larger city or town, the choice of housing in Palanga is quite diversified. Second home buyers can choose from developed apartments (including hotel and recreational facilities) and townhouses, located both in the centre of Palanga and in its surrounding areas.

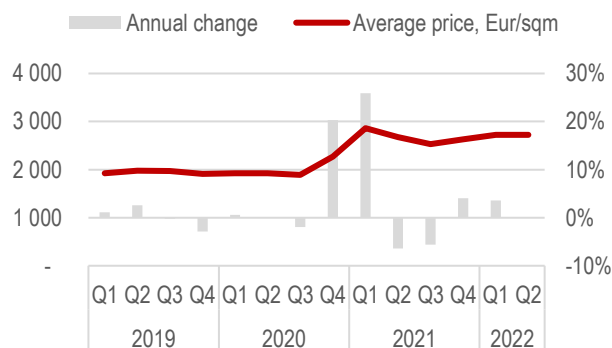
Supply and demand of the primary housing market in Palanga (units)



Source: INREAL

Prices in Palanga remained relatively stable. In half a year, the average price of housing per square meter increased from 2,629 to 2,726 euros, i.e. the price increase was essentially formed during 2021, while changes in 2022 H1 were determined by structural differences in supply and isolated corrections (going both ways) in individual projects. The price range is particularly wide, reaching from 1,500 to 4,500 EUR/sq. m.

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

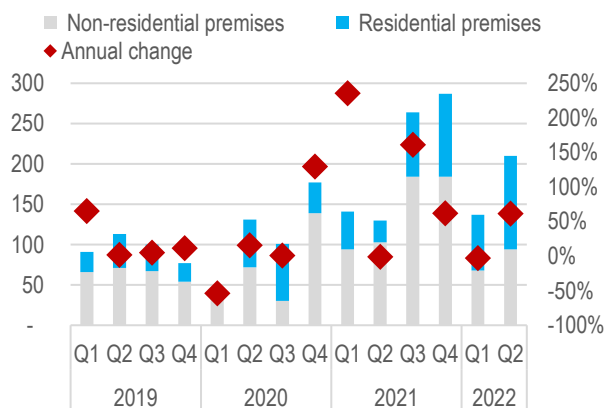


Source: INREAL

The information provided by the SE Centre of Registers on

the transactions of new construction housing and premises in Palanga is auxiliary information in order to assess changes in the past. The spurt at the end of 2020 (Q4 – 177 transactions) showed a jump in the sales of already built housing. The second half of 2021 (551 transactions) and the first half of 2022 (347) show both the sales of already built housing as well as transactions concluded between buyers and sellers during the construction process. On the other hand, the significant jump in agreements in Q1 of this year does not say much compared to last year – the number of preliminary contracts is decreasing in the primary market, meaning that there will also be fewer notarial transactions in the future (depending on the duration of construction).

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

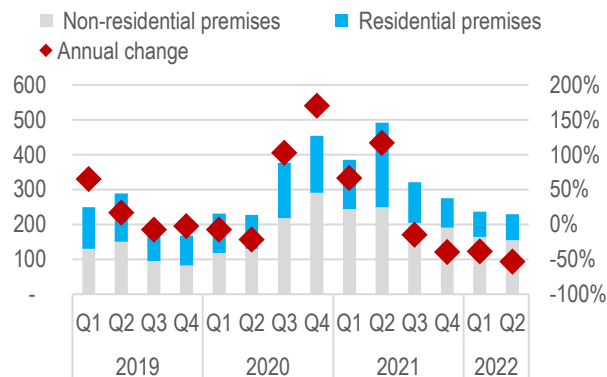


Source: SE Centre of Registers

Meanwhile, a more pronounced continuous trend can be observed in the secondary housing market. The first increase in the wave of transactions was recorded in 2020 H2 (831 transactions), when both the developers and the sellers had the opportunity to realize their "stagnant" objects in the secondary market, by selling almost twice as many of them as compared to the first half of the year (458). Meanwhile,

2021 shows not only a further increase in activity (with 877 transactions in H1), but also a desire to earn from the increased attractiveness of the seaside. Despite the increase in prices, 596 housing units were sold in 2021 H2, which is almost one and a half times more than during the pre-pandemic period. This trend shows an opportunity for speculation, where sellers profit from the difference by buying housing at previously lower prices, and then expecting to sell the purchased property at a profit as prices continue to rise. On the other hand, as prices increase and demand decreases, the number of transactions is also decreasing. The opportunity to change one's current home to a better one is most pronounced when the price differences are small and buyers need to pay relatively little when purchasing a new property. However, there is competition with the primary market when housing is placed for sale at a high price. When sellers do not want to sell at a lower price and buyers can no longer buy at a higher price, the number of transactions starts to decrease. The further observed trend matches that of the mid-2021. 466 homes (premises) were realized in Palanga in 2022 H1.

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



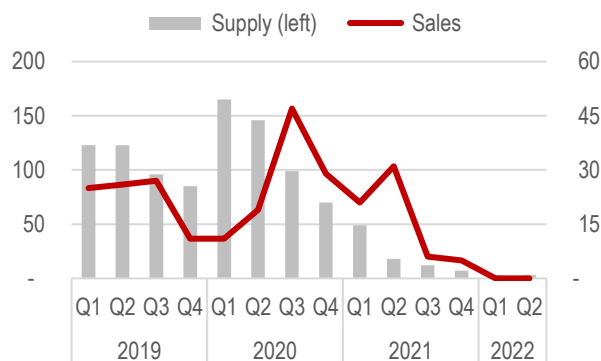
Source: SE Centre of Registers

NERINGOS BŪSTO RINKA

Neringa is a unique place in Lithuania. Limited development opportunities, exceptional requirements for architecture, and complicated transportation create a situation in Neringa that is unusual for other regions of the country, when supply creates demand and every new project generates great interest. The uniqueness of Neringa and the impact of the pandemic on people's habits led to the fact that this region became not only the most regulated, but also the most mysterious new housing market in Lithuania.

Objects sold and tracked on project websites have almost disappeared, with only a few apartments remaining in the statistics.

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



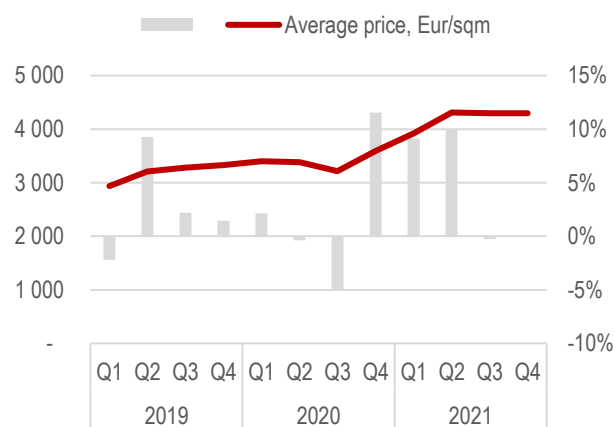
Source: INREAL

This happened due to the relatively high demand for housing and its very limited supply. Property advertising costs have decreased, while rising prices have limited the need to advertise such property. RE portals replaces project websites in providing relevant information, while the latter presented only visual material of the projects. Individual project ads are typically uploaded there with a note that more housing

options will be provided after contacting the sellers' representatives. Word of mouth has become an even more important way to transmit information, with reputation of the developer being one of the most important selection factors.

The information deficit is also reflected in the price statistics, based on which one may get the false impression that Neringa has suddenly become a relatively easily affordable region, since the average prices published on project websites do not even reach 4,500 EUR/sq. m.

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



Source: INREAL

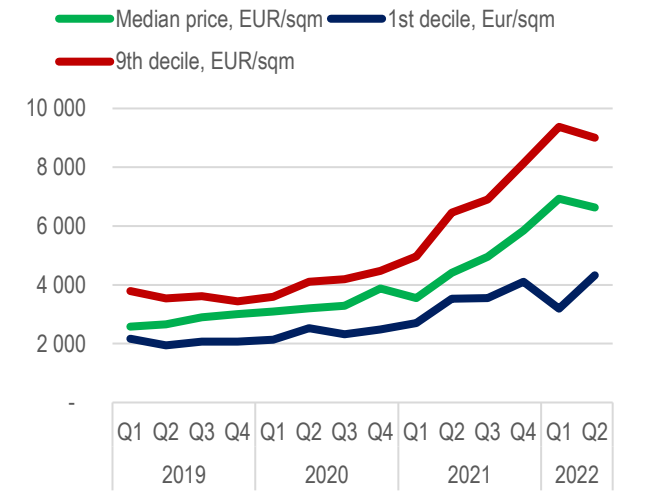
A much more realistic picture is revealed when examining the prices published by RE portals. In 2019 the average prices on project websites and those on advertising portals were essentially the same (around 3,000 EUR/sq. m), whereas at the end of 2022 H1, after the prices of remaining projects settled slightly above 4,000 EUR/sq. m, the prices published on advertising portals have jumped to 6,000-7,000 EUR/sq. m.

