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MARKET REPORT ECONOMIC AND REAL ESTATE TRENDS IN LITHUANIA 2013-2014



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ESTONIA LATVIA LITHUANIA BELARUS

CONTENT

SUMMARY OF LITHUANIAN ECONOMIC AND RE MARKET REPORT 2013-2014	3
MACROECONOMIC SITUATION REVIEW	5
WORLD ECONOMY.....	5
LITHUANIAN ECONOMY	6
HOUSING MARKET REVIEW	8
Housing market in Vilnius	10
Housing market in Kaunas	12
Housing market in Klaipėda.....	14
Housing market in Palanga and Neringa	15
BUSINESS CENTRE MARKET REVIEW	17
SHOPPING CENTRE MARKET REVIEW	20
LOGISTIC CENTRE MARKET REVIEW	22
TOURISM AND HOTEL MARKET REVIEW	23
NEWS IN REAL ESTATE LAW AND TAXES	25
AUTHORS	29
ABOUT COMPANIES / CONTACTS	30

SUMMARY OF LITHUANIAN ECONOMIC AND RE MARKET REPORT 2013 - 2014

The amount of transactions in the apartment market has been breaking the records of post-crisis. There were 2,430 new apartments sold in Vilnius (203 apartments per month, at an average), or even by 73 percent more than in 2012. There were 37 new multi-dwelling projects launched in Vilnius in 2013, which have added 2,280 apartments to the market – i.e. about 7.5 percent less than in 2012. A significant increase in sales resulted in the fact that in 2013 the demand has exceeded the new supply by 6.5 percent for the first time since the emergence of the crisis. The total rate of new construction apartment prices in Vilnius amounted to 5,050 LTL/sq. m with an annual increase of approx. 2.5 percent. In 2013, the prices of apartments have been increasing in 25 of the new projects, launched in Vilnius. The highest increase, 9.2 percent at an average, was noticed in the new economy-class projects. The increase in prices of the middle-class projects reached approx. 9 percent. The prices of new projects in the premium-class segment increased by approx. 11 percent. In addition, there were 10 projects at least, where, as a result of successful sales, the prices have increased averagely by 2.5-5 percent. It is expected that in 2014 the demand in Vilnius should be exceeding the supply by about 15 percent, consequently the trends of price increase should become even more intense – the forecasted average increase in prices of new construction apartments may reach 6-8 percent.

The recovery of the apartment market is also being observed in Kaunas. The total number of transactions on apartments sold in a year has increased by 24 percent, and the increase of transactions in new construction segment has reached even 53 percent – a monthly average was 22 units of new construction apartments. In 2013, the new construction multi-dwelling market in Kaunas was supplemented by 10 new projects with 355 apartments, i.e. even by 1.6 times more than in 2012. Regardless of the improving rates of liquidity, the prices of new construction apartments have been decreasing by approx. 4 percent in Kaunas over 2013, i.e. up to 3,680 LTL/sq. m. The major influence was made by new economy-class projects, launched in the market, where the prices were less by about 4 percent than the average price in this segment.

In contrast to the general trends, the number of transactions made in Klaipėda primary apartment market has been decreasing – about 215 new apartments were sold in a year (18 apartments per month, at an average) – i.e. by 13 percent less than in 2012. In 2013, the sales of 9 projects were launched or re-launched in Klaipėda market, that have supplemented the market with 280 apartments. In comparison

with 2012, the new apartment supply decreased by about 32 percent. At the end of the year, the total rate of new construction apartment prices reached about 4,200 LTL/sq. m, i.e. the annual decrease was about 2.5 percent.

A significantly increasing activity of the second-home segment has been observed in the market – about 190 units of new construction apartments were sold in Palanga (16 apartments per month, at an average) and, in comparison with 2012, the increase in transactions was 30 percent. About 50 new apartments were sold in Neringa region (4 units per month, at an average), i.e. even by 2.9 times more than in 2012. In 2013, the sales of 5 projects were launched in Palanga, that have supplemented the market with about 230 units of new apartments – by a quarter more than in 2012. In 2013, the sales of 2 projects with 59 apartments were launched in Neringa – by 23 percent more than in 2012. The total rate of prices in Palanga decreased by 1.6 percent in 2013, up to 5,190 LTL/sq. m. As a result of growing demand and new projects in the market, the total rate of prices in Neringa was increasing by about 8 percent in 2013, up to 9,500 LTL/sq. m.

A record-breaking activity has also been observed in the land market. According to data of SE Centre of Registers, there were 38,281 land purchase-sale transactions registered throughout Lithuania in 2013 – by 18.6 percent more than in 2012. The majority of them were the transactions on agricultural land purchase-sale. The transactions in this segment made up 77 percent of all transactions conducted in 2013. The major activity was in the most productive regions of Lithuania. The average annual increase in prices of agricultural land increased by 10-15 percent. The average price of parcels in the most productive regions reached 10,000-15,000 LTL/ha.

The capital city was playing the major role in the land market. The majority of agricultural and residential land transactions were made in Vilnius city - 51 and 35 percent of all transactions, respectively. This significant hike of agricultural land in Vilnius city may be related to the amended law on territory planning, which entered into force since 2014. The law eliminated the necessity to draw up detailed plans in many cases. As a result of the recovering RE market in Vilnius, a relatively cheaper agricultural land has become attractive to investors.

In 2013, the trends of well-occupied premises and growing lease prices were prevailing in business centres in Lithuania. Active investments have been further continued in the business centre market of the capital city – 2 business centres (13,300 sq. m) were opened and 6 new business centres (73,500 sq. m) were being built. Despite the new projects, the vacancy rate in the capital city has been further decreasing – it has shrunk by more than a half over a year – from 7.1 to 3.5 percent. The total area of modern offices, occupied in a year,

exceeded 26,000 sq. m. Considering the fact that the newly scheduled projects will be implemented in two years, the existing increase in supply should meet the need in the market. Vacancy rates in Kaunas and Klaipėda have also been decreasing, from 6.9 to 5.8 and from 18.1 to 14.0 percent, respectively. Lease prices of modern offices in Kaunas and Klaipėda have remained stable. Current market indicators do not promote investing in the construction of new modern projects. Currently the investors focus on the renewal or reconstruction of the existing buildings into offices in these cities.

The demand of premises has been further exceeding the supply in the shopping centres, which are attracting the major flows of people. It was influenced not only by the recovering consumption, but also by the powerful foreign brands, which entered the market in 2013; one of the leading ones – the global leader of retail clothing trading *Hennes & Mauritz (H&M)*. The new powerful brands have significantly enlivened the market of shopping centres. As a result of the new powerful lessees, joining the market, the major shopping centres of the country, that are completely occupied almost permanently, decide to terminate the contracts with lessees, whose trading results are weaker. The latter, in turn, are moving to a more distant shopping centres, where vacancy rates are also decreasing significantly. In mid-2013, the first *IKEA* mall in the Baltic countries was opened in Vilnius (25,000 sq. m), the construction of the shopping centres *Prisma* (10,000 sq. m), *Domus Pro I* (7,500 sq. m) and the reconstruction of *Gedimino 9* (16,500 sq. m) was launched. The construction of the shopping centre *Luizè*, 6,500 sq. m, was launched in Klaipėda. The major part of premises in the shopping centres, which currently are under construction, are already reserved, although the opening dates of the shopping centres are expected no earlier than in the first half of 2014.

There was no lack of investments in supermarket sector in 2013 as well, but at this time the development in this sector has been made not only by the major supermarket chains, which open or reconstruct 10-20 supermarkets every year, i.e. *Maxima*, *Norfa*, or *Iki*. In 2013, several new objects in Lithuania were opened by *Rimi* (3) and *Kubas* (2), but the highest number of newly opened supermarkets belongs to the market newcomer *FreshMarket* (12). This network is planning even a more active development in 2014. The total amount of investments in the development of retail trade networks in Lithuania has exceeded 210 million Litas over the year.

The analysis of the vacancy rates of modern logistic centres in the major cities on the country in 2013 showed that it was particularly difficult to rent up modern warehouses, larger than 500 sq. m, in all three largest cities of the country. The vacancy rate in Vilnius city decreased up to 0.9 percent

(3,600 sq. m). The rate has also remained almost equal to 0 in Kaunas, while the vacancy rate in Klaipėda reached 0.5 percent (350 sq. m). In early 2013, the managers of logistic centres have increased lease prices for new lessees by 5-10 percent, and it seems that the balance, corresponding the expectations of both sides, was achieved. Therefore, the prices should remain stable in the nearest future. In late 2013, the lease prices of modern logistic centres in the capital city reached 12–17 LTL/ sq. m, and 11–15 LTL/ sq. m – in Kaunas and Klaipėda. The lease prices in old logistic centres in Vilnius reached 6–10 LTL/ sq. m, and 5–9 LTL/ sq. m – in Kaunas and Klaipėda.

The construction of logistic centres *Transekspedicija II* (17,000 sq. m) in Vilnius and *Vlantana II* (15,000 sq. m) in Klaipėda, launched in 2013, has gained momentum. In 2014, the development of existing centres in Vilnius should be started by *Arvydo Paslaugos* (8,500 sq. m), and *Ad Rem Lez* (8,200 sq. m) in Klaipėda. In 2013, the construction of the built-to-suit warehouses was launched by *HormannLietuva* (5,000 sq. m) and *Wurth Lietuva* (5,700 sq. m) near Vilnius, the trade company *Osama* (2,000 sq. m) and *Gintarinė Vaistine* (9,600 sq. m) – in Kaunas, and *AB Klaipėdos Jūrų Krovinių Kompanija (KLASCO)*, 8,000 sq. m – in Klaipėda.

In 2013, 7 new hotels were opened, which have supplemented the hotel market with more than 440 rooms. Such active investment in this segment market in Lithuania has not been seen for long, however the majority of new hotels were partially financed through EU support funds for Tourism development. Investments in the hotel market should not be missing this year as well – the opening of a 60-room, 4-star hotel *Amberton Green* in Palanga is expected in the first quarter of the year. Some more Lithuanian RE investors are considering the idea of investing in this segment, moreover, international hotel chains give more hints about their intentions to join or start development in the Lithuanian market.

From legal perspective, 2013 was important to the participants of the real estate market by the fact that following several years of discussions, nevertheless it was determined to implement the long-awaited territory planning reform. The approval of the new version of the Law on the Territorial Planning by the Seimas and the enforcement of amendments to the Law on Land on 1 January 2014 substantially changed the control of territorial planning and land management process, which has been applicable up to this date.

More important amendments were also adopted in the field of legislation, regulating agricultural land purchase. The Law on Construction has been amended and the new Law on State Supervision of Territory Planning and Construction was adopted.

MACROECONOMIC SITUATION REVIEW

WORLD ECONOMY

Global economic recovery is forecasted for 2014, which will be promoted by USA momentum-found economy and China, which is not refusing its ambitious plans of growth, while Europe, being liberated from recession, will no longer be a setback of global economic growth. In fact, the countries accustomed to low-value money and expensive raw materials will face many challenges this year – the plans of the U.S. Central Bank on gradual reduction of the economy promotion will result in increasing value of money, while the increasing supply of raw materials, especially, of energy, will be impeding the increase in petroleum and other raw material prices.

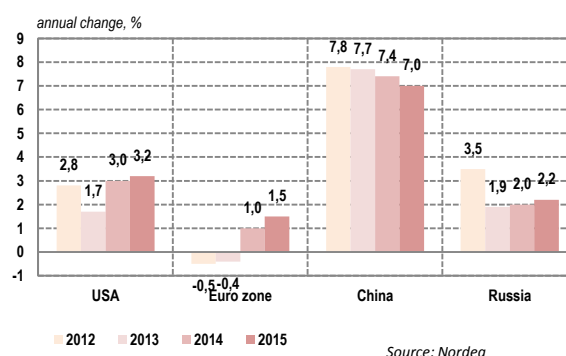
USA. The culprit of global economic and financial crisis will become the strongest link in the world economy again. A rapidly improving situation in the labour market, well-functioning financial system, investment level, which is close to a multiple-year average, and record-high profitability indicators of business show that U.S. growth will remain rapid. The good news is that as a result of shale gas revolution U.S. foreign trade deficit is decreasing, thus reducing the global trade imbalance and the risk of new global crisis. The other good news is that the deficit in U.S. budget is decreasing rapidly, it will be reduced up to 3.1 percent in 2014 and will be less than that in the Eurozone in 2015. In fact, rapidly-growing economy and low interest rates create the risk of new bubble occurrence. The U.S. home price index, created by Nobel Laureate economist Robert Shiller of Lithuanian origin, shows that the increase in U.S. home prices became a double-digit in Q3 of 2013.

Europe. The Old Continent economy is also recovering, and particularly good news are coming from the Southern European countries, which one after another will escape recession in 2014. Spain, Portugal, Ireland and Greece, being bedevilled by recession for many years, will show the greatest progress, while the underbellies of Europe will be France, Cyprus and Slovenia, who are facing with problems in their financial systems. In 2014 the Euro will be “in-fashion”, because investors will be attracted by a good return offered by the Southern European countries bonds, and a considerable potential of increasing prices of shares. However, the strong Euro exactly may become the highest threat for further recovery of Europe, because it reduces the competitiveness among the European manufacturers in the international market. Moreover, one should not depreciate the political risk – not only in EU

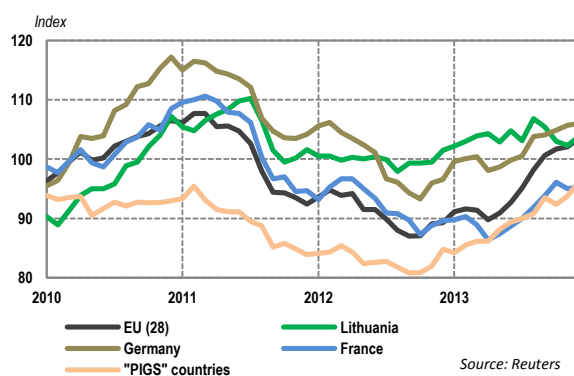
countries individually, but also during the elections to the European Parliament to be held in upcoming spring.

