in real

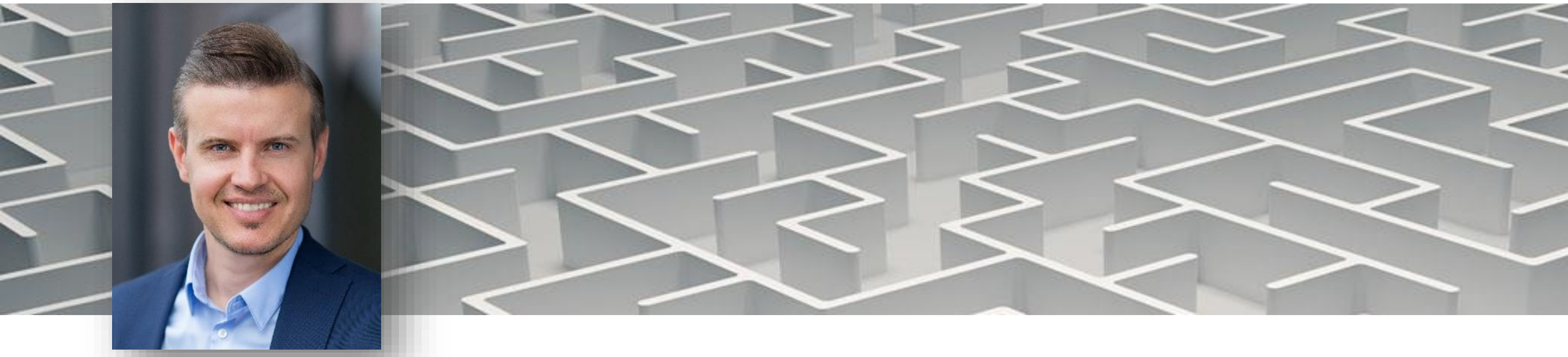
Kuria Tvariai

LITHUANIAN ECONOMIC AND RE MARKET REPORT

2022 – 2023

WITH PARTNERS: ŠIAULIŲ BANKAS, COBALT, CITYNOW

CONTENT



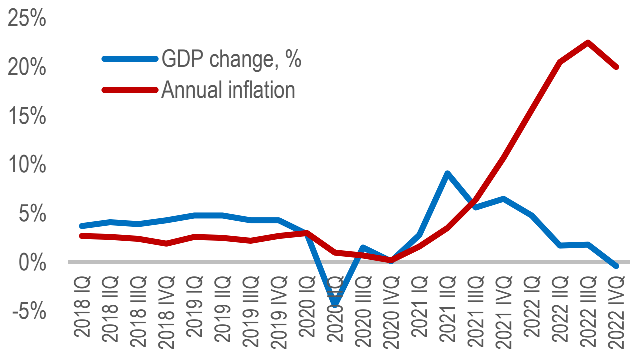
Tomas Kipišas, *Šiaulių Bankas Savings and Investment Product Manager.*

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

ECONOMY OVERVIEW

The high level of uncertainty in the past year has not hampered Lithuania's economic progress, although growth has been gradually declining, with trends already negative towards the end of the year. To the surprise of many, Lithuania's gross domestic product (GDP) grew quite rapidly in 2022 with an increase of 2.2%, even though conditions were not favourable for expansion. Business uncertainty was exacerbated by the war in the vicinity, competitiveness was undermined by rising labour costs, and consumer sentiment was adversely affected by the energy price shock, record inflation and rising interest rates. The resilience and development of the country's economy has been driven by inertial factors, such as the country's industry that became stronger in 2021 and its successful manoeuvrability in international trade. Industrial output grew by almost 6.5% last year, while manufacturing output grew by a tenth.

Lithuania's GDP and inflation



Source: Statistics Lithuania

The buoyancy of domestic consumption in the first half of last year was driven by a healthy labour market, rising wages, and increasing household savings.

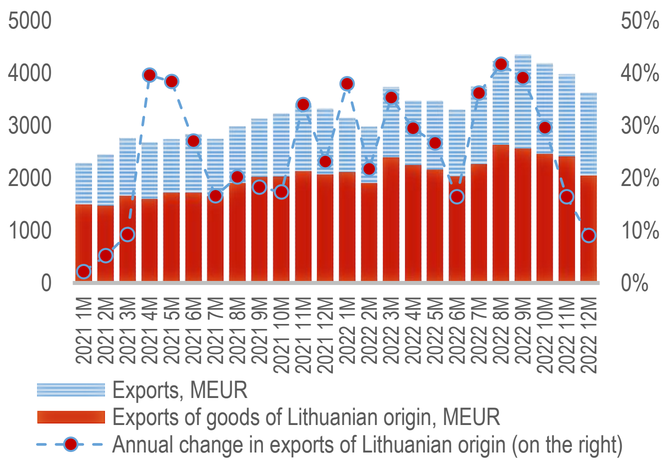
However, the economy contracted by 0.4% in the last quarter compared to the previous quarter, the most in the EU. The decline was even steeper compared to the third quarter, at 1.7%. This was one of the largest quarterly contractions in economic activity since 2008. Although the annual performance of the industry was solid, the sharp contraction at the end of the year was the main contributor to the negative final quarter. At the end of the year, economic activity in other sectors of the economy also slowed down, with a contraction in wholesale and retail trade, transport, agriculture, and exports of goods originating in Lithuania.

According to Eurostat, the EU economy avoided contraction in the last quarter of 2022, although there were many signs. The most notable of these was the negative impact of the energy crisis, which pointed to this possibility. The other Baltic countries started to struggle as early as the middle of last year. The Lithuanian economy, which has been aggressively increasing its activity in international trade in recent years, has become significantly dependent on exports, which already account for over 80% of the GDP. It is clear that we are much more dependent on global consumption trends than on domestic markets.

Price growth in Lithuania is declining much more slowly than in other EU countries but is clearly losing momentum. However, their level and volatility remain one of the biggest problems not only for Lithuania but also for other developed countries. Prices of consumer goods rose by a record 25.2% year-on-year, while prices of services increased by 13.2%. In December, annual inflation was 20%, driven mainly by increases in the prices of solid fuels, heat, food and catering services, cars, fuels, and lubricants. Food price inflation is the most burdensome for the population. In December, prices of food and non-alcoholic beverages rose by as much as 33% across the country, and this was the seventeenth consecutive month of price increases. According to the Bank of Lithuania, changes in energy prices were the main determinant of inflation until September 2022, with food price changes becoming the main catalyst thereafter. The good news is that there is unanimous agreement that inflation has already peaked, and with falling global energy prices and slowing domestic and external economies, it is expected to fall to single digits this year and to just a few per cent next year. According to the Ministry of Finance and the Bank of Lithuania, price growth in the country will decline to 9.5% in 2023.

The European Commission's forecast is even more favourable, with prices falling by 8.7% in 2023 and 2.1% in 2024. Residents also expect a slowdown in price growth. According to the January survey, 40% of the population think that prices will increase at a slower pace over the next 12 months, while 26% think that the rate of increase will remain the same.

Foreign trade



Source: Statistics Lithuania

Exports of Lithuanian goods and services made a significant contribution to economic growth in 2022. Last year, Lithuania exported EUR 44.2 billion worth of goods, i.e., 28% more than in the previous year. Exports of goods of Lithuanian origin grew by 27%. The most exported products were mineral products (20.1%), miscellaneous manufactured articles (11.4%) and products of the chemical and allied industries (10.2%). The value of imports rose to EUR 52 billion last year, i.e., 39% more than in 2021. Germany, Poland, and Latvia accounted for the largest share (almost a third) of exports of Lithuanian origin.

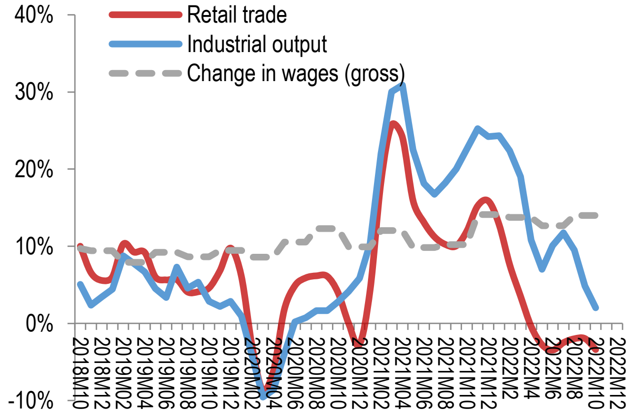
Nevertheless, growth has slowed considerably in the last 4 months and contracted by 1% in December compared to the same period a year ago. These trends were driven by falling demand in the markets of major trading partners due to rapidly rising interest rates. This pattern may persist for longer as consumers across Europe face similar problems – inflation, high interest rates, etc.

The European Central Bank (ECB) raised base interest rates 4 times to 2.5% last year. Further monetary tightening is expected this year to cool inflation. The ECB base rate is expected to be in the range of 3.25%–3.5% in the first half of the year, while the 6-month Euribor rate is expected to increase above 4%. However, a change in the trend is expected in the second half of the year. European companies will become more active due growing demand from an opening China, while falling inflation may even lead to a reversal of monetary policy and a reduction in base rates. The International Monetary Fund is quite positive about the global outlook for the services sector. It argues that inflation in services spending may fall faster than expected, which would allow central banks to tighten monetary policy less aggressively.

Retail trade, which is dependent on people's consumer sentiment, was only buoyant in the first six months of last year, when it showed record growth rates in the double digits. Although the population felt reasonably confident about their personal financial situation, the prevailing uncertainty, rising interest rates and declining purchasing power eventually led to a decline in consumption. Volume of retail trade started to decline in the second half of the year, with December seeing the largest annual decline of 5.5%. The decline was 4.1% compared to November.

The turnover of retail trade, excluding fuels and motor vehicles, declined marginally year-on-year at constant prices. Consumers continued to cut spending on non-essential goods and services as high inflation made the basic basket of goods and services increasingly expensive. Positive external migration has saved the country from greater losses, due to the fact that, for several years, the number of people returning to Lithuania has been higher than the number of people leaving. Domestic consumption is not expected to recover in the short term due to heightened risks, but a fairly strong recovery is expected in 2024, which could reach up to 5%.

Indicators of economic activity

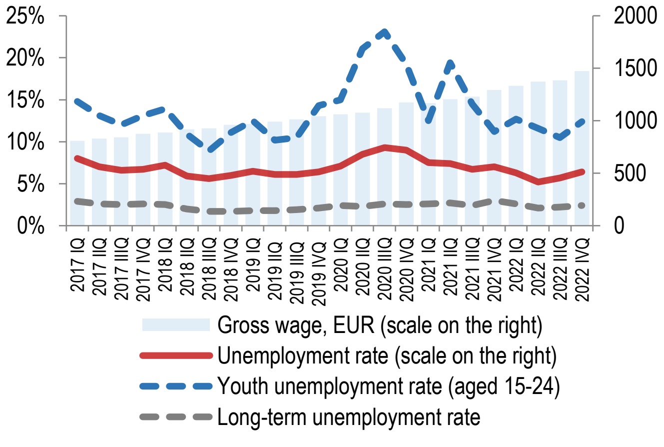


Source: Statistics Lithuania

Declining demand from Lithuania's main export markets has constrained the expansion of Lithuanian industrial production. Although the industry had the energy for a confident growth in the first half of last year, progress slowed down markedly in the second half of the year, and by the end of the year, with a negative sentiment prevailing, the sector's volumes were already in decline.

Between January and December 2022, total industrial output amounted to EUR 38.4 billion at current prices, a 9.4% increase compared to the same period in 2021. However, in the last quarter, total industrial output contracted by 8.2% compared to the same period a year ago. Manufacturing, the country's largest economic sector, contracted by 3.5% in the last quarter and by a tenth in December. The sector has been held back by high energy prices. Metals, chemicals, rubber and plastic products were the most affected at the end of the year. Technical factors also contributed: at the end of the year, Lifosa AB was out of production and Achema AB was operating at a lower-than-usual capacity. In the last quarter of last year, Lithuanian Industry Confidence Indicator reached its lowest level since 2015. According to the executives surveyed, the negative sentiment is mainly fuelled by high energy prices and a slowdown in international trade activity, which is hampering the development of new markets.

Labour market

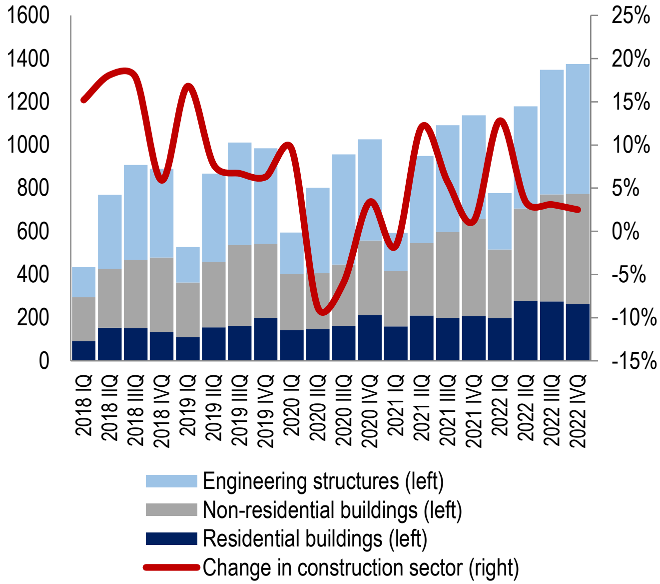


Source: Statistics Lithuania

Lithuania's labour market is inert and reacts rather reluctantly to a significant economic slowdown but remains favourable to workers. The unemployment rate in Lithuania was 6.4% in the last quarter of last year, while the long-term unemployment rate (when finding a job takes more than a year) was 2.4%. Wages have continued to rise rapidly, especially in the private sector. Average wage before tax in the country grew by 14% last year compared to the same period a year earlier. Wages at the end of the year were 6% higher than in the third quarter, even though the country's economy contracted in the last quarter. Inflation has been the main catalyst for this development, with the negative effects only partly offset by rising household incomes. The slowdown in inflation and decelerating economic activity will weigh on hiring and wage growth. Annual growth in average wages will be more modest this year compared to last year, but in historical terms it will still remain very strong at 8–9% (7% in 2024). This will be driven by skills shortages, increases in public sector wages and minimum wages. The unemployment rate is not expected to change significantly this year and will be around 6.5% (6% next year).

Due to more modest appetite of the country's businesses for investment and the high cost of building materials, construction activity in the country started to decline in the second quarter of last year, but maintained a modest annual growth rate of 2–3% until the end of the year. Over the past year, a total of EUR 4.7 billion worth of construction work was carried out in the country, i.e., 4.4% more than in 2021. Residential construction grew fastest (by 10%), while civil engineering works accounted for the largest share (41%). However, at the very end of the year, activity in the sector contracted, with a 1.5% drop in construction activity in December compared to the same month a year earlier. The impact of the construction sector on the country's GDP dynamics was more neutral, due to the small year-on-year change in the value of completed works. The construction sector is expected to cool down more this year due to rising interest rates and weakening corporate performance.

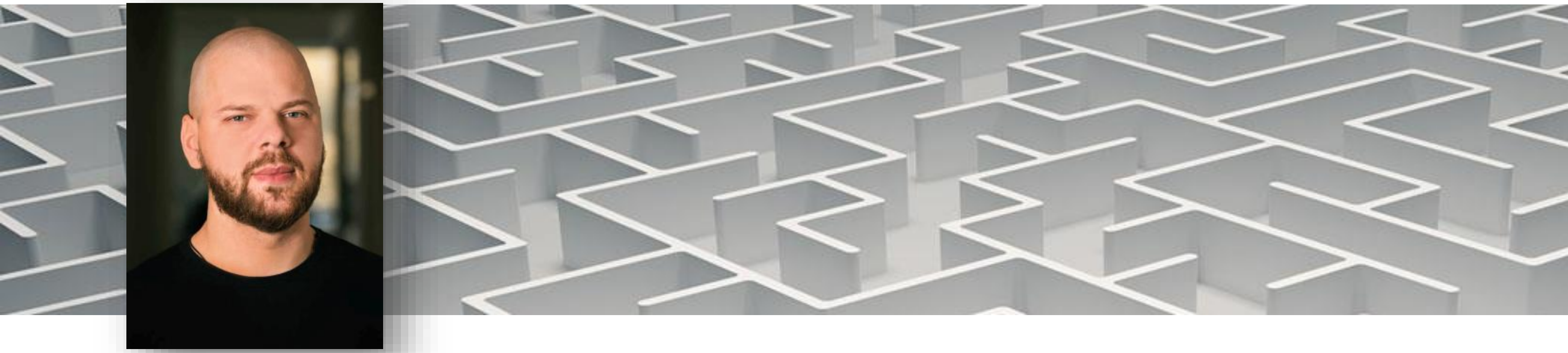
Construction activity in Lithuania



Source: Statistics Lithuania

According to the Bank of Lithuania, the country's risk balance is negative, so there will be no shortage of challenges in the coming months. However, despite the recent intensification of negative trends and increased vulnerabilities, the economy remains balanced and competitive, and a more pronounced economic slowdown or recession is unlikely. On the other hand, a deterioration or even a short-term recession cannot be ruled out, due to increased uncertainty fuelled by the war in the vicinity, rising interest rates, weaker industrial performance and a cloudy outlook for the economies of major trading partners. Finally, weaker performance may also be due to technical factors, such as a high comparative base as a result of the rapid expansion of the economy over the last few years.

The Ministry of Finance forecasts that Lithuania's economy is expected to grow by 0.7% this year, while the European Commission forecasts growth of 0.3%. If downside risks materialise, the change in GDP could be at least 1% lower. The country's economic growth is expected to accelerate to between 2.5% and 3.5% in 2024.



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

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

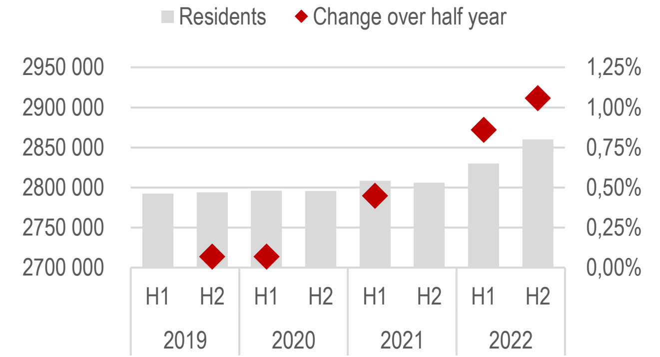
The commercial real estate market report parts were prepared together with INREAL real estate agents: Rokas Rudys (Vilnius), Gediminas Dranginis (Kaunas), and Algimantas Švanys (Klaipėda).