The rapidly growing housing prices in Neringa signal not only the attractiveness of this area, but also show what happens

in the market when the supply does not meet the needs of the demand. It is the imbalance between supply and demand that encourages the opportunism of sellers, which is not always based on numbers.

The activity of notarial transactions also gives grounds for the increase in supply prices. The two biggest projects of the recent period will be completed this year. Next year, over fifty apartments will appear in the statistics of notarial transactions, however these apartments were taken off the market for some time now. The limited supply is also reflected in the statistics of notarial transactions. You do not want to sell your current housing if there are no other properties to replace it with.

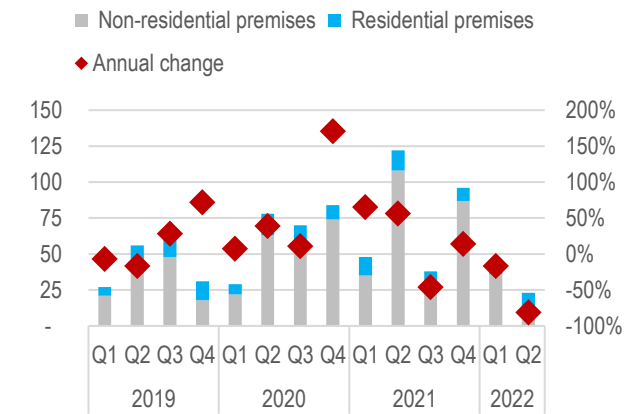
Average housing prices in Neringa (real estate advertisement portals (EUR/sq. m)



Šaltinis: INREAL

Since buyers are still very interested in purchasing a second home in one of the most beautiful places in Lithuania, developers continue to plan the development of new projects. The supply of new apartments in Neringa should increase by 2023.

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

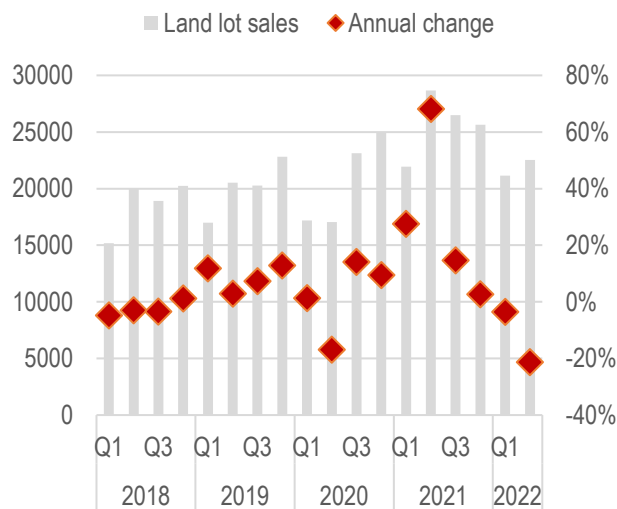


Source: SE Centre of Registers

LAND PLOT MARKET

Sales have decreased in the land plot segment, with a total of 43,681 realized land plots in Lithuania in 2022 H1, which is 14% less (50,592) than during the same period last year. When measuring in quarters, a decrease in sales was observed from the Q2 of 2021. On the other hand, the number of land plot sales still exceeds the pre-pandemic figures both in the regions of large cities and in Lithuania as a whole.

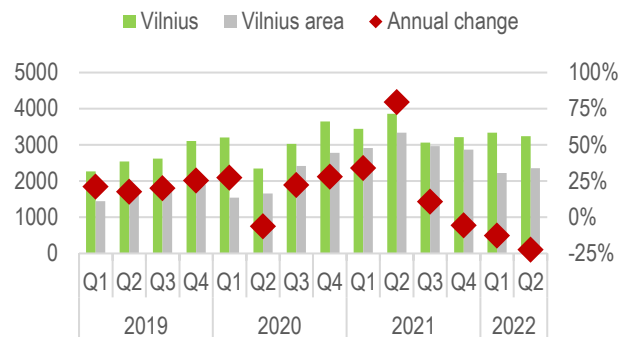
Land transactions in Lithuania



Source: SE Centre of Registers

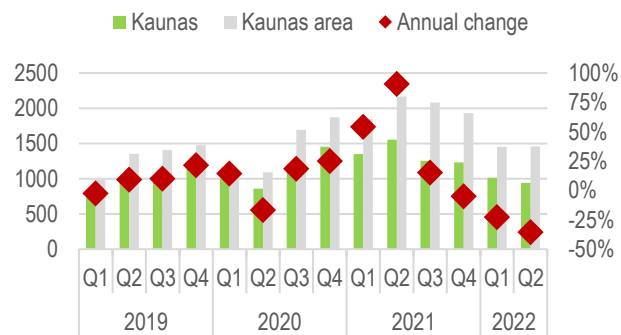
The distribution of transactions between city and ring municipalities varies among the major cities of Lithuania. Vilnius city residents are more active with nearly 60% of concluded land plot transactions. Whereas in Kaunas 40% of transactions are concluded in the city and 60% in its district. The size of the city of Klaipėda means that the market activity in its ring municipality is much higher than in the city itself, where only 20% of all land plot transactions are concluded.

Land transactions in Vilnius city and district municipalities



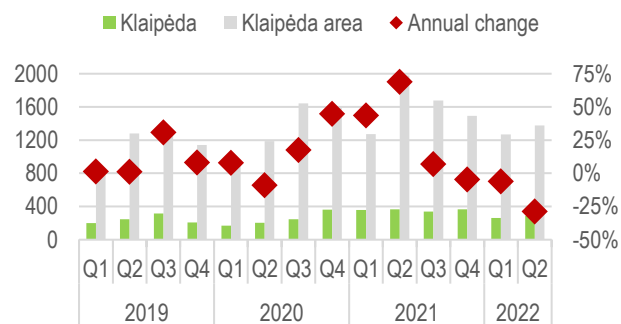
Source: SE Centre of Registers

Land transactions in Kaunas city and district municipalities



Source: SE Centre of Registers

Land transactions in Klaipėda city and district municipalities



Source: SE Centre of Registers

RESIDENTIAL BUILDING MARKET

A slowdown in market activity was also recorded in the residential building segment in 2022 H1, with 6,700 sold residential buildings – 11% less than during the same period last year (7,553).

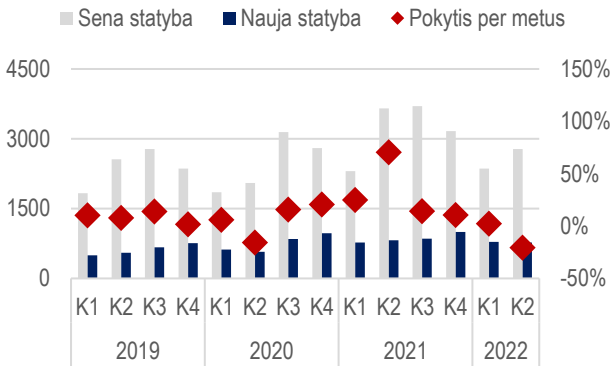
Changes in market activity are better reflected in the old construction housing segment, with 5,143 homes sold in H1 – 14% less than a year ago (5,959). Meanwhile, the number of sold new construction homes has decreased by only 2% (1,557 and 1,594 respectively). This trend strength difference was determined both by pre-sales in the new construction building segment, when notarial transactions only officially legitimized agreements that have already taken place, and by more favourable attitudes of the population towards new construction homes. Of course, new construction homes still account for slightly over 20% of all transactions, however both short-term and long-term fluctuations in this segment are much smaller than in the old-construction building market.

It should be emphasized that the segment of new construction individual residential houses is almost twice as large as indicated by the transactions, since, in contrast to the apartment building segment, residents can build individual houses themselves. The percentage of new residential homes intended for sale essentially consists of the markets of three major Lithuanian cities. 1,557 new residential houses were sold in Lithuania during a period of six months, of which 1,239 were located in the regions of Vilnius, Kaunas and Klaipėda.

The same factors as in the apartment segment affect the wishes and capabilities of people building or purchasing new construction residential houses: increased construction costs due to the prices of materials and works, infrastructure

tax, and energy efficiency class requirements. On the other hand, the absolute majority of residential houses are built on own land, thus their construction is not made more expensive by the tax for development on state land.