Russia. The economy of this country is being negatively affected by decreasing prices of petroleum, but it is (still) being maintained by loan-based consumption. Adverse trends of increasing prices of petroleum and other raw materials as well as unabated burdens in bureaucracy strangle investments and exports. However Russian economy growth is being maintained by rapidly increasing lending of households (annual growth by 30-40 percent), which promotes domestic consumption. Nevertheless, the growth is not sustainable, and thus the forecasted growth of Russian economy for 2014 and 2015 is just 2 percent.

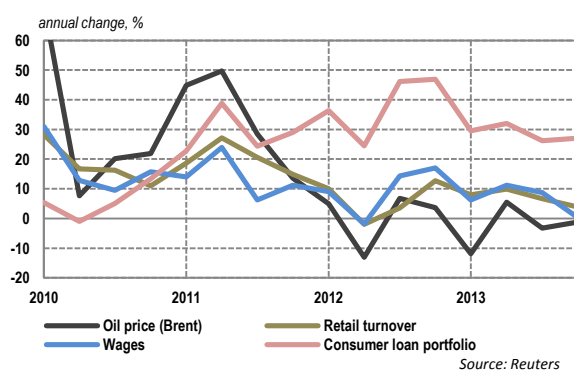
GDP growth forecasts



Economic Sentiment Indicators



Russian economy slowdown



GDP growth forecasts

	2012	2013f	2014f	2015f
World	3.3	3.0	3.7	3.9
Eurozone	-0.5	-0.4	1.0	1.5
USA	2.8	1.7	3.0	3.2
Russia	3.4	1.9	2.0	2.2
China	7.8	7.7	7.4	7.0
Lithuania	3.6	3.6	3.8	4.0
Latvia	5.6	3.9	4.4	3.2
Estonia	3.2	1.0	3.1	3.8
Poland	1.9	1.4	3.2	4.0

LITHUANIAN ECONOMY

Lithuanian economy 2014 will maintain growth momentum and will be one of the most rapidly growing economies in the European Union. The main drivers of the economy will be the increasing domestic consumption and investment, while the role of exports will downgrade. Low inflation, increasing wages and decreasing unemployment will promote the domestic consumption, while low interest rate and improving expectation of business and people will stimulate increase in borrowing volumes. Lithuania meets all Maastricht criteria, thus the Litas should be replaced by the Euro in 2015.

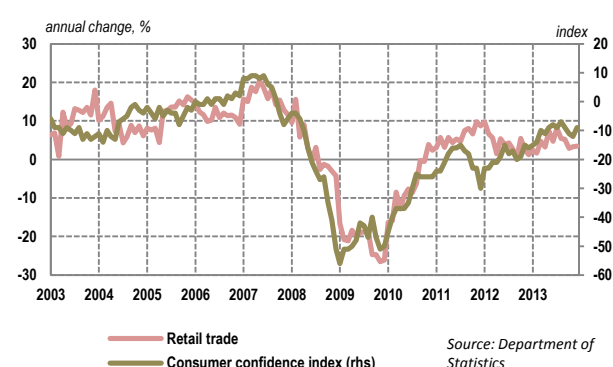
Forecasted Lithuanian Economic Indicators

	2012	2013f	2014f	2015f
GDP (practical)	3.6	3.6	3.8	4.0
GDP (nominal)	6.7	5.2	6.3	6.0
Wage	3.8	5.0	6.0	6.0
Unemployment rate	13.2	11.2	9.8	8.8
Inflation	2.8	1.7	2.0	2.5

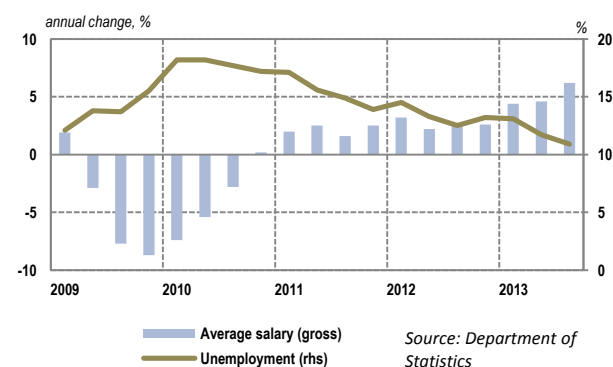
Export growth will slow down, but recession will be avoided. Europe, being liberated from the recession, and sustainable growth of the Baltic countries will counterbalance the negative influence of Russian

economic slowdown, therefore the export change in Lithuania will remain positive in 2014. The restrictions on Lithuanian product exports to Russia have not had significant influence on the general results of Lithuanian exports. The overall Russian economic slowdown is a greater threat, which may reduce the exports of Lithuanian transport sector to this country (30 percent of exports of all transport services go to Russia). Another threat is the increasing competitiveness in petroleum processing and fertilizer markets, which is intensified by relatively high prices of energy resources in Lithuania and staff costs, which will increase in the future.

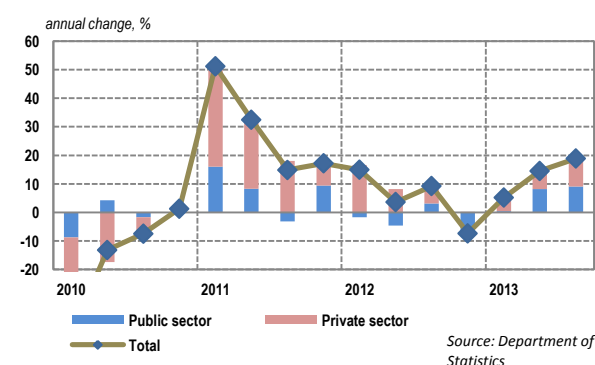
Retail trade and consumer confidence



Labour market indicators



Changes in material investments



Private consumption will become the main driver of economic growth. Decreasing unemployment rate, increasing wages and low inflation improve the financial status of households. Currently, the Lithuanian residents are holding deposits “for a rainy day”, amounting to 27 billion LTL, however, the interesting fact is that the majority of these funds (13.6 billion) are being kept in current accounts, not deposit accounts. It is partially related to particularly low deposit interest rates, however, it also reflects the potential growth in consumption and housing market. The greatest threat for private consumption growth is a high long-term (40 percent of all unemployed) and structural (low-qualified people, and those living in small towns) unemployment rate.

Private sector investment growth will accelerate. Worrying of debt crisis in the Eurozone, Lithuanian business has been avoiding to implement long-term investment plans and delaying them for the future. However, the improving economic situation in the Eurozone, the decreased rate of free capacities and benevolent credit conditions will promote companies to invest more actively to real estate, machinery as well as equipment. The greatest threat to investment growth arises from a lack of qualified staff, labour costs and competitiveness, which will increase in the future.

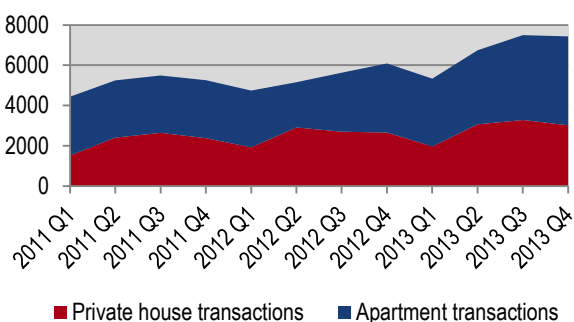
HOUSING MARKET REVIEW

2013 was distinguished by a significant purchasers' activity. The amount of transactions in the apartment market has been breaking the records of post-crisis period. The demand in Vilnius has exceeded the new supply by 6.5 percent for the first time since the emergence of the crisis. Further increase in demand and rise in prices of new construction apartments in Vilnius by 6-8 percent at an average are forecasted. Private house sales have been increasing for the fifth year in a row. Land market has been registering record-breaking indicators.

There were 27,039 apartment transactions made in Lithuania in 2013 – by 24.8 percent more than in 2012. Even a higher increase was registered in the new construction apartment segment – in 2013 about 3,320 new apartments were sold in Lithuania – by 51 percent more than in 2012. However, it is important to note that about 73 percent of all new construction apartments purchased in Lithuania was registered in Vilnius city, meanwhile this segment represented a significantly modest part in the remaining major cities of the country.

2013 was also very active for the private house segment – the volumes of transactions have already been increasing for the fifth year in a row. According to the data of SE Centre of Registers, there were 11,322 private house transactions made in Lithuania in a year – by 10.8 percent more than in 2012.

Apartment and private house transactions in Lithuania (units)

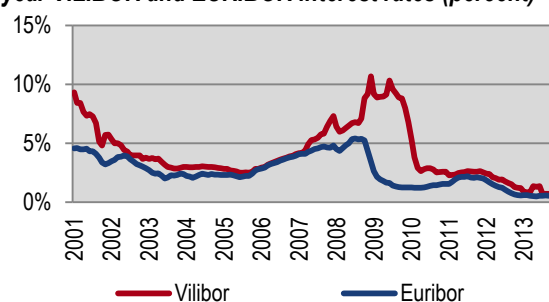


Source: SE Centre of Registers

Such hike in the segments of the housing market can be justified by the improving economic situation in the country

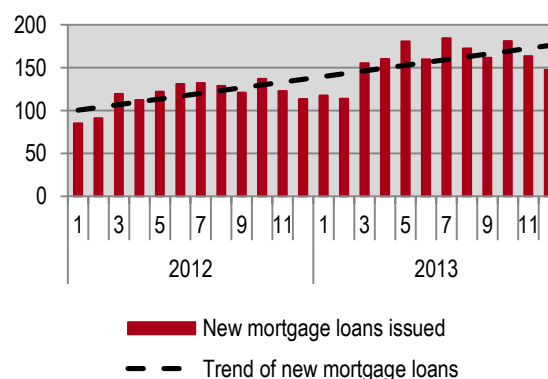
and residents' expectations for the future. The activity is also stimulated by improving financing conditions from banks. The whole 2013 was distinguished by historically low interbank interest rates both in Litas and in Euro. Favourable crediting conditions resulted in the fact that the new housing loans, issued in 2013, amounted to 1.89 billion LTL – even by 34 percent more than in 2012. It should be noted that the decrease in deposits with agreed maturity in banks was instigated by the record-breaking low deposit interest rates in 2013. It is possible that some residents, who have been keeping their savings, decided to invest in RE, thus contributing to the increased housing demand in 2013.

1-year VILIBOR and EURIBOR interest rates (percent)



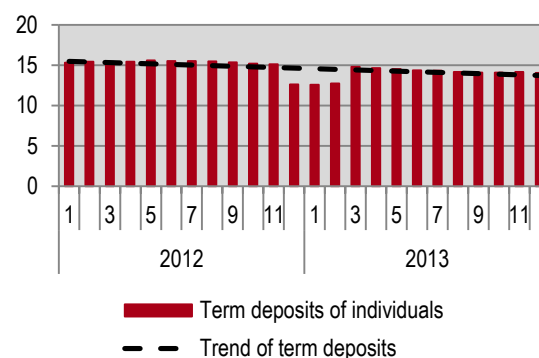
Source: Central Bank of Lithuania, European Central Bank

New housing loans issued (million LTL)



Source: Association of Lithuanian Banks

Natural entities' deposits with agreed maturity in Lithuania (billion LTL)



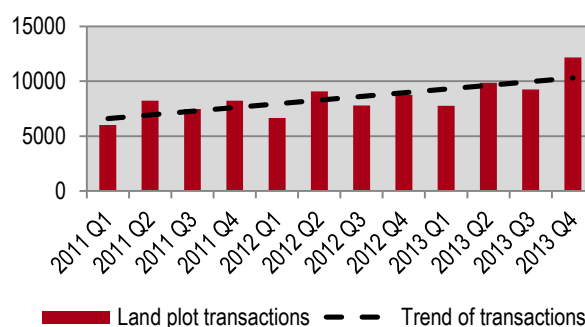
Source: Association of Lithuanian Banks

The sales in 70 new projects, covering about 3,300 new apartments, were launched throughout Lithuania in 2013. In comparison with 2012, the supply of new apartments in the market was less by approx. 2 percent. 2013 has been the first year since the emergence of the crisis, when the demand has been exceeding the supply – the total amount of unsold apartments was reduced by approx. 1 percent, up to about 4,660 units of unsold apartments.

A record-breaking activity was also observed in the agricultural land market. According to data of SE Centre of Registers, there were 38,281 land purchase-sale transactions registered throughout Lithuania in 2013 – by 18.6 percent more than in 2012. The second part of the year was significantly more active than the first one, when the purchase-sale contracts concluded in Lithuania amounted to 14,251 and 24,030, respectively. This significant hike of agricultural land segment may be related to the amended Law on the Acquisition of Agricultural Land, which entered into force from 2014. The new version of the law particularly strengthened the process of land sale and acquisition, thus people, who wanted to acquire parcels, were hurrying to do it by the end of 2013.

The majority of purchase-sale were concluded on agricultural land. The transactions in this segment made up 77 percent of all transactions on agricultural land. The major activity was noticed in the most productive regions of Lithuania, implying that agricultural land has been purchased for its specific purpose – the development of agriculture. The average annual increase in prices of agricultural land was 10-20 percent. The average price of parcels in the most productive regions reached 10,000-15,000 LTL/ha.

Trends of transactions on parcels in Lithuania (units)



Source: SE Centre of Registers



Source: Inreal

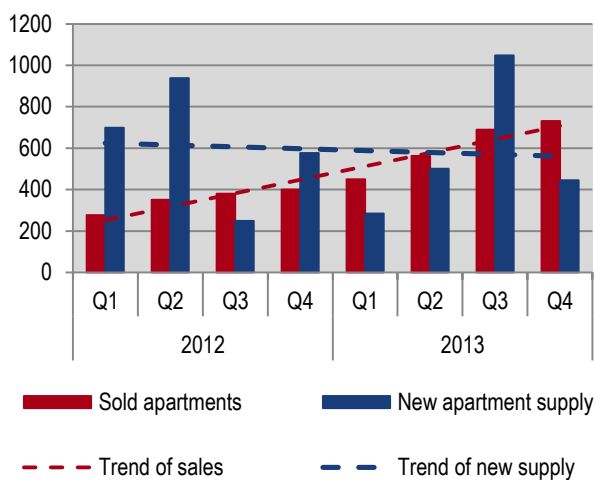
Housing market in Vilnius

As usually, Vilnius with the highest activity was prevailing. According to the data of SE Centre of Registers, there were 8,492 apartment purchase-sale transactions concluded in Vilnius in 2013 (708 apartments per month, at an average) – by 33.6 percent more than in 2012.