REAL ESTATE MARKET OVERVIEW

The most prominent trend in the second half of 2022 is the further slowdown of the housing market, which began after reaching the peak of demand in the first half of 2021. The rapid rise in prices has decreased the purchasing power of buyers, forcing many to postpone their plans to purchase their own homes.

The main factor that defines the prospects of the real estate market is the population change, which has been positive. Recent changes have led to Klaipėda joining Vilnius and Kaunas as growing cities. As the population grows, the demand for new housing increases, while a decrease in population leads to unoccupied housing appearing on the market. Nationally, Lithuania's population has grown by more than 1% in half a year, exceeding 2,860,000. However, the concept of permanent residents is quite broad, so it's difficult to focus on short-term changes within a couple of years and claim that there are no demographic problems left in Lithuania. The population structure is also important, and the reserve of those waiting for housing is not endless. If residents cannot find housing in one city, they will look for it elsewhere.

Population in Lithuania



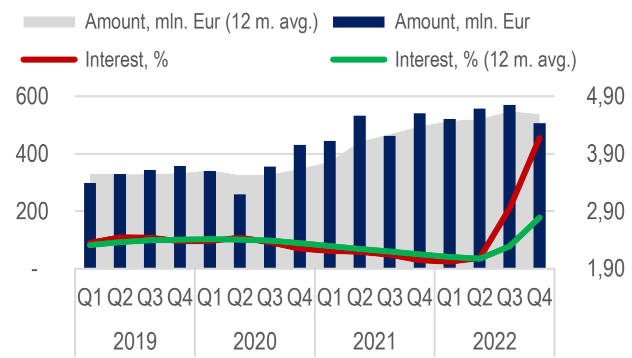
Source: The Department of Statistics of Lithuania

In the second half of 2022, the growth of interest rates also contributed to the slowdown of the housing market. The Euribor rate, which had been negative for over half a decade, began to rise rapidly. In just six months, the average interest rate on new real estate loans increased from 2% to 4.5%, approaching the limit established in the regulations for responsible lending, which is 5%. This limit is used to determine the maximum loan amount for a housing purchase. If this limit is exceeded, the ability of residents to purchase housing is further limited by the amount that can be borrowed.

According to data provided by the State Enterprise Centre of Registers on notarized apartment purchase and sale contracts and cumulative indicators, the market slowdown is not obvious. In fact, there were 34,692 transactions made in the year, with 17,260 of them taking place in the second half of the year. While it may seem that activity was only down compared to the record highs of 2019 (36,011), two important factors need to be considered. First of all, the population growth was slower in 2019 (therefore, it resulted in lower demand for new housing). Secondly, new construction housing transactions accounted for 18.6% of all transactions, while last year they reached 22.2%. These transactions are typically concluded during the development stage of the project and notarized only a year or two later, meaning they do not reflect the period in question. Furthermore, the number of old construction housing transactions decreased by 15.5% compared to 2021 and by 8% compared to 2019.

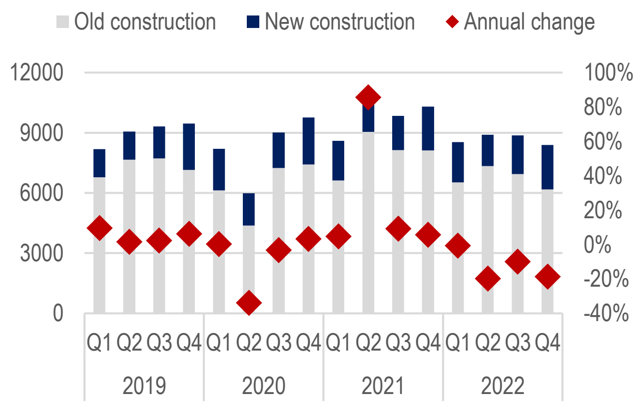
In 2022, particularly in the second half of the year, the issue of the severe housing shortage that had been prevalent until then diminished. In order to meet the demands of the market, developers have increased the number of apartments being built, with most of the construction being based on previously issued building permits. However, the process of issuing building permits has become more complex and lengthier, which has limited the potential to increase the housing supply.

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



Source: Bank of Lithuania

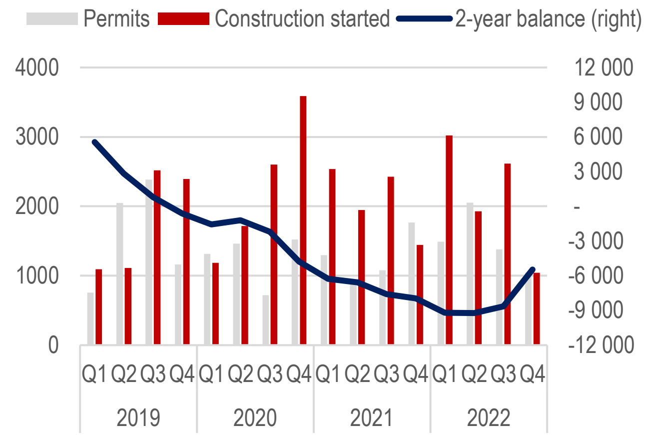
Number of purchase and sale transactions of residential premises in Lithuania



Source: SE Centre of Registers

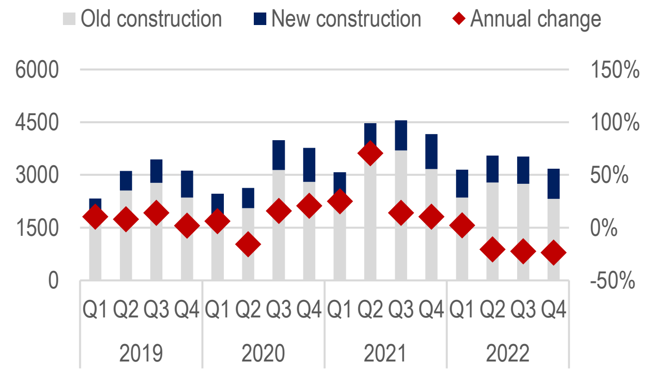
While this has alleviated the issue of decreased demand due to the market slowdown, a shortage of supply is likely to re-emerge as buyers' purchasing power recovers. It is worth noting that there was no such shortage in the construction of commercial buildings.

Apartment construction permits and started construction in Lithuania (units)



Source: The Department of Statistics of Lithuania

Number of purchase and sale transactions of houses in Lithuania

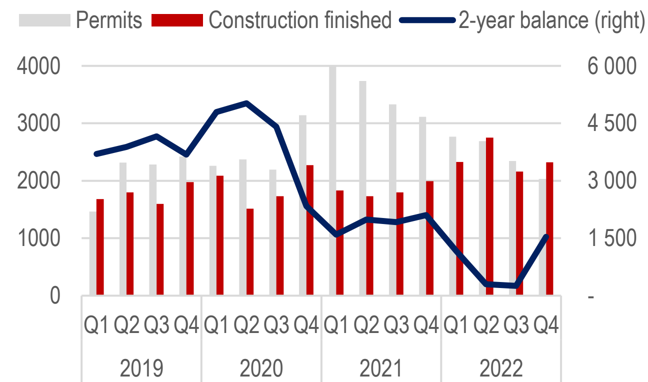


Source: SE Centre of Registers

A slightly different dynamics is observed in idividual housing sector. Though results of 2022 are more modest compared to 2021 (13 403 and 16 271 sales accordingly, 17,6% decrease), ta2iau it is still 4% more when compared to 2020 (12 854) and even 16% more than 2019 (12 007). Several possible reasons can be given. About half of the houses are built for persoanl use, therefore some of the market activity is missed. Secondly, more people are willing to live in such houses due to pandemic and because house prices increased less than apartment prices.

The number of issued building permits continued to decrease in the second half of 2022, following a similar pattern observed since 2021. However, upon analysing the permitted, started, and completed construction of residential buildings, data quality issues were identified. The number of buildings that started construction was not only lower than the number of building permits issued, but it was also lower than the number of completed buildings, even taking into account the average duration of construction. The discrepancy may be due to individual house builders not reporting the beginning and/or end of construction in a timely manner, possibly to avoid real estate taxes. While the number of completed residential buildings may not indicate a slowdown in the market, the data quality issue is likely to have an impact on the results of 2023-2024.

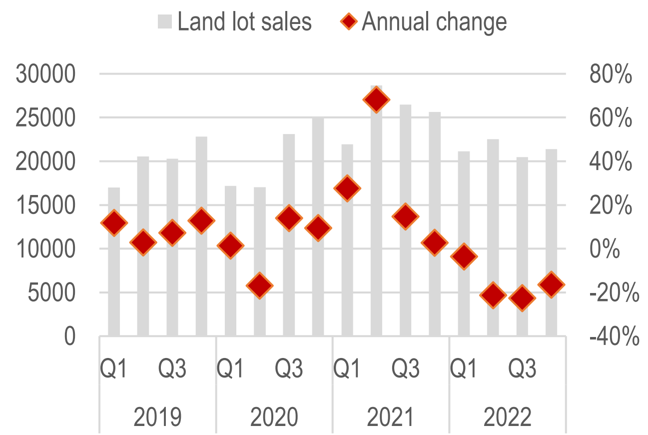
Residential construction permits and completed construction in Lithuania (units)



Source: The Department of Statistics of Lithuania

Assumptions regarding an increase in population migration to the segment of individual houses can also be supported by the data on land plot transactions. This segment includes not only land plots owned by households but also those used for economic and commercial activities. In 2022, 85,559 land plot transactions were concluded, which is a decrease of 17% compared to 2021 (102,716), but an increase of 4% compared to 2020 (82,332) and 6% compared to 2019 (80,601). These figures suggest positive expectations for the future in the segment of land plots. It is likely that land plots are being acquired for future development purposes.

Land transactions in Lithuania (units)

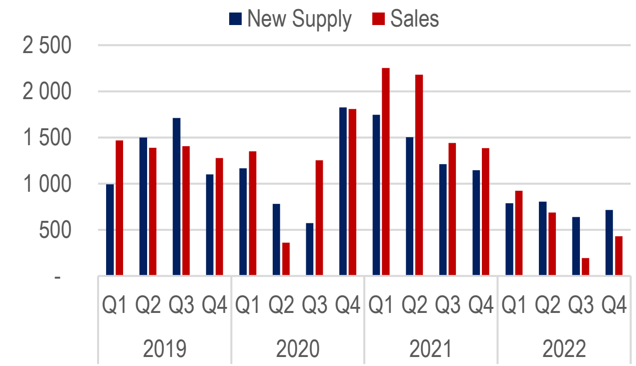


Source: SE Centre of Registers

RESIDENTIAL MARKET IN VILNIUS

In 2022, the primary housing market in the capital experienced a slowdown in both new supply and sales dynamics. Sales results have been steadily decreasing since the first half of 2021, when 4,432 housing units (excluding cottages) were sold in the capital during the first half of the year. Each subsequent half-year was slower and slower, including cottages. Only 623 new housing units were sold in the second half of 2022. It is likely that the market activity reached its lowest point at the turn of 2022-2023, but sustainable growth can be expected no earlier than the second half of 2023, provided that the general economic situation does not deteriorate.

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



Source: INREAL

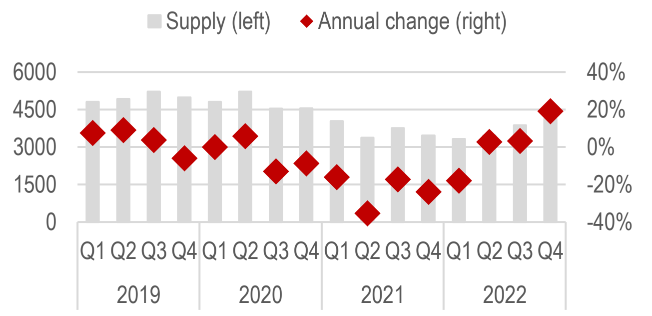
New supply volumes also declined on a semi-annual basis, although not as rapidly. Developers offered 1,352 homes to buyers in the second half of 2022. Reasons for the decline include infrastructure taxes and compensation for development on state land, which have also impacted the slower issuance of building permits. However, despite the lower amount of new housing offered to the market, the total amount of supply increased in the second half of 2022. This was due to reduced purchasing power and sales volumes. At the end of the year, buyers could choose from 4,125 properties. However, this still falls short of the numbers seen at the turn of 2018/2019, when there were over 5,000 housing offers (excluding cottages) on the market. It should also be noted that most of the current housing offers are still under construction.

The slowdown of the primary housing market is also reflected in the market balance indicators. In 2021, the average activity of buyers in six months reached more than 10 transactions per 10,000 residents. At the end of 2022, it was less than 2 transactions. A buyer's market has formed, where buyers could theoretically dictate the terms of the transaction, but preliminary agreements concluded in 2021 and increased development costs did not encourage developers to significantly reduce prices.

At then end of 2022, economy-class housing cost an average of 2,573 EUR/sq. m (a year ago – 2,113 EUR/sq. m), middle class - 3,613 EUR/sq. m (2,742), prestigious class – 4,237 EUR/sq. m (4,223), lofts – 2,475 EUR/sq. m (1,659), cottages - 1,796 EUR/sq. m (1,492). The annual price growth for all segments ranged from 20-30%. However, it should be noted that the changes in the prices of lofts and prestigious apartments are somewhat distorted. The loft segment covers the entire city of Vilnius, so differences in the location of the projects contributed to the accelerated price increase. Meanwhile, the prestigious class segment was dominated by more expensive projects that did not publicly announce their prices, and the average prices of this segment reflect only a small portion of the properties offered.

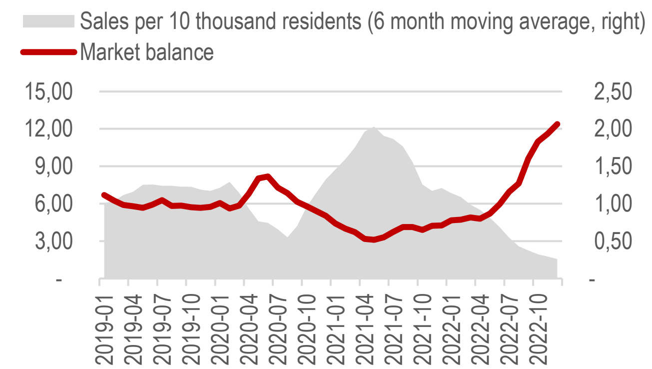
The impact of price changes is evident in the sales structure. The economic class segment was most affected by the price increase, as the target audience of this segment became

Supply volume in the primary housing market in Vilnius (units)



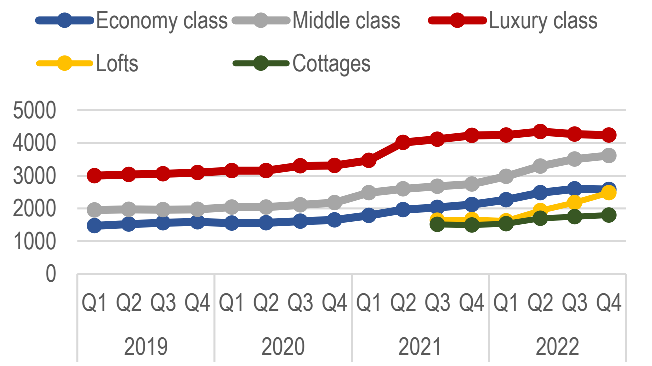
Source: INREAL

Balance indicator of the new housing market in Vilnius



Source: INREAL

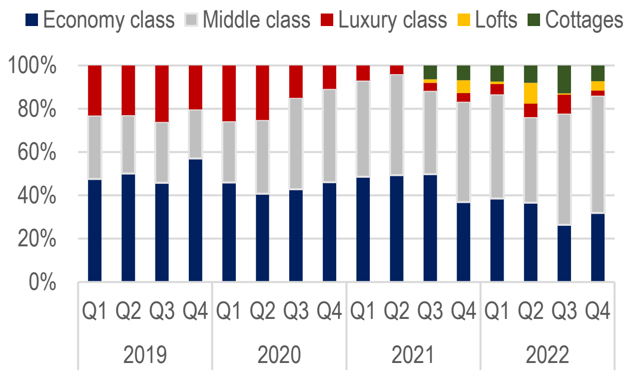
Average prices of apartments under class in Vilnius (EUR/sq.m)



Source: INREAL

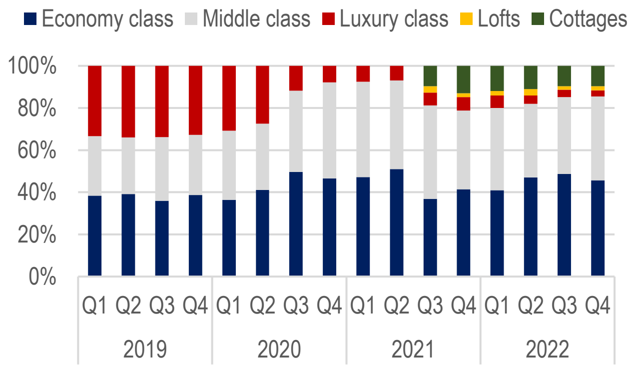
unable to afford housing. It is important to note that buyers of the economy-class segment usually purchase what they can afford. On the other hand, buyers in higher segments have the luxury of choice, so in this case, the absolute decrease in sales, not the relative decrease, is calculated. Sales in the economy-class segment have decreased from about 50% to 30% since the start of the price increases in mid-2021. Middle-class sales, on the other hand, increased from nearly 40% to more than 50%. Other segments are much smaller, so their fluctuations are influenced by the objects available in the market.

Apartment sales under class in Vilnius (%)



Source: INREAL

Apartments supply under class in Vilnius (%)

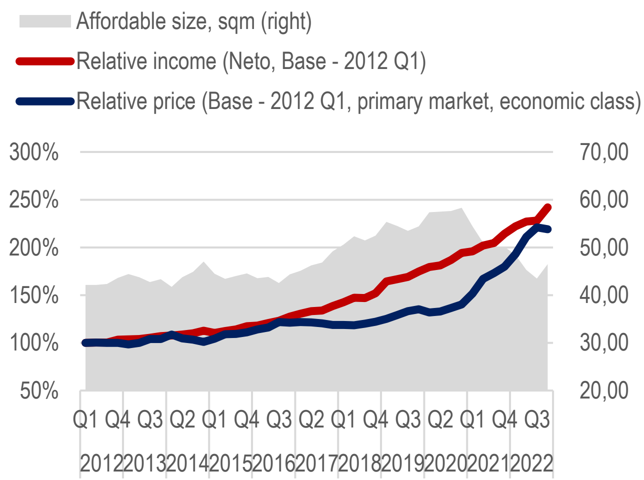


Source: INREAL

The shift in the sales structure has resulted in a relative increase in the supply of economy-class housing from approximately 40% to 45%. The middle class has maintained a 40% share due to new projects being offered to the market, while the supply of prestigious class apartments, lofts, and cottages has decreased.