Residential buildings transactions in Lithuania

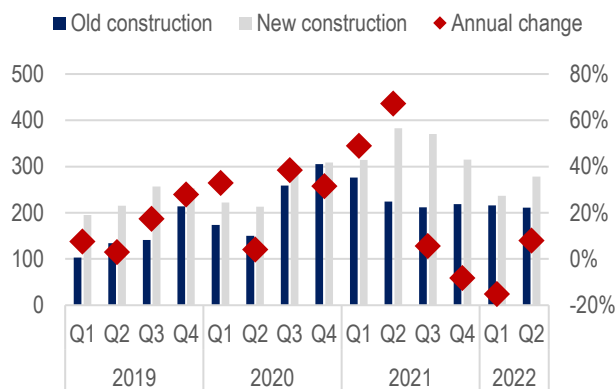


Source: SE Centre of Registers

As in the land plot segment, the distribution of residential building market transactions differs between the city and ring municipalities of the major cities of Lithuania. Greater activity was recorded in Vilnius city municipality than in its district. This can be noticed when comparing the transactions in both new and old construction properties. In Kaunas municipality, the overall activity between the city and the district is similar, however there are slightly more sold old construction houses in the city, while new construction houses are more popular in the district. In Klaipėda, the district municipality is significantly more active, with up to five times more concluded housing transactions (depending on the selected section). Another unique thing about Klaipėda region is that the total number of transactions of new construction houses is higher here than that of old construction buildings. This is one of the indications that there is an actual need for new housing in Klaipėda, which is not satisfied by the apartment segment.

942 residential houses were sold in the **Vilnius** region during the last six months, which is 21% less than during the same time last year (1,197). As in all of Lithuania, the change in the new construction housing segment was smaller than that in the old construction one. The number of new construction property transactions decreased by 15% – from 500 to 427. And the sales of old construction homes has decreased by 26% – from 697 to 515.

Residential buildings transactions in Vilnius city and district municipalities



Source: SE Centre of Registers

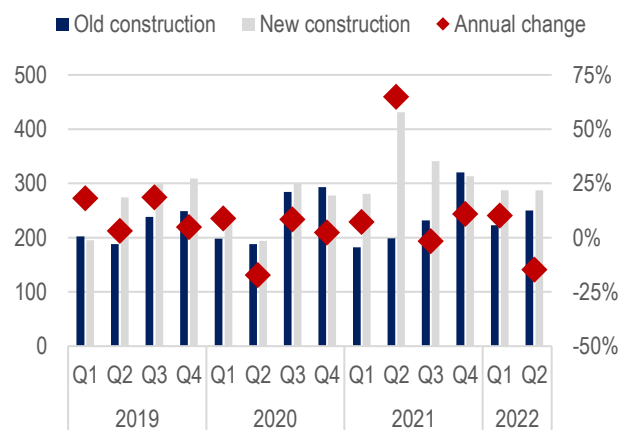
The prices of standard fully built old construction houses in Vilnius range from 900 to 2,300 EUR/sq. m (prices were from 750 to 2,200 EUR/sq. m half a year ago). Newer construction houses with full finish cost from 1,600 to 3,000 (1,300–2,500 EUR/sq. m six months before). New construction houses with partial finish cost from 1,400 to 2,100 EUR/sq. m (1,200–1,800 EUR/sq. m six months before).

The prices in Vilnius district are slightly lower. Old construction houses cost from 700 to 1,400 EUR/sq. m (500–1,100 EUR/sq. m six months before), newer construction houses 1,300–2,400 EUR/sq. m (1,100–2,000 EUR/sq. m six

months before), houses with partial finish 1,250-1,800 EUR/sq. m (1,100–1,500 EUR/sq. m six months before).

Kaunas is called the capital of individual houses for a reason. The number of transactions in this region decreased by only 4% – from 1,093 to 1,047. This led to the fact that the temporary capital surpassed the Vilnius region in terms of individual residential house market activity, despite the fact that Kaunas and its ring municipality have about twice less inhabitants than Vilnius. 473 new houses were realized over a period of six months – 24% more than last year (381) during the same period. Whereas the number of sold old construction houses was 574, which is 19% less (712).

Residential buildings transactions in Kaunas city and district municipalities



Source: SE Centre of Registers

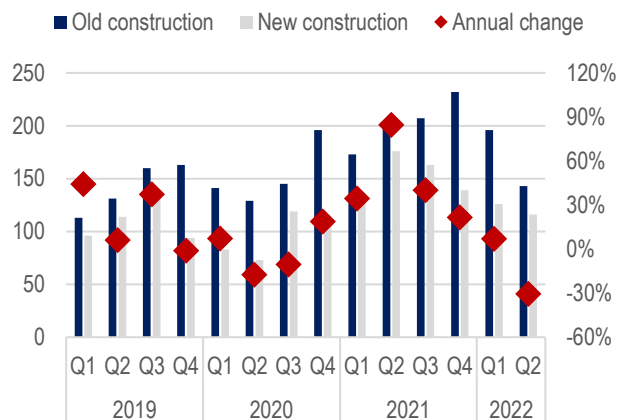
The prices of standard fully built old construction houses in Kaunas range from 800 to 1,800 EUR/sq. m (prices were from 600 to 1,400 EUR/sq. m six months before). Newer construction houses with full finish cost from 1,400 to 2,800 (1,000–2,200 EUR/sq. m six months before). New construction houses with partial finish cost from 1,400 to

1,800 EUR/sq. m (1,200–1,600 EUR/sq. m six months before).

Houses in the district municipality were cheaper. Old construction houses cost from 500 to 1,100 EUR/sq. m (400–900 EUR/sq. m six months before), newer construction houses 1,200–2,300 EUR/sq. m (1,000–2,000 EUR/sq. m six months before), houses with partial finish 1,300–1,700 EUR/sq. m (1,100–1,400 EUR/sq. m six months before).

The number of transactions in the **Klaipėda** region decreased by 14% – from 674 to 581. 339 new construction houses were sold – 8% less (370), and 242 old construction houses were sold – 20% less (304) than a year ago.

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 2,500 EUR/sq. m (prices were from 800 to 1,700 EUR/sq. m six months earlier). Newer construction houses with full finish cost from 1,100 to 2,800 (1,200–2,000 EUR/sq. m six months before). New construction houses with partial finish cost from 1,000 to

1,800 EUR/sq. m (1,200–1,700 EUR/sq. m six months before).

Houses in the district municipality were cheaper. Old construction houses cost from 600 to 1,400 EUR/sq. m (600–1,000 EUR/sq. m six months before), newer construction houses 1,200–1,800 EUR/sq. m (1,200–1,600 EUR/sq. m six months before), houses with partial finish cost 1,000–1,500 EUR/sq. m (1,000–1,300 EUR/sq. m six months before).

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)

The commercial RE market welcomed 2022 with rather positive expectations, which were encouraged by the increasing occupancy of business and logistics centres, buyers returning to stores, and price trends favourable to lessors. It first seemed that a balance could be reached in the market, however the war and rapid inflation have disrupted all future plans. In mid-2022, residential housing buyers did not yet see a major increase in base interest rates, however the rising cost of loans will undoubtedly have a significant impact on leveraged commercial property returns.

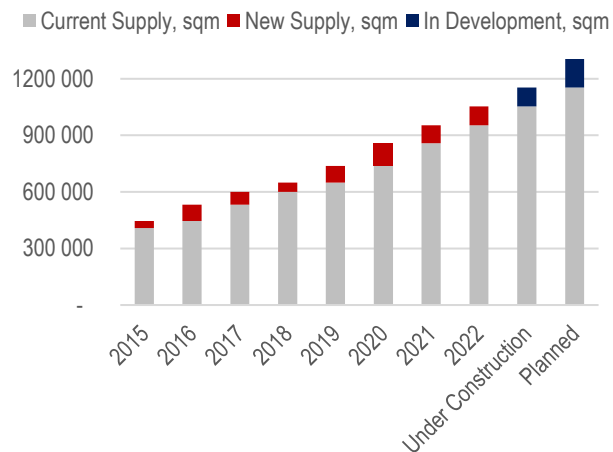
The development of new commercial RE facilities is limited by increased construction costs which will ultimately be passed on to tenants, as well as the threat of recession which can curtail the formation of new demand. On the other hand, there is a need for new projects – vacancy rates in business and logistics centres are decreasing, and the condition of old construction buildings as well as their insufficient energy efficiency in the context of increasing resource prices further highlight the gap between new construction facilities and those built decades ago.