2013 was the year with record-breaking amount of transactions in the market of new apartments – there were 2,430 new apartments sold in Vilnius (203 apartments per month, at an average), or even by 73 percent more than in 2012. It should be noted, that increasingly more new apartments were sold in each quarter of 2013, in comparison with the previous quarter. This is a sign of a rapidly increasing activity in the real estate market in Vilnius.

There were 37 new multi-dwelling projects launched in Vilnius in 2013, which have added 2,280 apartments to the market – i.e. about 7.5 percent less than in 2012. A significant increase in sales resulted in the fact that in 2013 the demand has exceeded the new supply by 6.5 percent for the first time since the emergence of the crisis.

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



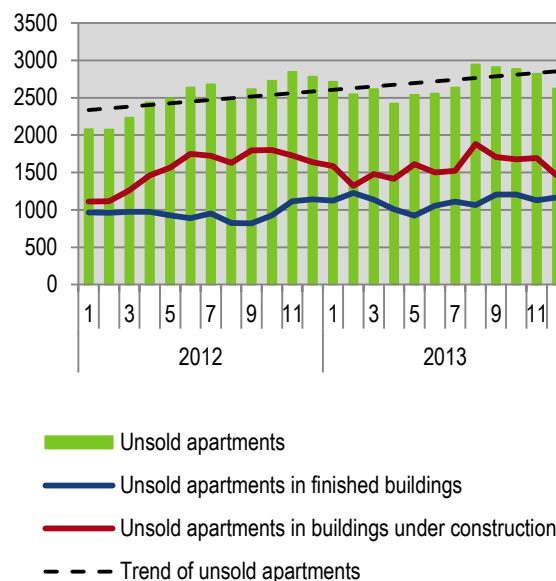
Source: Inreal

The liquidity rate of new construction apartments, which in 2012 was 4.5 percent at an average, increased by up to 7 percent in 2013. It means that all supply in 2012 required about 22 months in order to be sold out fully, while in 2013 – just 14 months. In comparison, in 2007, during the boom of RE market, the projects existing in the market had been sold out in 6-8 months at an average, while during the recession – in 30-32 months at an average.

In comparison with late 2012, the amount of apartments unsold in Vilnius city at the end of the year has decreased by about 5.6 percent – up to 2,620 apartments. It

indicates that the qualm in early 2013 were unreasonable due to a possible excessive primary supply of apartments.

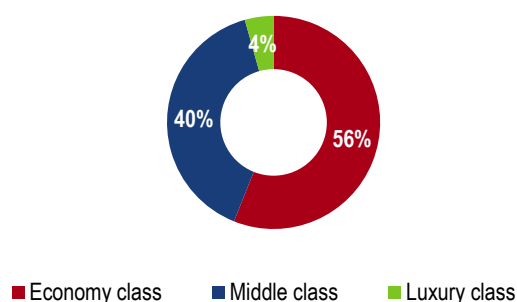
New construction apartments, unsold in Vilnius (units)



Source: Inreal

In 2013, the economy-class housing has still remained popular in Vilnius – 56 percent of transaction, however the middle-class apartments have taken an increasing share of sales – 40 percent. While the premium-class apartment transactions had been concluded gradually less – 4 percent. In comparison with 2012, the share of economy-class and middle-class sales have increased by 6 and 5 percentage points, respectively, meanwhile the share of the premium-class – has decreased by 7 percentage points. The contraction of the latter can be explained by a much less supply than in 2012.

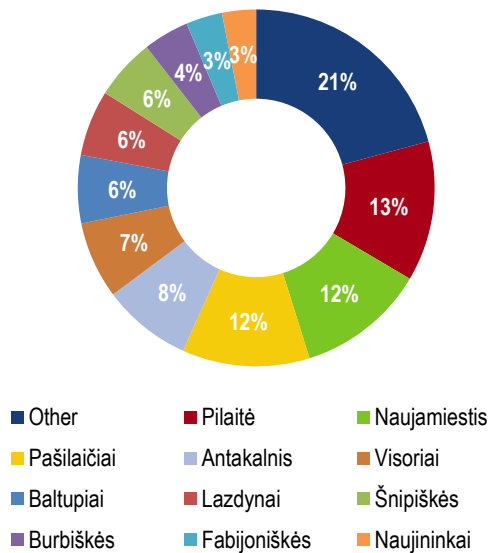
Apartment sales under classes (percent)



Source: Inreal

The most popular districts in Vilnius, where the majority of new apartments were sold in the quarter of 2013 – Pilaitė, Naujamiestis and Pašilaičiai. More than a third of all transactions concluded in the primary market was made there.

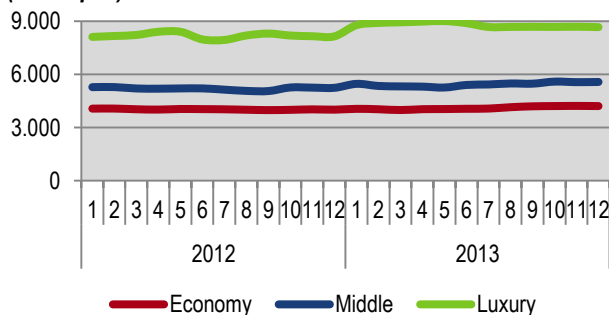
Apartment sales under districts (percent)



Source: Inreal

In 2013, new construction apartment prices were gaining the trend of increase gradually. The total rate of new construction apartment prices in Vilnius at the end of the year amounted to 5,050 LTL/sq. m with an annual increase of approx. 2.5 percent. The analysis of apartment prices according to classes showed that at the end of 2013 the average supply price in economy-class segment reached about 4,200 LTL/sq. m with the annual increase rate of approx. 3.8 percent. Respectively, 5,560 LTL/sq. m and an increase of 2 percent in the middle-class segment. The average supply price in the premium-class segment have also increased by 2 percent over 2013 – up to 8,660 LTL/sq. m. The highest increase (9.2 percent at an average) was noticed in the new economy-class projects. There were about 13 projects, where the prices were increasing in 2013. The increase in prices of the middle-class projects reached approx. 9 percent – about 10 projects. There were 2 new projects in the premium-class segment, where the prices were increased by approx. 11 percent. In addition, there were 10 projects at least, where, as a result of successful sales, the prices have increased averagely by 2.5-5 percent.

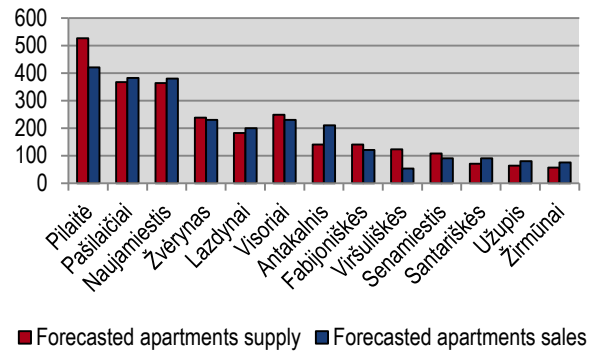
Average prices of apartments under classes in Vilnius (LTL/sq. m)



Source: Inreal

It is forecasted that in 2014 the demand of new construction apartments in Vilnius will further increase and may reach 3,000 apartments in a year. It should be exceeding the new supply by about 15 percent, thus the increase in prices is highly probable in all projects, not only in the recent ones. It is possible that the average increase in prices of new construction apartments may reach 6-8 percent.

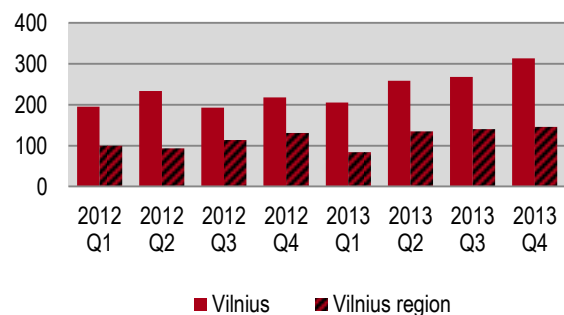
Forecasted dynamics of apartment supply and sales for housing projects in Vilnius in 2014



Source: Inreal

Vilnius city and Vilnius region have been the leading regions by transactions concluded in the private house segment. In 2013, there were 1,551 private house transactions concluded in the capital city and its region – by 21.5 percent more than in 2012. In comparison with 2012, the amount of transactions, concluded in the private house segment in the city in 2013, has increased by 24.7 percent up to 1,046 houses, and by 15.3 percent up to 505 houses in the region. In 2013, there were 116 private houses and cottages sold in the primary private house market in Vilnius and its suburbs. In comparison with 2012, the results were better by about 50 percent. In 2013, the market was supplemented by 9 new projects with 69 houses, or by about 30 percent more than in 2012. In late 2013, there were about 108 unsold new private houses remaining in Vilnius and its suburbs, or just by 2.7 percent less than a year before.

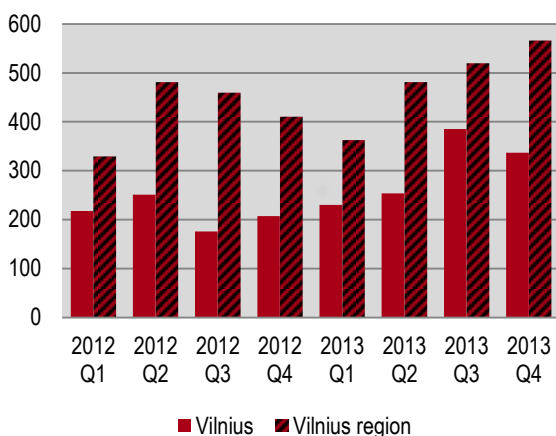
Private house purchase-sale transactions in Vilnius and Vilnius region (units)



Source: SE Centre of Registers

In 2013, the majority of purchase-sale contracts in the land market were concluded in Vilnius city and Vilnius region throughout Lithuania. According to the data of SE Centre of Registers, in 2013 the total amount of land purchase-sale contracts in Vilnius and its regions was 3,134, i.e.: 1,206 contracts in Vilnius city, and 1,928 – in the region. In comparison with 2012, the increase in the amount of transactions was even by 41.5 percent higher in the city, and by 14.8 percent higher in the region. The majority of agricultural and residential land transactions were made in the city – 51 and 35 percent of all transactions, respectively. This significant hike of agricultural land in Vilnius city may be related to the amended law on territory planning, which entered into force from 2014. The law has simplified and expedited the procedures for conversion of land. Therefore, as a result of the recovering RE market, a relatively cheaper agricultural land in Vilnius has become more attractive to investors. Agricultural and forestry land transactions were prevailing in the region – 72 and 15 percent of all transactions, respectively.

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



Source: SE Centre of Registers

Housing market in Kaunas

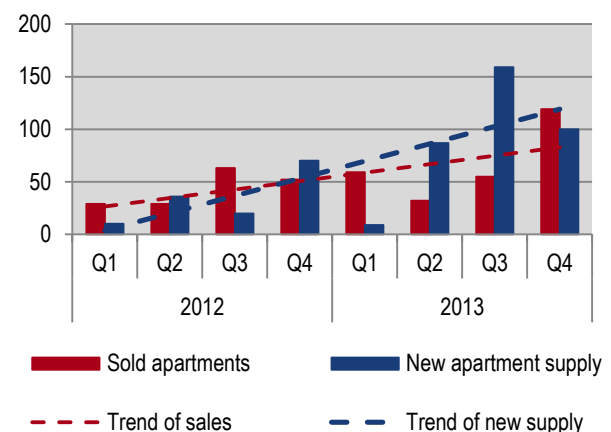
According to the data of SE Centre of Registers, in 2013, there were 3,487 apartment purchase-sale transactions concluded in Kaunas (291 apartments per month, at an average) – by 24 percent more than in 2012.

In 2013, the increase in the primary apartment market in Kaunas was even more higher – 265 new construction apartments were sold (22 apartments/month), or by 53 percent more than in 2012. It should be noted that almost a double amount of apartments were sold in the second half of the year than in the first one. The main cause was the emergence of new projects, which have received a

particular interest from purchasers. The realization indicators of these projects showed that there is a demand of new and attractive housing in Kaunas city, however there has been a lack of such projects in the market by mid-2013.

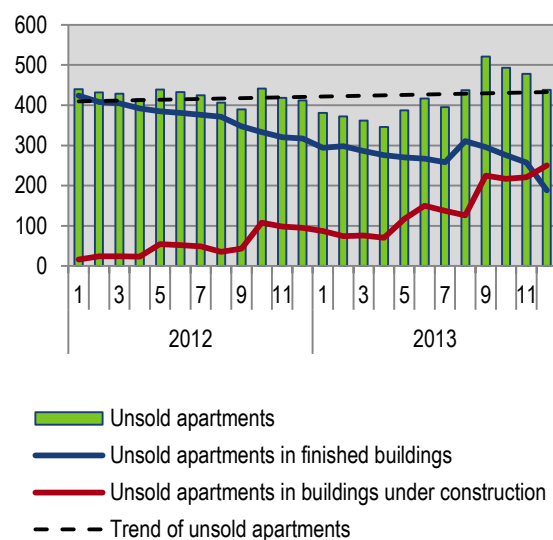
In 2013, the new construction multi-dwelling market in Kaunas was supplemented by 10 new projects with 355 apartments in total, i.e. even by 1.6 times more than in 2012. It should be noted that in 2013 the sales in two projects were suspended in Kaunas, therefore the total amount of apartments unsold in Kaunas was about 440 in late 2013, i.e. only just by 6 percent more than at the end of 2012.

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



Source: Inreal

New construction apartments, unsold in Kaunas (units)

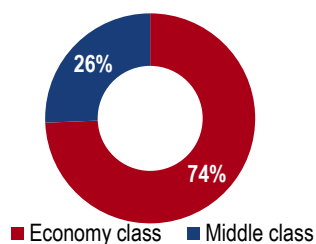


Source: Inreal

Fair indicators of apartment sales in Kaunas primary market in the second half-year resulted in the increase of average liquidity rate in the new construction apartment market from 3.3 percent, which was in 2012, to 5 percent in 2013. It means that all supply in 2012 required about 30 months in order to be sold out fully, while in 2013 – 20 months.