The housing affordability index also indicates a contraction in housing affordability and sales in the economy-class segment. The index is calculated using the average net salary, the average price of economy-class housing, and the 5% interest rate specified in the Regulations for Responsible Lending (RRL).

Housing affordability in Vilnius



Source: INREAL

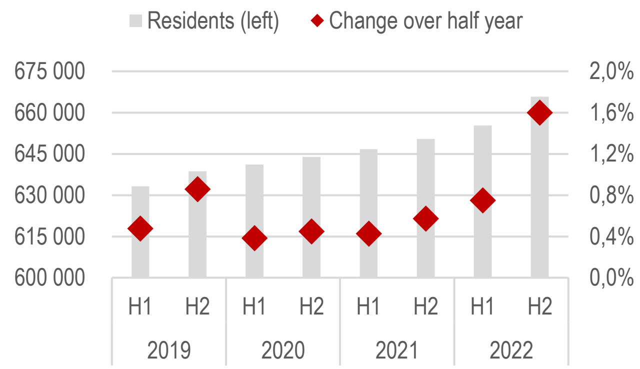
The rapid growth of housing prices in mid-2021 eliminated the gap between the growth of wages and housing prices that had been widening since 2012, causing housing affordability to decline to 2016 levels. As of the end of 2022, a person earning an average wage and without any other financial obligations could afford an economy-class apartment of around 45 square meters. This is a decrease from the 55 square meters of affordable housing at the beginning of 2021. With interest rates exceeding 5%, the area of affordable housing will continue to decrease, not to mention the impact of increased down payments and regular consumer expenses.

In this current economic climate, it is challenging to evaluate the ongoing population growth in Vilnius, which, according to the Territorial Health Insurance Fund's data, exceeded 665,000 by the end of 2022. While a growing population is a positive indicator for the housing market, the limited supply will result in intense competition amongst buyers once the purchasing power improves. Although this may not increase housing prices, it will prevent them from declining. However, when the growth of housing prices slows down and higher interest rates are introduced, there will be a rational incentive to rent housing while waiting for better affordability. It is crucial to anticipate that previously purchased investment housing and rental housing projects developed by commercial entities will serve as attractive alternatives for residents, reducing their inclination to relocate to cities with lower housing costs.

The total number of transactions decreased relatively little in the secondary housing market of Vilnius city (especially compared to the primary market). 11,685 apartment transactions were concluded during the year, which is about 17% less than in 2021 (14,079). In the second half of 2022, 47% of annual transactions (5,449) were concluded, but the age of the housing purchased during this period shows that a large part of notarial transactions were the completion of previously concluded agreements.

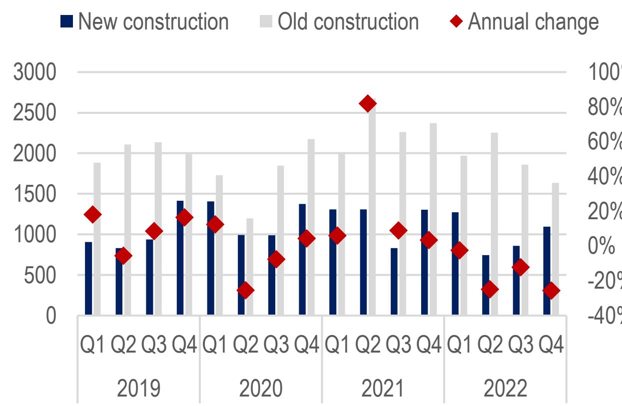
The number of transactions involving individual residential houses in 2022 was 1,744, a 25% decline from 2021 (2,313) and a 9% drop from 2020 (1,924). The decline in newly built house transactions was more significant, decreasing by 30% compared to 2021. However, transactions of old construction houses only declined by 17%. The difference in sales trends can be attributed to the impact of price changes on the sales of newly built houses and declining attractiveness of old construction housing due to factors such as housing conditions, layout, appearance, and utility costs. However, properties in prime locations with redevelopment potential may still be attractive to buyers looking for a property that meets their needs in the future, while also paying a little less today.

Number of persons registered in Vilnius medical institutions



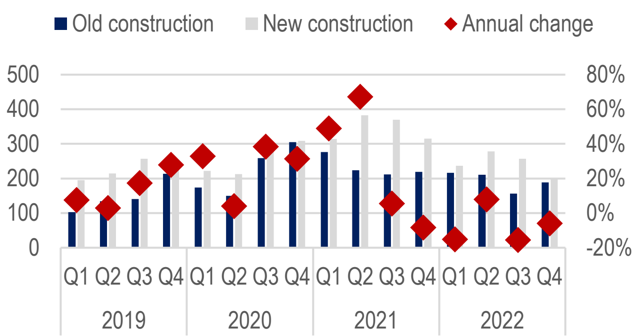
Source: Vilnius Territorial Health Insurance Fund

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



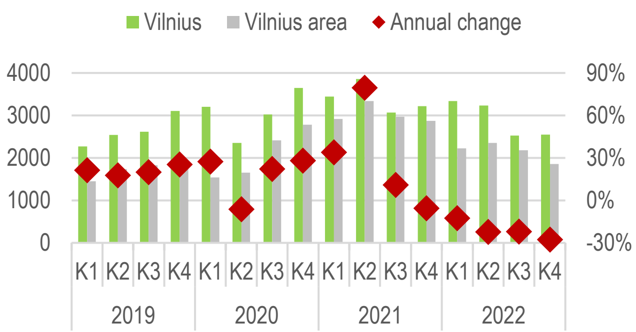
Source: SE Centre of Registers

Residential buildings transactions in the municipalities of Vilnius city and district (units)



Source: SE Centre of Registers

Land plots transactions in the municipalities of Vilnius city and district (units)



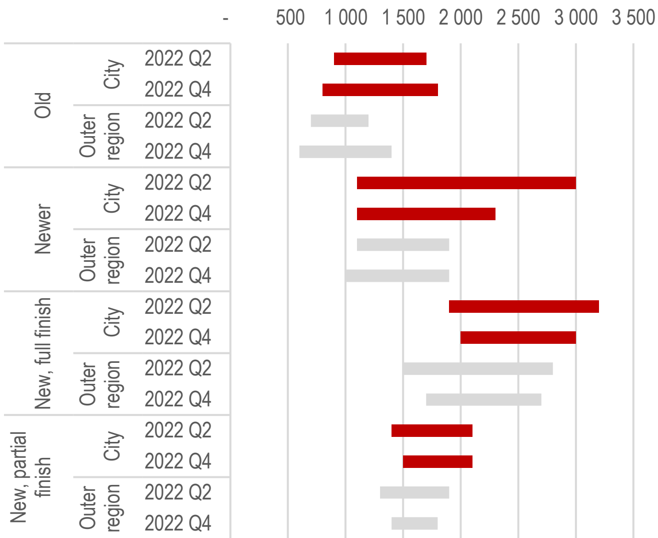
Source: SE Centre of Registers

The trends in land plot transactions were particularly pronounced in the Vilnius region (including the city and district municipalities). During the second half of 2022, 9,111 land plots were sold, which is a 25% decrease compared to the same period in 2021 (12,119), and an 18% decrease compared to the first half of 2022 (11,154). Although the number of transactions decreased faster in the last half-year in Vilnius city, the annual slowdown is more noticeable in the district municipality, as the share of transactions concluded in the city grew from 53% to 57%.

The main change in housing prices during the second half of 2022 was a narrowing of the range. The exception is the price range for old construction housing (built before 1990), which has expanded to 800-1,800 EUR/sq. m (compared to 900-1,700 EUR/sq. m half a year earlier). Newer construction houses (built before 2010) with full finishing cost between 1,100-2,300 EUR/sq. m. The price of new construction houses with full finishing reached 200-3,000 EUR/sq. m (previously 1,900-3,200 EUR/sq. m). Prices for houses with partial finishing fluctuated between 1,500-2,100 EUR/sq. m (compared to 1,400-2,100 EUR/sq. m previously). The price range in Vilnius district was 100-1,000 EUR/sq. m lower compared to Vilnius city.

Price trends have been influenced by changes in the supply structure, as well as the larger area of old construction housing units and, consequently, higher heating costs.

Residential buildings price ranges in the municipalities of Vilnius city and district (Eur/sq.m)



Source: INREAL

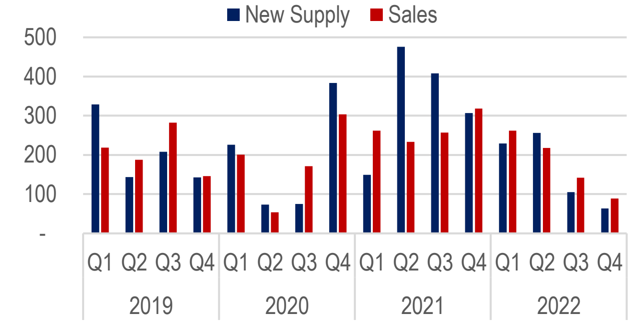
RESIDENTIAL MARKET IN KAUNAS

In 2022, the slowdown in the primary housing market also affected the temporary capital. Comparing the first and second halves of 2022, sales decreased by 52% (from 480 to 231), while the supply decreased by 65% (from 485 to 169). However, when comparing these indicators to previous periods, the fall in sales in Kaunas was much milder than in Vilnius. In the capital, sales fell up to 7 times, while in Kaunas, they only fell up to 2.5 times. The last time similar indicators were recorded was in the first half of 2020, at the beginning of the pandemic, when 225 housing units (excluding cottages) were sold.

The growth of new supply in the second half of 2022 was 1.5 to 4 times slower compared to the first half of the last four years. The slow supply growth and falling sales in the second half of 2022 led to a symbolic drop in supply from 1,313 to 1,251. However, the even and sufficient supply in Kaunas became one of the reasons why market changes were milder, and housing affordability remained better than in the capital.

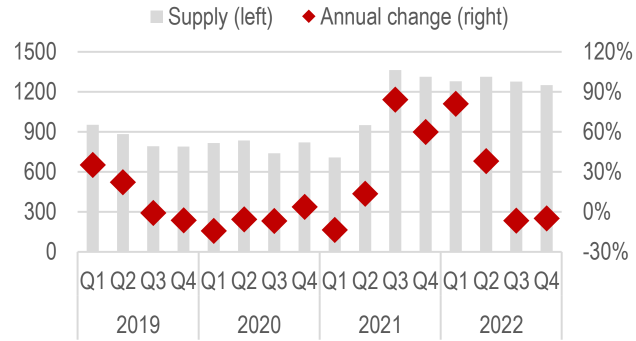
The balance of market changes can also be assessed by the number of transactions per 10,000 residents. In the second half of 2022, the 6-month average decreased from 2.13 to 1.02. For comparison, in Vilnius, this change was from 4.12 to 1.57. Of course, the primary housing market in Vilnius was much more attractive before the market slowdown. In the middle of 2021, this indicator reached 12, while in Kaunas, it was only 2.5 during the same period. On the other hand, the market in Kaunas is easier to predict and has less fluctuation. This makes it possible to forecast future sales more accurately, while the slowly growing population allows us to make assumptions regarding the demand for new housing stock.

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



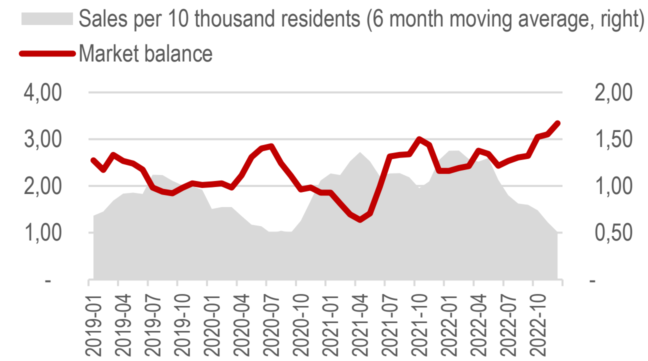
Source: INREAL

Supply volume in the primary housing market in Kaunas (units)



Source: INREAL

Balance indicator of the new housing market in Kaunas



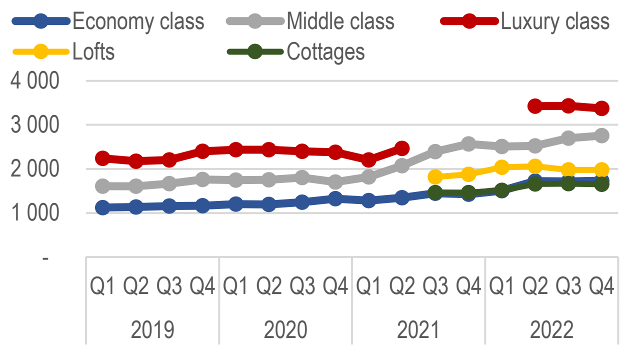
Source: INREAL

As of the end of 2022, the average cost of economy-class housing was 1,732 EUR/sq. m, up from 1,426 EUR/sq. m a year ago. Middle-class housing cost 2,756 EUR/sq. m (2,566 EUR/sq. m a year ago), prestigious class housing cost 3,375 EUR/sq. m, lofts cost 1,975 EUR/sq. m (1,877 EUR/sq. m a year ago), and cottages cost 1,653 EUR/sq. m (1,463 EUR/sq. m a year ago). The prices of new construction housing in Kaunas increased by 5-20% during the year. Due to the influence of reserved apartments, the quoted prices in the economy-class segment are lower than what new buyers should expect. If we only consider vacant apartments, prices in the economy-class segment increased from 1,690 to 2,109 EUR/sq. m. The impact of reserved apartments is also relevant for other segments, but the inaccuracy they create is not significant.

Since the beginning of the pandemic, the addition of more middle-class housing projects to the housing supply in Kaunas has led to observed sales growth, both in absolute and relative terms. Affordable higher-end housing in better urban areas has attracted some buyers away from houses and cottages, leading to an increase in sales in the middle-class segment from 30% to over 50%. On the other hand, there was a sudden increase in sales of economy-class housing and a decrease in middle-class sales in the last quarter of 2022. This trend was observed in November and December, indicating that the lower prices of housing units (compared to the capital) allowed lower-income populations to purchase housing.

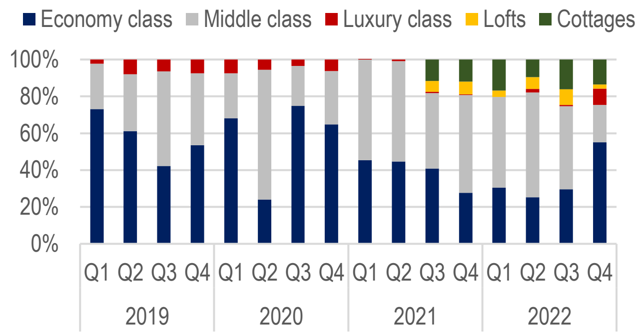
Based on the data from 2022, it can be assumed that a sustainable housing supply structure is forming in Kaunas, with economy-class housing accounting for 44-48% of the supply, middle-class housing for 32-39%, prestigious housing for about 1%, lofts for 2-5%, and cottages for 12-18%.

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



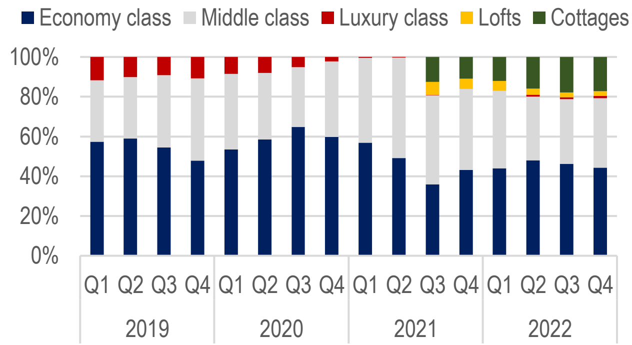
Source: INREAL

Apartment sales under class in Kaunas (%)



Source: INREAL

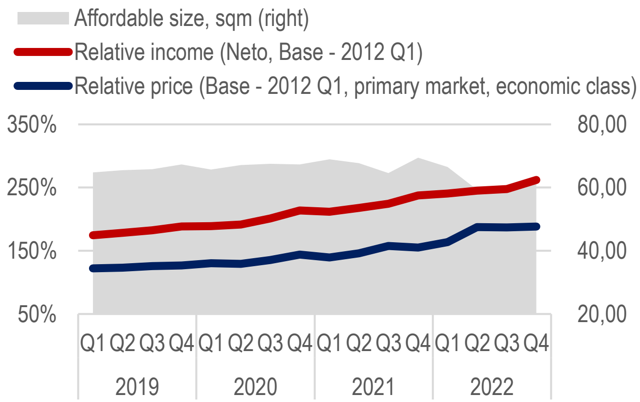
Apartments supply under class in Kaunas (%)



Source: INREAL

However, housing affordability in the temporary capital has decreased by about 10% (calculations based on the economy class), as prices have increased by over 20% while wages have only grown by about 10%. At the end of 2022, buyers could buy an economy-class apartment with an area of about 63 sq. m (after estimating the inaccuracy due to the prices of reserved apartments - 52 sq. m). Fortunately, the curve of changes in housing prices is flattening, and wages are still growing. However, the threat of exceeding the 5% interest rate provided for by the RRL and applied to the issuance of housing loans remains a concern.

Housing affordability in Kaunas

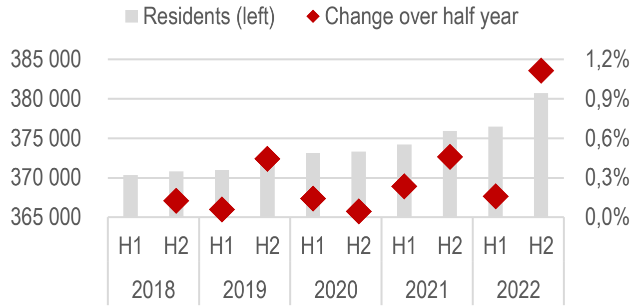


Source: INREAL

At the end of 2022, Kaunas had a population of over 380,000 residents. Half-yearly population growth followed a pattern similar to that of the capital. The war in Ukraine has also affected population growth. Although some refugees may leave when the conflict ends, it is expected that the increased supply of housing in the primary market, which was observed in mid-2021, will find buyers once the risks to housing affordability and future uncertainty have been resolved.