The warehousing segment remained attractive in the first half of 2022 in all three regions of the major cities of Lithuania, while the prospects of business centres differed. The environment for development in Vilnius is quite favourable in terms of demand. In Kaunas, it is becoming almost necessary, while in Klaipėda it has potential, but is risky.

VILNIUS BUSINESS CENTRES

In 2022, the supply of business centres in Vilnius should increase to a little over 100,000 sq. m of leased space. The same amount is currently under construction and will enter the market in 2023 or early 2024. And twice as many more sq. m are still in the early stages of development. The CBD (Central Business District) area is currently attracting a lot of attention, both in the northern part of Žvėrynas as well as to the north of Konstitucijos avenue. Business centres and residential complexes will be developed in the strip of Krokuvos and Lvivo streets. Such development can change the image of this part of the city: increase multifunctionality, as well as give it more greenery and life not only during the day but also during the evening.

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



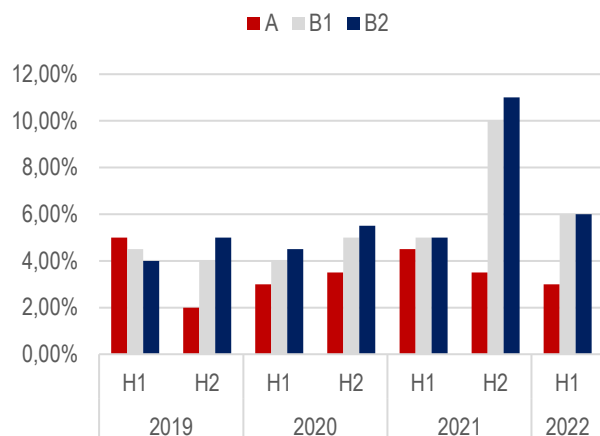
Source: INREAL

Although the forms of enterprise work organization (in offices or remotely) are likely to remain much more diverse than they were before the pandemic, it is clear that business centre parking lots are filling up, as are public transport stops. Employees are returning to offices and this process will

continue with an increase in demand for office spaces, unless something drastic happens in the management of the pandemic.

The vacancy rate of business centres has decreased during the period of six months. Class A business centre vacancy rate has decreased from 3.5% to approximately 3%, B1 – from 10% to 6%, B2 – from 11% to 6%. Single-digit vacancy rates create an attractive environment for the development of new business centres.

Dynamics of vacancies in Vilnius business centres under classes



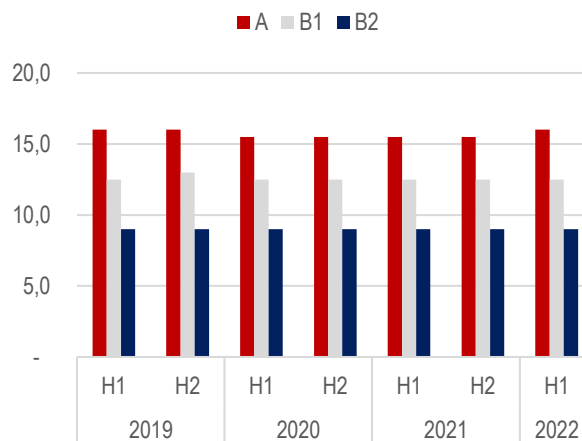
Source: INREAL

Another equally important thing is that the development of business centres is not limited to the CBD alone. Its urban geography is quite extensive: Žirmūnai, Naujamiestis, Viršuliškės, Vilkipėdė, Naujininkai, Lazdynai and Pašilaičiai. A significant number of these neighbourhoods are known as "sleeping districts". They were less attractive compared to the areas of Vilnius, where new housing and commercial RE projects are being developed. The increasing multi-functionality of "sleeping districts" has many advantages. As the number of employees in the service sector grows, an

opportunity arises to choose housing closer to the workplace, reduce traffic jams on the streets, and save time. These factors that increase urban sustainability are no less important than the energy efficiency of buildings.

The inflation that started in 2021 and accelerated in 2022, the supply of new projects, and the decrease in vacant premises contributed to the increase in rental prices. The price of Class A office premises in the middle of the year was 15-18 EUR/sq. m, B1 Class – 12-15 EUR/sq. m, and B2 Class – 8-11 EUR/sq. m. However, nominal rental prices are only a single indicator when looking for business premises. Common area size, options for choosing them as well as the main area and calculation methodology thereof, utility and administration fees, and installation cost distribution calculation determine the final price paid by the tenant, which may differ significantly from the advertised nominal rental price.

Dynamics of lease prices in Vilnius business centres

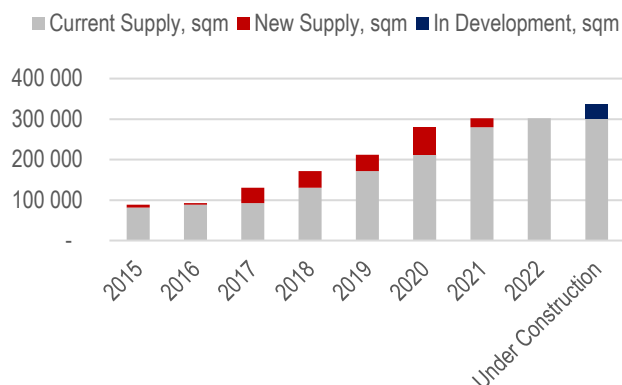


Source: INREAL

KAUNAS BUSINESS CENTRES

The development of offices in Kaunas was sluggish in the first half of 2022. Larger projects are planned only in 2022 H2 – 2023. Over 35,000 sq. m of office spaces will be built, which will also be developed in newly formed apartment blocks. Such multifunctional RE development increases the attractiveness of the temporary capital, promotes positive demographic changes, and creates a solid alternative to Vilnius both in terms of residents and foreign businesses.

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

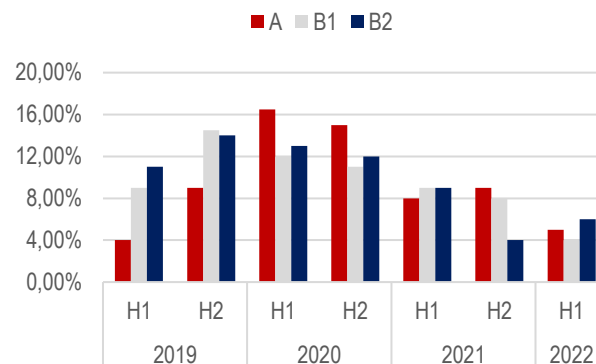


Source: INREAL

The slowed down development of business centres and the passing effects of the pandemic are reducing the vacancy rate of premises. In a period of six months, it decreased from approximately 9% to 5% in Class A premises, and from 8 to 4% in Class B1 premises in the business centres of Kaunas. The vacancy rate of Class B2 premises has increased from 4 to 6%, which points to the formation of favourable conditions for the development of new projects. The occupancy rate of new business centres should be shaped not only by the general trend, but also by the rising prices of energy resources which will continue to highlight the differences between old and new construction buildings.

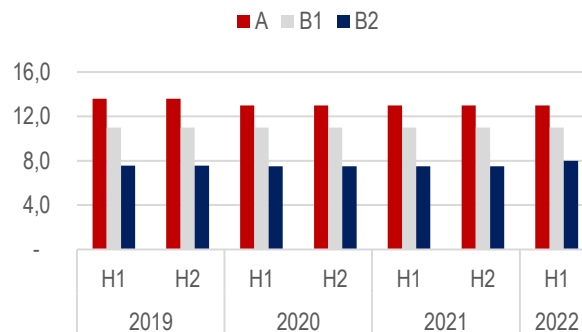
The nominal rental prices of business centres in Kaunas did not change much. Class A business centre premises can be leased out for 12-14.5 EUR/sq. m, Class B1 premises – for 9-11 EUR/sq. m. The B2 segment has the lowest prices, thus the lower price limit has slightly increased due to significant inflation, with the rental price of premises now reaching 7-9 EUR/sq. m. As the impact of the pandemic continues to decrease and as businesses refine their forms of activity, the lack of premises is starting to become apparent, which, together with inflation, can gradually increase rental prices in all segments.