The economy-class segment has further remained the most popular in Kaunas city – almost three quarters of such apartments were sold. The remaining quarter of sold apartments belong to the middle-class segment. There were no premium-class apartments sold in Kaunas.

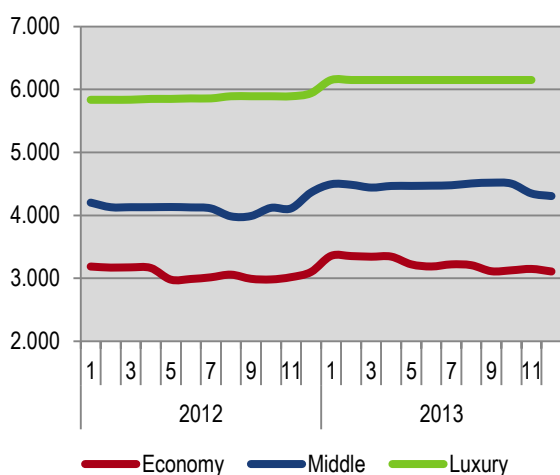
Apartment sales under classes (percent)



Source: Inreal

The prices of new construction apartments have been decreasing by approx. 4 percent in Kaunas over 2013, i.e. up to 3,680 LTL/sq. m. The major influence was made by new economy-class projects in the market, where the prices were less by about 4 percent than the average price in this segment. The market and the amount of registered transactions are small, therefore the emergence of even a minor project may significantly influence the price rate in one way or another.

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

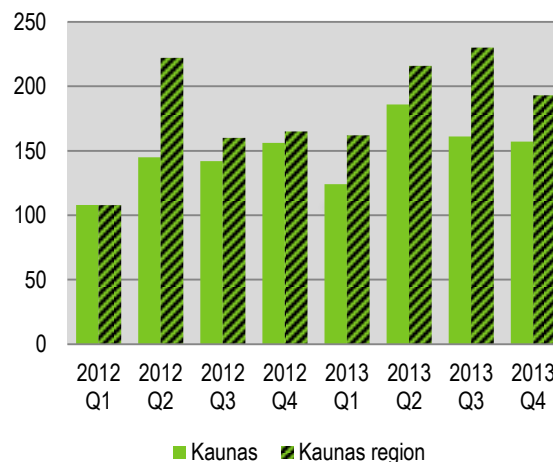


Source: Inreal

In 2013, there were 629 private houses sold in the private house market in Kaunas – by 14.1 percent more than in 2012. The increase in transactions in Kaunas regions was even more active – 803 houses were sold, i.e. by 22.6 percent more than in 2012. In 2013, about 110 objects were sold in the primary private house and cottage market in Kaunas and its region, and sales in 4 projects, which supplemented the market with 78 new housings, were

launched. In comparison with 2012, the amount of sold objects was higher by about 40 percent, and the new supply has increased by about 26 percent. In late 2013, about 98 houses and cottages remained unsold in Kaunas suburbs, i.e. by 13.2 percent less than in late 2012.

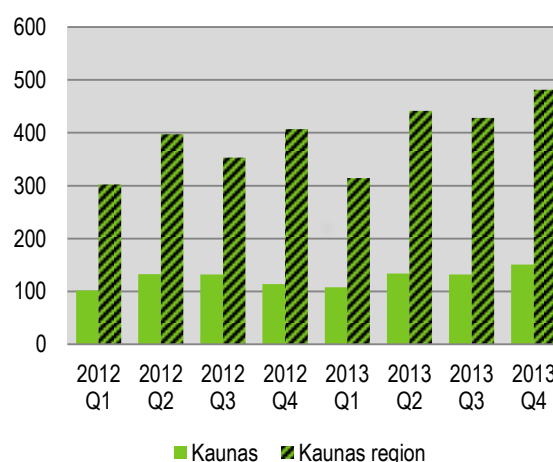
Private house purchase-sale transactions in Kaunas and Kaunas region (units)



Source: SE Centre of Registers

In 2013, a more moderate increase in transactions in the land market has been observed – 525 land purchase-sale transactions were registered in Kaunas city and 1,664 – in the region. In comparison with 2012, the increase of 9.1 and 14 percent, respectively, was registered. The majority of transactions concluded in the city was the transactions on residential and agricultural land – 52 and 40 percent, respectively. Agricultural land was the most popular in the region, where the transactions made up 65 percent of all transactions. Residential land transactions have covered a significantly less share – 25 percent of all transactions.

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



Source: SE Centre of Registers

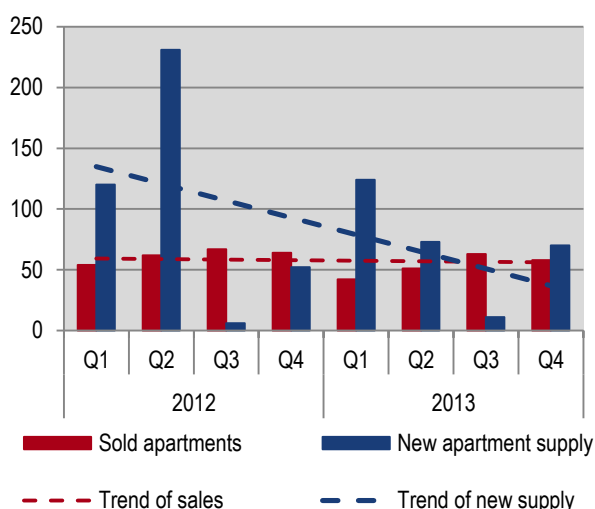
Housing market in Klaipėda

According to the data of SE Centre of Registers, in 2013, there were 2,696 apartment purchase-sale transactions concluded in Klaipėda (225 apartments per month, at an average) – by 30 percent more than in 2012.

In contrast to the general trends, the number of transactions made in Klaipėda primary apartment market has been decreasing – about 215 new apartments were sold in a year (18 apartments per month, at an average), and in comparison with 2012, it was less by about 13 percent.

In 2013, the sales of 9 projects were launched or re-launched in Klaipėda market, that have supplemented the market with 280 apartments. In comparison with 2012, the new apartment supply decreased by about 32 percent. It should be noted that more than a half of the apartment sales, that newly emerged in the supply, were re-launched in the projects, which had been suspended during crisis. More than a half of new construction apartments, unsold in Klaipėda market, are in multi-dwelling houses, which had been build till 2011. The majority of the most attractive apartments in these projects had been sold, therefore the purchasers have limited possibility to choose apartments, which meet their expectations. It is possible, that upon the emergence of new and attractive projects in the market in 2014, the sales in the primary apartment market will become higher in Klaipėda.

Dynamics of the new supply and sales of apartments in Klaipėda



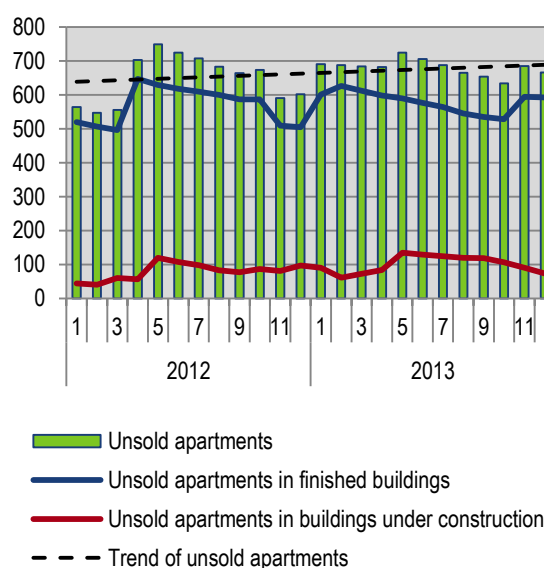
Source: Inreal

In late 2013, there were 670 apartments for sale in Klaipėda primary market – by 10 percent more than in early 2013.

The average liquidity rate of new construction apartment

market, which was 3.1 percent in 2012, decreased to 2.6 in 2013. It means that all supply in 2012 required about 32 months in order to be sold out fully, while in 2013 – 39 months already.

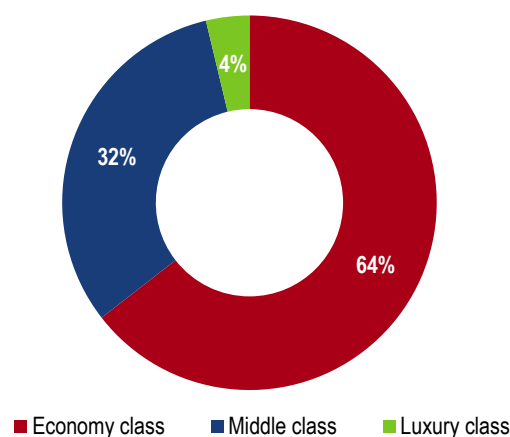
New construction apartments, unsold in Klaipėda (units)



Source: Inreal

The most popular apartments in Klaipėda fall within the economy-class as well as in the remaining major cities. They made up about two thirds of all sales – 64 percent. The share of the middle-class segment was 32 percent, and only 4 percent – premium-class.

Apartment sales under classes (percent)

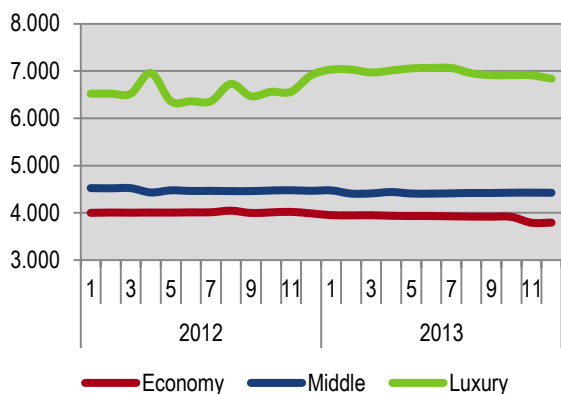


Source: Inreal

At the end of the year, the rate of new construction apartment prices reached about 4,200 LTL/sq. m, i.e. the annual decrease was about 2.5 percent. The major influence was made by the decrease in apartment prices of economy-class segment – the prices have decreased by about 4 percent in a year, and reached about 3,800 LTL/sq.

m in late 2013. The prices of the middle-class apartments have remained stable throughout the year and reached about 4,420 LTL/sq. m in late 2013. Meanwhile the average price of the supply in the premium-class segment has also decreased by approx. 2 percent in a year – up to 6,840 LTL/sq. m in late 2013.

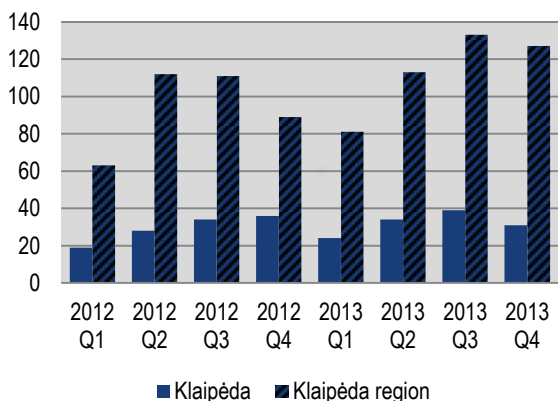
Average prices of apartments under classes in Klaipėda (LTL/sq. m)



Source: Inreal

In 2013 there were 582 private houses sold in Klaipėda and Klaipėda region, i.e. the indicator is higher by 18 percent than in 2012. Klaipėda continues to be the city with the highest difference between the amount of private house transactions concluded in the city and region. In 2013, only 8 private houses and cottages were sold in the primary private house market in Klaipėda and Klaipėda region. In comparison with 2012, the amount was higher only by one transaction. New projects do not emerge in the market, because the developers are avoiding to build private houses for selling purposes, and they simply offer to purchase parcels for private house construction. In late 2013, there were 32 new houses unsold in Klaipėda and Klaipėda region, or by 20 percent less than a year before.

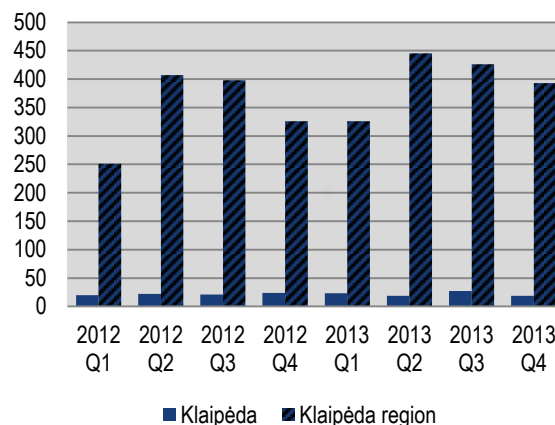
Private house purchase-sale transactions in Klaipėda and Klaipėda region (units)



Source: SE Centre of Registers

In comparison with other major cities in Lithuania, the amount of land transactions in Klaipėda is particularly low. According to the data of SE Centre of Registers, only 88 land purchase-sale transactions were concluded in Klaipėda in 2013 – only just by one transaction more than in 2012. Meanwhile the land market situation in Klaipėda region is essentially different – the amount of transactions is close to the amount of transactions concluded in Vilnius and Kaunas regions, and is some times higher than in Klaipėda market. There were 1,590 land purchase-sale transactions concluded in the region in 2013, i.e. by 15 percent more than in 2012. The majority of transactions concluded in the city was the transactions on residential and agricultural land – 50 and 33 percent, respectively. Agricultural and residential land was the most popular in the region, where the transactions made up 72 and 18 percent of all transactions, respectively.

