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LITHUANIAN
ECONOMIC AND RE
MARKET REPORT
2015 Q1



RAIDLA LEJINS & NORCOUS

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SUMMARY OF LITHUANIAN ECONOMY AND RE MARKET REVIEW Q1 2015

Consistent economic growth. The prospects of Lithuanian economy remain positive in the context of euro area, therefore this year Lithuania will remain one of the fastest-growing countries in Europe and will maintain one of the most stable economies. The Central Bank of Lithuania forecasts that in 2015-2016 the GDP rate will grow by 2.7 and 3.5 percent, respectively; meanwhile, the forecasts of economic development in the euro area are much more modest: 1.3-1.9 percent.

Increasing domestic consumption. This trend should remain and contribute to the consistent GDP growth in the near future. Consumers' optimism grew along with the increasing wages. However, consumers' expectations remain under a strong influence of external factors.

The Euro. Changes in the Euro value against other currencies should not be expected in the near future, since the European Central Bank only introduces more measures for quantitative easing and to stimulate the economy. In addition, the endless political changes in Greece and its negotiations on debt repayment have significant influence on the general economic climate in EU as well as investors' moods.

Stable and low inflation with some "flavour" of deflation. We do not forecast growing prices in the near future – the prices of raw materials have stabilized at low levels, meanwhile the real effect of ECB monetary policy is more likely to occur in the second half-year or later. Internal factors, such as the increase in labour costs, should not pressurize prices due to gradual growth of wages.

The policy of the European Central Bank aimed at stimulating the economy. Due to continuous quantitative easing in the banking system, crediting provisions will become, likely, even more favourable, when the banks start "employing" money more actively; however, the issue of its sufficiency for stimulating the demand of lent money among consumers is in obscurity.

Loan-to-deposit ratio in the banking sector. Deposit amount almost coincides with the portfolio of loans granted by banks (excl. government and financial sectors); it means that banking sector has become rather balanced. Especially low deposit interest rates constantly promote households look for alternative saving and investing possibilities. It is possible to expect, that the conservative approach of households to saving will be changing step-by-step and other options, such as bonds, voluntary pension funds, RE funds or other investing and saving products, will become of higher demand.

Deteriorated consumers' expectations resulted in the decrease in the real estate (RE) purchase-sale transactions in all segments. Within the first quarter of 2015, the amount of apartment transactions has decreased by 36 percent, private houses - by 22.5 percent, and land-plots - by 9 percent. The main causes, which have led to lower liquidity outcome of RE market:

- "the war of sanctions" cut the GDP growth forecasts for Lithuania – respectively, it reduced the consumers' expectations on future prospects and income growth
- increased fear of possible economic difficulties was reducing the demand of housing loans and has led to a lower turnover of RE market
- increased fears of war in the Baltic region due to the conflict between Russia and Ukraine
- in the current political-economical context RE is not an attractive investment, thus leading to reduced number of investors for rent or purchasers of RE for speculative purposes, expecting to sell at higher price

Vilnius housing market was affected by negative moods the least; new construction apartment sales exceeded the forecasted amounts in Vilnius, what resulted in changes in general statistics – in total, 768 apartments were sold instead of the forecasted 600. It is likely, that such result would not have been achieved without more active RE sellers, who offered various sales offers, discounts or gifts in the first quarter of 2015. "Inreal" calculates that every fourth project, which has been already built, offered one or another sales offers amounting to EUR 3-5 thousand usually. These offers were mostly directed to the economy-class segment, which showed the increase of 65.3 percent after the period of decrease, which has lasted for three quarters

consecutively – there were 334 apartments sold in total. At the end of the first quarter of 2015, the amount of unsold (free or reserved) apartments reached 4,280 in the capital city. Nevertheless, the developers remained rather active – they have offered about 670 new apartments in total to the market.

The liquidity rate¹ of new construction apartments in Vilnius, calculated by “Inreal”, has stabilized at 1.5-1.6. If similar sales rates remain, this rate should not change significantly in the next quarter. Such value of the liquidity rate means that the period of stable prices should be expected for the upcoming quarter. In comparison with the corresponding period of 2014 in Vilnius:

- the average price of economy-class apartments was 1,220 EUR/sq.m. and decreased by 4.2 percent
- the average price of mid-class apartments was 1,710 EUR/sq.m. and increased by 5.6 percent
- the average price of luxury-class apartments was 2,540 EUR/sq.m. and decreased by 1.6 percent

In the first quarter of 2015, the housing markets in Kaunas, Klaipeda and coastal region were affected by general gloomier moods – purchase-sale transactions were decreasing in old construction as well as new construction segments. The volumes of transactions returned to the level of 2012-2013. Likely, in 2015, the market will remain sluggish in these cities, and prices will be stable or change insignificantly. Despite the considerable decrease in market liquidity, it is less likely, that RE sellers will start reducing prices – more likely, that they will decide to wait for the natural recovery in the market.

It is observed that the commercial segment receives much more attention in 2015 - market of the capital city, in particular; more active investment funds result in more favourable environment to RE developers for successful development and sales of commercial objects, and investing the amounts received in the development of new projects. The highest activity was experienced by the segment of business centres: in the first quarter of 2015 the construction works of the business centre “Vertingis” were finished and the development of 5 projects has continued – they should add approx. 59,200 sq.m. of rentable area to the market.. Despite the impressive development, the construction works of at least several business centres are also planned in the centre of the capital city. The development of commercial objects is sluggish in other cities: construction works of two business centres in Kaunas (4,500 sq.m., in total), and construction works of a business centre (2,500 sq.m.) in Klaipeda are planned. In the first quarter of 2015, an insignificant increase in lease prices was observed in the major cities due to round-up in Euro.

In the first quarter of 2015, the expansion of shopping centre “Babilonas I” was finished in Panevezys; the area has increased by 1,600 sq.m. and the shopping centre was renamed as RYO. Moreover, the construction works of planned shopping centres were continued, however new projects are not foreseen to be started in the near future due to slower economic growth.

In the first quarter of 2015, new projects for lease have not been opened in the industrial and warehousing segment; the expansion of existing projects has continued. The majority of projects being implemented were built-to-suit, which are focused in the major cities and their surroundings. The lease prices in the logistics centres have remained stable in the first quarter of 2015, although in some certain cases, the owners of vacant warehouses were willing to negotiate and agree on prices less than the market price; however, such single cases did not affect the general average price. Lower expectations of the economic growth pose new challenges in the industrial and warehousing sector; however the potential of Lithuania remains high in a long-term perspective. It is possible, that the industrial development will not stop in Lithuania and it will form additional demand of warehousing premises. An increase in lease prices should not be expected in 2015, however new projects should be developed and the expansion of this segment should be held.

Increasing oversupply in the residential housing market, and strengthened requirements of responsible borrowing make the real estate market participants look for alternatives to traditional housing purchase-sale transactions. Recently, the real estate market was re-introduced with the opportunity of rent-to-buy. With this method a tenant rents housing from the real estate developer for several years, paying rents throughout the period, and at the end of the rent period, the amount paid is considered as down payment in order to get a credit from bank to buy the housing rented. It must be noted that in the absence of express agreement a tenant has a risk of not receiving the desired property, losing the payments made and end up with a potential dispute in court.

¹ Period (in years), within which the entire supply could be sold out

LITHUANIAN ECONOMIC OUTLOOK

Consistent economic growth. Lithuanian economy is on stable growth path. GDP in the fourth quarter of 2014 increased by 2.5 per cent compared to the same quarter of 2013; and GDP change in 2014 was 3.0 per cent. Demonstrating consistent growth, Lithuania's economy in 2014 has reached pre-crisis GDP level (comparing in constant prices). Before the crisis Lithuanian GDP reached 32.4 billion euros, while in 2014 - 32.7 billion euros. Lithuanian economic outlook compared with other euro zone members remains positive. There is a great possibility that this year Lithuania will remain among the fastest growing countries in Europe and will be one of the most stable economies. Lithuanian central bank predicts that in 2015 and 2016 GDP will grow by 2.7 and 3.5 per cent., while the euro zone economic projections are much more modest: from 1.3 to 1.9 percent.

Growing domestic consumption. The successful development of national economy was mainly driven by the growing domestic consumption - especially in the private sector. Personal spending increased due to the few reasons. First of all increase in employment and higher real wages (wage growth exceeded inflation) and

secondly a relatively lower energy prices. This trend should continue in the near future and will contribute to the sustainable growth of GDP. Rising wages have positively influenced consumer confidence and optimism. However, consumer expectations will remain heavily influenced by external factors, especially by the regional geopolitical environment.

Euro. The most popular topic during a second half of the last year and beginning of this year - the value of the euro compared to other currencies. It will take some time before households will get used to the new currency in their wallet, so it is likely that at least for some time we will see some changes in the consumption habits. The decreasing euro value against majority of other countries will make a positive impact for Lithuanian and the entire euro zone exporters. On the other hand cheaper euro will reduce positive benefits from lower commodity prices and especially oils. We should not expect

the increase of euro value against the other currencies in the near future as the European Central Bank still increases the monetary measures to stimulate the economy. Moreover a never-ending political developments in Greece and the negotiations against the debt has a significant negative impact for overall European Union's economic climate and investor sentiment.

Stable and low inflation with a taste of deflation. The rises of prices after the introduction of euro faded due to the changes in global arena. The reduction of prices was mainly attributed to fall of raw material prices and deflationary environment in the euro zone. Last year inflation decreased in Lithuania from 1.2 to 0.2 per cent., and earlier this year it turned to deflation. It is difficult to expect price increases in the short term: raw material prices have stabilized at lower levels, the real effects of ECB's monetary policy is more likely to appear in the second half of this year or even later. Internal factors such as rise of labor costs will not pressure prices due to stable increase in salaries.

Fig 1. Lithuania GDP growth, y-y %

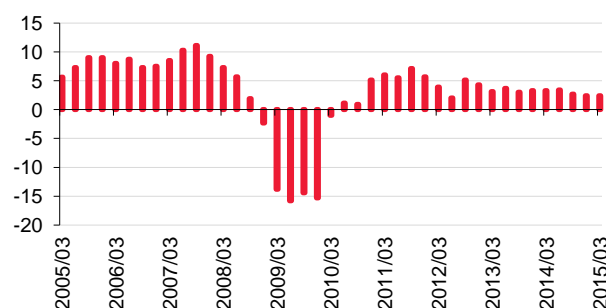
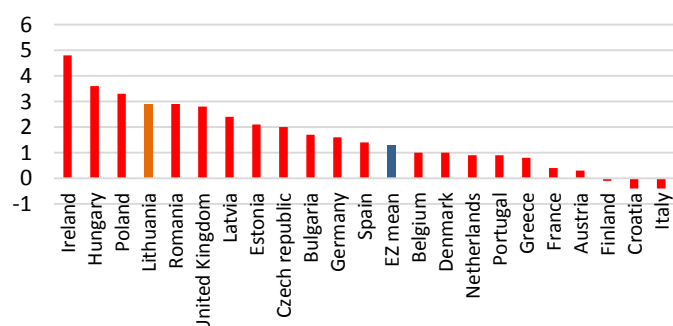


Fig 2. 2014 m. GDP growth, y-y %



European Central Bank's economic stimulus policy. ECB keeps its key interest rate at the lowest level throughout the whole euro zone history. In order to encourage bank lending to households and non-financial companies ECB took on new monetary policy measures last year, but the result was not as good as expected. So this year ECB is taking additional monetary actions and it will start buying sovereign bonds in the secondary market. The amount of money in the banking system continuously expands so it is likely that banks will start lending money and credit conditions will be more favorable in the near future. However it is uncertain if it increase consumer demand for credits.

The banking sector loan to deposit ratio. Banks' loan portfolio in Lithuania has not increased since 2008. In December 2014, total corporate and household loan portfolio was 1.5 percent lower than a year ago. We should not expect the sudden changes of lending environment this year unless the ECB's measures will be very effective. The banks should not change the cautious lending strategy because of new capital regulatory requirements that are coming in force in several years. In contrast to the loans, deposits portfolio at the end of 2014 managed to reach a new record high, despite zero rate interest environment. A total amount of deposits (excluding government and financial sectors) in the financial system currently holds at 15,3 billion euros. We are not going to see a significant growth of deposits this year, because the process of euro adoption is almost over. The amount deposited in the banks equals with the size of loan portfolio (excluding government and the financial sector), and it indicates that the banking sector has become quite balanced. Very low deposit rates constantly encourages households to seek alternative savings and investment opportunities. It can be expected that households conservative saving approach gradually will change and it will create a greater demand for alternative saving instruments such as - bonds, voluntary pension funds, real estate funds or other investment and savings products.

Fig 3. The average annual inflation, %

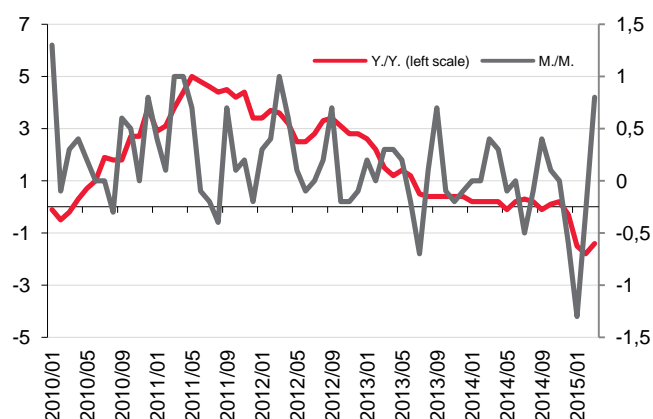
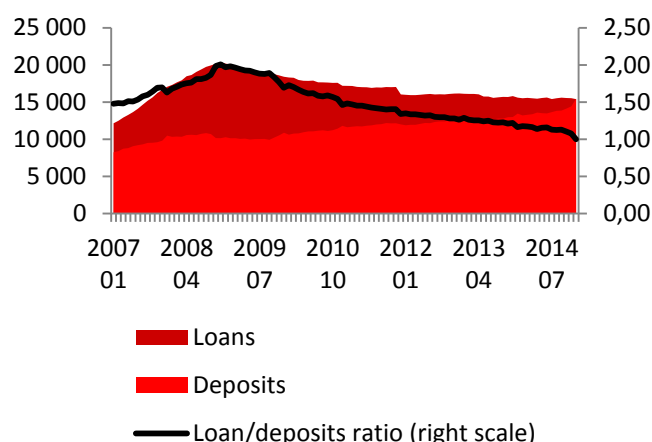


Fig 4. The banking sector loan to deposit ratio (loans and deposits without the financial and government sectors, mill. EUR eq.)