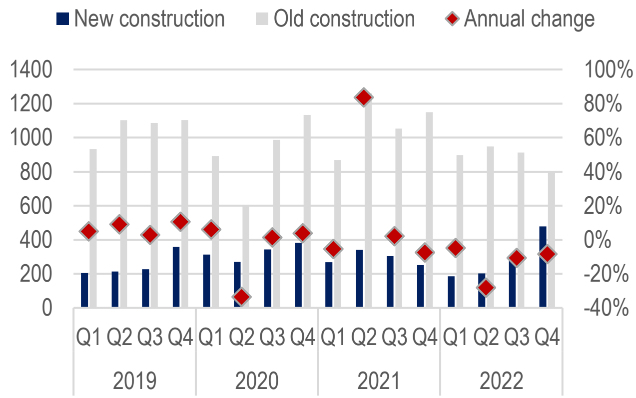
In 2022, the total number of notarial transactions in Kaunas decreased by 14%, but sales trends differed between the new and old construction segments. A total of 1,165 new construction housing units were sold during the year. The fourth quarter stood out in particular, with 479 notarial transactions registered, which is believed to be the result of the impact of the end of the pandemic on the primary housing market.

Number of persons registered in Kaunas medical institutions



Source: Kaunas Territorial Health Insurance Fund

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

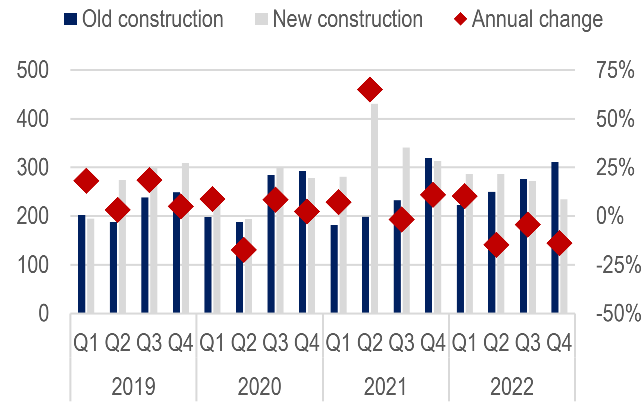


Source: SE Centre of Registers

Nevertheless, according to data from the State Enterprise Centre of Registers, the majority of notarial contracts in the housing market were for secondary (old construction) apartments. In 2022, 3,559 transactions were concluded for old construction apartments, which is 18% less than in 2021 (4,330). Undoubtedly, increased housing prices and interest rates have had an impact on buyers' decisions. A similar trend was observed in 2020 (3,614) when, due to the pandemic, many residents decided to postpone purchasing or selling housing.

The number of individual residential house transactions in 2022 reached 2,140, consisting of 1,060 new construction houses and 1,080 old construction houses. This is 7% less than the number of transactions in 2021, which was 2,299, but still represents a 9% increase compared to 2020 when there were 1,924 transactions. These figures indicate that Kaunas has surpassed not only Vilnius city but also other cities in absolute terms in terms of the number of transactions per resident. It is no wonder that Kaunas is known as "the capital of individual houses".

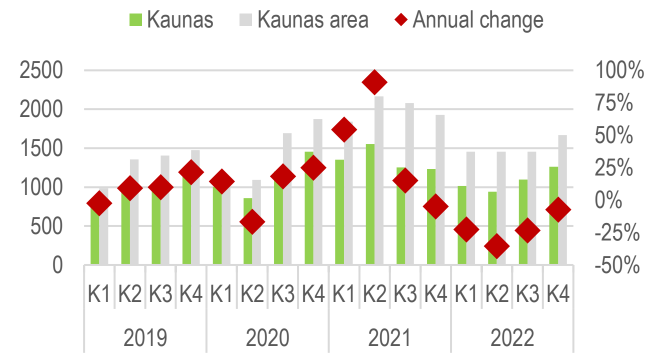
Residential buildings transactions in the municipalities of Kaunas city and district (units)



Source: SE Centre of Registers

The statistics show a different dynamic in Kaunas compared to Vilnius in terms of land plot transactions. In the second half of 2022, 5,481 transactions were concluded, which is 13% more than in the first half of the year. Growth has been recorded for two quarters in a row, both in the city and district municipality. However, when comparing the results of 2021 and 2022, a greater contraction was observed in the district municipality, with a 25% decrease from 8,015 to 6,033 transactions, compared to the city where the decrease was 20% from 5,390 to 4,315 transactions.

Land plots transactions in the municipalities of Kaunas city and district (units

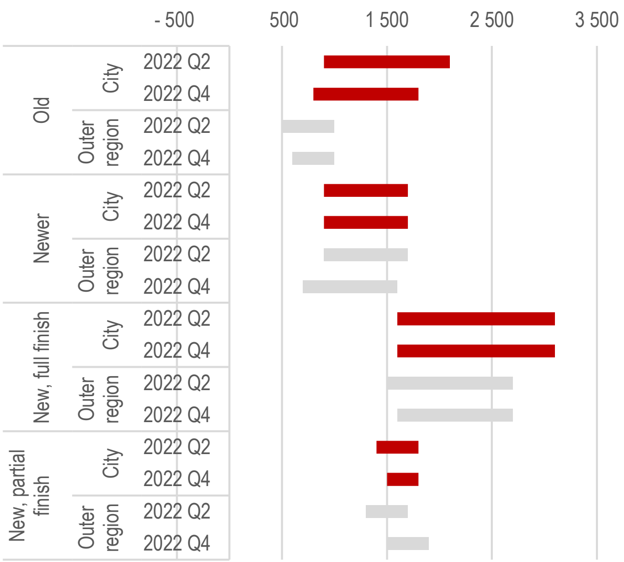


Source: SE Centre of Registers

There were no significant changes in house prices during the second half of 2022, but old construction houses built before 1990 in the city experienced a slight decrease in value. Their prices decreased from 900-2,100 EUR/sq. m to 800-1,800 EUR/sq. m in half a year. In Kaunas district, such houses have become more expensive, increasing from 500-1,000 EUR/sq. m to 600-1,000 EUR/sq. m. Newer construction houses in the city maintained their price range from 900 to 1,700 EUR/sq. m. Meanwhile, the prices of such houses in the district decreased to 700-1,600 EUR/sq. m at the end of the year. New construction houses built after 2010 in Kaunas city cost around 1,600-3,100 EUR/sq. m throughout the year, while in the district, their price increased slightly from 1,500-2,700 EUR/sq.

m to 1,600-2,700 EUR/sq. m. The prices of houses with partial finishing have slightly increased, with price in the city increasing from 1,400-1,800 EUR/sq. m to 1,500-1,800 EUR/sq. m, and prices in the district increasing from 1,300- 1,700 EUR/sq. m to 1,500-1,900 EUR/sq. m. It should be noted that the segment of individual houses is particularly diverse. The location, age, area, level of finishing, and design of such houses differ, therefore these price changes are only indicative.

Residential buildings price ranges in the municipalities of Kaunas city and district (Eur/sq.m)



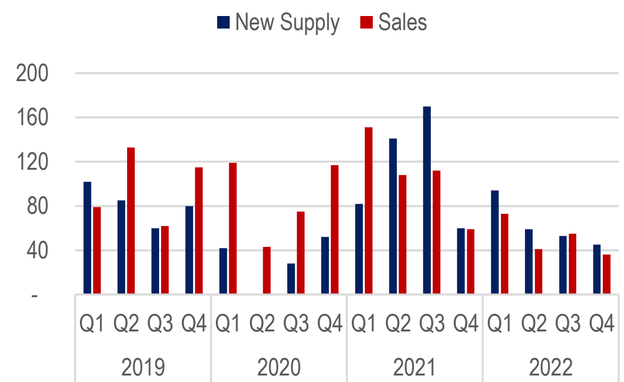
Source: INREAL

RESIDENTIAL MARKET IN KLAIPĖDA

In 2022, a total of 205 apartment transactions in the primary market have been made in Klaipėda (after assessment of cancellations). This is about half the number of transactions in 2021 (430). Although the decline in sales has been uneven, it has been recorded since mid-2021, and in the second half of 2022, only 91 housing agreements were made, which is 20% less than six months earlier (114) and 47% less than a year earlier (171). Despite this, the market slowdown is significantly smaller than in the capital.

In 2022, real estate developers in Klaipėda offered 251 new housing units to the market, which is half the amount offered in 2021 (453). A lower increase in supply was recorded in the second half of the year, with only 98 new housing units being offered, which is 36% less than the previous six months (153) and 57% less than the second half of 2021 (230).

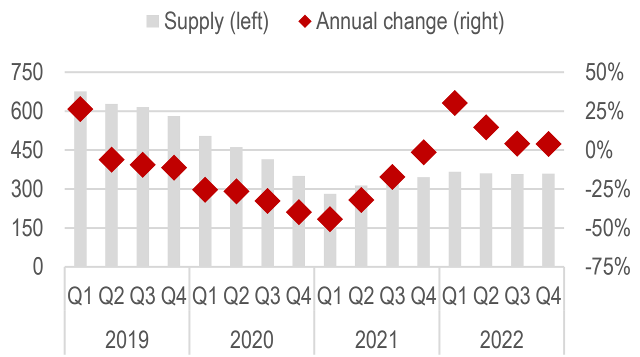
Dynamics of the new supply and sales of apartments in Klaipėda (units)



Source: INREAL

When evaluating changes in the dynamics of supply and demand, it can be seen that despite a stagnant market, the amount of supply remains relatively stable for about a year and a half. At the beginning of 2022, the supply was 345 housing units, and by the end of the year, it had increased to 359. Although the increase in supply was higher, in some cases the poor quality of the data published by the developers led to the fact that some objects were not included in the observations. The differences of a couple of dozen objects in Vilnius and Kaunas do not create a significant inaccuracy, but in Klaipėda such data are more important. On the other hand, the supply of Klaipėda falls behind Vilnius and Kaunas in both absolute and relative terms. As buyers have limited options to choose new construction housing, sales are lower. What is more, although the population in Klaipėda is growing, it is currently only at the level of 2016, so the need for housing stock is still unclear.

Supply volume in the primary housing market in Klaipėda (units)

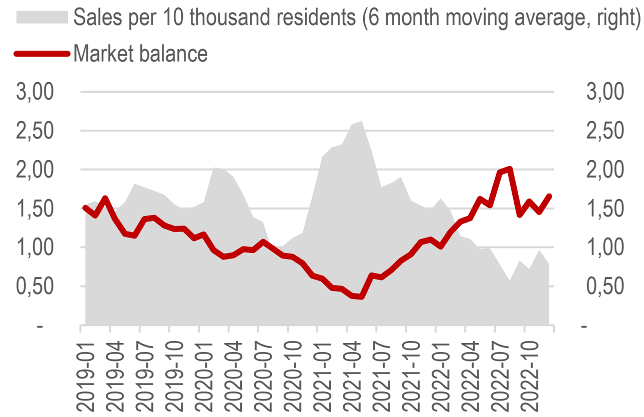


Source: INREAL

The current state of the housing market in Klaipėda indicates an inactive buyer's market due to the absence of significant population growth. The value of the indicator increased from 1.1 (nearly balanced market) to 1.66 within the year.

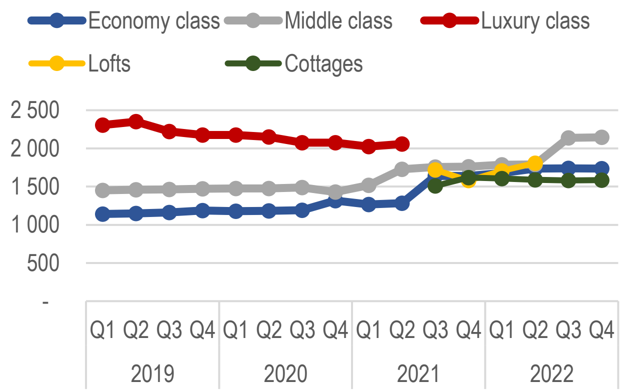
The trends in housing prices correspond to those seen in other major cities. At the end of 2022, the average cost of economy-class housing was 1,737 EUR/sq. m (an increase from 1,639 EUR/sq. m a year prior), middle-class housing cost 2,145 EUR/sq. m (up from 1,760), and cottages cost 1,584 EUR/sq. m (down from 1,619). Annual price growth ranged from 5-20%.

Balance indicator of the new housing market in Klaipėda



Source: INREAL

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



Source: INREAL

Similar to the situation in Kaunas, the lower supply of available housing has a greater impact on the prices of already reserved apartments, resulting in higher published averages. Excluding reserved housing, the cost of economy-class housing at the end of 2022 was 1,830 EUR/sq. m (up from 1,631 EUR/sq. m a year prior), middle-class housing cost 2,520 EUR/sq. m (up from 1,851). The prices of cottages were not affected by reservations.

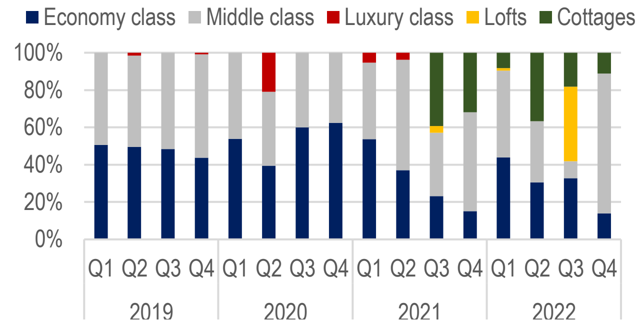
The sales structure of the primary housing market in Klaipėda has undergone significant changes recently. While individual projects may generate interest in economy-class housing one quarter and middle-class projects the next, it can be observed that sales of economy-class housing have been decreasing since 2021.

Given that housing prices in Klaipėda are the lowest among the three major cities and that the dynamics of wage changes are similar, it is likely that buyers are searching for more appealing projects and are not interested in non-exclusive buildings located far from the city centre. Consequently, cottages, individual houses, or apartments closer to the city centre are becoming increasingly attractive alternatives.

Buyers' increasing interest in cottages has caused a decrease in their share of supply, falling from 30% to slightly over 20%. In contrast, the supply of economy-class housing has increased from 24% to 34%. The share of middle-class housing remained relatively stable, accounting for about 40% of the market at the beginning and end of 2022. However, in the first half of the year, its share decreased to 30% due to buyer activity. At the end of 2022, there were no offers of prestigious-class housing or lofts in Klaipėda.

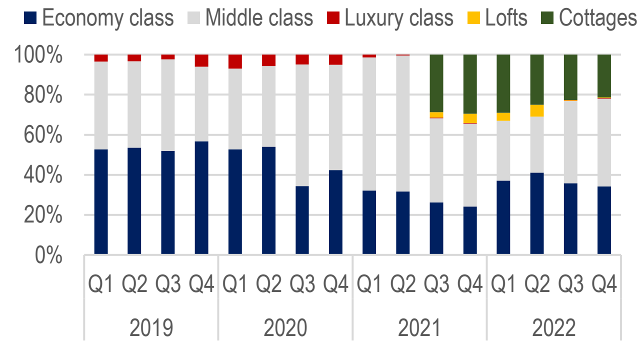
In 2022, Klaipėda was the only major city where housing affordability (in the economic class) increased. During the year, wages grew by about 12%, while housing prices increased by only 6%. The affordable area increased from 58 to 61 sq. m (58 sq. m after accounting for reserved apartments).

Apartment sales under class in Klaipėda (%)



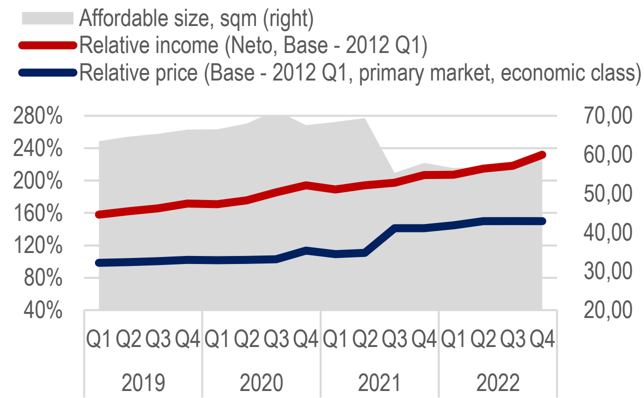
Source: INREAL

Apartments supply under class in Klaipėda (%)



Source: INREAL

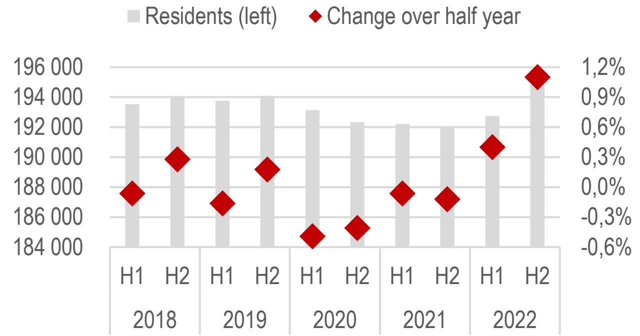
Housing affordability in Klaipėda



Source: INREAL

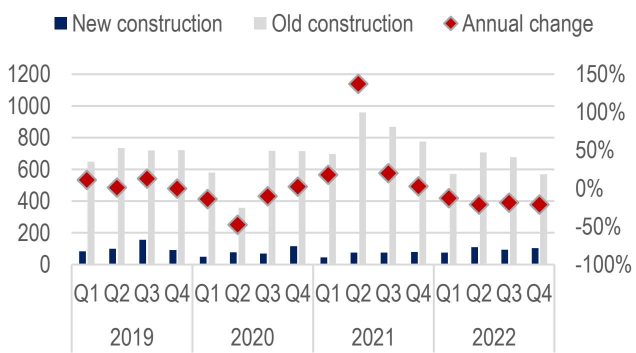
However, there are differences in the typical economic class housing in Vilnius, Kaunas, and Klaipėda, as well as in their attractiveness. Despite the fact that housing in Klaipėda remains relatively affordable, comparable to 2018 levels, the lack of demand for the housing stock does not provide a basis for increased market activity.