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



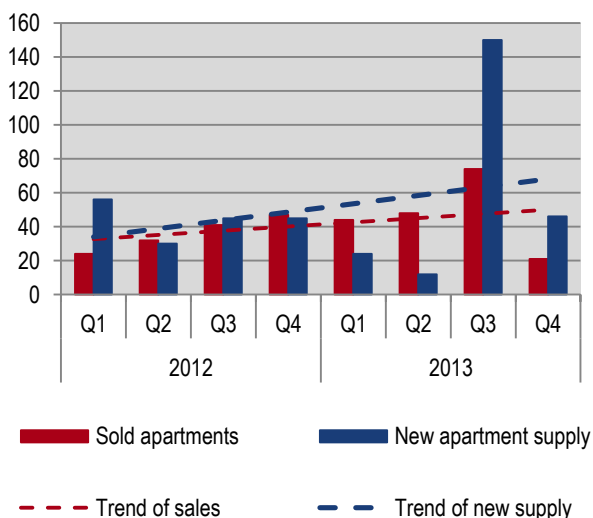
Source: SE Centre of Registers

Housing market in Palanga and Neringa

According to the data of SE Centre of Registers, in 2013, there were 429 and 60 apartment purchase-sale transactions concluded in Palanga and Neringa, respectively. In comparison with 2012, the increase in transactions in Lithuanian seaside resorts is significantly high – by 45 percent in Palanga, and even by 81.8 percent in Neringa.

About 190 new apartments (16 units per month, at an average) were sold in Palanga municipality in a year, i.e. by 30 percent more than in 2012. About 50 new apartments (4 units per month, at an average) were sold in Neringa, i.e. even by 2.9 times more than in 2012. This shows, that the second-home segments is becoming more and more popular.

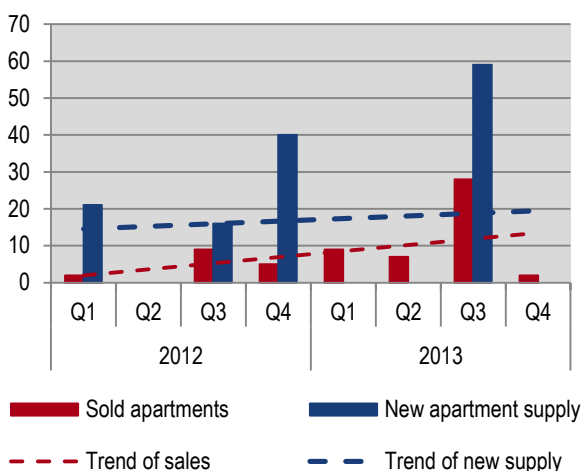
Dynamics of the new supply and sales of apartments in Palanga (units)



Source: Inreal

In 2013, the sales of 5 projects were launched in Palanga, that have supplemented the market with about 230 units of new apartments – by a quarter more than in 2012. In 2013, the sales of 2 projects with 59 apartments were launched in Neringa – by 23 percent more than in 2012.

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



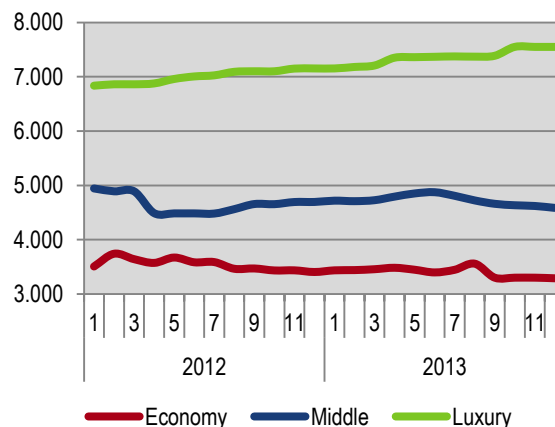
Source: Inreal

The newly emerging and demand-exceeding supply resulted in the amount of unsold apartments, which at the end of 2013 was higher than a year before – 460 new construction apartments in Palanga, and 109 – in Neringa, respectively, by about 11 and 13.5 percent more than in late 2012.

The total rate of prices in Palanga decreased by 1.6 percent in 2013, up to 5,190 LTL/sq. m in late 2013. On the other hand, the trends were different if analysing by classes. As a result of a large project with lower prices

than the average price in the market, the economy-class apartments have become cheaper by about 4 percent, up to 3,300 LTL/sq. m at the end of the year. The prices in the middle-class segment have also been decreasing by about 3 percent, up to 4,600 LTL/sq. m. Meanwhile the prices in the premium-class segment have been increasing by about 5 percent, up to 7,500 LTL/sq. m.

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



Source: Inreal

As a result of growing demand and new projects in the market, the total rate of prices in Neringa was increasing by about 8 percent in 2013, up to 9,500 LTL/sq. m.

BUSINESS CENTRE MARKET REVIEW

In 2013, the trends of well-occupied premises and growing lease prices were prevailing in business centres in Lithuania. Active investments have been further continued in the business centre market of the capital city – 2 business centres (13,300 sq. m) were opened and 6 new business centres (73,500 sq. m) were being built.

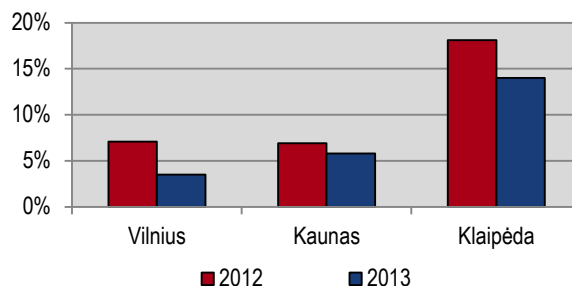
In 2013, 2 new business centres were opened in the business centre market of Vilnius – *Gama* (in Verkiai) and *Baltic Hearts II* (in the New City Centre), which have supplemented the market of modern offices with a rentable area of 13,300 sq. m. The vacancy rate in the capital city has been further decreasing – it has shrunk by more than a half over a year, from 7.1 to 3.5 percent. The highest decrease was in B1-class office premises – 7,100 sq. m, A-class – 3,800 sq. m, and B2-class – 2400 sq. m. In 2013, the assimilation of the office market in Vilnius has remained the same as in 2012 – about 26,000 sq. m in a year. At the end of the year there were about 12,700 sq. m of modern office premises available for lease in the capital city.

The lowest vacancy rate in late 2013 was in B1-class business centres in Vilnius – 2.6 percent (4,800 sq. m). The vacancy rate of A-class offices reached 2.9 percent (2,800 sq. m), and the highest vacancy rate at the end of the year was in B2-class business centres in Vilnius – 6.2 percent (5,100 sq. m). The lease prices, which were increased by up to 5 percent in all classes in early 2013, have remained stable for the remaining year. At the end of the year the average rent in A-class offices reached 42-55 LTL/sq. m, B1-class – 32-42 LTL/sq. m, and B2-class – 23-30 LTL/sq. m.

Active investment into the development of business centres continues in the capital city - the construction works in *Grand Office* (in Viršuliškės) and *Quadrum I* (in NCC) business centres, launched in 2012, gained momentum – 37,350 sq. m in total, and in the second half of 2013 the construction works were launched in 4 new business centres – *Baltic Hearts III*, *K29*, *Goštauto 12A* (in NCC) and *Premium* (in Žirmūnai) – 36,150 sq. m in total. The first of the business centres, that are currently under construction, should be opened no earlier than in mid-2014, therefore a further decrease in vacancies is forecasted in Vilnius by then, followed by successful assimilation of the new supply.

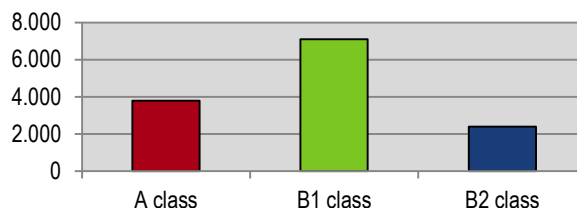
Investment acquisitions have also been increasing in the capital city – even 4 business centre investment transactions were concluded in 2013 (*Alfa & Beta & Gama*, *Goštauto 40*, *Danske bank*, *Kemavė*). The total area of the objects reached 61,500 sq. m with the investment of 310 million Litass.

Change in vacancies in the business centre sector of the country, percent



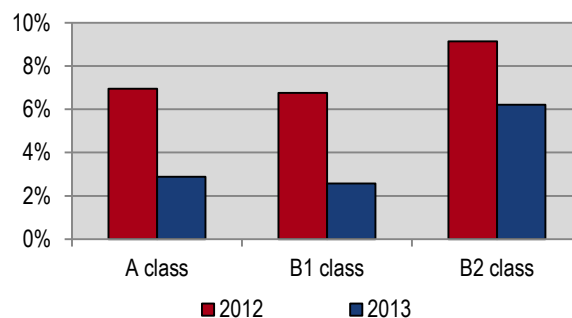
Source: Inreal

Assimilation of vacant office premises in Vilnius in 2013



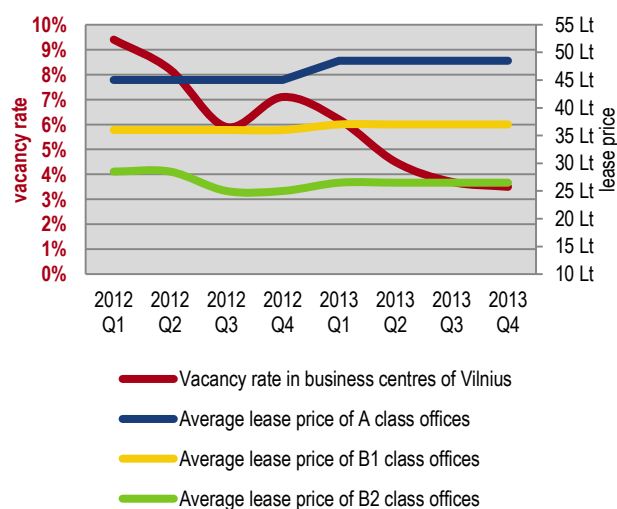
Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes



Source: Inreal

Dynamics of lease prices and vacancies in Vilnius business centres



Source: Inreal

Business centres, being built in Vilnius in late 2013

Business centre	Class	Area for lease, sq. m	Expected opening
Grand Office	B1	10,350	2014 H1
Baltic Hearts III	A	3,300	2014 H1
K29	A	14,250	2014 H2
Quadrum I	A	27,000	2015 H1
Gostauto 12A	A	10,400	2015 H1
Premium	A	8,200	2015 H1
Total:		73,500	

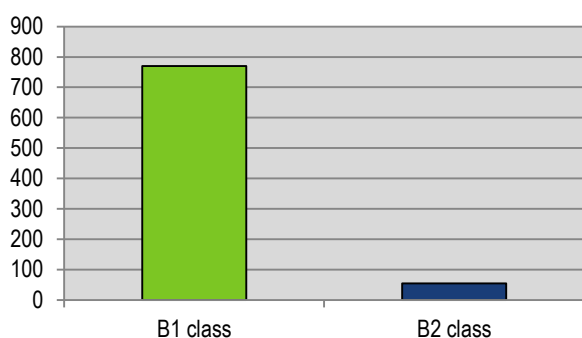
Source: Inreal

The vacancy rate in Kaunas modern business centres have been decreasing in a much slowly pace than in the capital city – in 2013, the vacancy rate decreased from 6.9 to 5.8 percent. The majority of assimilated premises was B1-class offices – 770 sq. m, meanwhile the area of vacant premises in B2-class offices has decreased only by 50 sq. m. At the end of the year, the total area of vacant modern offices in Kaunas was about 4,400 sq. m.

In late 2013, the lowest amount of vacant premises was in B2-class business centres – vacancy rate reached 4.6 percent (1,770 sq. m). The vacancy rate in B1-class business centres was slightly higher – 7.0 percent (2,630 sq. m).

Insignificantly changing vacancies in Kaunas modern business centres do not increase the average lease prices in this segment. B1-class office lease prices continued to be 25-35 LTL/sq. m, while the available lease prices in B2-class business centres were 18-25 LTL/sq. m. More significant changes in lease prices in Kaunas are not expected in the nearest future.

Assimilation of vacant office premises in Kaunas in 2013

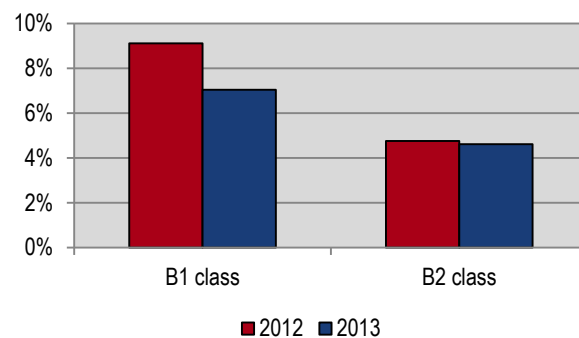


Source: Inreal

Current price level in Kaunas remains too low in order to stimulate developers to invest into construction of new objects, therefore there has not been development of new modern business centres for lease in Kaunas for four years already. It is possible to point out only one investment, amounting to 78 million Litai: the administrative building of *Senukai* with the total area of more than 16,700 sq. m.

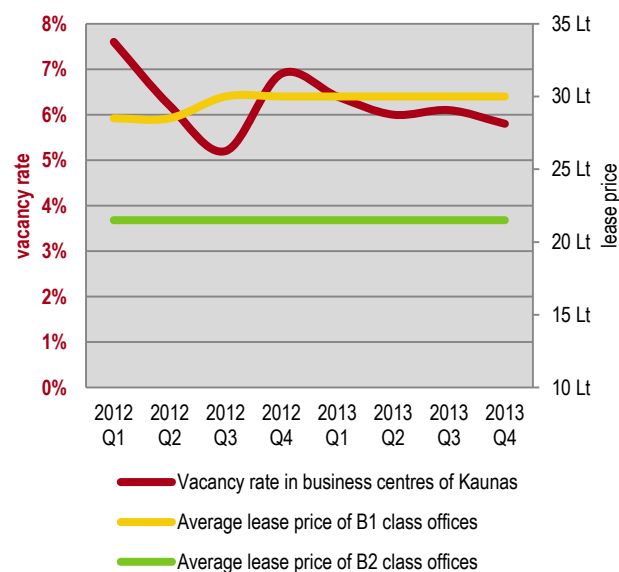
including underground parking, which was opened in late 2013. However, this building has not supplemented the market with modern office premises for lease, because it was a built-to-suit investment, funded by the company *Baltic Shopping Centers*, which is managing *Senukai* network in Lithuania.

Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

Dynamics of lease prices and vacancies in Kaunas business centres



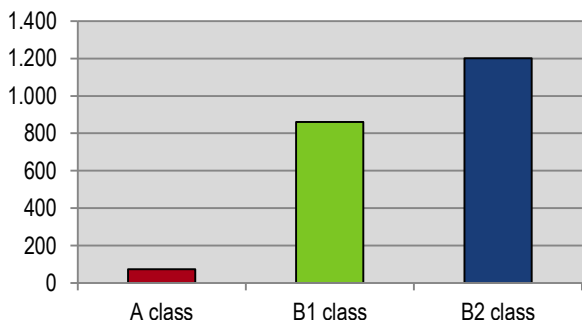
Source: Inreal

In 2013, a significant decrease in the vacancy rate was registered in Klaipėda. This rate has decreased from 18.1 to 14.0 percent in a year. The amount of B2-class (1,200 sq. m) and B1-class (860 sq. m) office premises has decreased the most. The top modern A-class offices received much less attention in 2013 – the supply has decreased by only 75 sq. m over the year. At the end of the year, the total area of vacant modern offices in Klaipėda was about 7,350 sq. m.

In late 2013, the lowest vacancy rate was in B1-class business centres in Klaipėda – 7.0 proc. (1,730 sq. m). The

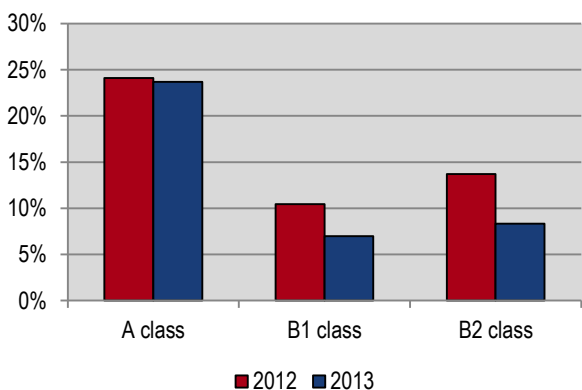
vacancy rate of B2-class offices reached 8.3 percent (1,860 sq. m), while the highest vacancy rate at the end of the year has further remained in A-class business centres in Klaipėda – 23.7 percent (3,760 sq. m). Small lessees continue prevailing in Klaipėda office market, who, unlike the major local or international companies, give the priority to ordinary and cheaper premises, other than the A-class premises.

Assimilation of vacant office premises in Klaipėda in 2013



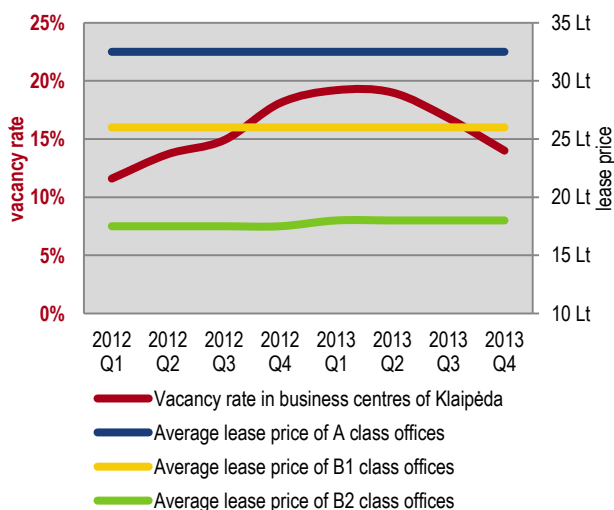
Source: Inreal

Dynamics of vacancies in Klaipėda business centres under classes



Source: Inreal

Dynamics of lease prices and vacancies in Klaipėda business centres



Source: Inreal

As a result of increasing demand, the average lease prices in B2-class business centres increased averagely by 1 Litas, and reached 16-20 LTL/sq. m in early 2013. Meanwhile, the average lease prices in A-class and B2-class business centres have remained stable and amounting to 30-35 LTL sq. m and 22-30 LTL sq. m, respectively.

There are no changes expected in this segment of Klaipėda market in the nearest future. It is resulted by further improving, but not developer-attracting rates of business centre market – i.e. high vacancies and low lease prices.

SHOPPING CENTRE MARKET REVIEW

In the third quarter of 2013, retail trade remained growing in Lithuania. The trends of moderate decrease in vacancies and increase in lease prices have been further prevailing in the shopping centres. After a long break, the segment has received significant investments.

In 2013, the volumes of retail trade in Lithuania reached the limit of 28.8 billion Lit. In comparison with the rate of the corresponding period in 2012 (27.4 billion Lit) the increase of 5.1 percent was observed. The significantly increasing income of retail trade sector in Lithuania was resulted by growing domestic consumption, which was mostly affected by consistently decreasing unemployment rate and increasing income of people.

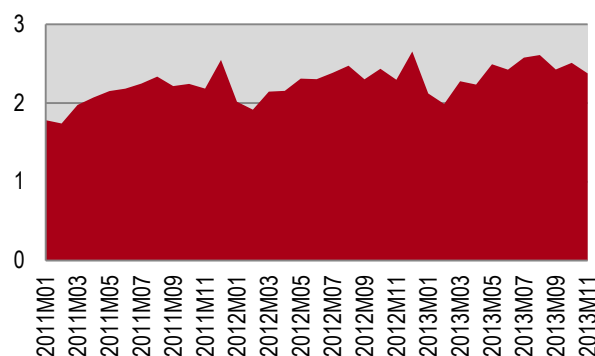
The demand of premises has been further exceeding the supply in the shopping centres, which are attracting the major flows of people. It was influenced not only by the recovering consumption, but also by the powerful foreign brands, which joined the market of the country in 2013; one of the leading ones – the global leader of retail clothing trading *Hennes & Mauritz (H&M)*.

The new powerful brands significantly enliven the market of shopping centres. As a result of the new powerful lessees, joining the market, the major shopping centres of the country, that are completely occupied almost permanently, decide to terminate the contracts with lessees, whose trading results are weaker. The latter, in turn, are moving to a more outlying shopping centres, where vacancy rates are also rapidly decreasing.

In 2013, vacancies in the shopping centres in the major cities of the country have been further decreasing – at the end of the year they have decreased up to 0.7 percent (2,550 sq. m) in Vilnius, and up to 0.4 percent (600 sq. m) – in Kaunas. A rapidly decreasing supply of vacant premises in the country allows the managers of the shopping centres to increase lease prices for the newcomers. Similar trend should remain in the shopping centres in 2014 as well.

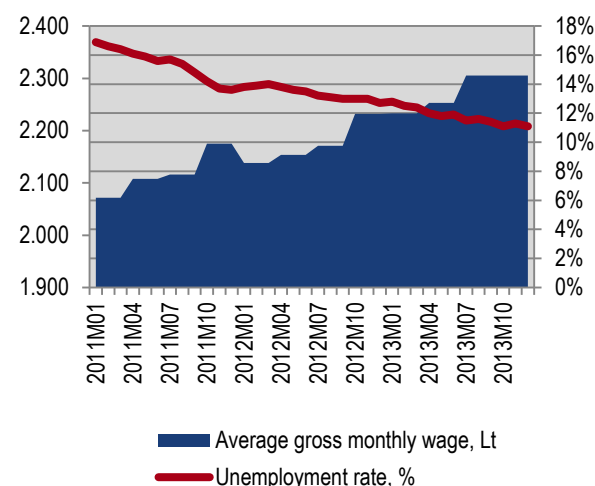
In 2013, both the investors and the developers re-launched investment into this RE segment. On the second half of the year, two large investment transactions were concluded (Šiauliai, Klaipėda, Alytus and Marijampolė Arenas and *Domus Pro* in Vilnius). The total area of objects reached 48,000 sq. m, and the investment amounted to more than 100 million Lit.

Retail trade volumes in Lithuania, billion LTL



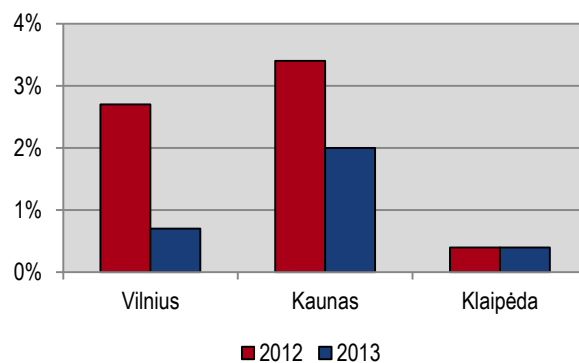
Source: Department of Statistics

Dynamics of unemployment and gross wage



Source: Department of Statistics

Dynamics in shopping centre vacancies in the cities, percent



Source: Inreal

Shopping centres launched in Lithuania in 2013

City	Title	Area, sq. m	Start of construction	Start of construction
Vilnius	PC Prisma	10,000	2013 H1	2014 H1
Vilnius	Domus Pro I	7,500	2013 H2	2014 H1
Klaipėda	PC Luize	6,500	2013 H2	2014 H2
Total:		24,000		

Source: Inreal

In mid-2013, the first *IKEA* mall in the Baltic countries was opened in Vilnius (25,000 sq. m), the construction of the shopping centres *Prisma* (10,000 sq. m), *Domus Pro I* (7.500 sq. m) and the reconstruction of *Gedimino 9* (16,500 sq. m) was launched. The construction of the shopping centre *Luizė*, 6,500 sq. m, was launched in Klaipėda. The major part of premises in the shopping centres, which currently are under construction, are already reserved, although the opening dates of the shopping centres are expected no earlier than in the first half of 2014.

The shopping centre *Mega* announced that the development of the centre will start in Kaunas in 2014. The implementation of these plans will increase the total area of the object by 22,000 sq. m. and the total area of it will reach 94,000sq. m. Total investment should exceed 100 million Litass.

There was no lack of investments in the supermarket sector in 2013 as well, but at this time the development in this sector has been made not only by the major supermarket chains, which open or reconstruct 10-20 supermarkets every year, i.e. *Maxima*, *Norfa*, or *Iki*. In 2013, several new objects in Lithuania were opened by *Rimi* (3) and *Kubas* (2), but the highest number of new supermarkets opened belongs to the market newcomer *FreshMarket* (12). This network is planning even a more active development in 2014. The total amount of investments of supermarket chains in their development in Lithuania has exceeded 210 million Litass over the year.

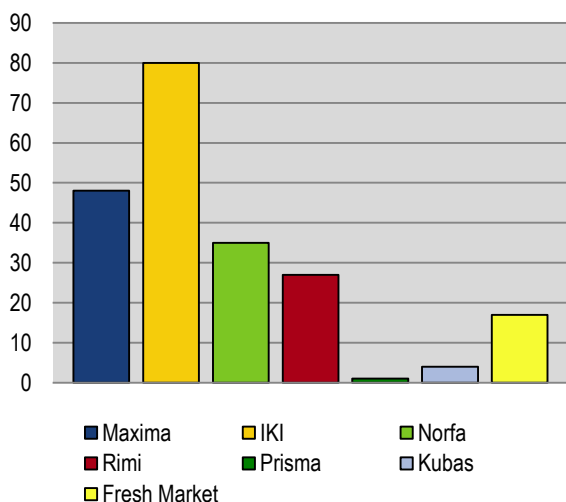
The improving rates in the trade sector, increasing investment and domestic consumption in the country allows to forecast further successful development of this sector in Lithuania.

Development of retail trade networks in the country

Supermarket chains	Supermarkets opened		Supermarkets, restored	
	2012	2013	2012	2013
Maxima	8	8	7	5
Iki	8	5	15	38
Norfa	7	7	18	7
Rimi	0	3	7	0
Prisma	1	0	0	0
Kubas	4	2	0	0
Fresh Market	0	12	0	0
Total:	28	37	47	47

Source: Inreal

Investments of supermarket chains in the opened and restored shops in 2013, million LTL



Source: Inreal

LOGISTIC CENTRE MARKET REVIEW

A pause in industrial production and export volumes in Lithuania on the second half of 2013 maintained a solid growth in the general context of the year. The development of warehousing premises was continued. Investment into the development of the logistic centres was revived.

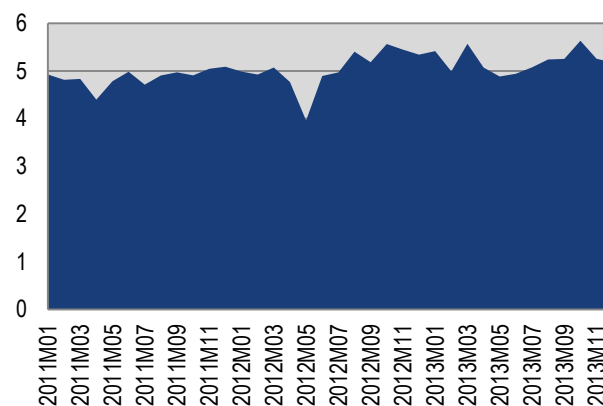
In 2013, the volumes of industrial production reached 62.5 billion Litass in Lithuania. In comparison to 2012 the increase of 3.9 percent (60.5 billion Litass), is observed. Export volumes were increasing even faster. In 11 months of 2013, it reached 77,8 billion Litass, and in comparison with the corresponding period of 2012 (72,5 milliard Litass) it has grown by 7.3 percent. Although, as a result of disagreements with the export market in the East on the second half of the year, the growth has no longer been noticed, however, the Lithuanian industrial production and export volumes have maintained a solid pace of growth in the general context of the year.

At the end of the third quarter of 2013, the level of existing product reserve was indicated as sufficient or even too high by many representatives of the industry sector. It shows that the disputes with the export market in the East have had direct influence on the market makers. When assessing future export volumes, the representatives of the sector have expected the growth throughout 2013, however due to seasonal causes the forecasts became slightly stable at the end of the year, although they have still remained more optimistic than in late 2012.

The analysis of the vacancy rates of modern logistic centres in the major cities on the country in 2013 showed that it was particularly difficult to rent up modern warehouses, larger than 500 sq. m, in all three major cities of the country. The vacancy rate in Vilnius city decreased up to 0.9 percent (3,600 sq. m). The rate has also remained almost equal to 0 in Kaunas, while the vacancy rate in Klaipėda reached 0.5 percent (350 sq. m).