HOUSING MARKET REVIEW

Trends in Lithuania – deteriorated expectations resulted in the decrease in the transactions in all segments

In the first quarter of 2015, gloomier moods were prevailing in RE market in Lithuania than a year ago – the amount of purchase-sale transactions was reducing in all segments:

- apartments – by 36 percent
- private houses – by 22.5 percent
- land-plots – by 9 percent

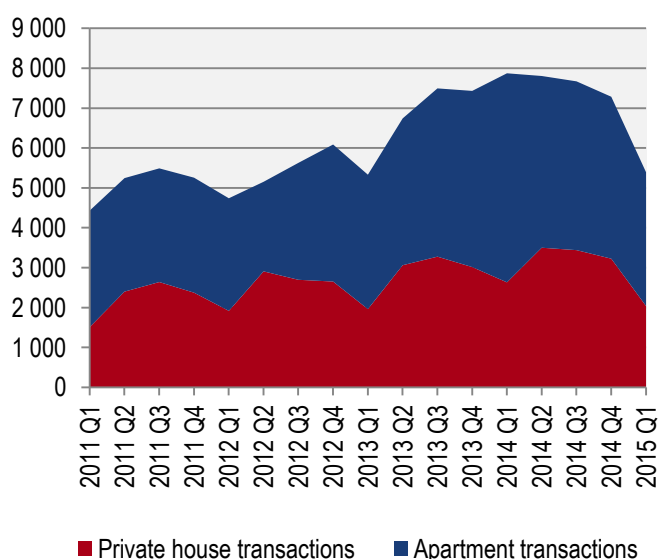
The main causes, which have led to lower liquidity outcome of RE market:

- “the war of sanctions” cut the GDP growth forecasts for Lithuania – respectively, it reduced the consumers’ expectations on future prospects and income growth
- increased fear of possible economic difficulties was reducing the demand of housing loans and has led to a lower turnover of RE market
- increased fears of war in the Baltic region due to the conflict between Russia and Ukraine
- in the current political-economical context RE is not an attractive investment, thus leading to reduced number of investors for rent or purchasers of RE for speculative purposes, expecting to sell at higher price

In the first quarter of 2015, the attractiveness of RE as an investment has remained lower in the residential as well as commercial segments. High-quality and upper class RE objects, located in exclusive areas, were the most marketable and attractive.

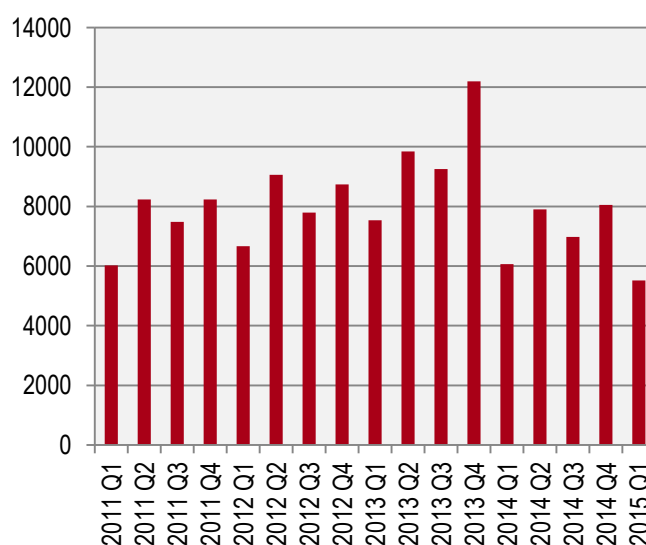
Due to gloomier moods of RE purchasers, expectations for the possible price increase in a short period, i.e. 6-12 months, faded away. In a long-time perspective, Lithuanian RE market has a high potential and the increase in prices is very likely in active markets. Nevertheless, currently RE purchasers do not hurry – they plan purchases more carefully and conservatively, thus we can predict that such situation will remain till the fears of conflict with Russia and economic slowdown disappear.

Apartment and private house transactions in Lithuania (units)



Source: SE Centre of Registers

Land plot transactions in Lithuania (units)



Source: SE Centre of Registers

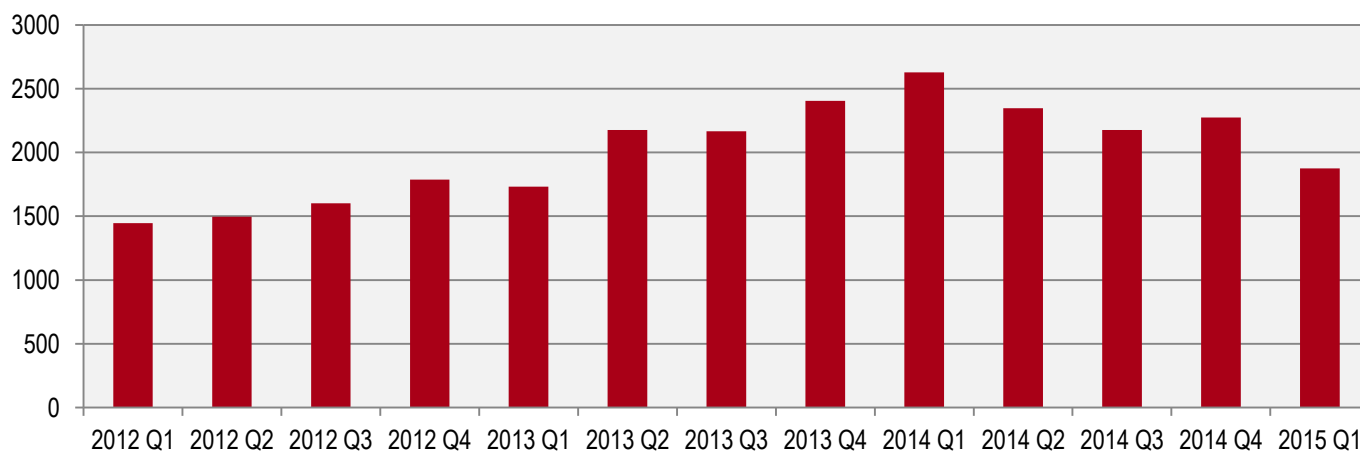
Vilnius market – RE developers amortized the decrease in transactions through promotions and/or lower prices

The trends of RE purchase-sale transactions in Vilnius were similar to the general changes in housing transactions in Lithuania – decrease in all segments during a year:

- apartments – by 28.6 percent
- private houses – by 17.8 percent
- land-plots – by 11.3 percent in Vilnius city and by 1.9 percent in Vilnius region

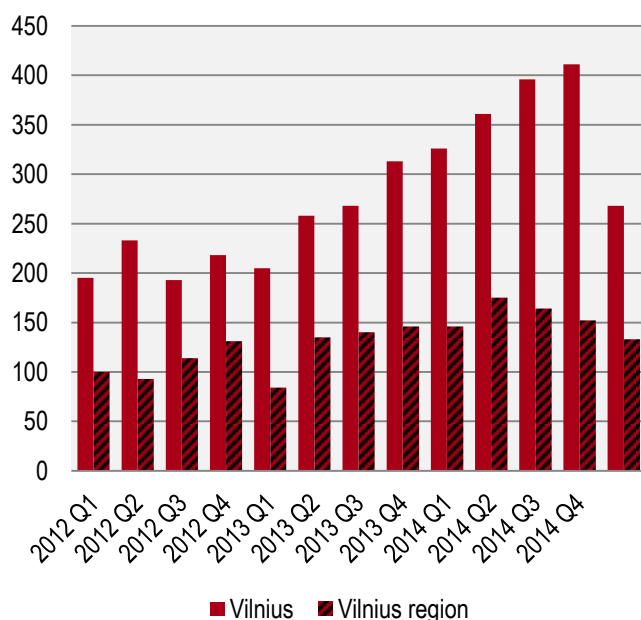
Decrease in purchase-sale transactions (excl. land-plot segment) in Vilnius housing market was not as significant as in the entire Lithuania. It was resulted by better sales of new construction housing developers in the first quarter of 2015 than expected.

Transactions of apartments in Vilnius (units)



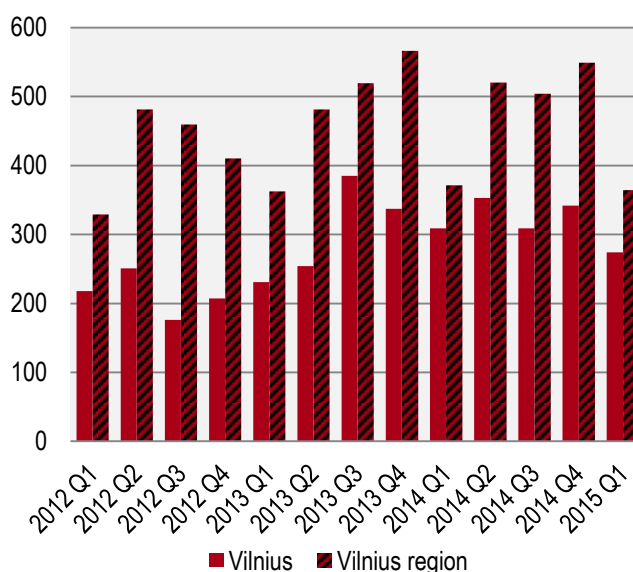
Source: SE Centre of Registers

Privet hous purchase-sale transactions in Vilnius and Vilnius region (units)



Source: SE Centre of Registers

Land purchase-sale transactions in Vilnius and Vilnius region (units)

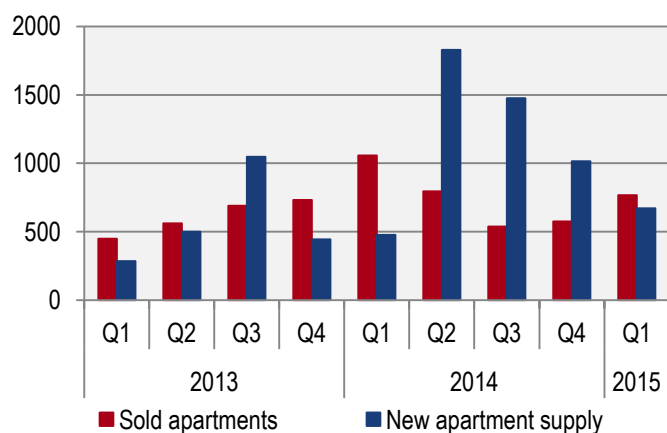


Source: SE Centre of Registers

New construction apartment market in Vilnius have not avoided contraction in the first quarter of 2015; however it was much lower than expected and, in comparison with the same period a year ago, decreased 27.3 percent. On the other hand, if compared with the last quarter of 2014, the increase in sales was 33.3 percent. It is rather an unexpected result, caused by the economy-class segment the most. After the contraction period, which has lasted for three quarters, the latter showed the increase in transactions by 65.3 percent in comparison with the previous quarter. The increase in transactions in the upper class segment (middle and luxury classes) reached approx. 16 percent, in comparison with the fourth quarter of 2014.

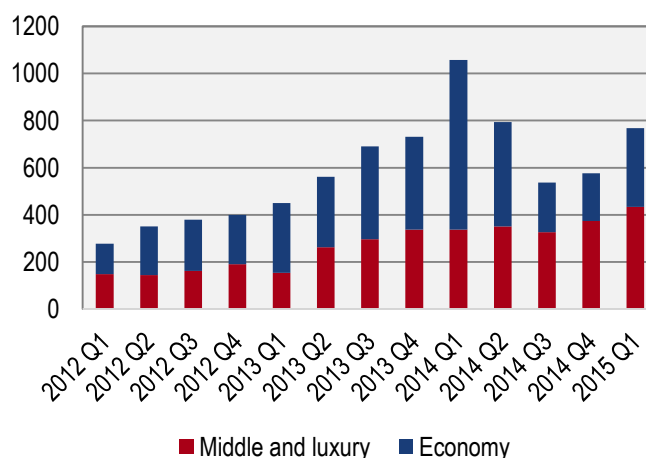
Despite the record-breaking supply of unsold apartments in Vilnius market, which reached about 4,280 apartments in the first quarter of 2015, the developers have remained rather active – they have offered about 670 new apartments in total, i.e. by 40.2 percent more than in the corresponding period of 2014. Nevertheless, such supply was absorbed successfully and the total liquidity rate of new construction apartments in Vilnius, as calculated by “Inreal”, has stabilized at 1.5-1.6. If similar sales rates remain, this rate should not change significantly in the next quarter. Such value of the liquidity rate means that the period of stable prices should be expected for the upcoming quarter.

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



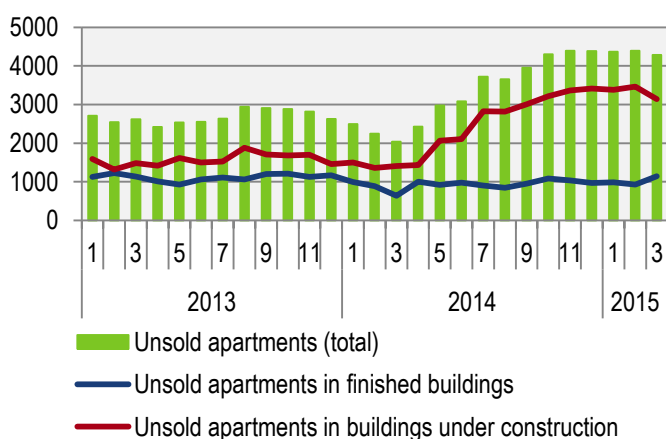
Source: Inreal

New apartment sales under classes (units)



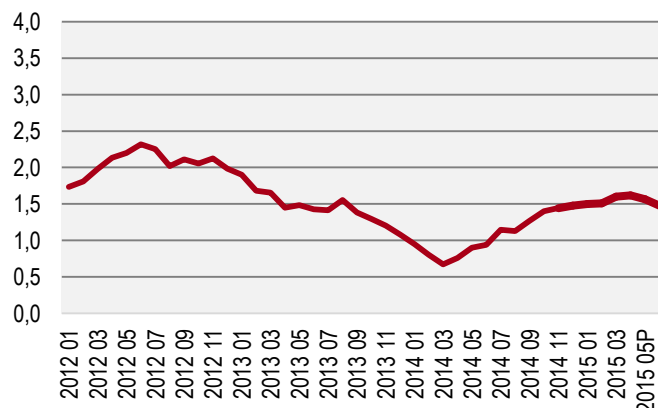
Source: Inreal

New construction apartments, unsold in Vilnius (units)



Source: Inreal

Liquidity rate of new apartments in Vilnius (years)



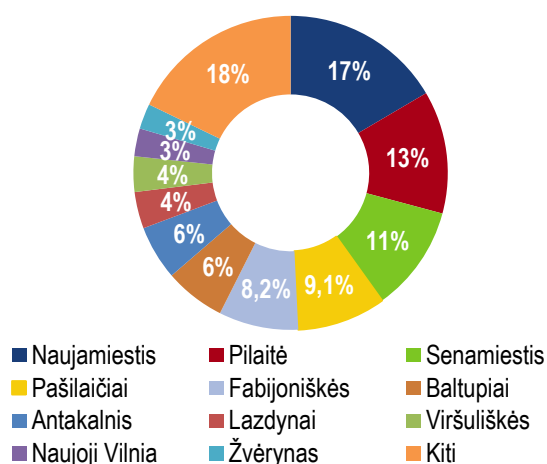
Source: Inreal

Several factors, which resulted in higher sales of developers than expected, should be mentioned:

- More active marketing actions of RE developers – various special offers, discounts for apartments with low level of liquidity, gifts, etc.
- Especially attractive crediting conditions

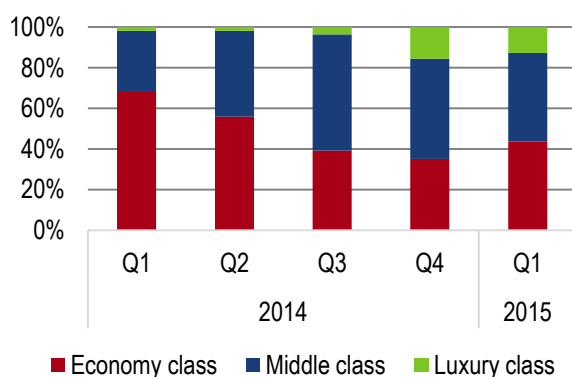
In the first quarter of 2015, one or another special offer could have been noticed somewhere in every eighth project developed in Vilnius; it was applied to the entire project or to some certain apartments in the project. Since, special offers are usually applied in already-finished projects, it is possible to state that various offers were announced in every fourth already-built project. In comparison with the previous periods, an obvious increase in marketing measures to increase sales in already-built projects is observed. The developers offered usually parking places or full finishing free-of-charge, to cover heating or utility service costs for a certain period, as well as various household gifts, amounting to EUR 3-4 thousand. Special offers for certain apartments with the discount of EUR 3-5 thousand are simply announced in some projects. Probably the most distinct offer was announced by “Hanner, SC” – rent-to-buy, in order to accumulate an initial payment for the property. Both the potential purchasers as well as the Central Bank of Lithuania, which has introduced the rules of responsible lending and seeks to avoid violation thereof, were highly interested in this offer. More details about the risks related to the rent-to-buy option are presented in the section on legal issues.