Dynamics of vacancies in Kaunas business centres under classes



Source: INREAL

Dynamics of lease prices in Kaunas business centres

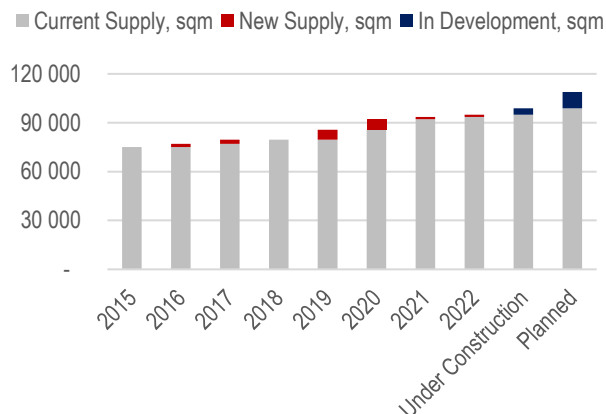


Source: INREAL

KLAIPĖDA BUSINESS CENTRES

The situation in the Klaipėda business centre market is similar to the housing segment of the port city. Intensive development is planned in the future, and only one new business centre was opened in 2022, housing companies providing medical services.

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



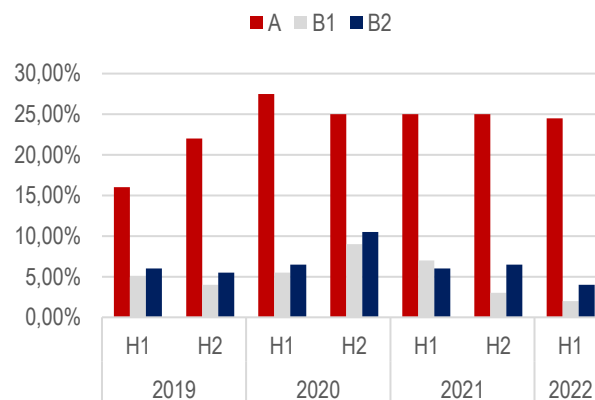
Source: INREAL

On the other hand, the decreasing amount of vacant premises also has a positive side. At the end of 2020, over 12,000 sq. m of premises were available to tenants, in mid-2021 this number was about 10,500 sq. m, and in mid-2022 – about 9,000 sq. m. Of course, the relatively small number of offices also leads to very uneven vacancy rates in different business centre classes. Class A business centres have the highest vacancy rate – about 25% (with no changes in half a year), while vacant Class B premises are decreasing. The vacancy rate of B1 premises decreased to 2% in the middle of the year (3% half a year ago), and of B2 – to 4% (6.5% half a year ago).

Scarce changes in development and occupancy rates also freeze rental prices. Class A premises are currently still

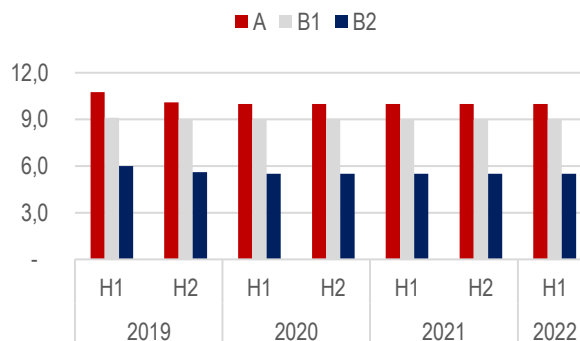
available for lease for 9-12 EUR/sq. m, Class B1 premises – for 7-11 EUR/sq. m, and Class B2 premises – for 5-7 EUR/sq. m. Such a price level may only seem attractive to tenants at first, since increased development costs and current rental prices limit the pursuit of business profitability and keep delaying the development of new projects. Developers are being forced to take more risks to determine whether rental prices are being held back by supply that is not acceptable to tenants, or there simply is no demand for new projects.

Dynamics of vacancies in Klaipėda business centres under classes



Source: INREAL

Dynamics of lease prices in Klaipėda business centres



Source: INREAL

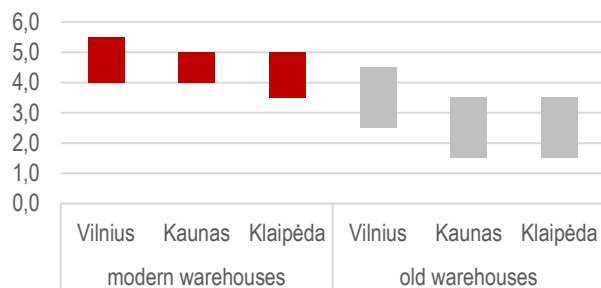
LOGISTICS CENTRES AND STORAGE FACILITIES

The logistics sector has experienced the least negative impact since the start of the pandemic. A decreasing vacancy rate and moderately increasing rent prices can be observed here. The main challenges in this sector are related to management of development costs due to rising costs of construction works and materials as well as tax changes.

The absolute majority of new logistics projects are currently in the development stage or are still planned to be built-to-suit. The supply of warehousing facilities is concentrated in individual objects. This leads to the fact that the vacancy rate in Vilnius and Kaunas regions has decreased to slightly less than 1%, while in Klaipėda it balances at 5%. On the other hand, in the event of an economic recession, the vacancy rate will undoubtedly increase.

Currently, the lease prices of modern logistics centres reach 4.0–5.5 EUR/sq. m in Vilnius region, 4.0–5.0 EUR/sq. m in Kaunas, and 3.5–5.0 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.

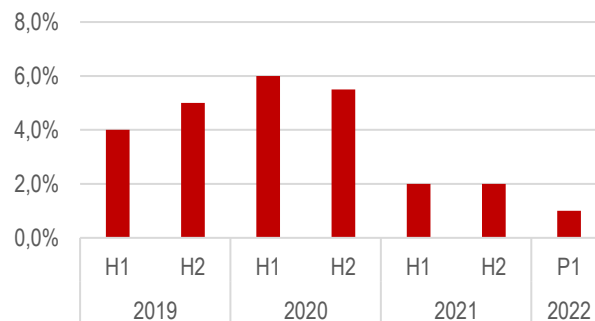
Lease prices of modern logistics centres in Lithuania (EUR/sq.m)



Source: INREAL

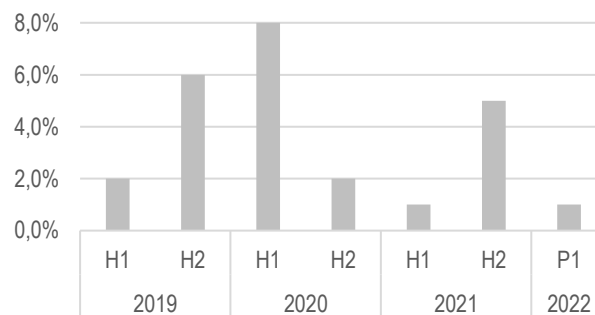
Developers and tenants continue to show active interest in the stock-office segment, which includes warehousing facilities, retail space and administrative part under one roof.

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



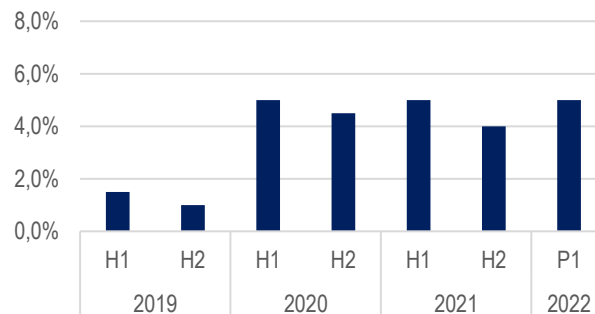
Source: INREAL

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



Source: INREAL

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



Source: INREAL



Artūras Kojala, COBALT Partner in the Real Estate and Infrastructure Department

Artūras Kojala is a Partner in the Real Estate and Infrastructure Department. Mr Kojala brings over 14 years of experience in the areas of real estate, logistics, business development and waste management matters. Prior to joining COBALT, he practised at one of the leading law firms in the Baltics, advising major local and international companies. Mr Kojala has also spent a number of years working for MAXIMA LT, Lithuanian retail market leader. Mr Kojala holds a Master's degree in Law from Mykolas Romeris University and Master's degree in Management from European University Business School.

Andrius Kazlauskas, COBALT Expert at Real Estate and Infrastructure Practice Group

Andrius Kazlauskas is an Expert at Real Estate and Infrastructure Practice Group. Andrius holds a Master's degree in Civil Engineering from Vilnius Gediminas Technical University (Vilnius Tech) and a Master's degree in Construction Law & Dispute Resolution from Kings's College London. Prior to joining COBALT team, Andrius worked for one of the biggest transport infrastructure construction companies in the Baltics for nine years. During his career, Andrius contributed to the successful implementation of complex construction projects in Lithuania.