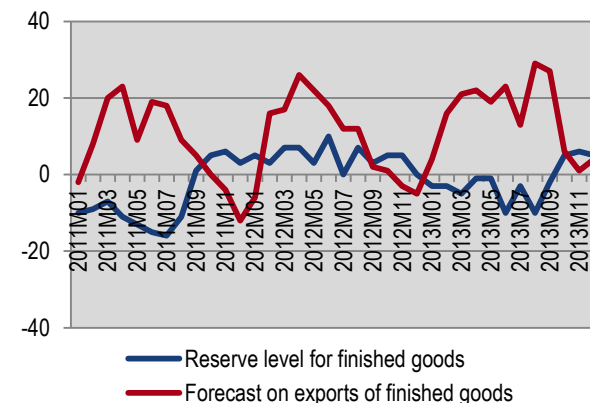
In early 2013, the managers of logistic centres have increased lease prices for new lessees by 5-10 percent, and it seems that the balance, corresponding the expectations of both sides, was achieved. Therefore, the prices should remain stable in the nearest future. In late 2013, the lease prices of modern logistic centres in the capital city reached 12–17 LTL/ sq. m, and 11–15 Lt/ sq. m – in Kaunas and Klaipėda. The lease prices in old logistic centres in Vilnius reached 6–10 LTL/ sq. m, and 5–9 Lt/ sq. m – in Kaunas and Klaipėda.

Industrial production in Lithuania, billion LTL



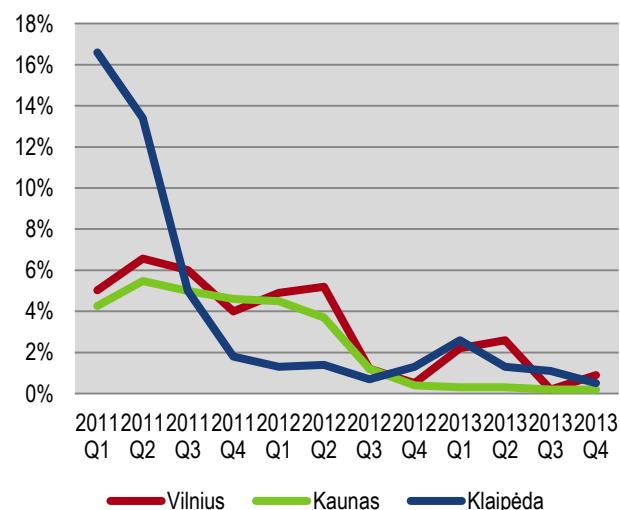
Source: Department of Statistics

Industry representatives' forecasts on exports and reserves



Source: Department of Statistics

Vacancy rate in modern logistic centres in Lithuania, proc.



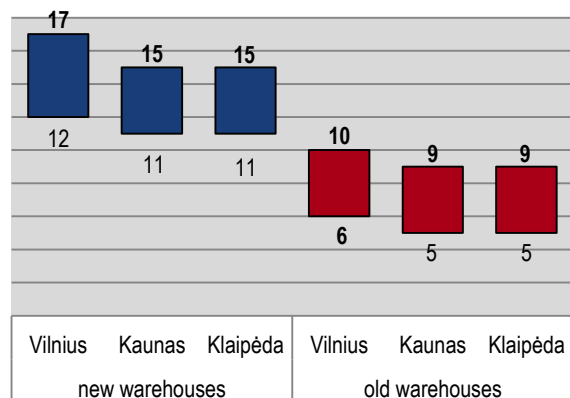
Source: Inreal

The construction of logistic centres *Transekspedicija II* (17,000 sq. m) in Vilnius and *Vlantana II* (15,000 sq. m) in Klaipėda, launched in 2013, has gained momentum. In 2014, the development of existing centres in Vilnius should be started by *Arvydo Paslaugos* (8,500 sq. m), and *Ad Rem Lez* (8,200 sq. m) in Klaipėda.

TOURISM AND HOTEL MARKET REVIEW

In order to optimize lease costs the companies are also actively investing in acquisition and reconstruction of old production premises or building new built-to-suit warehouses in the major cities of the country. Usually, the area of such warehouses is from several to 10 thousand sq. m.

Lease prices of logistic centres in Lithuania in 2013



Source: Inreal

In 2013, the construction of the “built-to-suit” warehouses was launched by *Hormann Lietuva* (5,000 sq. m) and *Wurth Lietuva* (5,700 sq. m) near Vilnius, the trade company *Osama* (2,000 sq. m) and *Gintarine Vaistine* (9,600 sq. m) – in Kaunas, and *AB Klaipėdos Jūrų Krovinių Kompanija (KLASCO)*, 8,000 sq. m) – in Klaipėda.

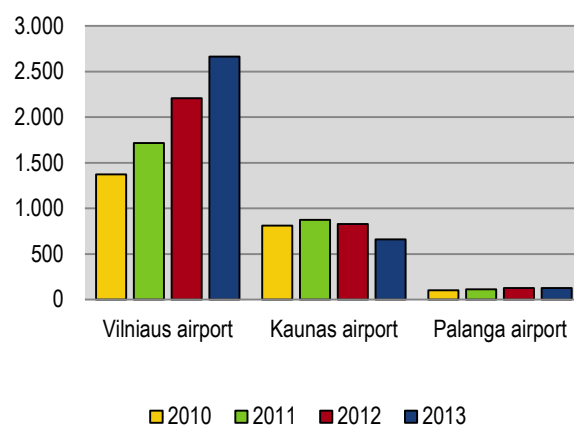
The improving situation in the industry and logistic centre market enables investment acquisitions in Lithuania. In the first half of the year, Estonian fund *Capital Mill* acquired the logistic centre *Žarijos* with an area of about 22,000 sq. m in Vilnius, amounting to 35 million Lit. Some more funds and large companies also have similar investment plans for 2014. Therefore more investments should be in this sector in 2014.

In 2013, Lithuanian tourism sector continued to show high results. The activity indicators of the airports and hotels have been increasing as a result of consistently growing flows of foreign tourists. Active development of hotels has continued in the country.

In 2013, three international airports in Lithuania served 3.45 million passengers – even by 9.0 percent more than in 2012. A minor decrease in passenger flows was noticed in Kaunas airport in 2013 (by 170 thousand passengers less) – it was mostly affected by active development of Vilnius airport. Almost 2.7 million passengers were served in the capital city in 2013 – by 20.5 percent more than in 2012. The number of passengers served in Palanga airport has not changed – 128 thousand passengers in a year.

The growing flows of passengers, served by the airports in 2013, was resulted not only by the Lithuanian Presidency over the EU Council, but also by a rapidly improving communication by air transport in Lithuania. In 2013, the existing airline companies and the newcomers offered even several new direct flights to Belarus, Belgium, Czech Republic, Israel, Crete, the Netherlands, Turkey, Ukraine, West Ireland, etc. It has expanded the geography of potential tourists in Lithuania.

Number of passengers, served at the airports of the country, thousand



Source: Inreal; websites of the airports in Lithuania

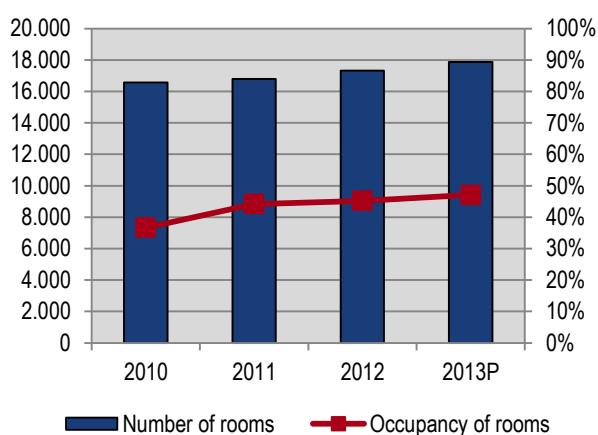
In 2013, Lithuanian hotels accommodated more than 2 million guests – 60 percent of them were foreign tourists. For this reason, the expanding airports of the country directly affect the occupancy of hotels in the country with a record-breaking rate of 47 percent in 2013.

In 2013, the number of rooms, offered by hotels in Lithuania, was also increasing and reached about 17,900

units at the end of the year, i.e. by almost 600 rooms more than in 2012. The major share of this increase was resulted by 7 new hotels, opened in various cities of the country, which has supplemented the market with 440 rooms.

Such active investment in this segment market in Lithuania has not been seen for long, however the majority of new hotels were partially financed through EU support funds for Tourism development. The development of hotels in the country would be implemented in a significantly low pace.

Dynamics of hotel rooms and occupation thereof in Lithuania



Source: Department of Statistics

Hotels, opened in Lithuania in 2013

City	Hotel	Class	Rooms
Vilnius	Campanile	3***	92
Vilnius	Moon Garden	4****	18
Kaunas	Monte Pacis	3***	13
Klaipėda	Europa City	3***	144
Druskininkai	Dzūkija	4****	16
Palanga	Amber Palace	3***	100
Palanga	Gradiali	3***	59
Iš viso:			442

Investments in the hotel market should not be missing this year as well – the opening of a 60-room, 4-star hotel *Amberton Green* in Palanga is expected in the first quarter of the year. Some more Lithuanian RE investors are considering the idea of investing in this segment, moreover, international hotel chains give more hints about their intentions to join the Lithuanian market or start development in it.

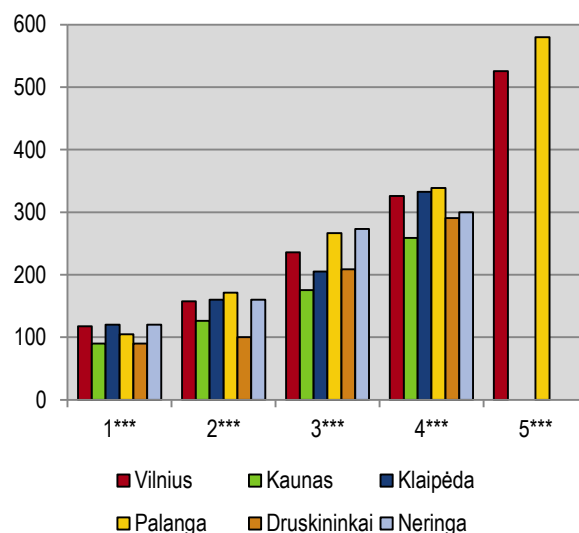
The analysis of seasonal prices in 2013 showed that the lowest-cost accommodation in the most popular hotels in

the cities of the country for a double room, depending on the star-rating of the hotel, were in Druskininkai and Kaunas – the prices varied from 90 to 290 Litas per night. The prices are higher in Vilnius, Klaipėda, Palanga and Neringa and vary from 110 to 330 Litas, at an average.

It is important to note, that 5***** hotels are in Vilnius and Palanga only. The prices are much higher there – from 530 Litas per night in Vilnius, and from 580 Litas per night in Palanga. No significant changes were notice, when comparing the average seasonal prices in hotels with the prices in 2012. It is possible that there should be no significant changes in prices in 2014, resulting from reduced tax of VAT privilege (9 percent) for hotels, which will be applicable from 2015.

The improving rates in the tourism sector and investment environment allows to forecast further successful development of this sector in Lithuania.

Average price for a hotel standard double room in Lithuania, in season 2013



Source: Inreal

NEWS IN REAL ESTATE LAW AND TAXES

Introduction

From the legal point of view, 2013 was important for real estate market participants as, following prolonged discussions, it has brought the determination to implement the long-awaited territorial planning reform. After the Seimas approved the new wording of the Law on Territorial Planning and amendments to the Land Law, which came into effect on 1 January 2014, essential changes were set into the former regulation of territorial planning and land use procedures.

Significant changes are also made in the field of legal regulation of acquisition of agricultural land; the Law on Construction was updated, and a new Law on State Supervision of Territorial Planning and Construction was adopted.

Major changes in legal framework

Legal framework for territorial planning and land use processes

New wording of the Law on Territorial Planning and substantial amendments to the Law on Land are in effect since 1 January 2014. The reform focuses on accelerating the territorial planning process, as well as on making it easier and more effective.

A major change is that often the need to prepare detailed plans has become irrelevant. Construction operations in urban and urbanising areas can be performed in line with general plan solutions. Change of purpose or type of land use can be realised without detailed plans – an order by the director of municipal administration is sufficient (if the change is anticipated in general plans at municipal or local level). Division of land may be accomplished through land projects.

Detailed plans will no longer be necessary in non-urban and non-urbanising areas. In these territories, if needed, general plans and special territorial planning documents are used as a basis for preparing land use planning documents (special territorial planning land use documents or land projects), forest management projects, projects for use of the subsoil and other special territorial

planning documents, which determine potential business activities by public and private entities.

If, after all, detailed plans are prepared, they will be developed for the whole quarter or district of a city (the smallest object of detailed planning is set as a quarter, not a land plot).

Preparation of territorial planning documents at municipal or local levels is organised by the director of municipal administration. Preparation of detailed plans falls under exclusive municipal competence without the option to assign it to the owners of land (ie the possibility to take over the rights of a planning organiser is excluded). On the other hand, the law contains a novelty – the right of initiative for territorial planning, which entitles persons to invite the municipality to prepare territorial planning documents. This means that natural and legal persons (planning initiators) may, by following certain rules set by the Government, provide the municipality with proposals to prepare, modify or revise territorial planning documents at local level. If the initiative does not conflict with higher-rank territorial planning documents and legal acts, if it will be supported by all the owners or users of the territory intended for planning, and if the initiators will be ready to finance planning operations – then the initiative will be binding on municipalities. Before embarking on approval of a territorial planning document, the planning organisers will, by following certain rules set by the Government, have to enter into an agreement on implementing solutions with the director of municipal administration, covering *inter alia* the engineering and social infrastructure, and land use operations required to implement the detailed plan.

The procedure for coordination, verification and approval of territorial planning documents is now shorter (eg, administrative procedures down from 125 to 75 business days).

Changes in public information procedure – the main information will be announced electronically in the information system of the Lithuanian State supervision of preparation of territorial planning documents and territorial planning – TPDRIS, www.tpdris.lt (at the moment, this system is not yet fully available) and displayed on municipal information boards (not in the local press).

Detailed plans are to be approved by the director of municipal administration, rather than by the municipal board as before 1 January 2014.

A territorial planning document comes into effect when registered with the register of territorial planning documents.