Apartment sales under urban districts (percent)



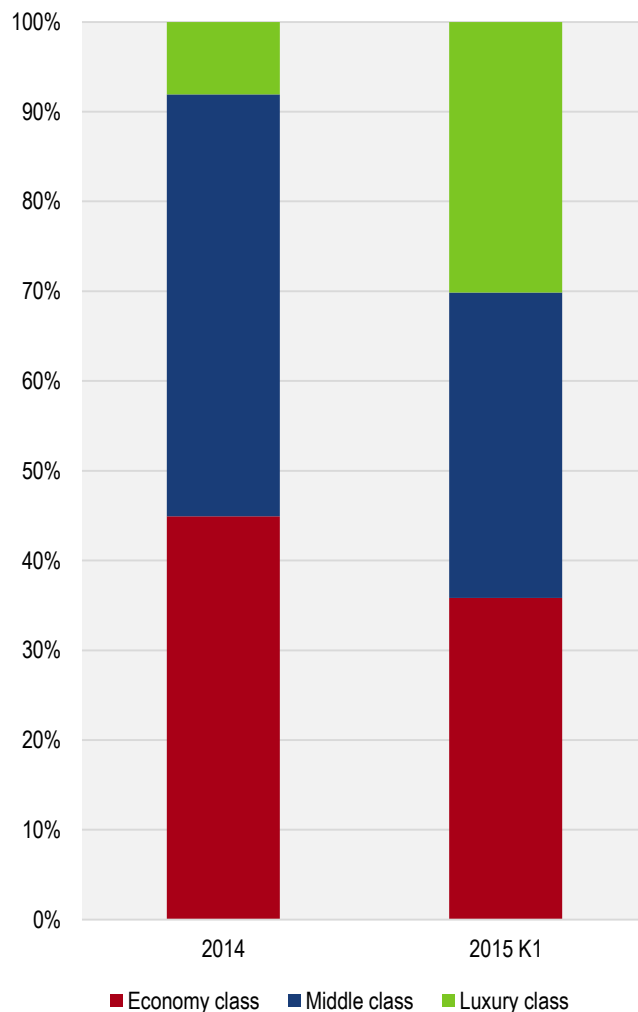
Source: Inreal

New apartment sales under classes (percent)



Source: Inreal

New apartment supply under classes (percent)



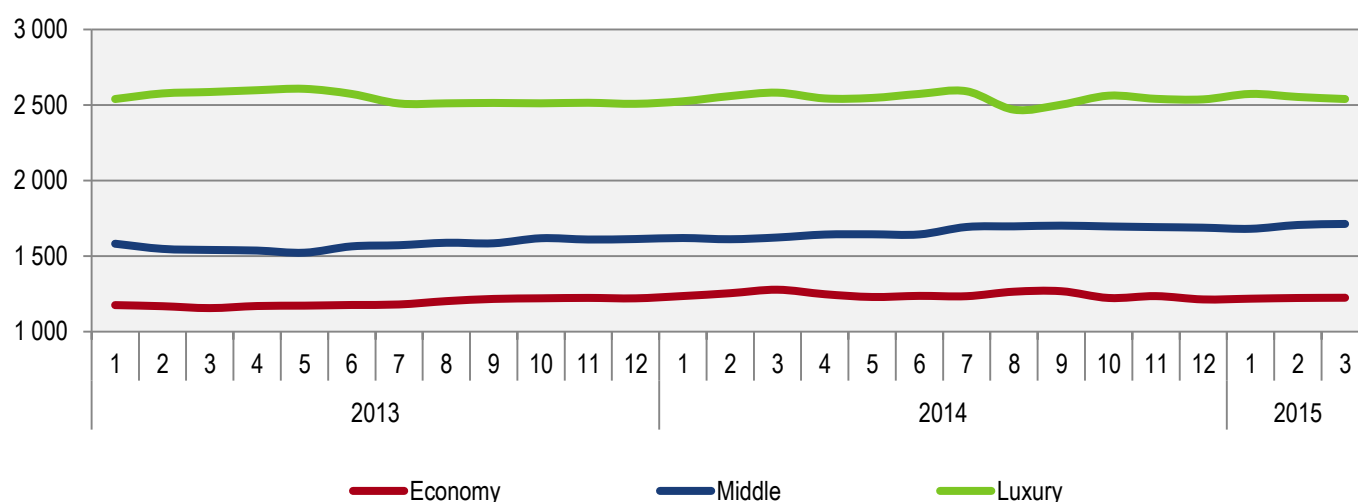
Source: Inreal

In the first quarter of 2015, the trends, related to prices of new construction apartments in Vilnius, were different in various segments. In comparison with the corresponding period of 2014:

- the average price of economy-class apartments was 1,220 EUR/sq.m. and decreased by 4.2 percent
- the average price of mid-class apartments was 1,710 EUR/sq.m. and increased by 5.6 percent
- the average price of luxury-class apartments was 2,540 EUR/sq.m. and decreased by 1.6 percent

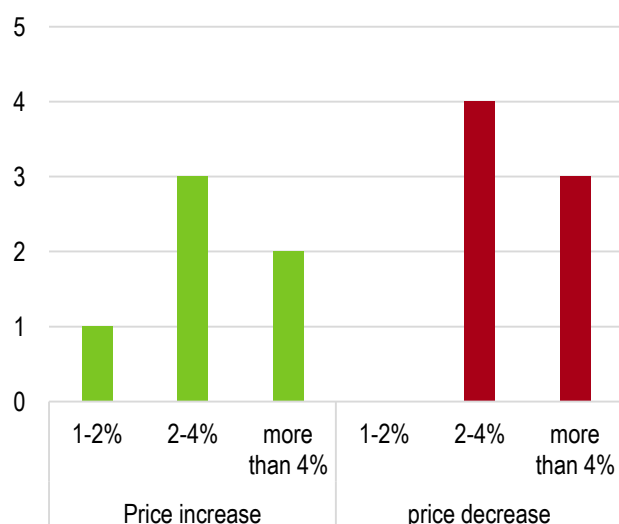
In the first quarter of 2015, price reductions were mostly observed in the economy-class projects. The highest number of special offers and gifts for purchasers were offered in the latter segment. Therefore, taking into account the total value of gifts and special offers, one may state that the decrease in prices of economy-class apartments was approx. 6-7 percent. Naturally, a distinct recovery in transactions was observed due to significant decrease in prices in this segment.

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



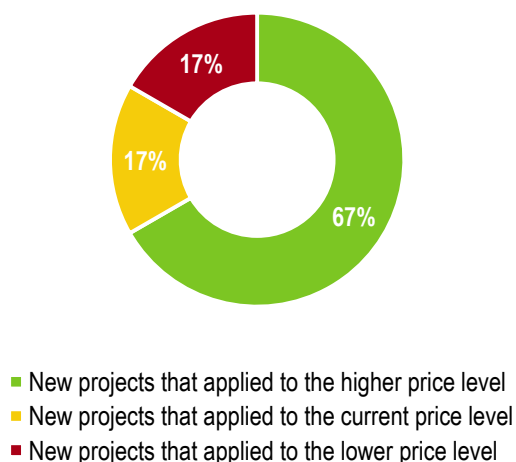
Source: Inreal

New construction projects which changed pricing in 2015 Q1 (units)



Source: Inreal

Pricing of the newly launched projects in Vilnius, compared with the segment average



Source: Inreal

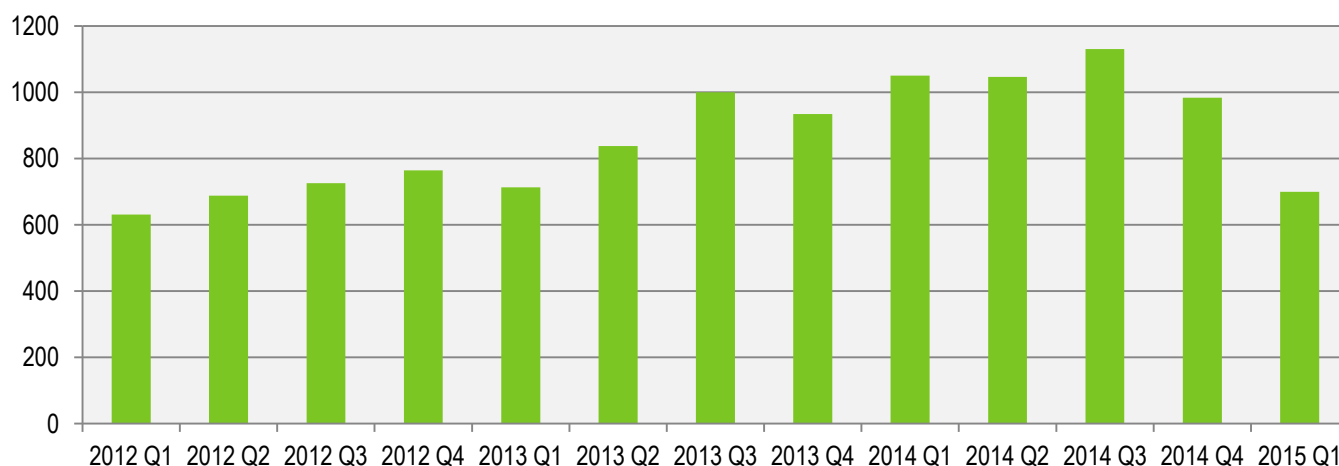
Kaunas market – RE market returned to 2012-2013. This year the market will remain sluggish, while prices – stable

Lower expectations for the future did not bypass Kaunas RE market as well – in the first quarter of 2015, the amount of purchase-sale transactions was decreasing in almost all segments. In comparison with the corresponding period of 2014:

- Apartment purchase-sale transactions decreased by 33.4 percent
- Private house purchase-sale transactions increased by 4.6 percent
- Land-plots – decreased by 14.6 percent in Kaunas city and by 15.5 percent in Kaunas region

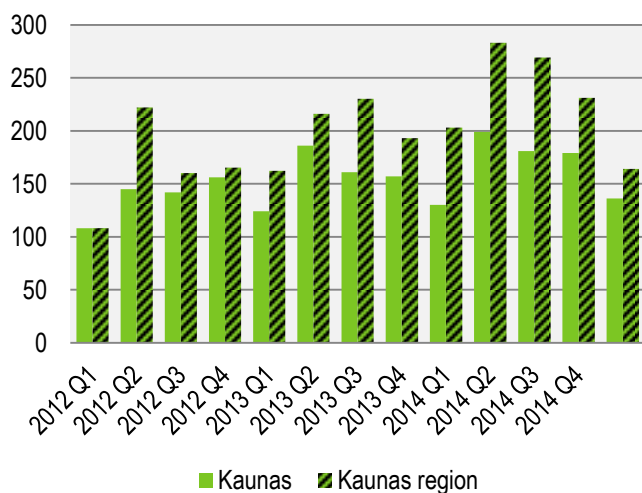
Purchase-sale transaction rates in Kaunas returned to the rates of 2012-2013, therefore, it is possible, that the level of prices may also return to 2012-2013 if current trends remain, i.e. it may decrease averagely by 2-3 percent over 2015.

Transactions of apartments in Kaunas (units)



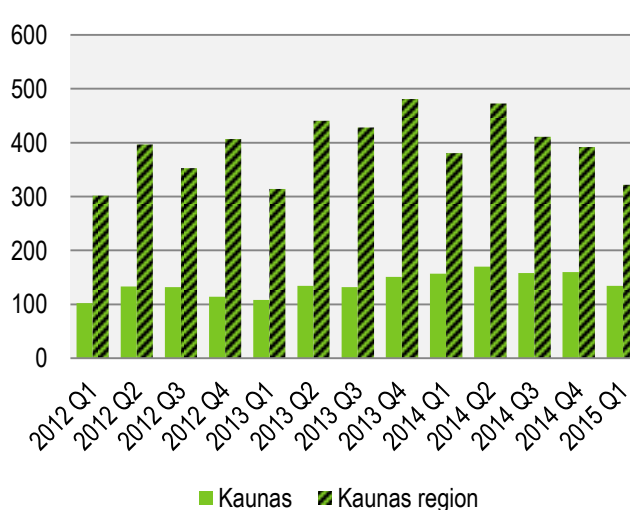
Source: SE Centre of Registers

Private house purchase-sale transactions in Kaunas and Kaunas region (units)



Source: SE Centre of Registers

Land purchase-sale transactions in Vilnius and Vilnius region (units)

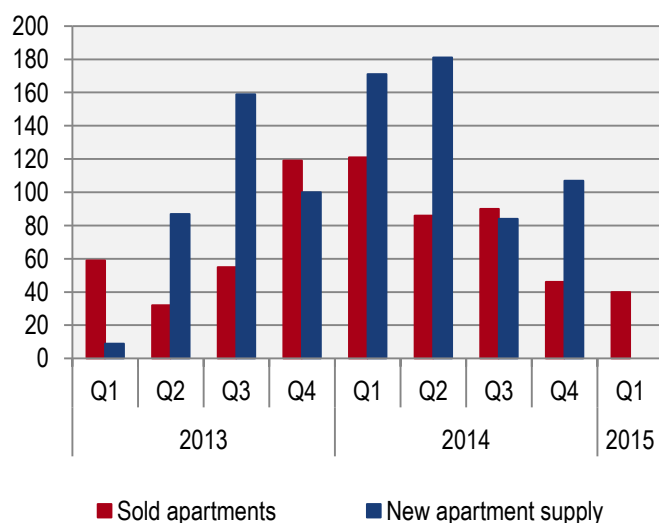


Source: SE Centre of Registers

During the first quarter of 2015, the amount of new construction apartments sold in Kaunas was three times less than in 2013. Actually, higher fluctuations are observed in Kaunas market of new housing, since the general transaction volumes are much lower. We forecast that this year about 40-50 apartments will be sold in new housing market in Kaunas every quarter. Such rates were observed in early 2013 as well.

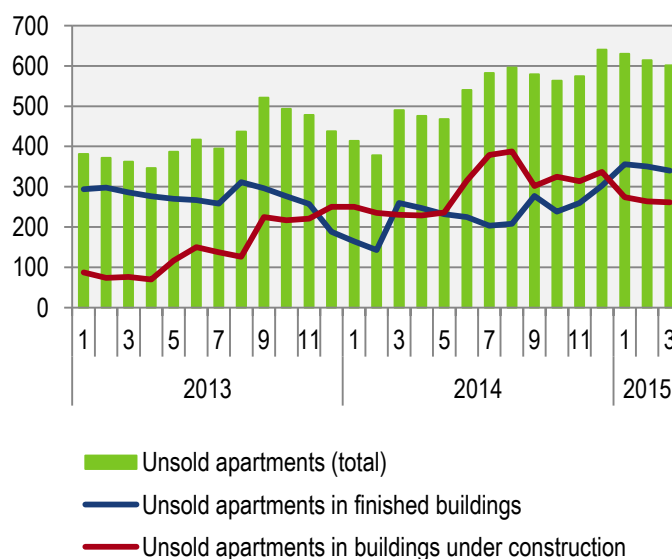
After a break, which has lasted longer than a year, the significant decrease in sales in Kaunas have led a higher number of apartments unsold in already-built projects than the number of apartments unsold in the projects currently being built. Moreover, the liquidity rate of new construction apartments in Kaunas, as calculated by "Inreal", has increased instantly and exceeded the threshold of 2 (in Q1 of 2015 it was 2.3). All this means that the conditions to develop new projects in Kaunas are not favourable, because of much tighter competition and more difficulties in selling the projects.