Number of persons registered in Klaipėda medical institutions



Source: Klaipėda Territorial Health Insurance Fund

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

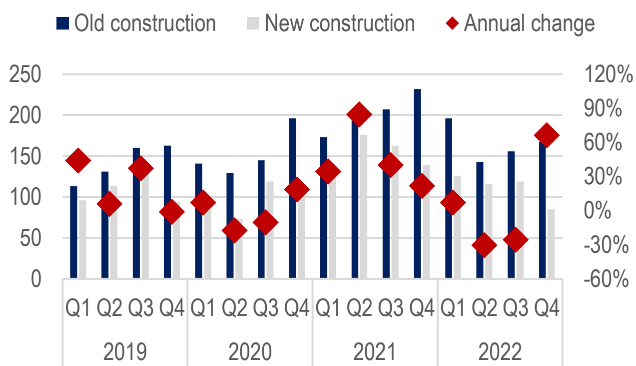


Source: SE Centre of Registers

In 2022, the total number of notarial transactions in Klaipėda decreased by 19%, from 3,578 to 2,908 apartments. Similar to Kaunas, the largest decrease in transactions was recorded in the segment of old construction apartments, which decreased by 23%, from 3,301 to 2,527. Meanwhile, the number of new construction apartment transactions increased by 38%, from 277 to 381. This decrease in activity in the old construction apartment segment indicates a general slowdown in the real estate market.

In terms of individual residential house transactions, the number reached 1,108 in 2022, which was 22% lower than in 2021 (1,415), but 11% higher than in 2020 (995). The uniqueness of the Klaipėda region can be attributed to the fact that buyers are more interested in new construction houses. This segment accounts for about 60% of all home sales in the last 5 years. When the market is not active enough, residents are more likely to build or buy a house than to wait for developers to offer them an interesting apartment project. This is one of the reasons why the apartment segment in Klaipėda is the least active among the three big cities.

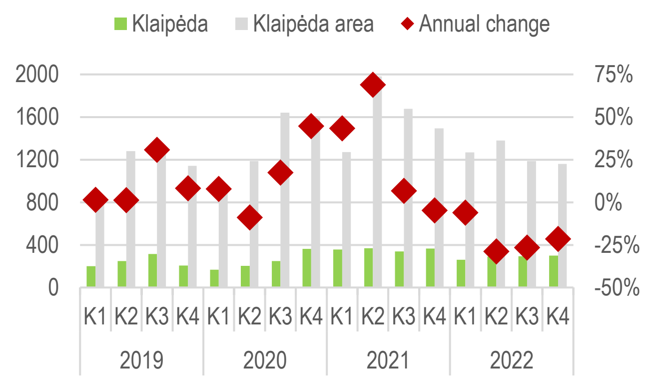
Residential buildings transactions in the municipalities of Klaipėda city and district (units)



Source: SE Centre of Registers

There were 2,937 land plot transactions concluded in the Klaipėda region in the second half of 2022, which is 24% less than the previous year (3,875), but 8% more than in the first half of 2022 (3,196). As in Vilnius and Kaunas, the share of plots purchased in the city municipality slightly increased during the year compared to the district (2022 – 19%; 2021 – 18%). Although the number of land plot transactions has decreased steadily since mid-2021, which coincides with the beginning of faster price growth, a significant jump in mid-2021 may also indicate buyers who had already purchased land plots.

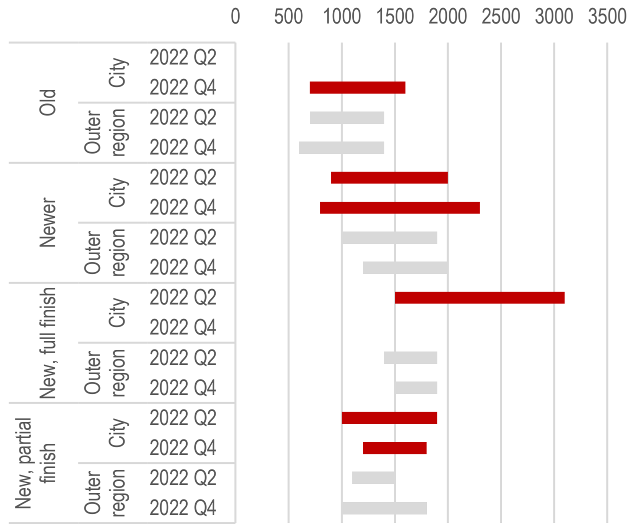
Land plots transactions in the municipalities of Klaipėda city and district (units)



Source: SE Centre of Registers

There is no clear trend in house price changes in the Klaipėda region. At the end of the year, houses in the city cost between 700-1,600 EUR/sq. m, while in the district they cost between 600-1,400 EUR/sq. m. Newly built houses in the city range from 900-2,000 EUR/sq. m to 800-2,300 EUR/sq. m; in the district, they range from 1,000-1,900 EUR/sq. m to 1,200-2,000 EUR/sq. m. The price of new construction houses with full finishing was 1,500-3,100 EUR/sq. m in the middle of the year, while there is not enough data in the second half of the year to assess the change. The price of new construction houses with full finishing in the district increased slightly, from 1,400-1,900 EUR/sq. m to 1,500-1,900 EUR/sq. m. The prices of partially finished houses in the city increased from 1,000-1,900 EUR/sq. m to 1,200-1,800 EUR/sq. m, and in the district from 1,100-1,500 EUR/sq. m to 1,000-1,800 EUR/sq. m. It is likely that less attractive offers fell in price to increase the liquidity of the house, while the prices of more attractive properties increased or such objects were purchased.

Residential buildings price ranges in the municipalities of Klaipėda city and district (Eur/sq.m)



Source: INREAL

RESIDENTIAL MARKET BY THE SEA

RESIDENTIAL MARKET IN PALANGA AND ŠVENTOJI

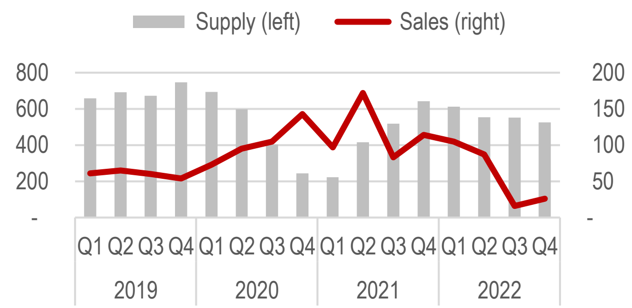
The COVID-19 pandemic increased interest in purchasing a second home in the second half of 2020. Relatively low prices in Palanga (compared to Neringa) and a large supply made it possible for buyers to have a good selection to choose from, and they took advantage of it.

The supply of housing in the primary market in Palanga decreased from approximately 750 to 250 units between 2020 and the beginning of 2021. However, taking into account the increased demand, developers proposed new projects, which led to the formation of a supply of 500-600 housing units by the end of 2021. Despite this, the resort did not experience a second wave of buyers. In the period of 2020-2021, buyers purchased 200-250 housing units in a span of six months. This trend continued in the first half of 2022 with 192 agreements, but in the middle of the year, the market began to slow down. As interest rates rose, along with war and economic uncertainty, sales fell by 22% in the second half of 2022, with only 42 housing units being agreed upon.

The increase in prices has also contributed to a cooling of the market. The average price of housing in Palanga was around 1,913 EUR/sq. m at the end of 2019. With continuous growth, it reached 2,791 EUR/sq. m by the end of 2022.

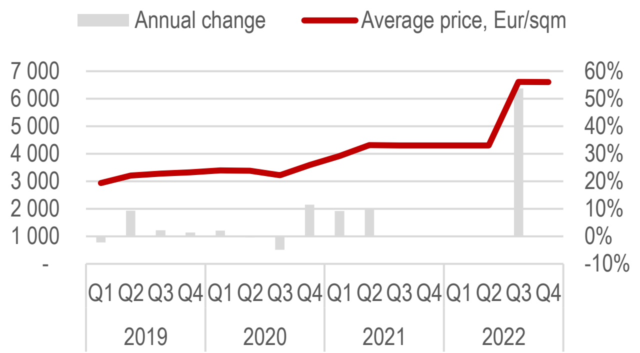
The median price in the segment of housing units with full furnishing (apartments) increased from 1,738 to 3,208 EUR/sq. m during the same period. At the end of 2022, the usual range of prices for housing with full furnishing was 1,935-4,813 EUR/sq. m.

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



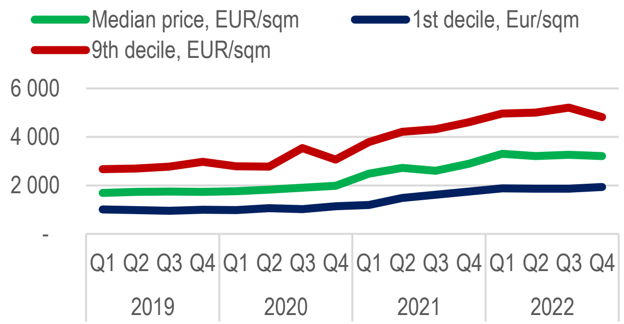
Source: INREAL

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



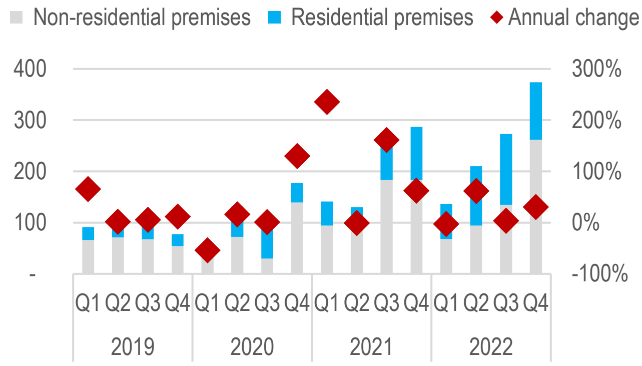
Source: INREAL

Average supply prices of furnished housing in Palanga (EUR/sq.m)



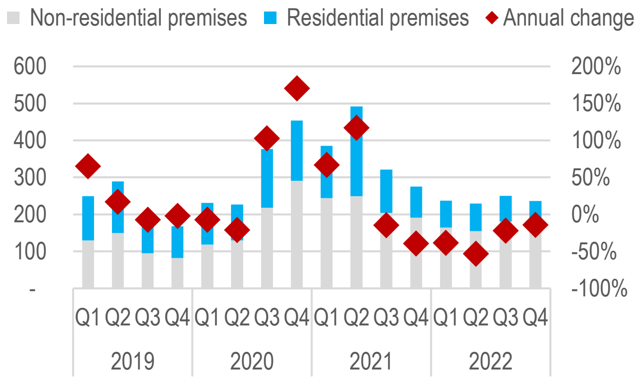
Source: INREAL

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



Source: SE Centre of Registers

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



Source: SE Centre of Registers

The information provided by the State Enterprise Centre of Registers regarding new construction housing and premises transactions in Palanga shows similar trends as in the major cities of Lithuania. In the first half of 2022, 347 notarised housing sales were concluded, which is 1.5-2 times less than in the previous period. This is due to the lack of housing supply that developed at the end of 2020.

Agreements for projects that started at the beginning of 2021 were completed with 647 notarial transactions in the second half of 2022. It is likely that higher notarial transaction activity will also be recorded in the first half of 2023, but this will not reflect real market activity and will only be a reflection of the previous period.

The current situation is somewhat better reflected in the statistics of older construction housing, which also correlates with the situation in the major cities of the country. The peak of activity was reached in the first half of 2021, with 877 transactions, but it has been steadily declining since then. In the second half of 2022, only 486 housing transactions were concluded.

Due to the decrease in purchasing power and increased uncertainty regarding the economy and the war in Ukraine, some residents have temporarily abandoned their plans to purchase a second home. Although housing prices have not fallen yet, developers who started projects before the change in market trends and who have partially reached their profitability goals may choose to wait. However, those who began projects when construction prices increased may not have the opportunity to reduce prices.

Owners of old construction housing, as well as local residents who would like to upgrade to a more modern home, have also fallen into the price trap. If they sell their existing home for a lower price, they would have to pay a lot more for a new one. However, in this case, buyers who face a dilemma can likely afford an expensive old construction house or a new one as well.

RESIDENTIAL MARKET IN NERINGA

The unique and less common part of Lithuania is Neringa, where the supply can shape demand, and new projects usually attract a lot of interest from buyers.

The uniqueness of Neringa is due to several factors, including its special landscape and urban planning, as well as particularly strict requirements for real estate architecture and development. The logistics in Neringa are also more complicated than in the mainland part of the country. Efforts to preserve this UNESCO heritage area provide an opportunity to develop unique projects that are not typical of other country resorts or big cities.

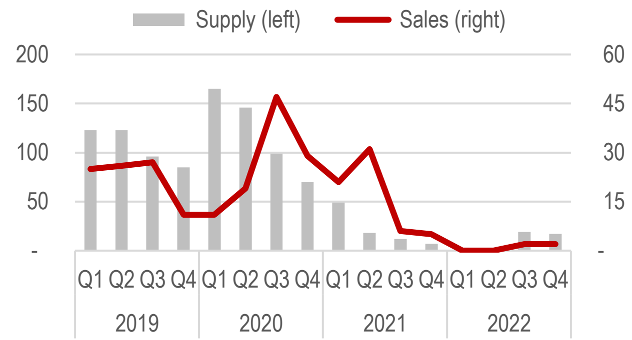
In the second half of 2022, only one new project was added to the public housing supply in Neringa. However, several more projects are expected to appear in various parts of Neringa, including Nida, in the next couple of years.

In the second half of 2022, four agreements were recorded in the primary market, and the supply increased to 17 apartments.

Due to limited information on new projects, market participants only saw a fragmented picture of prices. By the end of 2022, publicly announced prices of the primary housing market in Neringa had basically caught up with real prices. At the end of 2022, these apartments were priced at about 6,603 EUR/sq. m. This represents a price increase of around 2 times compared to the pre-pandemic period in the fourth quarter of 2019 (3,398 EUR/sq. m).

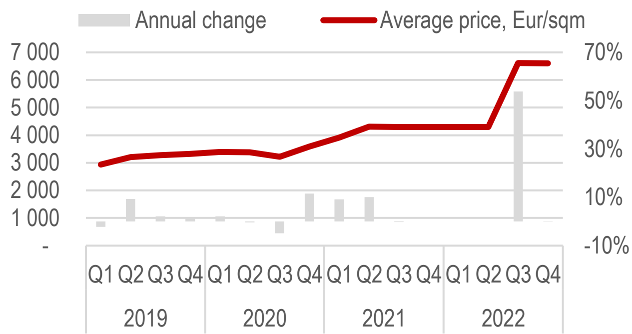
During the six months, prices in the secondary housing market in Neringa increased slightly, but as the supply structure changed, price ranges decreased. The median price increased from 6,628 to 6,739 EUR/sq. m, while the price ranges decreased from 4,447-8,667 EUR/sq. m to 4,849-7,880 EUR/sq. m. Compared to the pre-pandemic period, prices have almost doubled.

Sold and available housing in the primary market in Neringa (units)



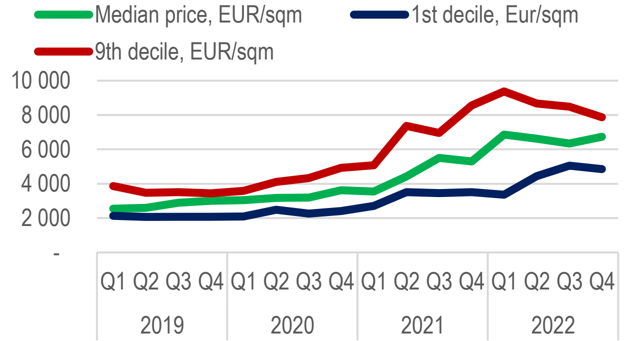
Source: INREAL

Average housing prices in Neringa's primary market, information published by developers (EUR/sq. m)



Source: INREAL

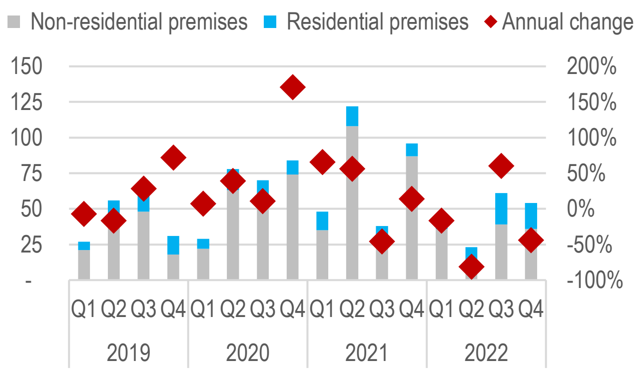
Average housing prices in Neringa real estate ad portals (Eur/sq.m)



Source: INREAL

The information published by the State Enterprise Centre of Registers on the sale of old and new residential premises covers both the primary and secondary markets. This is because in Neringa, renovated buildings dominate due to legal restrictions. Low-value buildings built in the Soviet era, which have lost their original purpose and worsen the appearance of the landscape, are being adapted to the needs of buyers. In total, 115 notarial transactions were concluded in the second half of 2022, which is almost twice as much as in the first half of 2022 (63). This increase in sales was mainly due to the completion of the reconstruction of one of the largest projects in Neringa.

SE Center of Registers registered premises sales transactions in Neringa municipality (units)



Source: SE Centre of Registers

APARTMENT RENTAL MARKET

The war in Ukraine resulted in a rapid increase in rental prices during the first half of 2022. The typically limited supply of housing units at the beginning of the year was insufficient to accommodate refugees. Depending on the segment, the price peak was reached in the second or third quarter. Rental price growth began as early as 2021, with housing sale prices increasing. Thus, the additional 20 percent change in the median price provided further incentive to offer more housing units into the rental market, including new investment properties and previously unrented properties. However, the increased rental prices were not acceptable to all tenants, leading to cooperation, migration to cheaper rental segments, or moving into their own or relatives' homes. A combination of these factors and the impending expensive heating season resulted in a decrease in rental prices, returning to a level slightly higher than before the war in Ukraine.