NEW DEVELOPMENTS IN REAL ESTATE LAW

TERRITORIAL PLANNING

Territorial planning remains an integral part of the investment climate. The Law on Territorial Planning continues to undergo relevant amendments and additions. We would like to draw attention to one major amendment amending Articles 18, 20, 24 and 27. Of relevance is the fact that a number of important territorial planning functions now performed by the director of administration have been transferred to the mayor. Such functions include, inter alia, determining and changing the purpose and use of land, approving land parcel formation and rearrangement projects, taking decisions on the preparation of detailed plans, approval of detailed plans, etc. Certainly, it must be noted that the law is due to enter into force on 1 April 2023. In any event, after the coming into force of these amendments, the mayor, who is basically a holder of a political position, will play a much more active role in the territorial planning process.

LEGAL REGULATION CONCERNING LAND

Resolution of the Government of the Republic of Lithuania No 260 of 9 March 1999 “Regarding the Sale and Lease of State-Owned Land Plots Intended for Other Uses” (the **Resolution**) is also one of the most popular legal norms among both investors and lawyers. It also receives considerable attention in the legislative process. This year, this legal norm has also seen changes. For instance, Article 45 of the Resolution, establishing the procedure for the transfer of the right of lease of a state-owned land plot, has already been twice amended this year. The wording that was effective as of 1 January 2022 provided that, as part of an application for the transfer of the right of lease of a state-owned land plot, the applicant was required to submit, among other things, the data, not older than one year, from the real estate cadastral data file on depreciation of the building. Meanwhile, the current version, which is in force as of 7 April 2022, no longer contains such a requirement. We state from our experience regularly working with investors and businesses that the wording which was in force until 7 April 2022 and required to submit depreciation data as mentioned above forced into a deadlock both the manager of the state-owned land plot, who did not know how to proceed and how to treat such a provision, and businesses alike and caused considerable confusion. The amendment is therefore welcome, as the expediency of the need to provide such data was questionable and hindered the efficient conduct of real estate transactions.

It is further worth mentioning that the new version of the Resolution provides for a somewhat modified procedure for construction on state-owned land. The amended paragraph 30.7 clearly stipulates that new construction and/or reconstruction on a leased land plot is only allowed where such new construction and/or reconstruction is consistent

with the main purpose and method of use of the state-owned land plot specified in the lease agreement. The form of the State-Owned Land Lease Agreement (specifying at paragraph 4 the main purpose and possible methods of land use), attached to the Resolution, has been amended accordingly. The above-mentioned provision of the Resolution has also been amended to stipulate that construction on state-owned land is only possible after payment of a consideration for a possibility of carrying out construction operations on state-owned land, thus synchronising this legal norm with other legal norms governing the rules for construction on state-owned land.

Another important amendment to this Resolution is the provision on a land rent surcharge (representing 5% of the average market value of the state-owned land plot or its part) provided for in paragraph 38.11. This surcharge is payable if within 2 years from the adoption of the decision to change the main purpose and/or method of land use the lessee of the state-owned land plot has not commenced construction of new buildings or facilities and/or reconstruction of the existing ones, and if the lessor of the state-owned land plot has identified that the existing buildings or facilities on the state-owned land are operated and activities are being carried out according to the main purpose and/or method of land use established prior to the adoption of such decision.

The Resolution provides at paragraph 38.13 that, among other things, if the lessee of a state-owned land plot has not started construction of new buildings or facilities and/or reconstruction of the existing ones within 5 years from the adoption of the decision to change the main purpose and/or method of land use, the lease agreement of the state-owned land plot is terminated early at the request of the lessor of the state-owned land plot. Thus, the amendments mentioned above give the lessor of a state-owned land plot slightly more

control over the use of the leased state-owned land plot. On the other hand, it can be seen as a small exclamation mark for businesses that they be slightly more careful in planning expansion and development on a state-owned land plot, i.e. that after the decision to initiate a change of the purpose and/or method of use they should plan their future construction operations so that they can meet the deadline.

LEGAL REGULATION CONCERNING LAND

The construction sector has been undoubtedly experiencing more changes and shocks recently. The cause of such shocks and changes is the war in Ukraine. Before the war, building materials supplied by Russian and Belarusian companies dominated in the Lithuanian construction market. Following the announcement of the European Union's sanctions against such companies and the resulting shortage of such materials, the Lithuanian authorities were forced to react in order to ease the operating conditions for real estate market players. It was decided that two types of reinforcing steel without harmonised specifications – weldable and prestressed reinforcing steel may be supplied to the market of the Republic of Lithuania **until 1 January 2023 without being subject to the requirements set out in the List of Regulated Construction Products**, and used in the construction of buildings until 1 June 2023, provided that it is certified by at least one accredited certification body designated by the European Union or the European Free Trade Association. This decision has considerably increased possibilities for more efficient import of these building materials and their use in construction.

As regards the Lithuanian legal framework, changes have been introduced in the field of construction not only to assist and make easier the situation caused by the consequences of the war, but changes have also been made in the

regulation of construction concerning day-to-day construction operations. One such example is Construction Technical Regulation STR 1.06.01:2016 "Construction Operations. Supervision of Construction", providing that it is not obligatory to keep a construction work log for the construction of one-flat or two-flat residential buildings with the total floor space of more than 300 sq. m (the previous version of the Regulation provided for 500 sq. m), or the construction of outbuildings for auxiliary use. Accordingly, the new wording has somewhat broadened the list of buildings for which a construction work log must be kept.

The amendment to the above-mentioned Construction Technical Regulation also specifies that the developer (client) is obligated (with certain exceptions) to use an **electronic work log** for the construction of new special and non-special buildings, reconstruction of special and non-special buildings, demolition of special and non-special buildings, major repairs of special and non-special buildings. This shows that, step by step, we are moving towards the digitisation of the construction process. In our view, this is a welcome development, as a large number of paper documents are generated in the course of the construction process.

Another important change is an amendment to Construction Technical Regulation STR 1.04.02:2011 "Engineering Geological (Geotechnical) Surveys" (**EGGS**), stipulating that EGGS surveys form part of construction surveys, and a report of design EGGS surveys (where surveys are conducted) is a mandatory document of the development of the design of a building. Design EGGS surveys are carried out for the purpose of development of the building design, and a report on design EGGS studies is a mandatory design document. The amendment also defines the cases when design EGGS surveys are mandatory:

- in respect of special buildings, for new construction, reconstruction, major repairs (where modifications are made to foundation structures and/or foundation loads), or cultural heritage management construction works;
- in respect of non-special buildings, for new construction (except in the specified cases), and for cultural heritage management construction works;
- in respect of non-complex buildings, for cultural heritage management construction works.

This amendment provides clarity for construction participants, as in practice there used to be many questions as to the compulsory nature of EGGS surveys (especially for non-special buildings).

ENERGY SECTOR

On 28 June 2022, the so-called “Breakthrough Package”, a set of legislative amendments governing changes in the green energy sector, was adopted by the Seimas. The main purpose of the “Breakthrough Package” is as speedy and efficient as possible development of green energy. Despite numerous proposals, discussions and a number of suggestions for improving the amendments (Law Firm Norkus & Partners COBALT | Professional Partnership also submitted its proposals in this process), the legislative package was approved faster than expected. In theory, the package aims to simplify processes necessary for the development of green energy (reducing the bureaucratic red tape, excessive restrictions in respect of solar and wind power plants, creating favourable conditions for an increase in the number of generating consumers, encouraging the creation of energy communities, and responding to the needs of residents). Indeed, it must be acknowledged that the amendments to the legal provisions comprising the “Breakthrough Package” partly reduce the red tape (e.g. the

requirement to prepare territorial planning documents in planning wind farms has been removed). However, a number of provisions may cause difficulties in implementing development in practice (e.g. lack of clarity as to the procedure for alignment with adjacencies, etc.).

The amendments to the laws, which were signed by the President and entered into force on 8 July 2022, still raise doubts and questions, as there have been numerous amendments, and the package comprised amendments to as many as five laws. It should be noted that businesses developing green energy projects which were started yet before the adoption of the “Breakthrough Package” have questions concerning the application of the new regulation. For instance, whether sanitary protection zones must be established where the environmental impact assessment was carried out prior to the adoption of the “Breakthrough Package”, and other questions. Certainly, the adoption of the “Breakthrough Package” (and the pursuit of its objectives in itself) is of extremely high relevance today, as now Lithuania is simultaneously facing a set of complex challenges: inflation in the country is growing at an unprecedented rate, the war is ongoing, the effects of climate change are being felt ever more strongly, and the effects of the pandemic are still being felt by some businesses. Such challenges call for all possible measures to ensure independence in the production of energy using renewable resources.