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



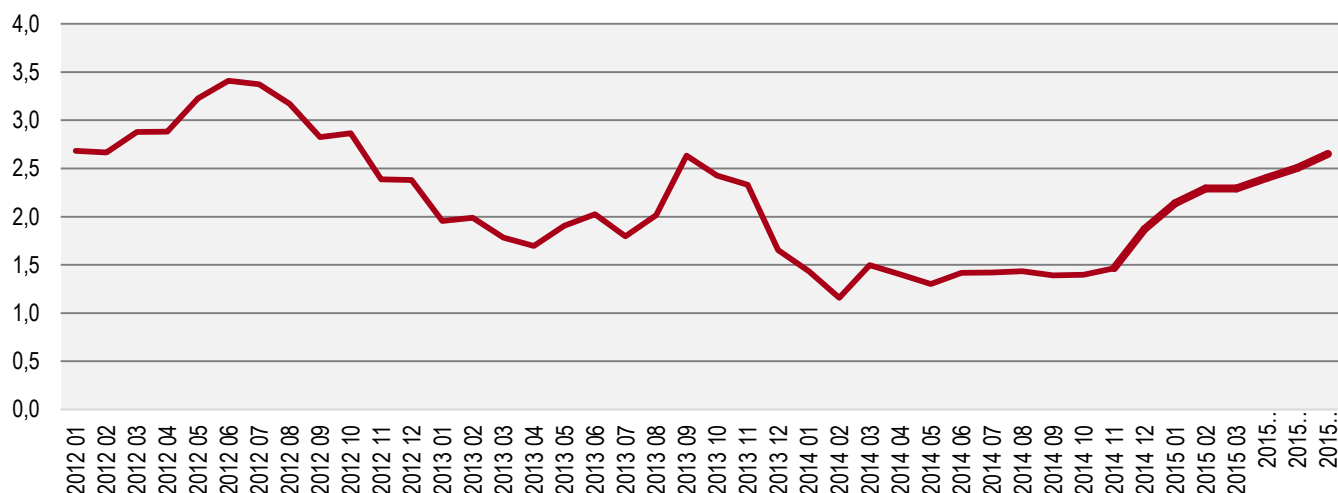
Source: Inreal

New construction apartments, unsold in Kaunas (units)



Source: Inreal

Liquidity rate of new apartments in Kaunas (years)



Source: Inreal

The economy-class apartments are offered in Kaunas market the most. The sales of this segment cover the greatest share of sales, respectively.

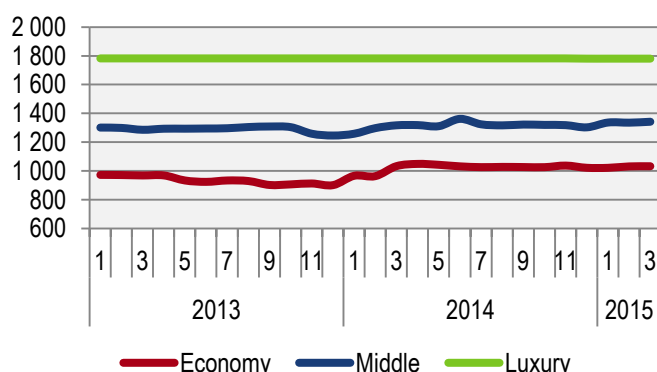
In the first quarter of 2015, the trends, related to prices of new construction apartments in Kaunas, were different in various segments. In comparison with the corresponding period of 2014:

- the average price of economy-class apartments was 1,030 EUR/sq.m. and decreased by 0.1 percent
- the average price of mid-class apartments was 1,340 EUR/sq.m. and increased by 1.8 percent
- no luxury-class projects were developed in Kaunas in the first quarter of 2015

Lower expectations of consumers and RE sale prices, which have not changed significantly, resulted in a high decrease in demand. In the context of current macroeconomics and expectations, we should not expect natural recovery of sales. The demand could be stimulated by lower asking-prices or more active marketing actions of developers, as observed in Vilnius market: special offers, single discounts, gifts, etc.

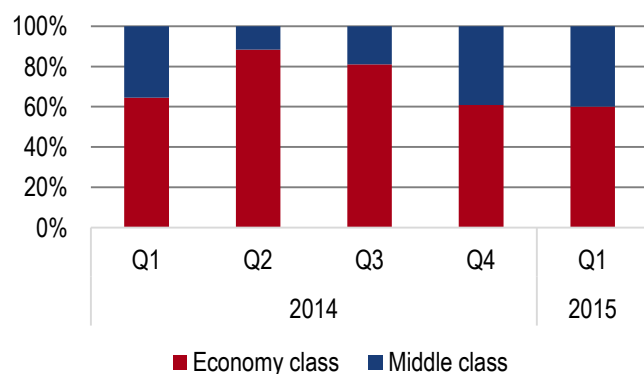
In the historical point of view, the developers had not been inclined to reduce asking-prices in Kaunas market – they accepted lower liquidity and were waiting for natural stimulation of market. Possibly, similar scenario will occur in 2015 as well: the market will remain sluggish, meanwhile prices – stable.

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



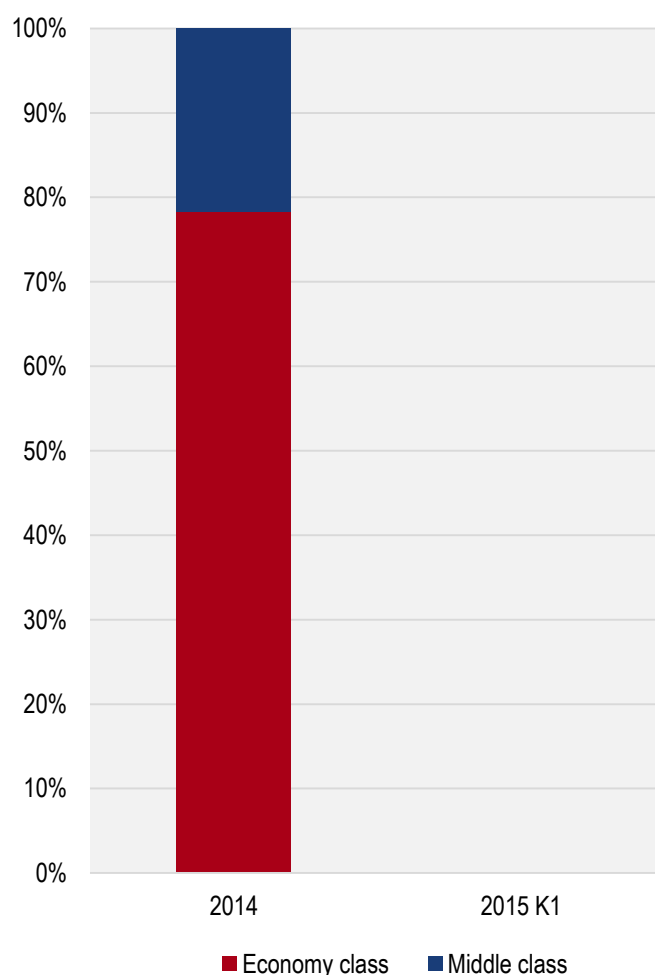
Source: Inreal

New apartment sales under classes (percent)



Source: Inreal

New apartment supply under classes (percent)



Source: Inreal

Klaipeda market – investors abandoned the residential segment and were looking for investment opportunities in the commercial sector

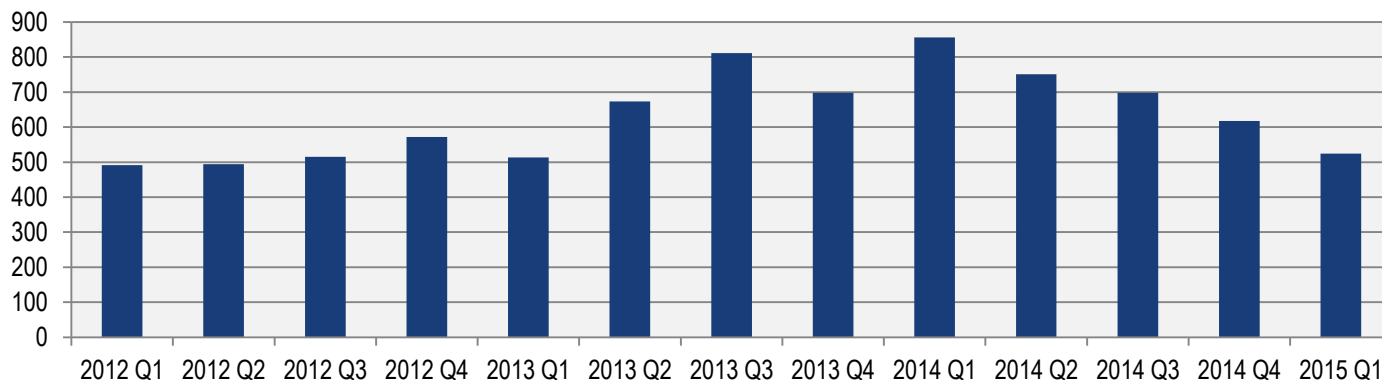
Lower expectations for the future did not bypass Klaipeda RE market as well – in the first quarter of 2015, the amount of purchase-sale transactions was decreasing in all segments. In comparison with the corresponding quarter of 2014:

- Apartment purchase-sale transactions decreased by 38.8 percent
- Private house purchase-sale transactions decreased by 35.1 percent
- Land-plots – decreased by 12.8 percent in Klaipeda city and by 1.7 percent in Klaipeda region

In comparison with other major cities, in the first quarter of 2015, Klaipeda housing market was the least active, while the contraction of transactions – the highest. The slowdown in the market could be explained not only by lower expectation for the future, but also by regrouping of investors, who refused plans of investing in the residential segment and preferred looking for opportunities to purchase commercial RE to rent.

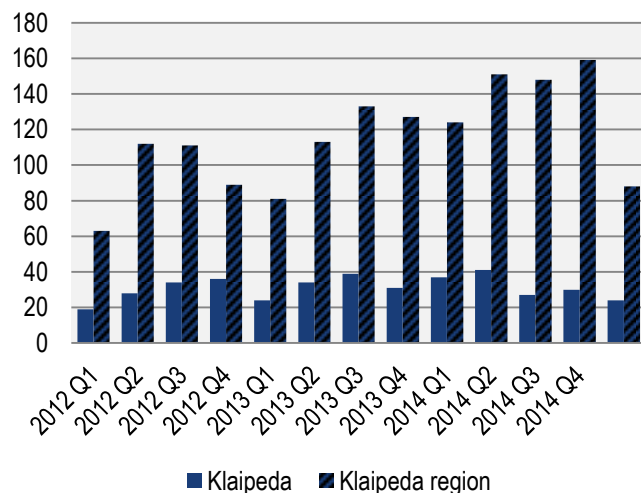
Purchase-sale transaction rates in Klaipeda returned to the rates of 2012-2013, therefore, it is possible, that the level of prices may also return to 2012-2013 if current trends remain, i.e. it may decrease averagely by 2-3 percent over 2015.

Transactions of apartments in Klaipeda (units)



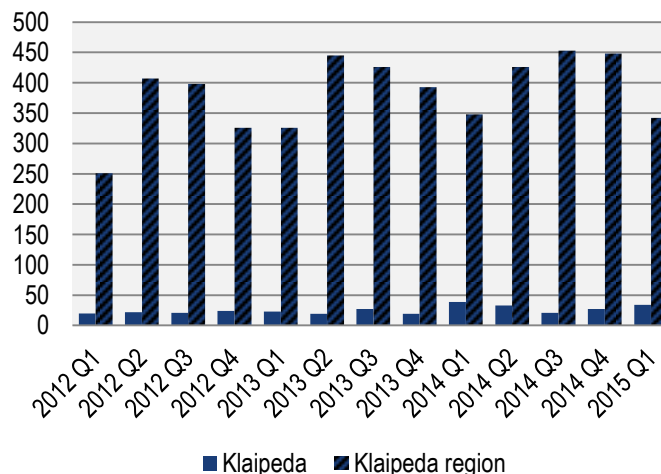
Source: SE Centre of Registers

Private house purchase-sale transactions in Klaipeda and Klaipeda region (units)



Source: SE Centre of Registers

Land plot purchase-sale in Klaipeda and Klaipeda region (units)

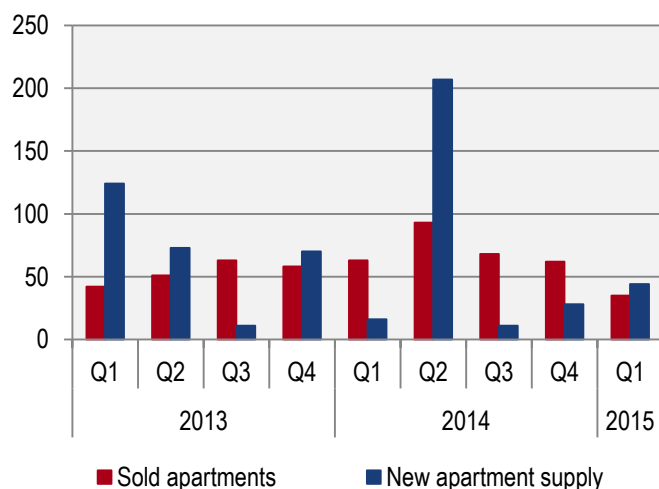


Source: SE Centre of Registers

In the first quarter of 2015, the amount of new construction apartments sold in Klaipeda was 2 times less than a year ago and was similar to the amount, sold in the corresponding period in 2013. Actually, higher fluctuations are observed in Klaipeda market of new housing, since the general transaction volumes are much lower. We forecast that this year about 35-45 apartments will be sold by the developers of new housing market in Klaipeda every quarter. Such rates were observed in early 2013 as well.

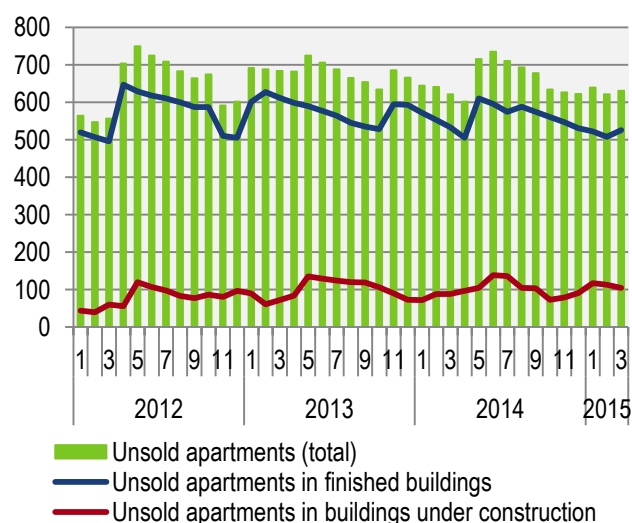
Following the highly-active second quarter of 2014, the rates of new project development in Klaipeda have significantly decreased and such trends remained in the first quarter of 2015. Nevertheless, the liquidity rate of new construction apartments in Klaipeda, as calculated by "Inreal", started growing, i.e. it reached 2.4 in the first quarter of 2015. It is forecasted that this rate will continue to grow, thus the conditions to develop new projects in Klaipeda will not be favourable in the near future, because the competition among developers will grow, and the pressure to reduce asking-prices will increase.