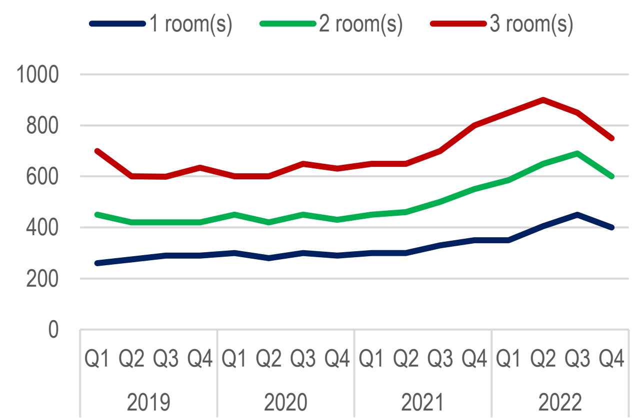
At the start of 2022, the monthly rental price for a one-room apartment in Vilnius was 350 EUR. However, by mid-year, it had increased to 400-450 EUR/month, before returning to 400 EUR/month by the end of the year. The median price for a two-room apartment initially rose from 550 EUR/month to 650-700 EUR/month, but later dropped back to 600 EUR/month. For a three-room apartment, the rental cost increased from 800 EUR/month to 850-900 EUR/month before eventually decreasing to 750 EUR/month.

The rental cost for a one-room apartment in Kaunas was 300 EUR/month at the beginning of the year, but increased to 350 EUR/month in the middle of the year before returning to the original price of 300 EUR/month by the end of the year. The median price of a two-room apartment rose from 400 EUR/month to 500 EUR/month before eventually decreasing to 450 EUR/month. For a three-room apartment, the rental cost changed from 500 EUR/month to 500-600 EUR/month before eventually increasing to 550 EUR/month.

In Klaipėda, the rental cost for a one-room apartment was 250 EUR/month at the beginning of the year, and it increased to 300 EUR/month in the middle of the year and remained stable until the end of the year. The median price of a two-room apartment fluctuated between 350 EUR/month and almost 500 EUR/month before eventually decreasing to 400 EUR/month. The rental cost for a three-room apartment changed from 500 EUR/month to 750 EUR/month, but later decreased to 600 EUR/month.

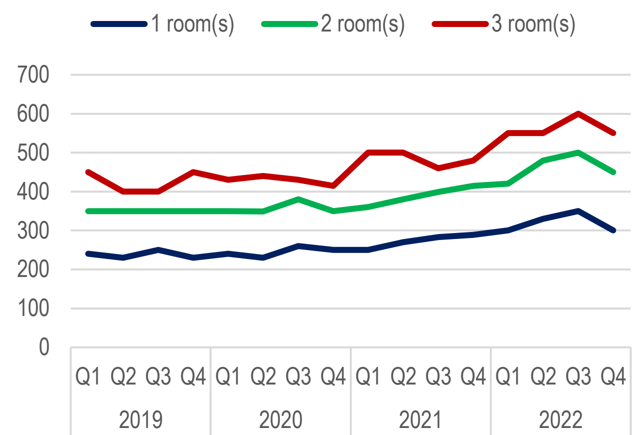
The housing rental market has seen an increase in commercial entities since the start of the pandemic. These entities are now offering buyers various options, such as regular apartments, entire staircases, apartment buildings, and modern dormitory-style housing known as "co-living." While their prices are typically around 10% higher than traditional rental options, tenants benefit from professional maintenance and additional services.

Apartment rental prices according to the number of rooms in Vilnius (Eur/month)



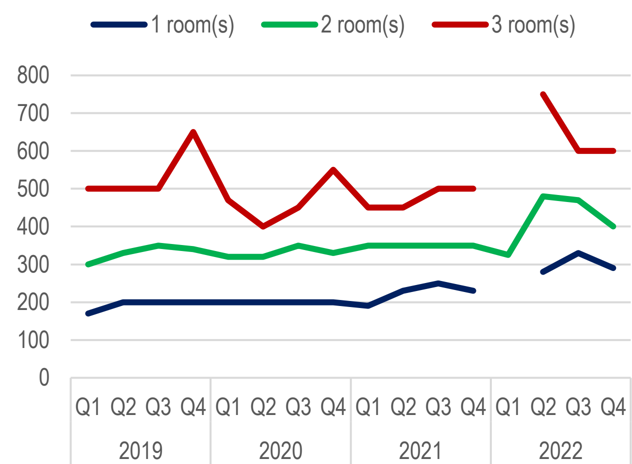
Source: INREAL

Apartment rental prices according to the number of rooms in Kaunas (Eur/month)



Source: INREAL

Apartment rental prices according to the number of rooms in Klaipėda (Eur/month)



Source: INREAL

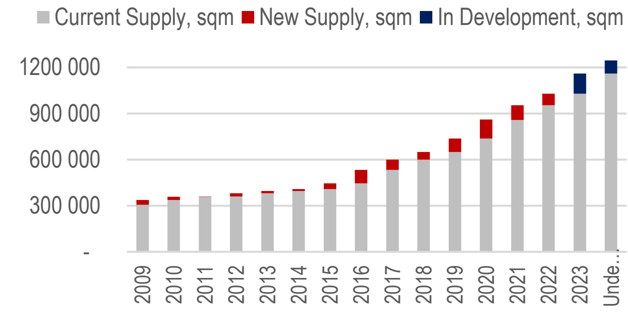
VILNIUS BUSINESS CENTERS

After the completion of six business centres in 2022 (*Aerocity Tech Valey, BH Meraki I, Business Stadium North East, Core, Office Boutique, Paupio darboteka*), the supply of business centres in Vilnius has increased by approximately 75,000 sq.m. In 2023, ten more business centres are expected to open their doors (*Artery, BH Meraki II, O2 Offices, Cyber City, Flow, K22, Kintų 11, J. Basanavičiaus 10, S28, Sky Office, Sporto 16, Teltonika HQ*), providing up to 130,000 sq.m of leasing space.

At least an additional 85,000 sq.m of space is expected in the next few years, not including projects that are still in early design stages. Several projects are planned for the Vilnius CBD, located along Konstitucijos Av. and in the northern part of Žvėrynas, which will include both business and residential developments. These projects are expected to change the image of this part of the city by increasing multifunctionality, providing more greenery, and creating a lively atmosphere not only during the day but also in the evening. Although the remote work has not replaced the traditional model of office work, it is likely that new business centres will be designed to accommodate the needs of hybrid work.

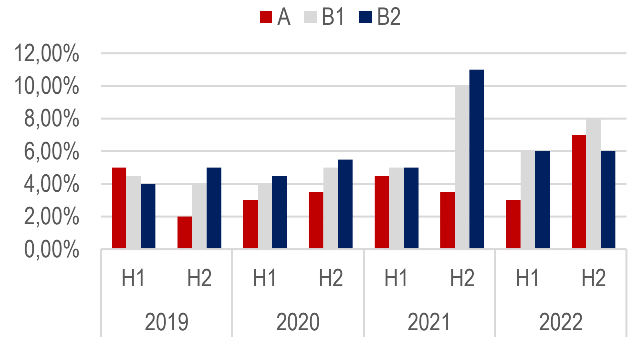
The vacancy rate of business centres increased during the six months. It reached about 7% in class A, 8% in B1, and 6% in B2. The symbolic inflation that persisted for several years led to an increase in office prices due to indirect factors such as charging for parking spaces and including auxiliary areas in the calculations. Inflation, which reached almost 20% in 2022, became a comprehensible reason to increase rental prices, taking into account the increased costs of development and financing. The ceiling of indexation indicators was particularly significant. Although indexation and the recalculation of rent prices are usually applied at the beginning of the year, these changes took place at the end of 2022. Prices in class A business centres rose to 16-19 EUR/sq.m, B1 to 13-15 EUR/sq.m, and B2 to around 10 EUR/sq.m.

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



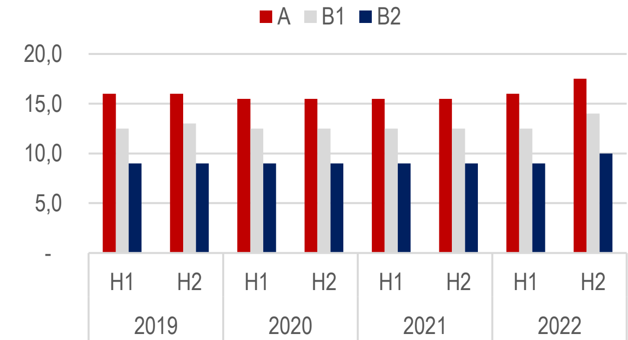
Source: INREAL

Dynamics of vacancies in Vilnius business centers by class



Source: INREAL

Dynamics of rental prices in Vilnius business centers



Source: INREAL

KAUNAS BUSINESS CENTERS

The rapid development of offices in Kaunas significantly slowed down after the pandemic started. However, this was not unexpected, as the supply of office space in Kaunas had already tripled over a five-year period prior to the pandemic.

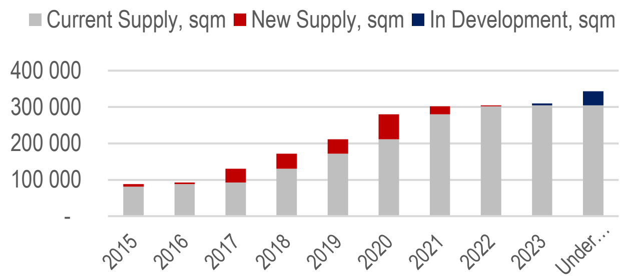
In 2022, a business centre was opened in the shopping centre *Kauniečiai*. Additionally, a business centre on Raudondvaris road, offering 5,000 square metres of office space, is set to open in 2023. However, this space will not enter the market as the developer intends to use it for their own purposes. A larger number of offices, almost 40,000 sq. m, will not be offered to the market until 2024 or possibly later.

The decreasing supply of offices is continuing to reduce office vacancy rates. By the end of 2022, the vacancy rate had reached just over 2% in class A business centres, 5% in B1, and about 8% in B2. While the trend is not yet sustainable, it is possible to see the decreasing attractiveness of lower-class premises. The price differences between modern and older offices are relatively insignificant, so other factors may shape the decision to rent premises.

The impact of inflation on office prices in Kaunas was also evident, as they increased by the end of the year. The rental rates for A-class business centres reached 12-15 EUR/sq. m, while for B1 it was 9-12 EUR/sq. m and for B2 it was around 8-9 EUR/sq. m.

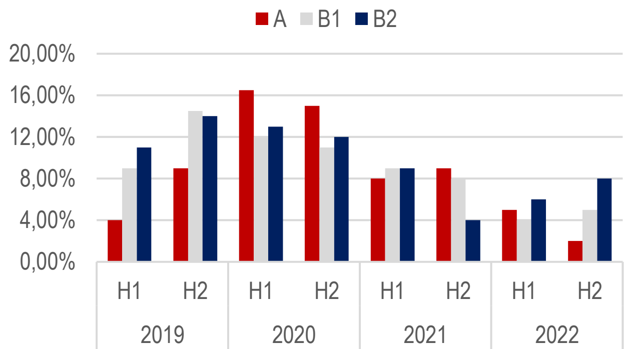
The low vacancy, increased rental prices, and growing population create favourable conditions for the development of new offices. However, the development is currently being held back by factors such as high development costs, economic uncertainty, and the risk of hybrid work.

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



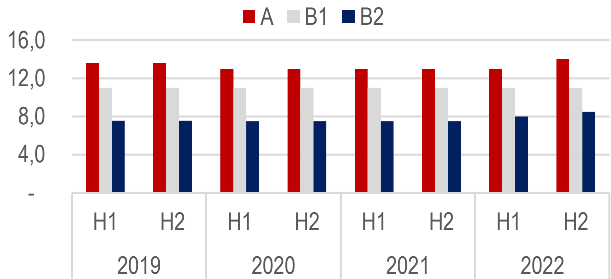
Source: INREAL

Dynamics of vacancies in Kaunas business centers by class



Source: INREAL

Dynamics of rental prices in Kaunas business centers



Source: INREAL

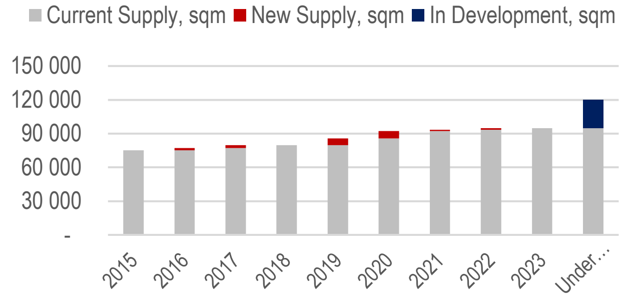
KLAIPĖDA BUSINESS CENTERS

The situation in the business centre market in Klaipėda is similar to the housing market in the city. Although there is still intensive development planned, in 2022 only one new business centre was opened, which is dedicated to companies providing medical services. However, several large projects are being developed (*Mėmelio verslo centras, Tech Zity Klaipėda*). When combined with smaller centres, it is expected that 25,000 sq. m of new office space will be added to the supply of offices in the city in a few years.

Favourable circumstances, as in Kaunas, are shaped by both the population growth and the decrease in the vacancy rate. The overabundance of available space that prevailed for several years, especially in the class A segment, has decreased, and office occupancy currently looks perhaps the best among all major cities. At the end of 2022, there were about 4% of vacant premises in class A business centers, B1 – 3%, B2 – 4%.

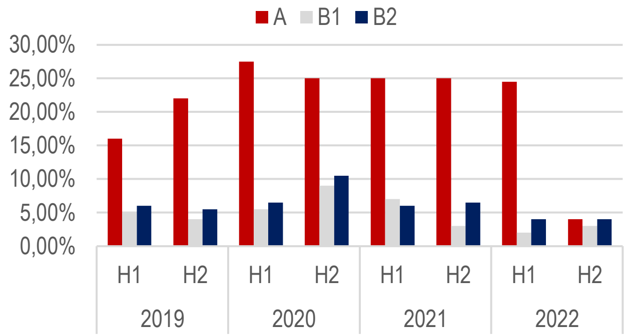
The rental prices have increased, and at the end of 2022, premises in class A business centres could be rented for 10-12 EUR/sq. m, B1 for 7-11 EUR/sq. m, and B2 for 5-7 EUR/sq. m. With the indexation of rental prices and higher occupancy of premises, it is likely that they will grow, especially in newly developed business centres, which are relatively expensive to build today.

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



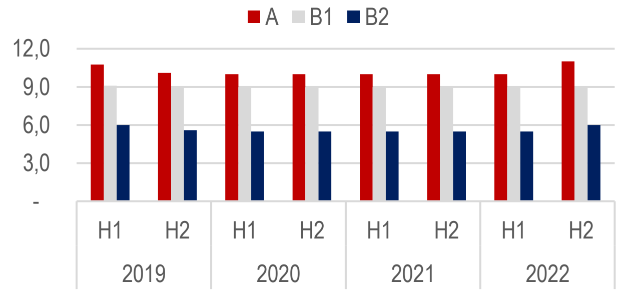
Source: INREAL

Dynamics of vacancies in Klaipėda business centers by class



Source: INREAL

Dynamics of rental prices in Klaipėda business centers

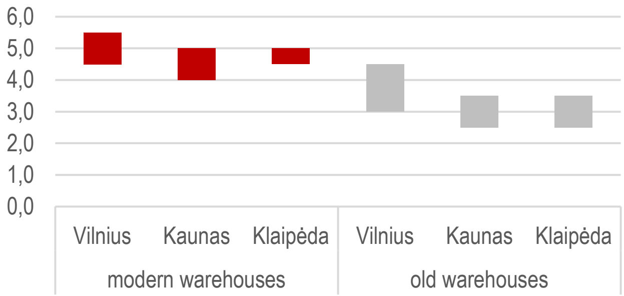


Source: INREAL

LOGISTICS CENTERS AND STORAGE PREMISES

The logistics sector has proven to be one of the most resilient in 2022. The market has created a relatively comfortable situation for real estate managers. Logistics facilities have high occupancy rates, but the development of new projects is limited due to the increase in prices of construction materials and labour, changes in infrastructure taxes, and development regulations. Projects are undertaken primarily to ensure sufficient employment as "built-to-suit" proposals dominate. Meanwhile, potential tenants require premises immediately. Despite these challenges that limit expansion, they can help avoid oversupply if the impact of the economic slowdown is greater than expected.

Logistic premises rental prices (EUR/sq. m)

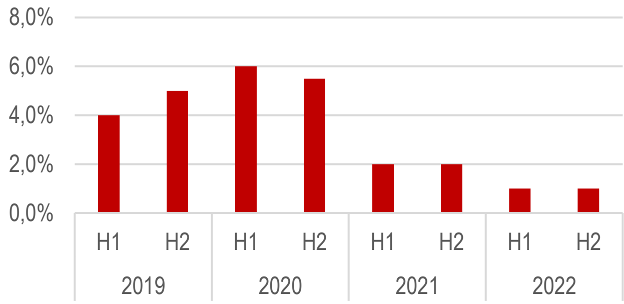


Source: INREAL

The vacancy rate of logistics premises in the Vilnius region is around 1%, in Kaunas – about 2%, and in Klaipėda it reached up to 5%. In 2022, when record inflation rates were recorded, this also affected the rental prices of premises, as they increased by 5-20% depending on the individual situation. Currently, the rental prices of modern logistics centres reach 4.5-5.5 EUR/sq. m in the Vilnius region, 4.0-5.0 EUR/sq. m in Kaunas, and 4.5-5.0 EUR/sq. m in Klaipėda. Older premises in the Vilnius region can be rented for 3-4.5 EUR/sq. m, and in Kaunas and Klaipėda for 2.5-3.5 EUR/sq. m.

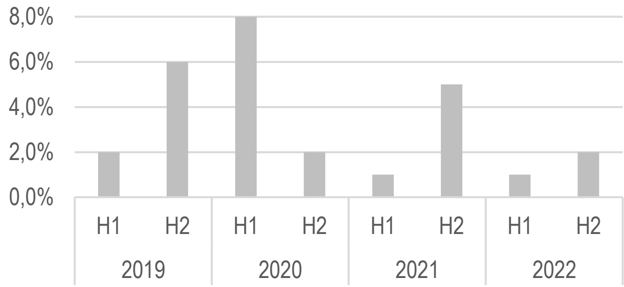
The "stock-office" segment continues to attract interest as it accommodates storage facilities, trading spaces and the administrative part under one roof.

Vacancy of modern logistics centers in Vilnius (%)



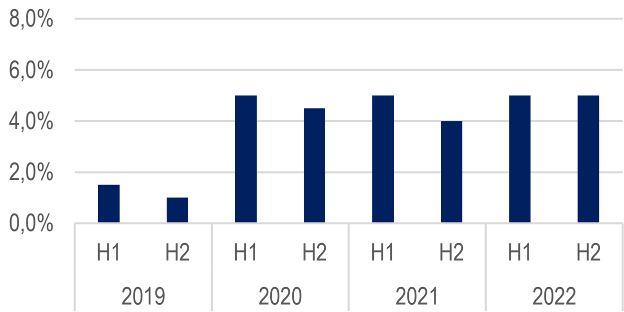
Source: INREAL

Vacancy of modern logistics centers in Kaunas (%)



Source: INREAL

Vacancy of modern logistics centers in Klaipėda (%)



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 practiced 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.