We summarise below the key amendments to the laws comprising the Breakthrough Package which we consider relevant for those planning to pursue green energy business:

Law on Energy from Renewable Sources	Wind power plants with installed capacity greater than 30 kW must be sited so that the shortest distance from the central axis of the mast of the wind
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	<p>turbine to certain buildings, premises intended for the purposes specified in this law and to recreational areas is not less than the height of the mast of the wind turbine, in metres, multiplied by 4, except where the owners of such objects do not object and give their approval in writing (in which case they may be constructed at a shorter distance, subject to entering into an agreement on compliance with the requirements for ensuring public health).</p> <p>In non-urbanised and non-urbanisable territories (except for territories where, based on the solutions of the applicable territorial planning documents and other legal acts, relevant construction is not allowed), with the consent of the owner of the land plot, without changing the main purpose and method of land use, it is possible to construct:</p> <ul style="list-style-type: none"> ▪ solar power plants (including hybrid power plants) on agricultural land; ▪ wind power plants (including hybrid power plants); ▪ biogas power plants (and others) with installed capacity of 1 MW and less on agricultural land; ▪ hybrid power plants on agricultural land. <p>Construction of power plants mentioned above, with the exception</p>	
	<p>of solar power plants, on agricultural land must be carried out by ensuring that the land can be used according to the established main purpose and method of land use.</p>	
Law on Electricity	<p>The term of the solar power plant development permit is reduced to 24 months only if the capacity of the power plant is above 6 MW (otherwise a 36-month term continues to apply). The municipal administration must approve that the installation or construction of the power plant to be developed is allowed. The municipal administration must give its approval to the producer within 10 business days of receipt of the producer's application. If the municipal administration does not provide its approval or a reasoned objection within the time limit specified above, the installation or construction of the power plant to be developed is deemed to be allowed.</p> <p>The amount of the letter of intent guarantee has been increased to EUR 50 per 1kW.</p> <p>If a letter of intent is executed in respect of a power plant with capacity above 50 MW, an assessment must be made whether or not the person poses a risk to national security interests.</p>	
Law on the Environmental	<p>construction of 7 or more power plants is planned and the distance between</p>	

Impact Assessment of the Proposed Economic Activity	<p>the planned power plants and the existing power plants, power plants under construction or to be constructed is 5 km or less (measured between the centres of the masts), or where such values in terms of number and distance are reached when including existing power plants, power plants under construction or to be constructed.</p> <p>EIA screening is required where: (a) construction of 3 or more wind power plants is planned, with at least one 50 m in height or higher (measured to the highest point of the structure, including the height of the impeller); (b) the wind power plant is planned to be sited within 1 km from a protected area, except where not more than 1 power plant and not higher than 25 m is planned to be sited on a farmstead or adjacent to outbuildings (measured to the highest point of the structure).</p>
Law on Special Land Use Conditions	<p>SPZs for wind power plants have been abolished;</p> <p>Construction of solar power plants on buildings that are cultural heritage objects has been made possible.</p>
Law on Territorial Planning	<p>The law provides that construction of special engineering structures and renewable energy facilities of 30 m or more in height must be provided for in the territorial planning documents, except in the cases provided for in the</p>

	Law on Energy from Renewable Sources.
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Thus, while the “Breakthrough Package” has introduced amendments that are expected to ease procedures and remove certain restrictions, however, as mentioned above, such changes have also introduced a lot of confusion for project developers and businesses, as in individual cases it is unclear whether to follow the requirements that applied prior to the changes or comply with the new provisions of the law. There are also doubts as to compatibility of the adopted amendments with actions taken before the amendments were adopted.

At any rate, it can still be forecasted that already in 2030 we will have renewable energy sources with at least 7 GW capacity, the country will attract investments of around EUR 1 billion, and all of this is likely not only to revitalise a part of the economy, but will also provide a solid basis for a reduction in electricity prices.

RELEVANT CASE LAW

In 2022, 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:

TERRITORIAL PLANNING

The SCL ruling in civil case No **e3K-3-147-421/2022** reminded that conditions precedent for a person's right to lease a state-owned land plot without an auction are as follows: the land plot must be built up with buildings, structures or facilities owned or leased by such person and the land plot must be used for the operation of such structures and facilities. The court also found that paragraph 30 of the Rules for the Sale and Lease of Used State-Owned Land Plots Intended for Other Uses, approved by Resolution No 260 of the Government of the Republic of Lithuania of 9 March 1999, also provides for an exhaustive list of requirements to be complied with in the process of leasing used land plots. In accordance with paragraph 30.7 of the Rules, new buildings or facilities may be constructed and existing ones may be reconstructed on the leased land plots only if it is so provided in the lease agreement and such construction or reconstruction is not contrary to the established regime of the management and use of the territory.

The SCL ruling in civil case No **e3K-3-110-916/2022** has clarified the importance of the right of ownership and stressed that restriction of the right of ownership is justified only if there are compelling reasons, and there is no basis to establish an easement and restrict the right to ownership of another owner (owner of the servient thing) merely because

the owner seeking the establishment of an easement wants to use another's thing because doing so is more beneficial or more convenient. The fact that no other appropriate way of exercising the right of ownership exists than to restrict the right of ownership of another person is essential in substantiating the necessity for an easement. It should be noted that if the servient thing is a land plot, it is necessary to define precisely the content of the restriction on the landowner's rights as well as the territory in which the restrictions apply. The territory must be outlined on the plan (scheme) of the land plot, stating the details of the place of the restrictions within the land plot, such as the boundaries, the area of the restrictions, and others.

LAND ISSUES

The SACL noted in its judgment in administrative case No **eA-352-552/2022** that, in accordance with Article 37(1) and (3) of the Law on Land, the system of land use management planning documents also includes land plot formation and rearrangement designs which, in accordance with paragraph 7 of the same Article, must be prepared and implemented in the manner laid down in Article 40 of the Law on Land in the cases where land plots registered in the Real Estate Register need to be divided, partitioned, merged or reparcelled, where there is a need to change the main purpose and method of land use, as well as in the process of formation of new land plots on state-owned land. The legislator has laid down an imperative prohibition on the rearrangement of a land plot which is the subject of a legal dispute.

The SCL has given an interpretation in its ruling in civil case No **e3K-3-12-378/2022** that state-owned land may be leased without an auction if it is built up with a structure belonging to a natural or legal person, where the structure has a clear functional dependence, a defined use or nature of economic

activity and is necessary for the exercise of the rights belonging to that person as the owner (lessee) of the structure. The position adopted by the court is that in the event of a dispute as to whether a state-owned land plot built up by structures belonging to a person should be leased to the person without an auction, it must be evaluated whether such structures meet the criteria specified in the law. It is the assessment of the factual situation, not the data on legal registration of the structures situated on the land plot, that is decisive, and it is therefore also important to assess on a case-by-case basis whether the activities carried out on the land plot are related to the use of the existing structure, or whether there are plans for further development of these or other activities.

CONSTRUCTION

The SCL found in civil case No **e3K-3-186-701/2022** that in order to obtain a document authorising construction for the purposes of reconstruction of a building at a distance which is less than the distances established by normative legal acts to the boundary of the land plot, as well as to the adjacent building, the consents of the owner of the adjacent building and the owner or manager of the adjacent territory to the reconstruction design have to be submitted to the municipal administration (Annex 6, paragraph 1 and Annex 7, paragraph 8 of STR 1.05.01:2017). The ruling notes that the case law of the SCL in this respect is clear and developed, and the court of cassation has held that the norms of construction technical regulations establishing mandatory distances from non-complex buildings and boundaries to the neighbouring land parcels, as well as establishing mandatory distances for the construction of the communications infrastructure and retaining walls, are of mandatory nature and serve certain public purposes. According to the

interpretation in the case law of the court of cassation, where the owner of a neighbouring land plot refuses to give consent to the construction of buildings at a distance from the boundary of the neighbouring land plot which is less than the distance prescribed by the legal acts, such a person is not obligated to give reasons for the refusal and, as a general rule, the builder may not contest such refusal.

The SACL held in its ruling in administrative case No **eA-989-502/2022** that (i) changing the purpose of buildings or premises, where only simple repair works are carried out or no construction works are carried out at all, is completed by a declaration of completion of construction drawn up by the builder or the person who has succeeded to his/her rights and obligations, (ii) a building is classified as falling within one or another group of uses if its total floor space or its major part is used for that purpose, (iii) where a building consists of premises intended for different uses, formed as separate immovable objects (catering, sports, educational, etc.), the use of the building is determined according to use of premises with the largest total floor space as a separate immovable item.



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.