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



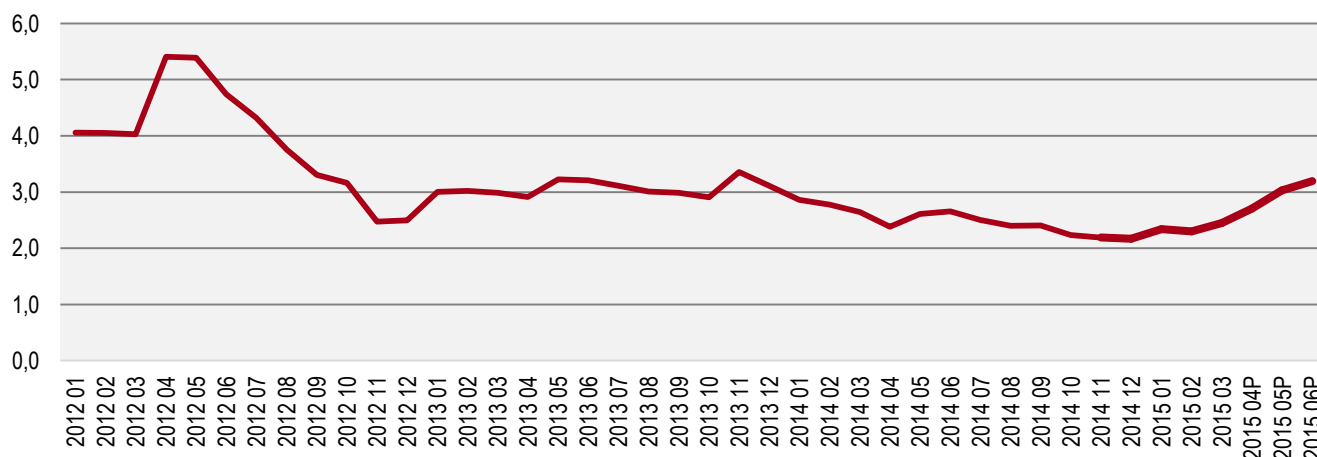
Source: Inreal

New construction apartments, unsold in Klaipeda (units)



Source: Inreal

Liquidity rate of new apartments in Klaipeda (years)



Source: Inreal

The economy-class apartments were offered in Klaipėda market the most. The sales of this segment cover the greatest share of sales, respectively.

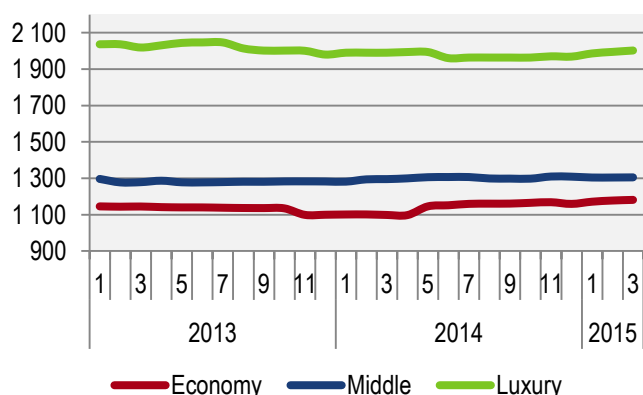
In the first quarter of 2015, the trends, related to prices of new construction apartments in Klaipėda, were different from other major cities. In comparison with the corresponding period of 2014:

- the average price of economy-class apartments was 1,180 EUR/sq.m. and increased by 7.6 percent
- the average price of mid-class apartments was 1,300 EUR/sq.m. and increased by 0.8 percent
- the average price of luxury-class apartments was 2,000 EUR/sq.m. and increased by 0.6 percent

Developers' pricing in Klaipėda (in the economy-class segment, in particular) is difficult to explain in the current context of significant decrease in transactions. Likely, this is a temporary increase in RE prices, since market liquidity has decreased significantly, thus developers should take promoting measures in order to sell more housing.

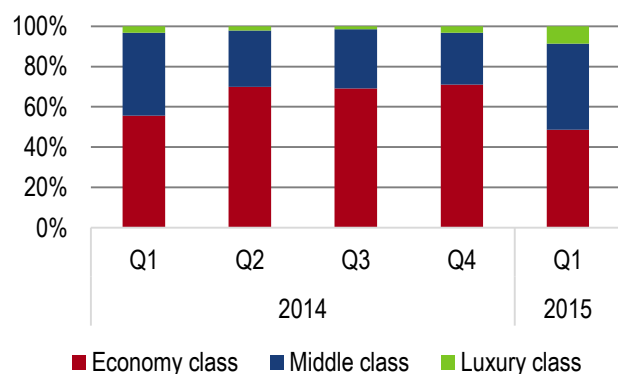
In the historical point of view, the developers had not been inclined to reduce asking-prices in Klaipėda market – they accepted lower liquidity and were waiting for natural stimulation of market. Possibly, similar scenario will occur in 2015 as well: the market will remain sluggish, while prices will change insignificantly, i.e. by 2-3 percent.

Average prices of apartments under classes in Klaipėda (EUR/sq.m.) **New apartment supply under classes (percent)**

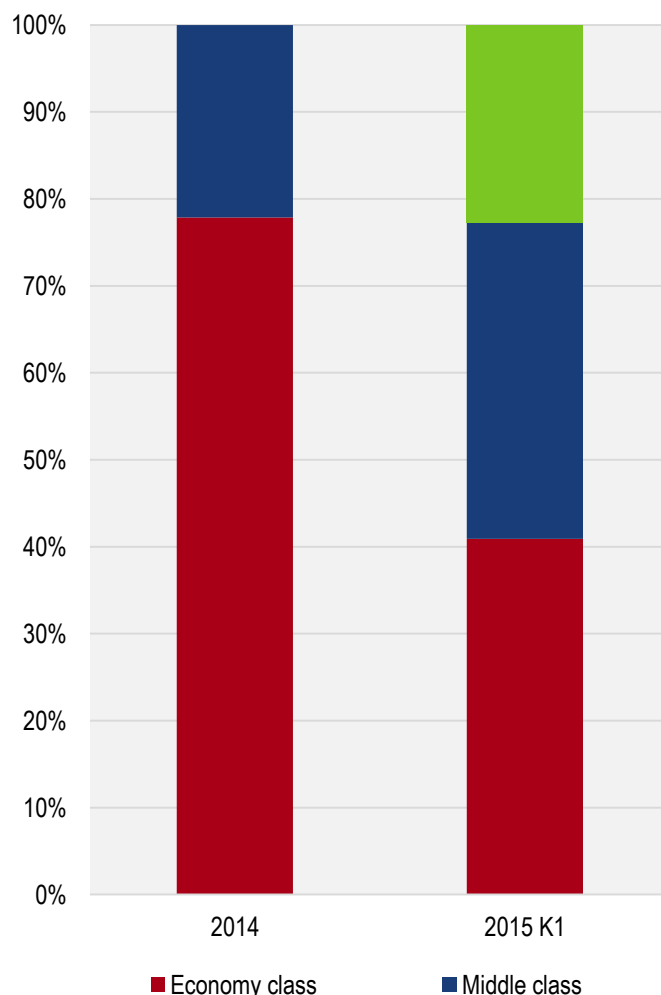


Source: Inreal

New apartment sales under classes (percent)



Source: Inreal



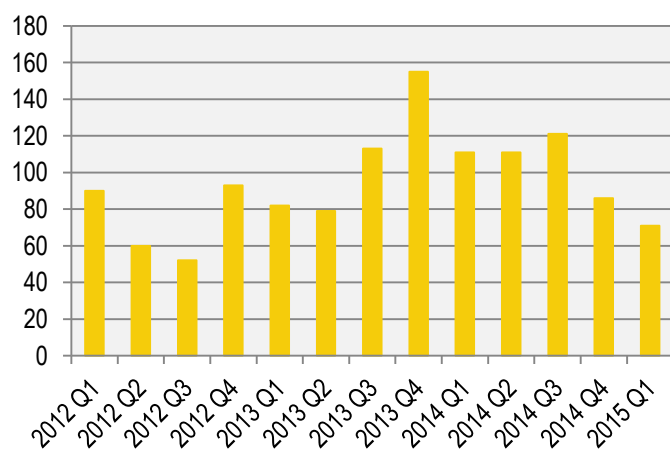
Source: Inreal

Palanga and Neringa market – gloomier expectations for the future influenced the second-home segment

Gloomier moods, influencing the RE market in Lithuania, did not bypass the second-home segment in Palanga and Neringa as well. In the first quarter of 2015, in comparison with the same period a year ago, the amount of apartment purchase-sale transactions decreased by 36 and 72 percent, respectively.

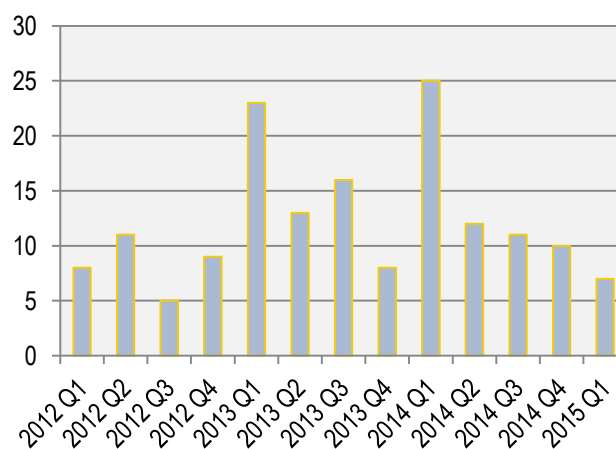
The mid-2014 was the most active period in the second-home segment in Palanga and Neringa; the developers offered new projects to the market and transaction volumes were among the highest ones. However, the market was contracting during the subsequent quarters; in the first quarter of 2015, the volumes of new construction apartment transactions in Palanga decreased by 71 percent, in comparison with the corresponding period a year ago, and returned to level of 2012-2013. As a result of low sales of new construction apartments in Neringa, the calculation of similar statistics becomes meaningless.

Transactions of apartments in Palanga (units)



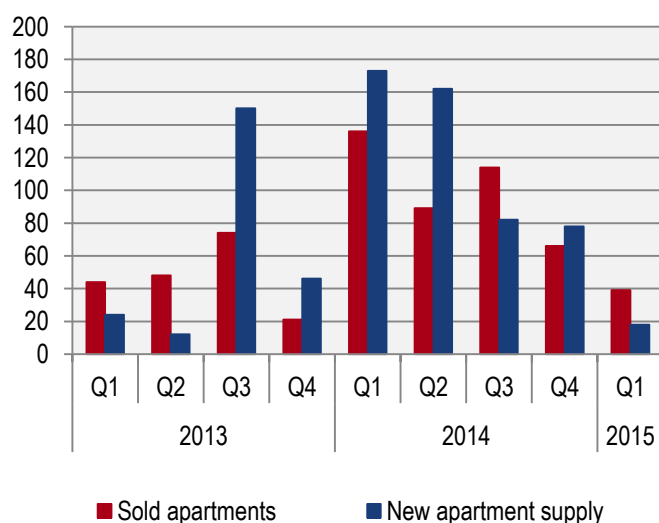
Source: SE Centre of Registers

Transactions of apartments in Neringa (units)



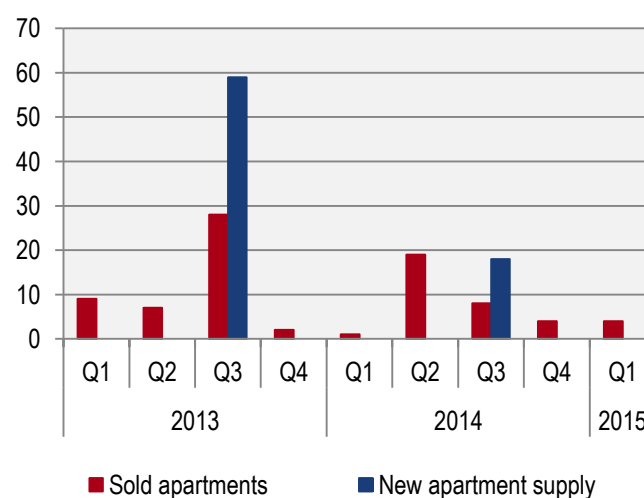
Source: SE Centre of Registers

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



Source: Inreal

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



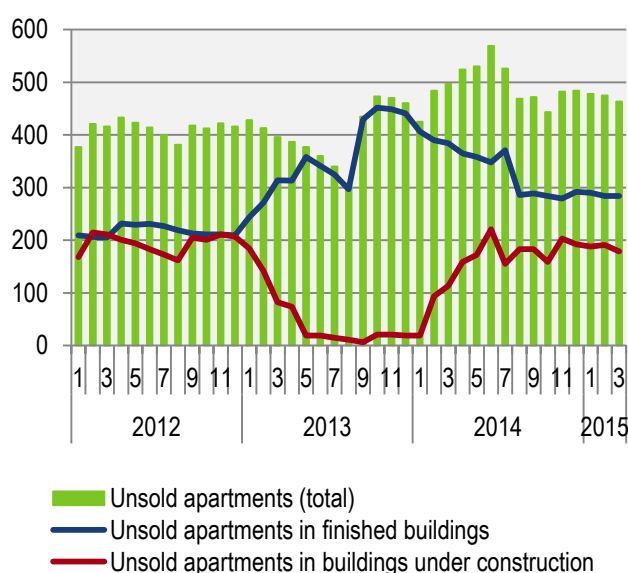
Source: Inreal

In 2014, the mid-class projects were offered in Palanga the most – they were increasing the overall average price in the segment and the entire market. In the first quarter of 2015, the economy-class apartments only were offered to the market. Likely, the economy-class segment will cover the greatest share of supply in 2015, since purchasers become more sensitive to the final RE price and are more interested in cheaper housing. In the first quarter of 2015:

- the average price of economy-class apartments was 1,080 EUR/sq.m. and increased by 8.8 percent
- the average price of mid-class apartments was 1,550 EUR/sq.m. and increased by 10.6 percent
- the average price of luxury-class apartments was 2,310 EUR/sq.m. and decreased by 0.3 percent

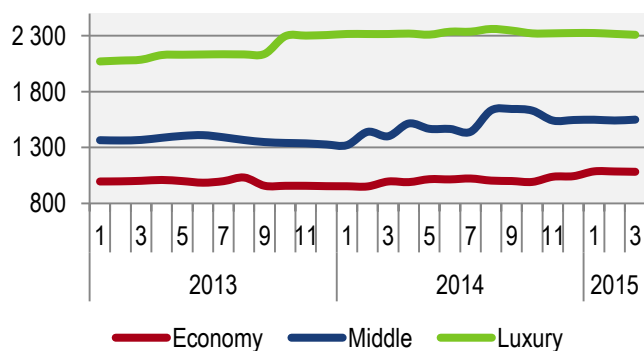
The increase in prices of new construction apartments in Palanga was registered as a result of new projects launched in the second half-year of 2014 rather than the general change in prices in the market. The projects increased the average price, which has remained stable in the first quarter of 2015. Likely, the prices of new construction apartments will not change in 2015.