REAL ESTATE LAW REVIEW

Many legal norms were created in 2022. The breakthrough package offered to the participants of the renewable energy market undoubtedly gave a new impetus to the development of this energy. The strengthening role of the mayor of the municipality in the administrative process, manifested in the right to issue building permits, special architectural requirements and the right to make other decisions delegated to the director of the municipal administration or his authorized officer, increases the influence of the political figure - the mayor - in making administrative decisions. Changes in the process of renting state land occupied by buildings or structures, including the consequences for the owners of the structures when construction work is not started within a certain period of time provided by the law after changing the purpose or determining the method of use, are already becoming common. The ban on the transfer of residential premises if their construction is not completed in accordance with the procedure established by law, which will come into force on January 1, 2024, has become an unpleasant surprise for real estate market participants. These are just some of the innovations proposed to the real estate market in the legislative process, which we include for the attention of market participants in this overview we have prepared, considering them to be significant.

Summarizing the changes that took place in the course of the past year and constantly monitoring the legislative process, the question arises from time to time, what is more in it - consistent improvement of legal norms and policy formation or an attempt to quickly fill the gaps that appear in practice? It goes without saying that the legislative process should address both of these aspects. However, sometimes, especially observing the process of consideration and adoption of laws, there is no doubt that such important principles in the legislative process as the principles of expediency and proportionality enshrined in the Legislative Framework Law could be taken into account more. For example, the question remains whether the ban on entering into purchase and sale contracts for apartments and other residential premises located in other buildings, if the construction of these premises will be less than 100% complete, was the best means to solve problems that were more of an exception in the market than the rule. As usual, practice will answer all questions.

The year 2023 promises to be no less active in the creation of legal norms and their application. One of the most pressing issues remains the transformation of land management and use. Following the adoption of the amendments to the Land Law in June 2022, from January 4, 2023, the policy formulation of land management and use and other related areas (geodesy, cartography) was entrusted to the Ministry of Environment. The National Land Service also came under this authority. Currently, there is an active process of harmonizing the draft amendments to the Land Law and 16 accompanying laws, which promise a number of innovations for the entire real estate market. Thus, looking at the future process of creating legal norms, we can only hope that decisions will be made after a comprehensive assessment of their need and impact and will become a positive catalyst for the real estate market.

REAL ESTATE LAW NEWS

TERRITORIAL PLANNING

The territorial planning process was, as usual, the focus of the legislators. The Law on Territorial Planning has been amended several times. One of the essential innovations that we would like to draw attention to are the amendments to the Territorial Planning Law (Articles 18, 20, 24 and 27 are amended), which provide for the transfer of some of the important functions of municipal administration directors to municipal mayors. These include decisions on determining and changing the purpose and use of land, approval of land plot formation and redevelopment projects, decisions on approval of detailed plans, etc. The mayor is a political figure in the municipality. Thus, the concentration of such administrative decisions in the hands of one - the mayor - may raise some doubts as to how this will affect the seemingly normal process of land management and planning. Real estate market participants can only hope that the practical changes will be beneficial and that the usually very busy municipal mayors will find time to quickly and efficiently assess the situation and make the above-mentioned decisions. On the other hand, after the aforementioned changes come into force, the role of the director of administration decreases at the expense of the role of the mayor.

In this context, it should be mentioned that the role of the National Land Service, which has already become subordinate to the Ministry of the Environment, in territorial planning continues to decrease. By transferring the management of state land to municipalities under the right of trust, municipalities will become even more influential in solving land-related issues. So, we will have a much stronger self-government.

Amendment of Article 20, Part 4 of the Law on Territorial Planning (entered into force together with the Breakthrough Package on June 28, 2022), which stipulates that "the construction of special engineering structures and renewable energy facilities of 30 m high and higher must be provided for in territorial planning documents, with the exception of the cases provided for in the Energy Law on Renewable Resources of the Republic of Lithuania ", raised doubts for the developers of renewable energy projects. Article 49, part 3 of the Energy Law on Renewable Resources (hereinafter - **ELRR**) stipulates that in non-urbanized and not being urbanized territories (except for territories where, in accordance with the decisions of valid territorial planning documents, laws, provisions of protected territories, the corresponding construction is not possible), after receiving the consent of the owner of the plot of land, without changing the main land use and usage, among other things, solar power and wind farms can be built. In principle, this amendment allows the design and construction of the mentioned power plants on plots of agricultural land without the preparation of territorial planning documents. However, after the adoption of this amendment to the ELRR, questions arose as to how this norm will be applied in practice and how it will be applied by self-governing institutions.

On December 27, 2022, the State Territorial Planning and Construction Inspectorate under the Ministry of the Environment submitted an official clarification on how the above provisions of the law should be understood. The inspection indicated that the construction of these facilities is possible in the specific territories specified in the territorial planning documents of the municipality or lower level (hereinafter - **TPD**) intended for the construction of renewable energy facilities, and in other areas of the TPD in question, where the development possibilities of renewable energy facilities were assessed or examined and they do not provide for the development of these objects, in the opinion of the Inspectorate, the construction of renewable energy resources objects is not possible. Also, if the issues of the development of renewable resource objects are not resolved in the TPD of the municipality or lower level and the territories for the development of these objects have not been examined (assessed), in this case, in the opinion of the Inspectorate, the construction of renewable resource objects is not required to be provided for in the TPD of the municipality level according to Article 49 of the ELRR.

Thus, in the opinion of the Inspectorate, the mere fact that the construction of renewable energy facilities in a certain territory is not prohibited according to the TPD is not enough for it to be allowed.

LEGAL REGULATION OF LAND

Government Resolution No. 260 of March 9, 1999 "On the sale and lease of plots of state land used for other purposes" was amended several times in 2022. Summarizing the changes made, we single out the following, which in our opinion are the most significant:

- new construction and/or reconstruction on a leased land plot is possible only if such new construction and/or reconstruction corresponds to the main purpose and method of land use of the state land plot specified in the lease agreement;
- 5% of the rent tax supplement for state land is paid if, within two years from the adoption of the decision to change the main purpose and (or) method of land use, the lessee of state land has not started the construction of new buildings or facilities and (or) the reconstruction of existing ones;

- if the lessee of a plot of state land does not start the construction of new structures or facilities and/or the reconstruction of existing structures or facilities 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 land plot shall be terminated before deadline;

The aforementioned provisions provide wider opportunities for the lessor of state land to control how state land is used. At the same time, these changes are like a call to the owners of buildings on state land, after initiating changes in the purpose and/or use, to immediately take decisions on development and real estate construction on a plot of state land.

Attention should be drawn to the amendments to the Farmer's Farm Law, which were submitted to the President for signature at the end of last year. However, the President vetoed them by submitting a decree on December 30, 2022 and proposing changes to this law. The proposed amendments to the aforementioned law foresee significant changes in the area of construction on agricultural land.

The currently valid wording of the Farmer's Farm Law stipulates that without the preparation of detailed plans, a farmer can build one farmstead on agricultural land, except in the territories assigned to cities after June 1, 1995, and a farmer's farmstead or auxiliary and other buildings (farms, agri-buildings, greenhouses, rural tourism) are built on an agricultural plot of at least 0.5 hectares.

The wording of this law adopted by the Seimas provides, among other things, that a farmer will have the right to build a farmer's homestead on agricultural land only if (i) he has declared half or more of his income in the last 3 years as income from agricultural activities, and (ii) the plot of land on which the construction is planned is at least 2 hectares.

As mentioned, the President vetoed this law. In the decree, the President proposed to soften the proposals of the Seimas, among other things, by providing that (i) farmers who have declared income from agricultural activities in the last 3 years could build on agricultural land (i.e. it is proposed to waive the barrier of half of the received income) and (ii) to allow the construction of buildings for other purposes on land plots of at least 0.5 ha.

According to the currently valid legal regulation, construction on agricultural land is usually possible only by using the above-described valid provisions of the Law on Farmers' Farm. Therefore, after the adoption of amendments to the above-mentioned law in one form or another, legislative subjects will feel pressure to provide for other possibilities for construction on agricultural land.

CONSTRUCTION LAW

The construction completion process became the object of the Law on the Amendment of the Law on Territorial Planning and State Supervision of Construction. Changes affecting the process of construction completion are provided for by the Law on the Amendment of Articles 10, 11, 16 and 26-1 of the Law on Territorial Planning and Construction State Supervision No. XII-459. The previously valid version of the above-mentioned law provided that in cases where the document authorizing construction is issued illegally (with exceptions provided for in clauses 1-2 of article 10, part 7 of the law), an officer of the State Territory Planning and Construction Inspectorate under the Ministry of the Environment (hereinafter - the **Inspectorate**) no later than after 5 working days from the date of signing the inspection report, makes a decision to apply to the court for annulment of the document authorizing the construction.

The new version of the law establishes that in cases where it is possible to remove the violations of the document authorizing the construction, persons will be able to remove the violations within 3 months from the date of signing the inspection report. If, due to objective circumstances, the violations cannot be removed within the 3-month period, but the persons responsible for their removal agree and offer to remove them in good faith, a peace agreement on the removal of violations may be concluded between the Inspectorate and the responsible persons in accordance with the procedure established by legal acts, which is submitted to the court for approval. If the violations are not eliminated within the 3-month period, the Inspectorate applies to the court within one month from the expiry of the 3-month period to cancel the validity of the document authorizing the construction, except in cases where the court's ruling on the approval of the settlement agreement has entered into force.

The conclusion of peace agreements is not a rare practice in the process of territorial planning and construction supervision. Thus, the legislator, adopting the above-mentioned changes, already provides for the possibility of concluding such a contract in the law. We welcome this change for several reasons. First of all, the Inspectorate itself is given the opportunity to assess the situation much more flexibly and for the participants in the process to resolve it by correcting the violations. On the other hand, if the Inspectorate actively uses this opportunity, the workload of the courts would decrease. We will see how the Inspectorate will use these rights, but in any case, we expect a positive impact on the process of state supervision of territorial planning and construction. The aforementioned changes will enter into force on May 1, 2023.

Noticeable agitation among legal practitioners and other specialists was caused by the amendments to the Law on Construction of the Republic of Lithuania, adopted by the law on amendment of Articles 2, 4, 8, 12, 14, 17, 18, 22, 24, 27, 27-1, 28, 29, 34, 35, 36, 37, 39, 40, 47, 51, 55 and Annex 1 of the Law No. I-1240 and the addition of Article 11-1 to the Law. Below we present what we consider to be the most important changes:

- The functions of the municipal mayor in the administrative process of the municipality are significantly expanded. Functions such as the preparation and issuance of construction permit documents, special requirements, including special architectural requirements, are delegated to the mayor of the municipality;
- The law provides for the prohibition of entering into any transfer transactions of the ownership of premises located in residential buildings or residential premises located in buildings of another purpose, if the construction of these premises is not completed. This means that if the percentage of completion of the premises registered in the Real Estate Register is less than 100% and the parties to the transaction do not submit a document confirming the completion of construction to the notary, the notary will not be able to approve such a real estate transfer transaction. Time and practice will show how this legal norm affects the real estate market. However, the legislator's decision to take the simplest path - insurance - is questionable, thus limiting real estate market participants' options to conclude a transaction until the construction of the real estate is completed;
- Article 24 Section 2(1) stipulates that if the volume of the building to be reconstructed increases by more than 100 percent, the requirements for the design and construction of the new building laid down in the laws and their implementing legal acts, territorial planning documents shall apply to it. In other words, this amendment aims to

prevent cases where the construction of a new building is basically carried out under the guise of reconstruction. It must be recognized that such a way of real estate development (after the reconstruction of low-value structures, essentially new buildings are created) was widespread in the real estate market. These changes are likely to reduce those opportunities;

- A new procedure is established in part 9(1) of Article 27, according to which the mayor or a civil servant of the municipal administration authorized by him may request the regional architecture council, established in accordance with the procedure established by the Law on Architecture, to assess and submit a conclusion as to whether the building project meets the requirements of Article 5, Part 1 of the Law on Construction, if the municipal administration determines that such a violation is possible during the inspection of the construction project. The mentioned requirements provide that, among other things, (i) the architecture of the structure must be such that it does not conflict with the essential requirements for structures, established in Regulation (EU) No. 305/2011; (ii) the building would fit into the landscape; (iii) the structure's architecture would match the purpose of the structure; (iv) architectural, engineering and technological engineering solutions would be compatible with each other; (v) architectural solutions would form a coherent, common whole; (vi) buildings should meet the requirements of universal design, determined in the normative technical documents of construction, normative documents of safety and purpose of the building. If such a request is submitted, the project inspection deadline for the municipality is extended by 20 working days.

  We look at such changes in the law and the additional measure given to the mayor of the municipality (or his authorized administrative employee) in the process of coordinating the technical project with caution. On the one hand, it is, of course, an additional control measure that allows you to ensure the quality of the projects being prepared and coordinated. However, on the other hand, legal norms already provide for cases when it is necessary to consult the architectural council when preparing a technical project. Also, the administration itself has wide powers in the technical project coordination process. These amendments to the law also provide an additional opportunity to further extend design deadlines. Finally, insufficiently formulated cases when the mayor or a municipal employee will be able to make a decision to apply to the council of architects leave room for subjective interpretation of the situation. We can only hope that this additional feature will be used very responsibly and that it will become more the exception than the rule.

- Article 14, paragraph 2, item 2 specified the procedure for construction by farm method - a restriction was introduced that the method of organization of farm or mixed construction may be chosen by natural persons carrying out simple repairs of structures or those who are building a new, reconstructing, repairing or demolishing a single-apartment building with a total area of up to 300 m2 or a simple building and their accessories on one plot of land. In the previous version of the law, there was no such limitation. There are known cases in the market when, after the construction of a building in a farm way, it becomes difficult to distribute the obligations of the warranty period between different entities that physically performed the construction work. Therefore, it is likely that the aforementioned change will help avoid such inconveniences in the future.

STR 1.01.03:2017 "Classification of barrels" was supplemented with a new type of barrel - Automated storage systems barrel. It is an engineering structure used to keep and store products, in which storage processes take place automatically, using various devices, in which people do not work and cannot enter, except for maintenance and repair of the structure, maintenance and repair of equipment. The aforementioned change was made in order to respond to market needs - with the development of technologies and the spread of smart warehouses, buildings appear that do not meet the previously established criteria.

Amendments to the Law on Crisis Management and Civil Protection of the Republic of Lithuania provide that during the construction of a new building used for public needs (except for religious purposes), which can accommodate more than 100 people at the same time, or a high-rise (more than 5 floors) multi-apartment residential building, in it or in its annex (s) must be designed and equipped with a hiding place that meets the requirements specified in Article 2, Part 31 of the aforementioned law. However, to date, there are no clear requirements for the installation of such hiding places. The advice of the institutions is to follow the regulation of foreign countries. Therefore, developers have a wide enough freedom to choose which country's standards to follow. On the other hand, developers are justifiably afraid, because such uncertainty will inevitably extend the deadlines for issuing design and construction permitting documents.

CURRENT COURT PRACTICE

In our opinion, the following case law discussed below may be relevant for market participants:

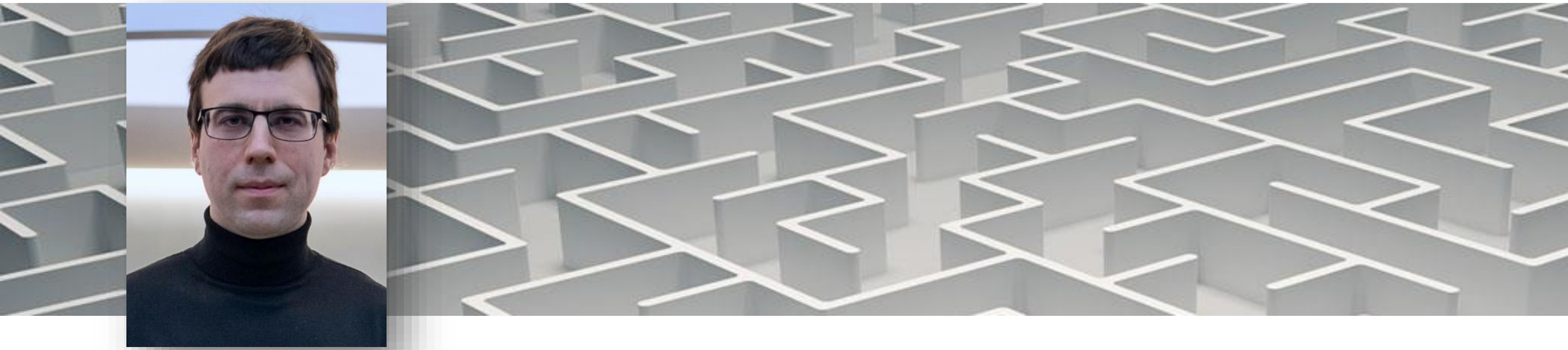
In civil case No. e3K-3-288-611/2022 of the Supreme Court of Lithuania (hereinafter – **SCL**), it was emphasized that the practice of the Court of Cassation also recognizes that the right of the parties to a contract to unilaterally terminate the contract does not violate the principle of freedom of contract, if the party implements this right in legal norms or such rights are established in the contract implementation procedure and conditions. Legal relations of land lease are regulated in Chapter XXIX of the sixth book of the Civil Code. It can be seen from the concept of a land lease contract in Article 6.545, paragraph 1 of the Civil Code that one of the essential conditions of this contract is the lessee's duty to manage and use the land plot specified in the contract in accordance with the purpose and conditions of use established in the contract. If the lessee of the land uses the land not in accordance with the contract or the main target purpose of land use, the land lease agreement may be terminated before the term at the request of the lessor (Civil Code, Article 6.564, Part 1, Clause 1). Paragraph 14 of Article 9 of the Land Law, which regulates the leasing of state land, establishes that the lease agreement for state land must be terminated before the deadline at the request of the lessor, if the land lessee uses the land not in accordance with the main purpose and/or method of land use established in the agreement. The Court of Cassation has clarified that Article 6.564, Paragraph 1, Clause 1 of the Civil Code establishes two alternative grounds, in the presence of which the contract is recognized as violated, - the lessee of the land uses the land not according to the contract or not according to the intended use of the land. Accordingly, non-use of this item in the manner specified in the contract or its improper use or use outside of the established purpose of land use shall be considered a breach of contract. Non-use is the behaviour with an object that does not create economic efficiency, when its useful properties are not exploited. Improper use in terms of legal consequences can also be seen as total non-use when the degree of land use is low compared to that expected under the contract.