BIGGEST APARTMENT BUILDING PROJECTS (OR THEIR STAGES) LAUNCHED IN THE FIRST HALF OF 2022

7 BIGGEST APARTMENT BUILDING PROJECTS

VILNIUS

■ **Metų laikai**

Eika Development Fund began to develop in the capital a block of 620 apartments on a 2,579 ha land plot at Visorių str. 27. The 4 to 9-storey buildings with 1-4 room apartments

will be developed in four stages until the fall of 2026. The first stage of construction will last until Q4 of 2023, during which 122 apartments will be built. The architects of the project are UAB "SP architektų grupė" with lead architect Saulius Pamerneckis. A bicycle path section from Onos Lukauskaitės-Poškienės str. to Prano Vaičičiaus str., as well as bus stops at Visorių str. will be installed during the development of the project.



Metų laikai @Eika

■ **Algirdo 3**

UAB "Realco" and architect studio "Arches" started the construction of the 2 to 5-storey building complex Algirdo 3

on a 0.5 ha land plot at Algirdo str. 3. The complex will include 96 (1-4 room) prestigious-class homes and 6 commercial premises on the first floor



Algirdo 3 @Realco

. About 16 million euros will be invested in the project, and construction should last two years. It is estimated that taller buildings will stand in the block at A. Vivulskio and Jono Basanavičiaus streets, and building height will decrease in the middle part of the street. The courtyard will include spaces for recreation, playing and sports.

■ Visi savi



Visi Savi @ Citus

Construction works have begun in the Visi Savi project launched by Citus in April 2022. The project is developed on

a 0.5 ha land plot at Visorių str. 10 and will include three 5-storey apartment buildings of A++ energy efficiency class, which will have 1-4 room apartments with an area of 27-100 sq. m and about 300 sq. m of commercial facilities. There will also be an underground parking lot with 131 parking spaces with a greenery-filled roof. Project investments will reach 8.6 million euros. It is estimated that the project will be 80% completed by the end of 2022.

■ Šv. Stepono Baltas Lapas

After the start of preparatory works at the end of 2021, this year the construction of the "Eikos" object at Šv. Stepono str. 33 has gained momentum. The project is comprised of two parts: co-living apartments and Šv. Stepono Baltas Lapas apartments.



Šv. Stepono Baltas Lapas @ Eika

Šv. Stepono Baltas Lapas is a complex of four to five-storey buildings with 117 apartments and 15 commercial facilities designed on the first floors of the building. The total apartment area is about 7,000 sq. m. The apartments will have 1-4 rooms and areas ranging from 25 to 80 sq. m. In attic apartments, the ceiling height will be at least 3 meters. The co-living part will include 269 hotel rooms with a sleeping

area, a bathroom and a kitchenette. Room areas range from 18 to 24 sq. m.

■ Hill City

The new housing project Hill City developed by Hanner at Kalvarijų str. 137 in Verkiai is one of the four Urban Life projects located near Ozo Park. The four A energy efficiency class buildings will have 400 apartments with 1 to 3 rooms. Distances between buildings reach 48 meters.



Hill City @ Hanner

■ Kernavės Aveniu II

Kernavės Aveniu II is an A++ energy efficiency class apartment building located at Kernavės str. 14 in Šnipiškės. This is a continuation of the project developed by Infra Group. The building will include fifty 2-4 room apartments with an area of 30-69 sq. m, and will reach A++ energy efficiency class.

There will be 5 commercial facilities on the first floor of the building, as well as parking spaces in underground and above-ground parking lots.



Kernavės Aveniu II @ Infra Group

KAUNAS

■ Krėvės 80

Krėvės 80 is a three-apartment complex near Dainavos and Draugystės parks at V. Krėvės str. 80. Authors of the project: U. Vasiliauskas and T. Jonaitis. The complex will consist of two nine-storey buildings and one five-storey building of A++ energy efficiency class, occupying an area of 6,350 sq. m.

133 apartments of 1–6 rooms with an area of 30 to 73 sq. m will be offered to the market.



Krėvės 80 @ Norvegijos kontaktai

3 BIGGEST COMMERCIAL REAL ESTATE PROJECTS

■ Business centre „Hero“ Vilniuje

In July 2022, Realco has started the demolition of above-ground structures in the area of the current Ibrahim centre at Lviso str. 21B in Vilnius. Two healthy office blocks of the Hero business centre will be built here, with a total leasable area of 31,000 square meters. A three-storey stylobate will connect the 15 and 14-storey buildings. The business centre will be the first in the country to aim for the international WELL building standard certificate, as well as the Breeam Excellent sustainable building certificate.



Hero @ Realco

■ Co-living complex at Vytenio street in Vilnius

RE property development company Eriadas has started the construction of another co-living complex in Vilnius, Naujamiestis, at Vytenio str. 46B. 153 apartments have been designed, the construction of which will require an investment of 11 million euros. The complex will include recreation and work areas, a gym, a cinema, a self-service laundry, and scooter charging points.



Co-living complex at Vytenio street @ Eriadas

■ Valakampiai LIDL in Vilnius

Nemenčinės pl. 15, Valakampiuose 2022 gegužę atidaryta 20-oji „Lidl“ tinklo parduotuvė Vilniuje ir 62-oji „Lidl“ parduotuvė Lietuvoje. Šios parduotuvės prekybos salės plotas siekia kiek daugiau nei 1300 kv. metrų.

The 20th Lidl store in Vilnius and the 62nd Lidl store in Lithuania was opened in May 2022 at Nemenčinės rd. 15 in Valakampiai. The retail area of this store reaches over 1,300 sq. meters.

This store stands out with its unconventional design solutions, charging stations for electric cars and electric bicycles, and a solar power plant installed on the roof.

During the construction of the shopping centre, the bus stop and its turnout were renewed, a regulated pedestrian crossing was built over the Nemenčinės rd., and street lighting as well as pedestrian and bicycle paths were installed.



Valakampiai LIDL @ LIDL

2 MOST SIGNIFICANT PUBLIC INFRASTRUCTURE PROJECTS

▪ Kernavės street in Vilnius

A new nearly one kilometre long Kernavės street was built between Žalgirio and Lvivo streets in Šnipiškės. The project was implemented by Kaunas Tiltai and Kerista. After completion of land plot redemption and other legal procedures, the street will be extended up to Konstitucijos Avenue. The reconstruction of the street cost more than 4.3 million euros. The municipality allocated over 1.4 million euros for this project, over 2.6 million euros were funded by the EU Investment Programme, and about 300 thousand euros were allocated from the Road Maintenance Programme. New trees and shrubs were planted along the street, and new intersections as well as a red asphalt bicycle path and pedestrian sidewalks were installed.



Kernavės street @ Vilnius municipality

▪ Dragon's Meadow (Drakono Pieva) in Vilnius

Dragon's Meadow (Drakono Pieva) – a public space with sports and children's playgrounds was built in the square between Giedraičių and Krokuvos streets.

This area was created as a transitional-connecting link between the residential homestead district of Šnipiškės, known as Skansenas, and the modern right bank of Neris River with its high-rise buildings. When designing the square, tree species were selected that are close to homestead landscaping.

An active zone was formed in one part of the Dragon's Meadow, with children's playgrounds, basketball court, mini-football field and outdoor fitness areas. There is also a quieter recreation area with benches and chess tables on the other side of the square.






Dragon's Meadow (Drakono Pieva) in Vilnius@ Vilniaus miesto savivaldybė

ABOUT / CONTACTS



INREAL GROUP

INREAL is a brand of an idea, which gives spark to unique projects, basis for professional services, and added value to businesses, clients, and partners. INREAL positions creativity as a core value in the dynamic business world. INREAL Group, which consists of UAB "Inreal", UAB "Inreal GEO", UAB "Inreal valdymas" and its managed companies, develops unique real estate (RE) projects and provides probably the widest range of real estate services in 11 cities in Lithuania. The company has engaged in business operations for more than 25 years and implemented more than 70 real estate projects of various purposes, which received recognition and awards at contests not only in Lithuania but on an international scale as well.

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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.

Tilžės str. 149, 76348 Šiauliai | Tel. +370 37 301 337 | www.sb.lt/en  

COBALT

COBALT is one of the largest law firms in the Baltics. More than 200 lawyers provide comprehensive services to local, regional and international corporations, funds, credit institutions and companies, as well as private individuals in all areas of business law. The firm has won the title of "Best Law Firm in the Baltic States" seven times. The most prestigious law firm directories "Chambers Global", "Chambers Europe", "Legal 500", "IFLR 1000" and others annually include COBALT in the list of the best law firms in the region.

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CITYNOW

CityNow is a tool for tracking new real estate projects. Upcoming and currently developed projects are displayed in the interactive map together with the most important information about the projects. Currently, a database of over 1,500 residential projects is available for projects in the major cities of Lithuania, Latvia and Estonia.

Dainavos str. 5, Vilnius | Tel. +370 623 38911 | www.citynow.org 