New construction apartments, unsold in Palanga (units)



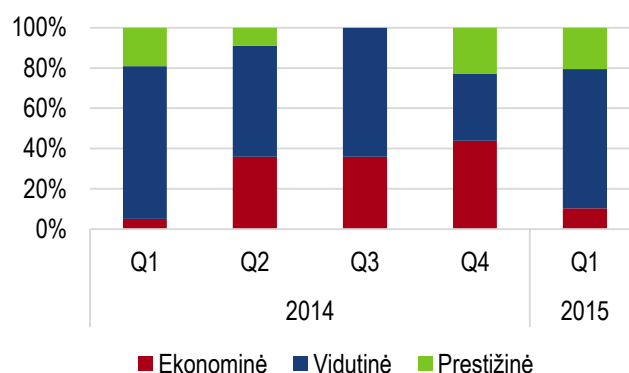
Source: Inreal

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



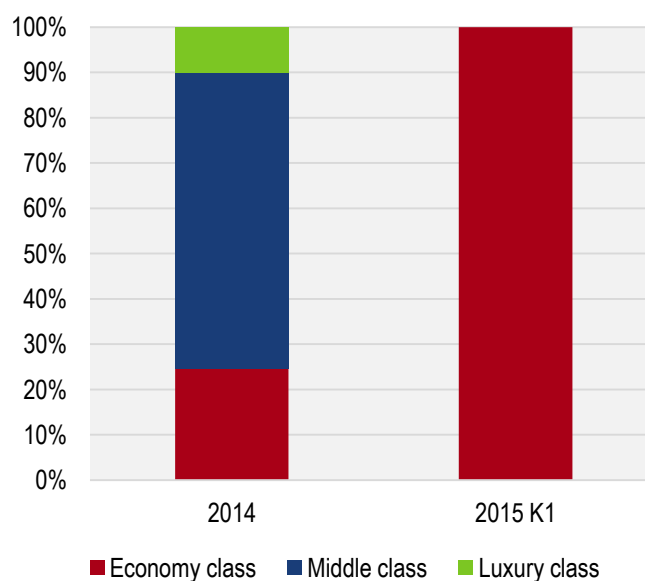
Source: Inreal

New apartment sales under classes (percent)



Source: Inreal

New apartment supply under classes (percent)



Source: Inreal

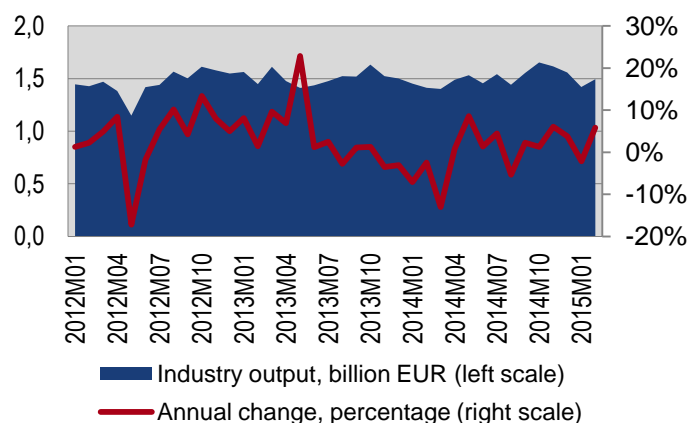
BUSINESS CENTRE MARKET REVIEW

Vilnius was the most active in the business centre segment. In the first quarter of 2015, the business centre "Vertingis" was finished in the capital city and supplied the modern business centre market with 6,000 sq.m. GLA. Other 5 business centres were being built, and once they are finished, Vilnius modern business market will be supplied with approx. 59,200 sq.m. of GLA.

Despite the impressive rates of business centre development in Vilnius, the vacancy rates have not increased, since the newly built business centres are rented successfully in the market: to newly establishing or expanding companies. Business centre developers feel rather optimistic, since the construction works of several new business centres are planned to be launched in the centre of Vilnius city.

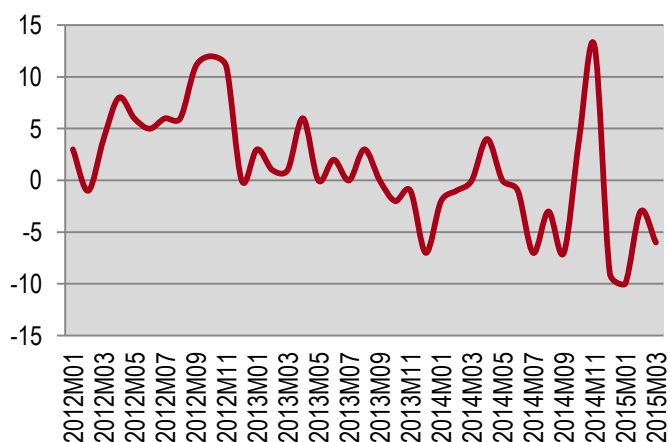
The optimism in this segment is stimulated mostly by a more active market of investment transactions, which provides business centre developers with higher liquidity and opportunities to start new projects after successful development and realization of business centres. These objects are usually acquired by investment funds, local or foreign, since the yield, amounting to 6-7 percent, is very attractive to them in current environment of low interest rates.

Dynamics of service sector enterprise income of Lithuania, billion EUR



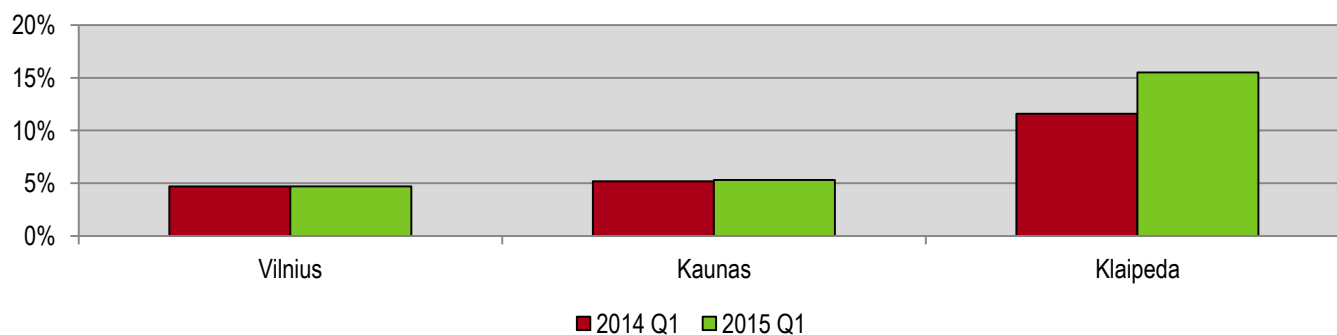
Source: Department of Statistics

Services confidence indicator



Source: Department of Statistics

Dynamics of vacancies in Vilnius business centres under classes



Source: Inreal

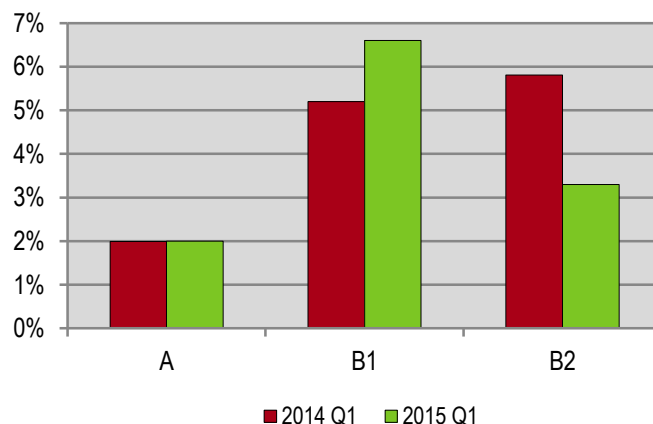
Business centre market feels optimistic in the capital city only. The development of new business centres in Kaunas and Klaipėda was sluggish in the first quarter of 2015. There were 2 business centres being built in Kaunas, which will supply the market with approx. 4,500 sq.m.; meanwhile, the construction works of one business centre with the area of 2,500 sq.m. were being planned in Klaipėda. The demand of business centres is minimal in the cities other than the capital city; much more companies are looking for the ways to optimize costs. Frequently, large companies close their divisions in the regions and focus their activity in one place, i.e. the capital city. Such trends do not allow expecting the essential changes in the situation in Kaunas and Klaipėda, thus the business centre market will remain sluggish, vacancies relatively high, and lease prices stable.

Business centres being developed in Vilnius in Q1 2015

Business center	City	Class	Area, sq.m	End of construction
Premium	Vilnius	A	8.200	2015 Q2
K29	Vilnius	A	14.000	2015 Q3
Uniq	Vilnius	A	7.000	2015 Q3
Quadrum I	Vilnius	A	27.000	2016 Q1
Sostena	Vilnius	B1	3.000	2015 Q2
Mikrovisata	Kaunas	B1	3.500	2015 Q2
Ožėškienės g.	Kaunas	B1	1.000	2015 Q2
Minijos g.	Klaipėda	B1	2.500	2016
			66.200	

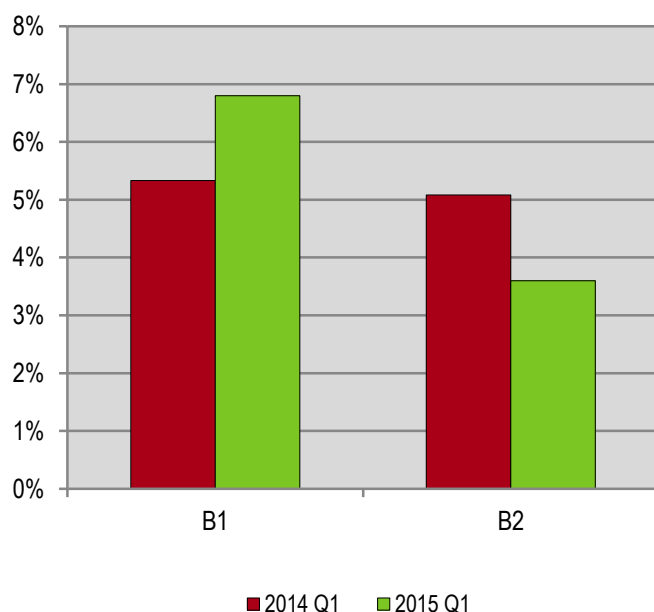
Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes



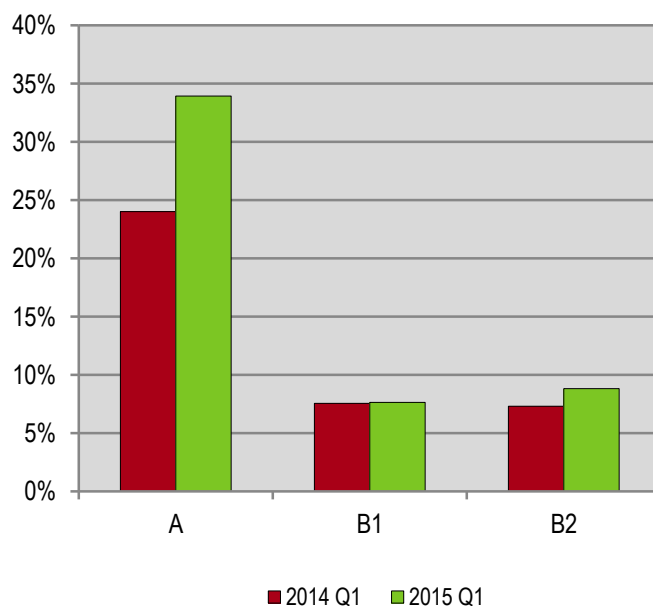
Source: Inreal

Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

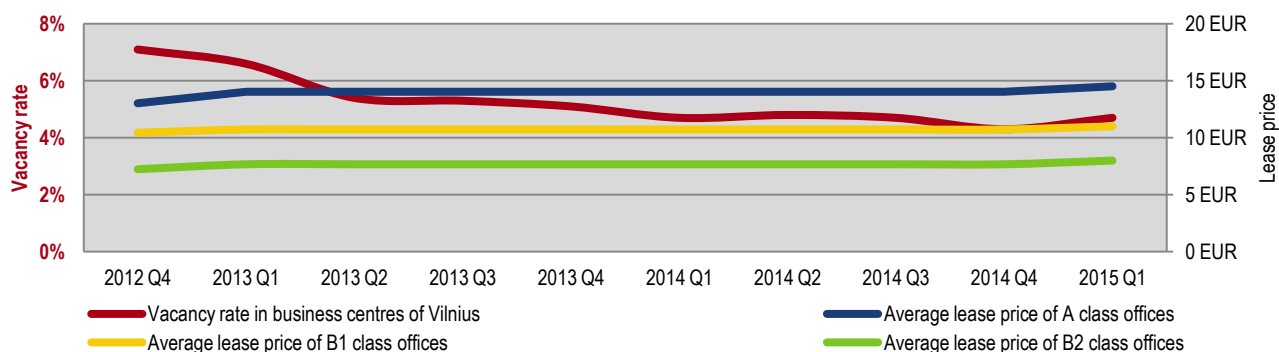
Dynamics of vacancies in Klaipėda business centres under classes



Source: Inreal

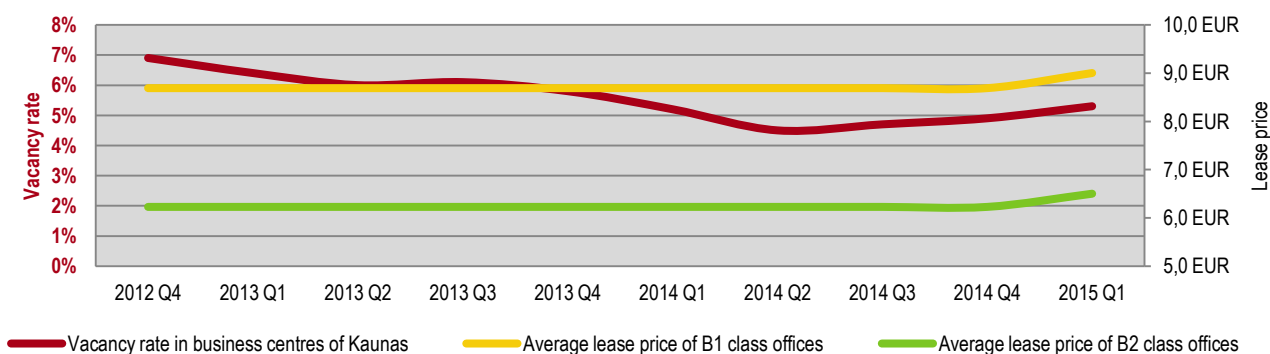
Lease prices have remained stable in the major cities. Actually, as a result of new currency, lease prices were often rounded up, thus a slight increase in lease prices was observed in Vilnius, Kaunas and Klaipėda. In 2015, lease prices should remain stable in all major cities, since the growing demand should be met by the newly developed business centres in Vilnius, and the amount of modern business centres in Kaunas and Klaipėda is sufficient to meet current demand.