The SCL clarified in its ruling in the civil case No. e3K-3-242-684/2022 that the necessary conditions for the emergence of the right of a person to acquire a plot of state land without an auction as established in Article 10, Part 5, Point 1 of the Land Law are as follows: (i) the plot of land must be occupied by structures or facilities belonging to this person, (ii) it must be used for the operation of these structures or facilities, (iii) the structure(s) must have a defined purpose of use or the nature of economic activity, and for its operation it is necessary to have a lease or ownership right to a plot of land. Moreover, in the practice of the SCL, it is noted that the owner must first intend to use the building according to its direct purpose and justify this intention, and for this it is necessary to rent or purchase a plot of land. The assessment of the actual situation is of decisive importance, whether the activities carried out on the plot of land are related to the use of the existing structure, or whether it is planned to further develop this or other activities. In addition, the ruling clarified that according to the practice of the court of cassation, parking lots can be recognized as independent property, taking into account the specific circumstances of the case. When deciding on the independence of the object's functioning, it is important to assess in each case whether the activity carried out on the plot of land is related to the use of the structure located there, or whether it is planned to further develop this or other activity. In practice, there are often discussions about whether a plot of state land can be leased to the owner of a parking lot or other similar engineering structure. Thus, this ruling of the SCL, by which the court states that under certain circumstances a lot or a similar structure can be recognized as an independent object, is significant in shaping the practice of state land leasing.

The decision of the SCL in the civil case No. e3K-3-51-701/2023 provided that legal relations regarding state land are characterized by legal definiteness and their regulation is based on the principle of public law governing state property - transactions regarding state property must be concluded only in accordance with legal acts regulating disposal of state and/or municipal property, in established cases and methods - and is imperative. The legal norms, which determine the right of the owner of buildings to lease the plot of state land necessary for the operation of the buildings in a preferential – non-auction – procedure, restrict in favour of this person the right of the owner of the land, that is, the state, to dispose of the land in other, more efficient, ways that provide the state with the greatest benefits. As a result, this right is granted only under the conditions established by law - when the state land is covered with buildings or structures belonging to individuals. The necessary conditions for renting state land outside of an auction must be met during the entire period of validity of the lease agreement, otherwise the purpose of the preferential rent tax would be negated, the payment of the real (determined by auction) price for the leased state land would be avoided, and the owner of the buildings would be unjustly enriched at the expense of society, which clearly violates public interest. Accordingly, in the absence of these conditions, the legal basis for leasing state land on a preferential basis disappears, and the lessor of state land acquires the right to terminate the contract early.

The SCL, in civil case No. e3K-3-183-916/2022 regarding the relationship established by the contract, recognized that although the decision under analysis stated that the inaction of the technical supervisor of the construction is assessed as having been carried out by the customer himself, the 25% of the loss that remained unpaid the customer could presumably demand from the persons who performed the technical supervision of the building improperly. In a civil case examined earlier this year, the SCL clarified that the construction technical supervisor appointed (hired) by the builder (customer) acts in his interests, therefore, in case of illegal inaction, he is responsible to the builder, not to the contractor or subcontractor. Thus, when concluding and executing contracts, the customer should not forget that, in the event of civil liability issues due to an improperly executed contract, questions of compensation may reach not only the contractor, but also the technical supervisor of the construction, who did not sign the contract, but participates in the construction process.

In the ruling of October 19, 2022, in civil case No. e3K-3-236-823/2022, the SCL recognized that the parties to a commercial non-residential premises lease agreement are not prohibited from negotiating in advance on the tenant's refusal to exercise the right to demand the termination of the lease agreement upon a change of owner of the leased object. The court reasonably assessed the fact that for the lessor of commercial premises, the continuity of the legal relationship of lease can be very significant, as it has a direct impact on the demand and value of real estate of such purpose. It is for this fundamental reason that the lessor is interested in establishing guarantees of the continuity of the lease relationship in advance in the lease agreements after the owner of the leased premises changes. Taking into account the interest in ensuring the stability of commercial lease relationships, the parties to the contract who are equal, capable of assuming the risk of their actions or inaction, in the opinion of the SCL, must be given the opportunity to reach a preliminary agreement through negotiations on the continuity of the lease relationship in the event of a change in the owner of the leased object. It may be assumed that SCL chose a welcome path, deciding to defend the stability and definiteness of the lease relationship.



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 SECOND HALF OF 2022

VILNIUS

- **Vyšnios**

Vyšnios apartment block in Pilaitė is the largest project being developed in Vilnius. Omberg offered 180 apartments and commercial facilities to the market during the first stage. A total of four buildings, each with four floors and an A++ energy class, will be built. This project will stand out as the largest (3 hectares) private recreational area in Vilnius, complete with playgrounds, walking paths, rest areas, and cherry tree plantations.

The developer will pave the streets surrounding the project and install sidewalks with lighting. Bicycle paths will also be added to ensure convenient mobility for residents. In addition, 4-8 commercial facilities will be established in the residential buildings, providing daily services relevant to the residents.

Vyšnios @ Omberg

- **reVINGIS Park Space**

Galio Group is continuing the development of *reVINGIS* project by starting the construction of the *Park Space* block. During this stage, six 6-storey residential buildings will be built, offering 155 premium-class apartments to the market.

The buildings closest to Vingis Park are expected to have an A+ energy class and will stand out with high-quality clinker facades, wooden windows, extremely high ceilings on the upper floors, and a view of the nearby Neris River. A two-level underground parking lot with electric car charging points and bicycle storage will be installed.

Additionally, a recreational public space is being designed parallel to the Neris slope, and pedestrian and bicycle paths will be installed to connect to the common system of Vingis Park and city paths.

reVINGIS Park Space @ Galio Group

- **Naujasis Skansenas (V stage)**

YIT Lietuva has started the fifth and final stage of the apartment block *Naujasis Skansenas* in Šnipiškės. The new stage will include the construction of two six-storey apartment buildings that will offer 122 apartments to the market. The buildings have an A+ energy class rating and boast large showcase windows. The well-being of residents is managed with the help of smart tablets, and the security of the block is ensured by access systems and video cameras around the entire perimeter.

Naujasis Skansenas (V stage) @ YIT Lietuva

The project's convenient location in the new city centre, harmonious architecture, complete well-being facilities, including a running track, recreational area, and children's playgrounds, makes it stand out from the rest.

- **Bajorų alėjos (Klevų namai)**

Eika is continuing the constructions of the second stage of *Bajorų alėjos,* where the constructions of *Klevų namai* began. This ongoing project began in 2014 and is developing a low-density, low-rise apartment settlement on a 9-hectare area.

Bajorų alėjos (Klevų namai) @ Eika

Klevų namai comprises of two 4-storey, A++ energy class blocks, offering 96 apartments to the market.

The project will incorporate renewable solar energy for common purposes, and parking spaces suitable for electric cars will be available for purchase. The project is notable for its peaceful and secure surroundings, as well as its well-organized recreational and sports infrastructure in the courtyards.

- **Karoliniškių namai (II stage)**

Hanner continued the development of *Karoliniškių namai* project located next to the Television Tower. In the second stage, they started the construction of the second block, which will have 5 floors and offer 93 housing units.

The building is classified as A energy class. The residents of the first floor will enjoy spacious wooden terraces, and a children's playground will be installed in the closed courtyard. The project is noteworthy for its well-developed surrounding infrastructure and proximity to a 162 ha nature reserve suitable for active sports and recreation.

Karoliniškių namai (II stage) @ Hanner

- **Vileišio 27A**

Realco has begun the construction of the premium project *Vileišio 27A,* located in Antakalnis, on the bank of the Neris River. The building, which will be situated on a plot of nearly half a hectare, will feature 66 one- to four-room apartments ranging in size from 33-90 sq. m.

Additionally, the project will include an underground parking lot with 72 spaces, bicycle storage, storerooms, and a closed courtyard. The building will be rated A++ for energy efficiency. The project's prime location in one of the city's most desirable micro-districts, stunning views of the river, and spacious balconies and terraces on the first floor make it a standout choice for discerning buyers. Residents will also have easy access to the city centre via nearby pedestrian and bicycle paths.

Vileišio 27A @ Realco

- **Miško ardai (III stage)**

Citus has started the final, third stage of the project *Miško ardai* located in Burbiškės forest. Two 4-storey, A+ energy class apartment buildings are being developed along Burbiškių street, offering 62 apartments to the market.

Miško ardai (III stage) @ Citus

These apartments feature superstructures on the fourth floor, spacious balconies and terraces, a view of the inner courtyard or forest, and spacious underground parking. The buildings' facades are made of natural materials such as thermal wood and sheet metal. Upon completion of this stage, the construction of *Miško ardai* park, which will occupy an area of 1 hectare, will also be completed. Fourteen recreational, active leisure, and entertainment zones are planned in the park.

- **Šnipiškių perspektyvos (II stage)**

Šnipiškių perspektyvos (II stage) @ Lithome

Lithome has begun the construction of the second stage of *Šnipiškių perspektyvos*, located in the rapidly developing Šnipiškės district. The project entails the construction of a 5-story building, with commercial premises on the first floor and 48 apartments on the second to fifth floors.

The apartments will range in size from 32 to 90 square meters and there will also be an underground parking lot. The building will meet the A++ energy class requirements. The project's convenient location in the new city centre, as well as its close proximity to sports and recreational spaces, will set it apart.

- **Kerų kerai (I stage)**

The INREAL Group has started developing a settlement of 16 low-rise houses in Burbiškės forest (Bartų str. 11). In the first stage of the project *Paukščių takas*, two A+ energy class buildings will be constructed, offering 46 apartments with areas ranging from 35 to 95 sq. m. The apartments will have spacious balconies or terraces. Underfloor gas heating is planned, and the facade will be covered with clinker. Great attention is being paid to security, the interior of common spaces, as well as comfortable and rational housing layouts.

Kerų kerai (I stage) @ INREAL group

The area of 3.1 ha will be equipped with parking lots, places for bicycles and electric cars, children's playgrounds and community meeting spaces. Infrastructure development of the block is also underway, with street construction, water, sewerage and all necessary communications being installed.

- **City stories (I stage)**

Lithome has begun the construction of the apartment block *City stories* in Pašilaičiai. The development will encompass 1.3 hectares of land and include six apartment buildings with a total of 320 apartments. The first stage of the project, located at Pavilnionių st. 32, will involve the construction of a single apartment building with 39 units.

City stories (I stage) @ Lithome

The apartments, ranging in size from 23-72 sq. m, will consist of 1-3 rooms and feature balconies, while select first-floor units will boast terraces of up to 28 sq. m. The area between the buildings will include paths, playgrounds, and exercise facilities, and 73 parking spaces will be available in the underground and surface parking lots. The Vilnius municipality has plans to improve the green spaces and establish the Pavilnioniai Park for recreation and sports near by the project.

KAUNAS

- **Matau Kauną**

YIT Lietuva has started developing the apartment block *Matau Kauną* in Aleksotas district. The company plans to build approximately 30 residential houses over the next decade on an area of over 10 hectares. The development aims to fundamentally transform an exclusive location with a view of the Old Town of Kaunas and Nemunas Island. During the first stage of the project, the development of two 5-storey, A+ class apartment buildings began. The plan is to build 80 apartments with underfloor heating, a ventilation system with recuperation, a remote meter reading system, and a video camera system for monitoring building entrances, entrances to staircases, and parking lots.

Matau Kauną @ YIT Lietuva

The apartments will have spacious balconies of more than 10 square meters and large showcase windows. The territory will be fully landscaped during the development of the apartment block and equipped with children's playgrounds, bicycle and pedestrian paths connected to the city network, as well as recreation areas.

- **Upės apartamentai**

KTG Asset Management has initiated the development of the project *Upės apartamentai*, situated along Raudondvaris road 107, next to the Nemunas River. The project comprises two contemporary buildings of 7 and 8 storeys, boasting A++ energy class, and featuring 40 apartments with an area ranging from 51-63 sq. m.

Upės apartamentai @ KTG Asset Management

Majority of the apartments, i.e., 70 percent, measure more than 90 sq. m. Only 1-3 apartments will be built on each staircase floor to ensure residents' privacy. The apartments will offer scenic views of the Nemunas River and will be equipped with spacious balconies and green terraces. The buildings will be surrounded by a lush green courtyard with a children's playground and a recreational area. Underground car and bicycle storage facilities, as well as electric car charging stations, have been designed.

- **Piliamiestis | Nemunas**

YIT Lietuva has continued with its project *Piliamiestis* where it has started developing an apartment block on Brastos street. The plan is to construct four 4-6-storey buildings with A++ energy class, comprising of 132 apartments on the right bank of the Neris River in Kaunas.

The development has commenced with the building named *Nemunas*, where 35 *premium* class apartments have been offered to the market. The apartments will feature exquisite architecture, stunning views of the Old Town of Kaunas and the Neris River, high-quality partial finishing, large wooden wrought-iron windows, spacious balconies, and terraces. The facades and roofs will be covered with decorative ceramic tiles. During the development of the first stage, a protective dam will also be built, along with the installation of pavements and recreation areas. The dam's area will be connected to the already existing repaired sections of the embankment from the previous stages.

Piliamiestis | Nemunas @ YIT Lietuva

KLAIPĖDA

- **Danės krantas**

The company Danės krantas has commenced the construction of one of the largest projects of the last decade, *Danės krantas,* located at Senvagės st. 3. The project aims to develop a block of 11 apartment buildings, comprising of just over 450 apartments, over the next four years. During the first stage, 54 apartments in the 4-storey buildings A and B are being offered to the market.

Danės krantas @ Danės krantas

The A++ energy class buildings are expected to be completed by the end of 2023. The block is designed with access to the river, basketball and padel tennis courts, as well as other sports grounds. A communal pool or other water-related recreational area, such as a fountain, is being considered for the central square of the block. The block will also have all the necessary safety and comfort systems, modern lighting, and charging stations for electric cars.

3 BIGGEST COMMERCIAL REAL ESTATE PROJECTS LAUNCHED IN THE SECOND HALF OF 2022

- **The British School of Vilnius new school**

The British School of Vilnius has started the construction of its new school complex at Miškadvario st. 6, in the territory of Vilnius City Innovation Industrial Park. The complex will cover an area of 12,000 sq. m with the school building taking up about 4,000 sq. m.

The British School of Vilnius new school @ The British School of Vilnius

Ultimately, the new school will be able to accommodate approximately 400 students, as well as 50 teachers and other staff members. The school will have the necessary infrastructure to support four different sports, including a 25-meter indoor swimming pool, a gym, a basketball court, and outdoor sports areas such as a full-sized football field and outdoor tennis courts. In addition to these facilities, the school will also have art and technology laboratories, a music classroom complete with a recording studio, and a library.

Bialystok University complex

The academic state institution Bialystok University has started the construction of a new university complex in the old town of Vilnius. The complex will consist of a modern 4-storey building of A+ energy class with a mansard, situated on a land plot at Aguonų st. 22. The building's total area will reach 3,123 sq. m and accommodate up to 300 students.

Bialystok University complex @ Bialystok University

The first four floors of the complex will be dedicated to students, including auditoriums, a reading room, dean's office, and administrative rooms, while the mansard will house the necessary equipment for the building's functioning. Additionally, the basement will provide parking and technical facilities.

Gegužės sodai

Stemma Group has commenced the development of the project *Gegužės sodai*, located at the intersection of Naujoji uosto and Gegužės streets in Klaipėda. The complex of buildings, spanning an area of approximately 3,000 sq. m, will house commercial and hotel activities, and the buildings will be of A+ energy class. An underground parking lot will also be constructed under the complex. The first floor of *Gegužės sodai*, covering an area of around 600 sq. m, will face the busy street and will be intended for commercial activities.

Gegužės sodai @ Stemma Group

2 MOST SIGNIFICANT PUBLIC INFRASTRUCTURE PROJECTS LAUNCHED IN THE SECOND HALF OF 2022

- **Reconstruction of Dainų slėnis**

Reconstruction of Dainų slėnis @ Kaunas city municipality

Kaunas City Municipality has started the long-awaited reconstruction of *Dainų slėnis*. The recreational and cultural space, which was originally installed at Tunelio st. 37 in 1964-1965, will be fundamentally renewed.

The plan is to update the surfaces, stairs, and tribunes. A hall, changing rooms, sanitary units with showers, make-up rooms, auxiliary and administrative rooms, as well as an electrical panel, a vestibule, and a staircase will be installed.

The area will also feature new lighting, with a vertical beam of light serving as the main focus and creating a landmark for *Dainų slėnis*. The project will also include other elements of small architecture, such as wooden benches, trash cans, and bike racks, that will be convenient for visitors.

- **Perkūnkiemio skveras**

Vilnius City Municipality has also taken on a long-awaited project and begun the installation works of *Perkūnkiemio skveras*. This project aims to establish a new space between high-rise apartment buildings that will be adapted to provide rich and high-quality recreation for the residents of the Perkūnkiemis micro-district.

Playgrounds for children and young people, as well as football and basketball fields, are planned for the space. Additionally, there will be ample room for passive recreation, such as relaxing in a hammock or enjoying lunch with family at a picnic table.

Furthermore, an amphitheatre is planned for installation at the highest point of the square, offering a great vantage point for watching sports competitions or enjoying the panoramic view.

Perkūnkiemio skveras @ Vilnius city municipality

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.

Žalgirio g. 94, 09300 Vilnius | Tel. +370 5 273 0000 | www.inreal.lt

ŠIAULIŲ BANKAS

Established in 1992, Šiaulių Bankas AB is the largest bank with Lithuanian capital, a stable and consistently growing financial partner with a special focus on business financing and consumer financing solutions. Šiaulių Bankas operates customer service units in 37 cities and towns in Lithuania. Its shares are listed on the Baltic Main List of the NASDAQ Stock Exchange. The results of the 2022 mystery shopper survey by Dive Lietuva showed that Šiaulių Bankas provides the best service to clients visiting the bank's branches in Lithuania.

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

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 "BestLaw 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.

Lvivo g. 25, 09320, Vilnius | Tel. +370 5 250 0800 | www.cobalt.legal

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 2,500 residential projects is available for projects in the major cities of Lithuania, Latvia, Estonia and Poland.

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