Dynamics of lease prices and vacancies in Vilnius business centres



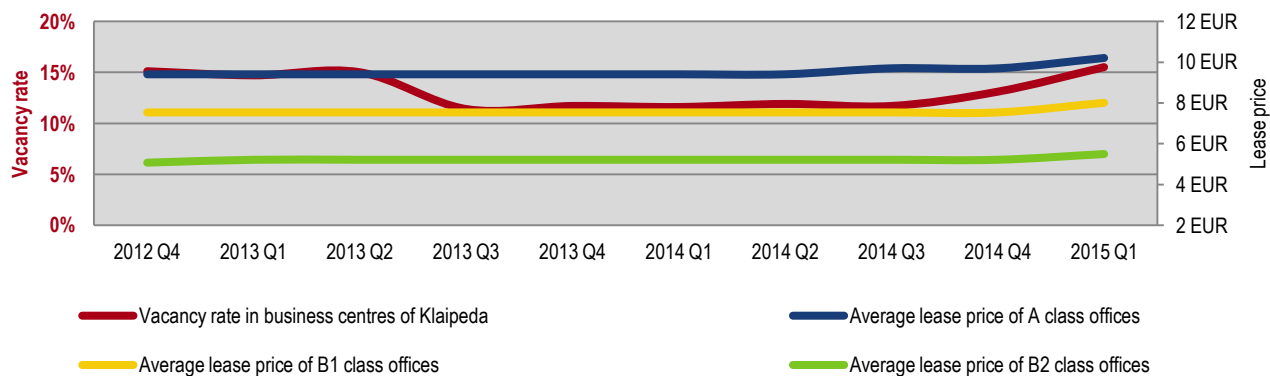
Source: Inreal

Dynamics of lease prices and vacancies in Kaunas business centres



Source: Inreal

Dynamics of lease prices and vacancies in Klaipėda business centres



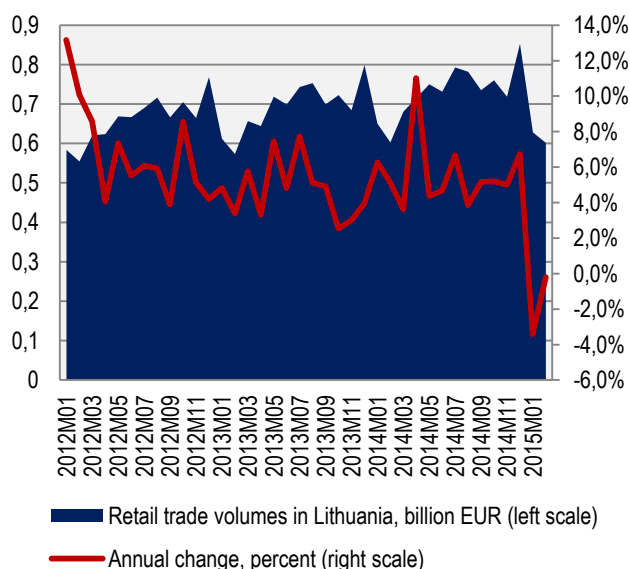
Source: Inreal

SHOPPING CENTRE MARKET REVIEW

In the first quarter of 2015, the retail trade volumes were decreasing in Lithuania. Changes in domestic consumption were mostly influenced by lower expectations of residents for the future, as well as a slowdown in economic and income growth.

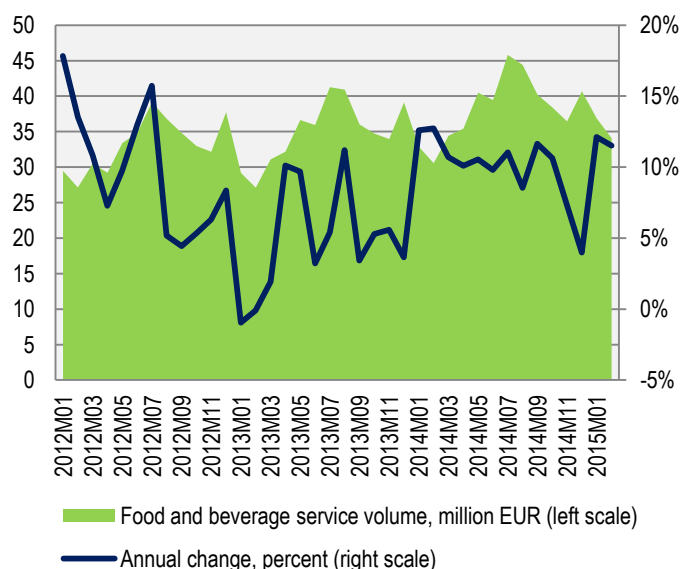
Since a moderate economic growth is foreseen in Lithuania for the near future, it can be forecasted that the retail trade volumes should stabilize, thus there will be less presumptions for expansion of shopping centres in the near future.

Retail trade volumes in Lithuania, billion EUR



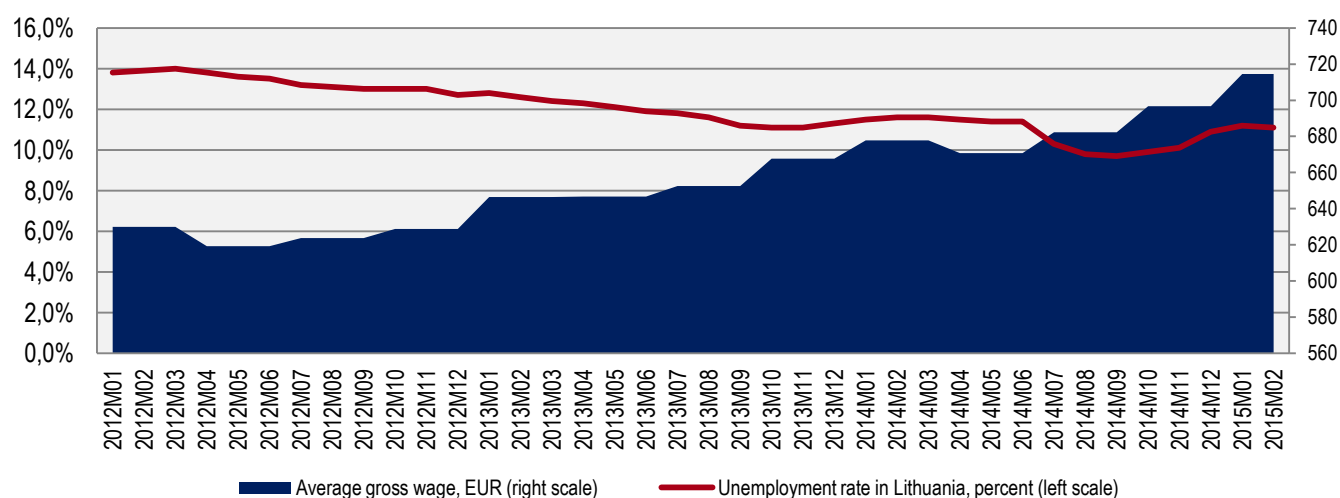
Source: Department of Statistics

Food and beverage service volumes, million EUR



Source: Department of Statistics

Dynamics of unemployment and gross wage

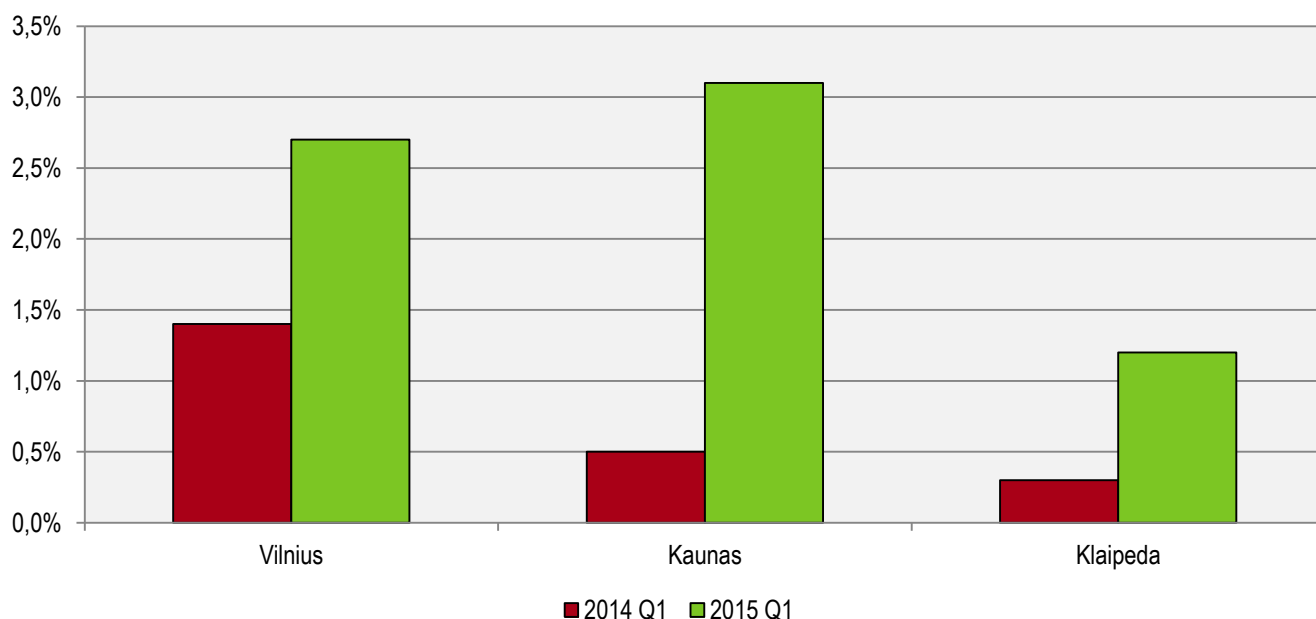


Source: Department of Statistics

In the first quarter of 2015, no new shopping centres were opened in the country. The expansion of shopping centre “Babilonas I” was finished in Panevezys; the area has increased by 1,600 sq.m. and the shopping centre was renamed as RYO. -Moreover, the construction works of planned shopping centres were continued.

Vacancy rates were increasing in the shopping centres located in all cities, as a result of retail trade rates, which have become worse. Due to a slowdown in the economic growth and lower expectations for the future, it is difficult to expect for new projects in the near future. Expansion of shopping centres is closely related to the general economic welfare in the country, since they are selling dispensable products – their consumption is growing fast during economic growth, but is falling respectively at recession.

Dynamics in shopping centre vacancies in the major cities, percent



Source: Inreal

Shopping centres being developed in Q1 2015

City	Name	Area, sq.m	End of construction
Vilnius	PC Domus Pro (II stage)	5,000	2015 Q3
Vilnius	Nordika (I stage)	18,000	2015 Q4
Vilnius	Nordika (II stage)	20,000	2016 Q2
Vilnius	Parkas Outlet (expansion stage)	3,000	2016 Q2
Total:		46,000	

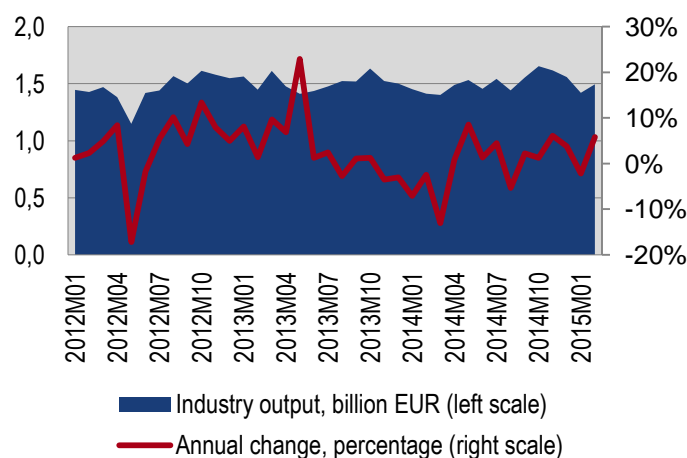
Source: Inreal

INDUSTRIAL AND WAREHOUSING PREMISES MARKET REVIEW

Despite "the war of sanctions" with Russia, which influenced the economy of Lithuania the most in the European Union, industry representatives' expectations remain positive. In the first quarter of 2015, the Industry Confidence Index was improving. Representatives' forecasts as regards export volumes were also improving, what allows expecting the remaining demand in the logistics centre market.

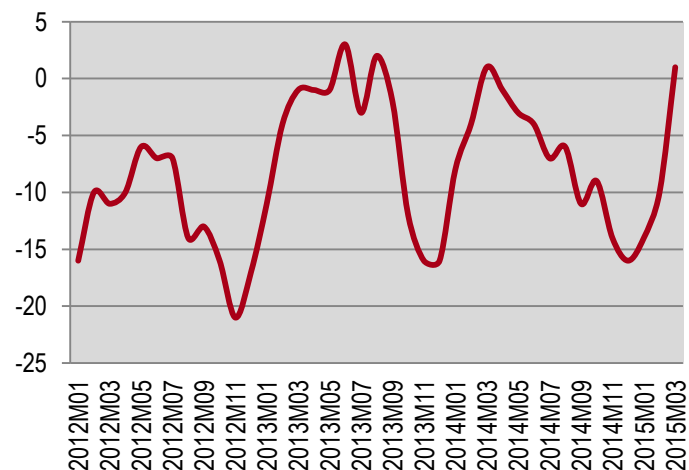
Industrial development in Lithuania has favourable conditions due to relatively low wages as well as lower investment costs, in comparison with other European countries; therefore, it is likely, that current interest of foreign countries in Lithuanian market and opportunities to develop industry will not fade away, particularly, as long as EU support is valid. When planning the development, foreign companies aim at minimising investment and operational costs as much as possible, thus they are more and more analysing the region of Eastern Europe, where Lithuania is one of the most attractive contenders.

Industry output in Lithuania, billion EUR



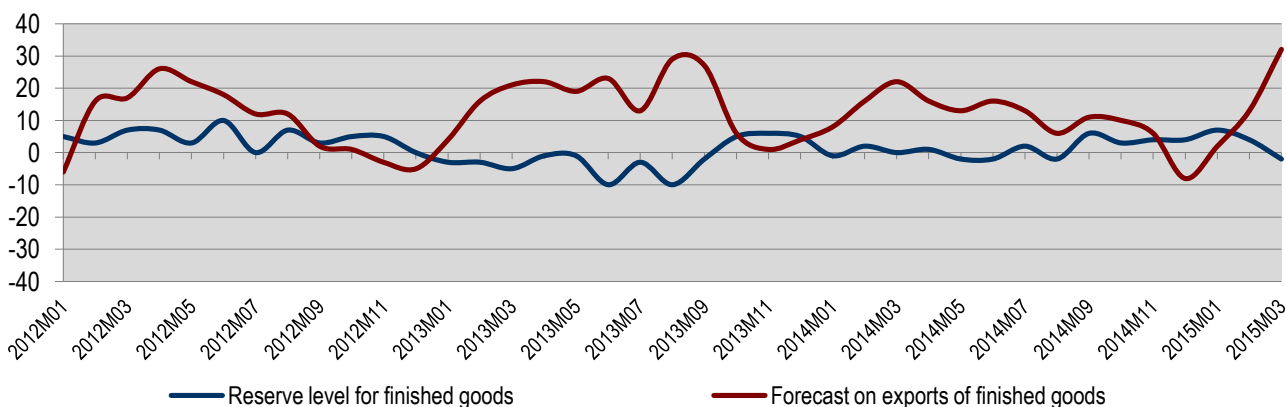
Source: Department of Statistics

Dynamics of Industrial Confidence Index in Lithuania



Source: Department of Statistics

Industry representatives' forecasts on exports and reserves



Source: Department of Statistics

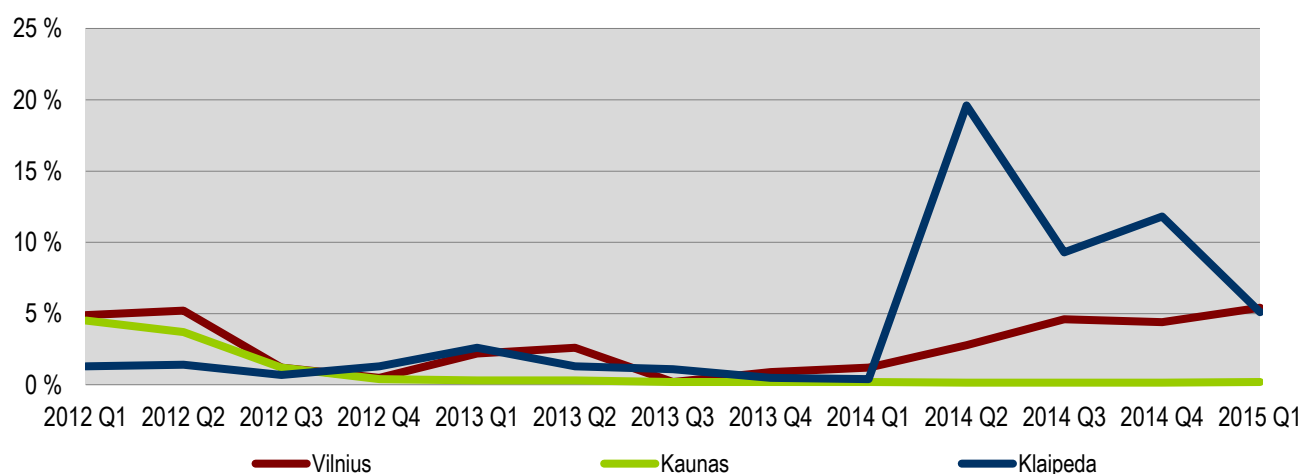
Quite good rates of industrial sector resulted in maintaining good vacancy rates in the logistics centre market. Actually, this rate was worse in Vilnius due to premises vacated, in contrary to Klaipeda, where projects, finished in 2014, were successfully rented, thus the vacancies were decreasing in the first quarter of 2015. The majority of warehouses in Kaunas are build-to-suit, thus there is almost no supply of warehousing premises to rent – vacancies remain close to zero.

In the first quarter of 2015, there were no new modern logistics centres opened for rent; 2 projects were being built: Arvydo Paslaugos III logistics centre in Vilnius, and Klaipeda LEZ warehouse. In comparison with the entire segment, such expansion is insignificant, because the amount of build-to-suit warehouses is much higher throughout Lithuania.

The lease prices of old and new construction warehousing premises have been stable for some time and they should not change in the near future. Actually, in some certain cases the owners of vacant warehouses were willing to negotiate and agree on prices less than the market price; however, such single cases did not affect the general average price.

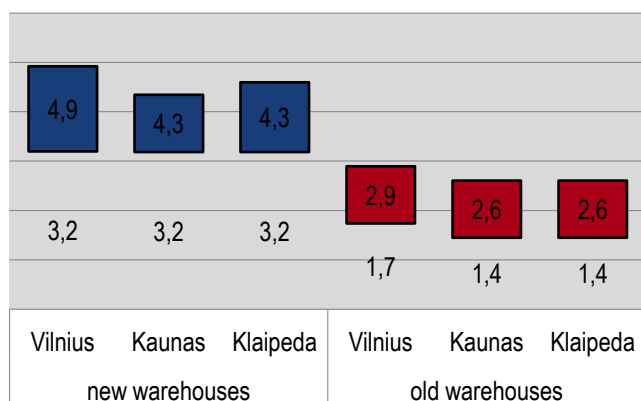
Lower expectations of the economic growth pose new challenges in the industrial and warehousing sector; however the potential of Lithuania remains high in a long-term perspective. It is possible, that the industrial development will not stop in Lithuania and it will form additional demand of warehousing premises. An increase in lease prices should not be expected in 2015, however new projects should be developed and the expansion of this segment should be held.

Dynamics of vacancies in modern logistics centres in Lithuania



Source: Inreal

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



Source: Inreal

Logistics centres, being developed and expected to be developed in Lithuania

City	Name	Area, sq.m	End of construction
Vilnius	Arvydo Paslaugos II	8,500	2015 Q3
Klaipėda	Klaipeda FEZ warehouse	13,000	2015 Q4
Total:		21,500	

Source: Inreal

RENT TO OWN: NEW AVENUES FOR HOME BUYERS AND DEVELOPERS

Due to increasing oversupply on the housing market and tightening requirements for responsible borrowing real estate market participants are forced to search for alternatives to conventional home purchase and sale transactions.

Rent to buy or rent to own option has been recently reintroduced to the real estate market. According to this scheme, a tenant rents housing from a real estate developer over a period of several years during which the rent is paid, and after expiration of the lease period the rent is credited towards a down payment required in obtaining a housing loan from a bank.

This attempt is not the first to introduce the rent-to-own scheme in Lithuania. Although isolated transactions of such type are regularly taking place, the last active attempt to offer and popularise the rent to own option was in 2009, when real estate developers sought to boost residential property sales that had been affected by the economic downturn. According to the terms and conditions then offered, a tenant (an individual intending to purchase real estate) was required to make a down payment, which as a rule made up 20 per cent of the total price of the housing, while the balance of the price was spread over nearly a two-year period of lease at the end of which the tenant paid the balance of the price (if any) of the housing to become the owner.

It is likely that on the housing market where buyers have more limited access to borrowing to finance their real estate acquisitions, with the market structure remaining unchanged, the supply of residential property remaining at a high level and the requirements for responsible borrowing getting tighter, real estate developers will offer an increasingly larger number of options for real estate acquisitions, with rent-to-own undoubtedly being among the most attractive.

Rent to own is a lease of residential property with deferred acquisition after a certain period of time.

Rent to own is an arrangement between a tenant and a landlord based on which on expiration of the lease period or payment of the full contractually determined price title to the leased property will pass to the borrower as the owner.

It is particularly important here for tenants as future owners of homes or other property to realise and note that throughout the rent to own period (until title to home or other property passes to the tenant) a normal lease relationship exists between the tenant and the landlord. A tenant who intends to buy a home or other property through the rent-to-own scheme signs a written lease agreement with the landlord (with or without a repurchase clause in it), pays the rent at a determined rate and has possession over the property as specified in the agreement; in its own turn, the owner of the real property has ordinary rights and duties as a landlord.

In the cases where the original lease agreement does not provide for an option to repurchase, the tenant and the landlord may agree to that effect at a later point – the legislation currently in effect enables signing a supplementary agreement to a loan agreement containing a repurchase clause and providing for other matters, e.g. whether or not payments of rent effected prior to the date of signing of such agreement will be credited towards the repurchase amount.

At all events, whether a repurchase clause is made part of the body of the lease agreement, or an agreement to repurchase is concluded later, the parties – the landlord and the tenant – must explicitly agree on the terms of repurchase: time of repurchase, execution of a deed confirming repurchase, registration of the rent-to-own agreement itself and of title, as well as other matters. In the absence of a clear understanding the tenant runs the risk of not retaining the property, losing the payments and potentially needing to bring a dispute to a court of law.

Material terms of a rent-to-own agreement: things not to forget

As to key requirements applicable to a rent-to-own agreement and dealings between the tenant and the landlord, these are mainly requirements arising from the lease relationship.

The primary and key requirement is the ability to use the rented residential or other property for its intended purpose. Under a rent-to-own agreement a landlord may only lease residential property that is fit for occupancy, meets fire safety, environmental, health, sanitary and hygiene and other requirements. For this reason, construction of the subject of a rent-to-own agreement must be fully complete. In other cases, when there are plans to rent and purchase real estate the construction of which is not complete, other legal options should be considered, e.g. hire purchase of a real property item.

As rent-to-own is a variety of lease, a relevant point here is also the rent charge which is significant not only for the

tenant's right to rent the property, but also the transfer of title to such property and the consequences of termination of the agreement.

The main rule to be followed by the parties is provide a clearly defined rent charge calculation and payment procedure. Unless the tenant and the landlord stipulate the procedure for the calculation and the rate of the rent charge, both parties risk to incur financial losses, because where the parties to the lease fail to agree on such charge, at the request of the parties it is determined by a court. In the latter case, if an application is made to a court, a relevant circumstance would be not only the normal rate of rent on the market, but also the market value of the residential property, which possibly would be different compared to the expectations that the parties had when they entered into the rent-to-own agreement.

As regards the rent charge, it should be borne in mind that depending on the condition to which transfer of title to the tenant is linked (upon payment of the full price specified in the agreement or upon expiration of the lease period), a respective procedure for the calculation, variation and payment of the rent charge must be provided.

In situations where title is intended to pass to the tenant as of expiration of the entire lease period, it would be unreasonable to require that the parties negotiate in advance a specific, fixed rent charge or the value of the agreement. The tenant and the landlord are free to vary the rent charge payable according to ordinary rules of lease, e.g. by indexation of the payable rent charge or, taking into account changes on the market, agreeing periodically (in case of residential property lease, not more frequently than twice during a one-year period) to vary the rent charge.

Otherwise, if a rent-to-own agreement provides that title to the leased property may vest in the tenant prior to expiration of the lease period in case the full price of the agreement is paid, the parties should expressly stipulate such price in the agreement. However, in the latter case, in order to safeguard the interests of the tenant and the landlord, it is not prohibited, in case of changed market conditions, to establish grounds for variation of the final price of the agreement.

Particularly relevant is a risk that parties to the rent-to-own agreement may face – probability that the agreement will be treated not as a rent-to-own agreement, but rather a hire purchase agreement. In the cases where the rent charge payable in case of rent-to-own is substantially higher than the market rent charge and is linked not to payment for using the property, but payment for acquisition of title to the property (e.g. the amount of the payment is comparable to the size of hire purchase instalments), the agreement may be treated as a

hire purchase agreement in respect of a real property and therefore would be subject to notarial certification (failure to comply with such requirement alone constitutes a ground for invalidation of the agreement).

If an agreement is recognised as a hire purchase agreement in respect of a real property item, it is subject to other requirements than are applicable to lease, so even if the requirement for notarial certification has been met, other grounds may arise leading to invalidity of such agreement. For this reason, the parties must take into account and evaluate the purpose for which the rent charge is paid and also whether it matches the fair market price.

In performing a rent-to-own agreement the issues of operation of the leased property are also relevant. It would not be reasonable to consider that by entering into a rent-to-own agreement the tenant does not seek, after a certain period of time, to gain full title to the rented property, and it is therefore relevant to stipulate the extent to which the tenant will be entitled to modify the rented property – make improvements, carry out routine and major repairs, sublease the property.

Although it is common practice that responsibilities towards real estate are generally shared between the parties, with the tenant being responsible for current (routine) repairs of the property, and the landlord being responsible for major repairs, taking into account the above circumstances (the tenant's intention to possess the property as its own), it is recommended that the tenant should be given broader powers to alter the condition of the property. However, this should not become landlord's "charity" to the tenant. It is worth determining that material improvements to property or significant repair works and conditions for compensation for them must be pre-negotiated with the landlord.

Oral, written or notarised?

A rent-to-own agreement, just like an ordinary lease, has to be concluded in simple written form if the lease is concluded for a period longer than one year (or, in case of residential property, regardless of the duration of the lease period, if the landlord is a legal person). However, if rent-to-own conditions are met, transfer of title to real property (real property item) is subject to notarial certification – a rent-to-own agreement must be completed by executing a notarised agreement (deed, agreement, etc.) recording transfer of title by the landlord to the tenant. Accordingly, rent-to-own does not help to avoid notary's fees that are normally incurred when transferring title, and in order to ensure maximum protection for the interests of the parties, avoiding unjustified termination of the agreement, it is advisable to obtain notarial certification for the rent-to-own agreement itself.

In addition, due to peculiarities of the lease relationship, in order to safeguard the interests of the tenant, a rent-to-own agreement needs to be registered. There are frequent situations in practice when a landlord sells real estate and the new owner terminates existing lease agreements. To avoid such risk and ensure that despite changes in ownership the tenant will still be able to demand that the rent-to-own scheme should be continued, such agreement must be registered in the Real Property Register.

Cessation of rent-to-own

Rent-to-own can cease in two ways: by duly fulfilling the obligations under the rent-to-own agreement or early termination of the agreement.

In the first case, if the tenant has been duly renting the property during the entire lease period or has paid the full price specified in the rent-to-own agreement, the tenant is deemed to have acquired title to the leased property. To record such legal fact, unless the parties have done so when entering into the rent-to-own agreement, they should obtain notarial certification for such agreement which would provide safeguards in case of a change of the holder of title.

In the other case, if a rent-to-own agreement is terminated early and the conditions necessary for transfer of title are not implemented, the tenant's rights to the leased property cease to exist together with the rent-to-own agreement. It should be noted that contrary to hire purchase agreements or consumer credit agreements, a rent-to-own arrangement does not entitle, in case of termination of such agreement, to claim transfer of title to the real property item, because in rent-to-own arrangements the elements of lease (use), not those of

ownership (purchase) are dominant. Accordingly, in the event of unjustified termination of the agreement by the landlord the tenant may only claim damages, but not transfer of title to the leased property.

A rent-to-own agreement can serve as an ideal means to acquire real property and as a means to secure long-term income from rent, because it creates clearly defined and limited obligations, ensures a long-standing lease relationship and binds both the tenant and the landlord to act in a responsible and good faith manner towards each other. However, at the same time, if transaction documents are poorly drafted, obligations and responsibilities of the parties are not properly stated, rent-to-own can lead to very painful consequences. Accordingly, before putting a signature on the agreement it is advisable to remember the following points:

- Rent-to-own is a lease agreement – title to the leased property is transferred only after the obligations under the lease agreement have been duly discharged;
- Upon termination of a rent-to-own agreement the tenant may not claim transfer of title to the leased property;
- Although a rent-to-own agreement is not subject to mandatory requirement for notarisation, notarial fees cannot be avoided, because title can only be transferred under a notarised agreement;
- Improper wording of the purposes of the agreement and the rent charge may cause invalidity of the entire agreement;
- Only agreements that are made public (registered) help to protect interests properly.

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INREAL GROUP



JSC "Inreal GEO", JSC "Inreal valdymas" and JSC "Inreal", provides probably the widest spectrum of services in Lithuania, related to real estate. Inreal group companies belong to SC "Invalda privatus kapitalas". About 90 employees are currently working in Inreal group; mediations in lease or sale of more than 550 thousand sq.m of commercial premises, over 550 residential housing objects, and over 300 land plots. The company mediates in 50 residential housing projects, 24 investment projects, or their portfolios. More than 4,900 valuation reports and about 80 consultations (feasibility studies, investment memorandums, and market research) are being drawn up annually. The value of asset of valuation is above 2.5 milliard Lit. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Mažeikiai, Alytus, Plungė and Utena. Currently JSC "Inreal Valdymas" develops two real estate projects: houses in Nida "Kopų vetrunges" ("Dunes weathervanes"; „Kopų vetrungės“) and apartments and commercial premises in Klaipėda oldtown "Danes užutėkis" ("Danes Bay"; „Danės užutėkis“).

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BANKAS „FINASTA“



AB bank Finasta was founded in 2008. Bank specialization - investment and private banking services. Bank provides a wide range of services including both daily banking and corporate banking, investment banking services, also brokerage services. Bank Finasta for three consecutive years was nominated among the Top 3 banks providing best customer service in Lithuania. In 2013 EUROMONEY rated bank Finasta as the best bank in providing private banking services in Lithuania and also the bank providing the widest range of investment products in Lithuania.

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RAIDLA LEJINS & NORCOUS

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