To ensure legal expectations, legal accuracy and stability, a resolatory time-limit is set for challenging approved territorial planning documents. The period of limitation given to public interest entities to challenge approved territorial planning documents is 20 business days from issue of the document being challenged permitting construction according to the territorial planning document but cannot exceed 3 years from when the approved territorial planning document comes into effect.

Territorial planning documents preparation of which started before the effective date of the new law and for which applications were lodged for issuing planning conditions, may be finalised, coordinated, verified and approved under the legal regulation in force before the new law came into effect, or they may already be prepared on the basis of the new law, or may not be prepared at all, ie their preparation may be discontinued.

Amendments to the Law on Construction

In 2013, the Law on Construction regained the requirement that use of a new structure of exceptional significance or of non-exceptional significance or new parts of a reconstructed structure may commence according to their intended purpose only after completion – as established by law – of all construction operations and after issue of a formal certificate of completion. Note that this requirement does not apply to newly built residential structures or – in the event of reconstruction – to residential structures in which no non-residential premises are planned, or to traffic infrastructure.

The Law on Construction – which requires a certificate of energy performance of a building – has been amended. Based on currently effective requirements, a certificate of energy performance is required:

- (i) upon completion of new buildings, as well as upon completion of reconstruction, renovation (modernisation) of a building or major repairs, where the price of the reconstruction, renovation (modernisation) or major repairs – by which the physical and energy properties of partitions and/or engineering systems of the building are restored or improved – exceeds 25 per cent of the building value;
- (ii) when selling or leasing out buildings in whole or in part (apartments, other separate use premises). The builder (client) or owner must provide potential new tenants or buyers with a valid certificate of energy performance for the building or part (a copy) for familiarisation, and must transfer the same to the buyer or new tenant;
- (iii) for buildings with usable floor area over 500 square meters (from 9 July 2015 – over 250 square meters) intended for the hotel business, as well as administrative, trade, service, catering, transport, culture, science, sports, medical treatment and recreation buildings. A legible certificate of energy

performance (a copy) not older than 10 years must be displayed within these buildings in a clearly visible place.

It is also important to note that 2014 brings changes to the start of calculation of the warranty period for construction operations. From now on, the warranty period of a structure begins to run from the date of transfer of all construction operations completed by the contractor to the builder (client) and, as usual, it cannot be shorter than 5 years, but 10 years for hidden structural elements (e.g. constructions, pipelines,) and 20 years if defects which were deliberately hidden in these structures are detected. Previously, time began to run from the date of receipt of the certificate of completion of construction.

Adoption of Law on State Supervision of Territorial Planning and Construction

Since 1 January 2014, a new law governing the legal relations of the State supervision of territorial planning and construction is in force – the Law on State Supervision of Territorial Planning and Construction. The Law sets the procedure for State supervision of territorial planning and State supervision of construction, the institutions carrying out supervision, their competences, duties and rights. Note that the Law also sets out the terms and conditions under which complaints as to violations in the field of territorial planning or construction are not considered by the State Territorial Planning and Construction Inspectorate (VTPSI):

- (i) if more than 1 (one) year has passed from adoption of an administrative decision; in the case of issue of a construction permit – 1 (one) year from commencement of construction, but not more than 3 (three) years from issue of the construction permit, except when an investigation is pending in law enforcement institutions as to the lawfulness of approval of the document or there are suspicions as to infringement of the public interest;
- (ii) if the issue concerning lawfulness of the administrative decision in terms of the same circumstances is pending, or has already been decided in court; (iii) if the complaint relates to a minor infringement.

Amendments to the Law on Protected Areas

With effect from 2 February 2014, an amendment to the Law on Protected Areas came into force introducing a provision covering reserves, state parks, strict biosphere reserves and biosphere grounds that prohibits altering the main objective conservational and forest farming purpose of land use, as well as transforming forestry land into other land, except for cases where:

- (i) this is required for purposes related to the protection, maintenance of protected areas or adapting them for public needs and use for recreational purposes, if this is anticipated in the planning documents for those

protected areas and does not conflict with the regulations for those protected areas;

- (ii) part of land comprising forest farming land is being separated, where reconstruction of a former homestead is permitted or where a residential house alone or together with its appurtenances (registered with the Real Estate Register as a separate object of real estate) is being lawfully developed;
- (iii) it is necessary to transform forest land into other land for the purpose of significant State projects;
- (iv) public use, common use and separate green areas are formed according to special territorial planning documents or general plans for these protected areas.

Limitation on acquisition of agricultural land

From the beginning of this year, amendments to the Provisional Law on the Acquisition of Agricultural Land, approved in mid- 2013, are in force. The main aim of the amendments is to lessen the maximum area of agricultural land that can be owned and to ensure that farmers of agricultural land can acquire land under the right of first priority.

Under the amendments a person (natural or legal) or related persons may acquire agricultural land but so that the total acquired from the State does not exceed 300 ha, and the total of agricultural land acquired from the State and other persons and belonging to all related persons does not exceed 500 ha.

Note that the Law introduces an especially extensive definition of related persons:

- (i) spouses, parents (adoptive parents) together with their minor children (adopted children); spouses or parents (adoptive parents) and their minor children (adopted children) are considered to be related to a legal person if at least one of the spouses or parents (adoptive parents) and their minor children (adopted children) is related to the legal person;
- (ii) persons who have, directly or indirectly, a majority of votes in a legal person or directly or indirectly exert a decisive influence on a legal person;
- (iii) related persons include legal persons in which - like in a legal person who wishes to acquire ownership of agricultural land - the same person or the same persons with at least 1/2 of the votes entitling to vote at a meeting of shareholders of the legal person.

Under the new procedure, a buyer of agricultural land will be required to fill in a declaration and confirm that the area of agricultural land possessed by him does not

exceed the maximum limit allowed by the Law. Furthermore, in certain cases the buyer will have to declare the sources of funds used for acquiring the land.

A transaction for transfer of land that violates the set requirements is null and void. Agricultural land acquired with an area exceeding the limits allowed by the Law may be taken and transferred to the State under a court order if claimed by a prosecutor safeguarding the public interest. Compensation for land taken into State ownership is the price paid or the average market price if the average market price set under the Maps of Land Value Zones is less.

The Law sets no direct restrictions on purchasing shares in companies that hold agricultural land if acquisition will result in overstepping the maximum limits allowed for acquisition of agricultural land; however, these transactions may be considered to be fake.

In addition, the Provisional Law on Acquisition of Agricultural Land sets new rules for rights of first priority for persons to buy agricultural land offered for sale. The right of first priority to buy private agricultural land at the price that is offered for sale and under other same conditions (except where land sold by auction) is enjoyed by the following persons in the sequence below:

- (i) co-owners of the land plot;
- (ii) a user of the land offered for sale, who, under an agreement registered with the Real Estate Register, has used the land for agricultural purposes for at least one year;
- (iii) a person who owns agricultural land adjacent to the agricultural land offered for sale.

Note that the right of first priority (except when agricultural land is being acquired by a co-owner) applies to (a) natural persons with farmer's professional skills and competence, ie a natural person who has declared farming lands and/or land under crops, and handles the accounting for the year before applying and who has practical experience in farming and has, as laid down by the Law on the Farmer's Farm, registered a farmer's farm or has practical experience in farming and an agricultural education diploma or documentary evidence of professional ability to be a farmer; and (b) legal persons – manufacturers of agricultural products the annual income of which derived from agricultural products sold constitutes more than 50 per cent of total income earned and the economic viability of which may be proven through assessment of its potential as set out by the Ministry of Agriculture.

The State has the right of first priority (except when rights of first priority are exercised by co-owners of land) to acquire private agricultural land, which – based on valid detailed or special plans – is intended for public needs, as well as agricultural land necessary for implementation of State or EU funded measures for improvement of households and reduction of areas of abandoned land, at the price for which it is sold and under other same conditions. In compensation for private land the State may offer only a price which does not exceed the average market price of the land calculated according to mass valuation, or the market price calculated by applying individual valuation of property set forth in the Law on the Basics of Property and Business Valuation, if the latter price is higher.

The landowner must communicate its intention to sell agricultural land to a selected notary public or the territorial subdivision of the National Land Service under the Ministry of Agriculture (the “National Land Service”). In the notice of intention to sell the land, the landowner must specify the user (users) of the land if the land is used by another person, and the terms and conditions of sale. Where the sale concerns a segment of the land held by right of common ownership, notice of intention to sell a part of agricultural land must be delivered to the territorial subdivision of the National Land Service only if the co-owner of the land does not exercise the right of first priority to buy the land.

The territorial subdivision of the National Land Service must communicate the notice of sale of agricultural land, the terms and conditions of the sale and the conditions under which persons may exercise the right of priority to acquire land offered for sale to the user (users) of the land offered for sale, as well as to persons who own land adjacent to agricultural land offered for sale and to the director of municipal administration or other institution interested in taking land for public needs, if – based on detailed or special plans – the land offered for sale is anticipated for use for public needs, and to the State Land Fund enterprise. These persons must notify their consent (decision - if land is being acquired in the name of the State) to purchase of agricultural land, or refusal to buy the same, to the territorial subdivision of the National Land Service no later than 15 business days from receipt of the notice.

If land is sold in violation of the right of first refusal, an interested person may (within 3 months of becoming aware or from the moment when he could obviously have become aware of sale of the agricultural land) claim in court for transfer of the buyer’s rights and obligations.

Real estate taxes and land taxes

Note that regulation of taxes on real estate and land did not change in 2013. Consequently, as in 2013, in 2014 natural persons will not pay real estate tax on structures (premises) intended for residential purposes, gardens, garages, homesteads, greenhouses, farms, subsidiary farms, science, religion, and recreation, fish-farming structures as well as engineering structures, except where the value of the real estate exceeds LTL 1 million. In this case, a tax rate of 1 per cent applies only to the part of the tax value of property, which, upon summing up in general the real estate units held or acquired under ownership right by family members, exceeds the non-taxable amount, ie LTL 1 million. For this provision, family members are spouses, persons raising children (adopted children) alone, and their children (adopted children) under 18 residing together.

Real estate tax on real estate (part thereof) owned or acquired by a natural person and that is transferred to a legal person for an indefinite period of use or a period exceeding one month, is payable by that legal person for that period.

Real estate tax rate ranges from 0.3 per cent to 3 per cent of the tax value of real estate. The specific tax rate applicable within the territory of a municipality from the beginning of the forthcoming tax period is set by the municipal council by the 1st of June of the current tax period. The tax value of real estate is set, subject to the purpose of the real estate, through mass valuation of property or by applying the recoverable value (cost) method.

Taxpayers (owners of real estate - where a legal person uses real estate owned by a natural person) may once in every tax period (within 3 months from the start of the tax period) request the property valuer to consider the tax value of real estate as the value of the real estate set by individual valuation. Requests will be considered if the tax value of the real estate differs by at least 20 per cent from the value assessed by individual valuation.

Land tax is calculated against the average land market price calculated in accordance with land value zone maps developed during mass valuation of land and models for calculating the average market price of land. In addition to mass valuation, land tax for taxpayers may be calculated against the land value assessed by individual valuation if the latter differs from the value determined through mass valuation by more than 20 per cent and the difference was not caused due to failure to use the land according to its purpose, mode, nature, or its disposal under encumbrances entailed by mortgage or other obligations of the owner, and the report on individual valuation of the land is in line with statutory requirements.

The tax rate on land is determined by the municipal council which is entitled by law to select a rate within intervals from 0.01 per cent to 4 per cent.

AUTHORS



Arnoldas Antanavičius

The Head of Consultations and Analysis Department of JSC "Inreal valdymas". He has been working in RE field for more than 6 years. He is responsible for feasibility studies, concept and market research preparation, as well as consultation on other RE issues. He actively participates in creation of concepts for RE development, preparation of object pricing, creation of object financial models. In 2010 he gained MA degree in Financial Economics at ISM University of Management and Economics.

Ph. +370 5 273 0944
arnoldas.antanavicius@inreal.lt



Žygimantas Mauricas

The Chief Economist of Nordea Bank in Lithuania is primarily responsible for carrying out and presenting research on Lithuanian economy, as well as providing with an in-depth knowledge on Lithuanian market for domestic and international investors. Žygimantas Mauricas holds MSc in Finance degree from the University of Lausanne and is currently pursuing doctoral studies in finance and risk management. He is also giving lectures on financial economics, international finance and risk management subjects.

Mob. +370 612 66291
zygimantas.mauricas@nordea.com



Aušra Mudėnaitė

Partner with law firm SORAINEN, co-heads the Real Estate and Construction Team in Lithuania. Aušra regularly advises large Lithuanian and international real estate investors and real estate development companies, construction companies, real estate brokers and consultants, design, construction, property management companies and real estate project financing entities. For a number of years, she has been top-rated by prestigious international legal directories *Chambers Europe* and *The Legal 500*. Only three Lithuanian lawyers have so far earned similar recognition in the area of real estate law.

Ph.: +370 5 243 0566
ausra.mudenaite@sorainen.com



Giedrė Frolenkienė

Senior associate with law firm SORAINEN, attorney-at-law advising large Lithuanian and international companies on all issues related to real estate and construction: sale and purchase, foreclosures and portfolio sales, commercial leases, property development and other issues. Her expertise also covers PPP related legal matters.

Ph.: +370 5 268 5040
giedre.frolenkienne@sorainen.com

ABOUT COMPANIES / CONTACTS

INREAL GROUP



Inreal group provides probably the widest spectrum of services in Lithuania, related to real estate services. The group consists of JSC "Inreal Valdymas" (Inreal Management, JSC "Inreal", and JSC "Inreal GEO". Inreal group companies belong to SC "Invalda privatus kapitalas".

90 employees are currently working in Inreal group; mediations in lease or sale of 550 thousand sq. m of commercial premises; the value of asset, evaluated per year, is above 2 milliard Lit. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Siauliai, Mažeikiai, Alytus, Plungė and Utena.

Currently JSC "Inreal Valdymas" develops two real estate projects: houses in Nida "Kopų vėtrungės" ("Dunes weathervanes") and apartments and commercial premises in Klaipėda oldtown "Danės užutėkis" ("Danes Bay").

JSC "Inreal valdymas"

JSC "Inreal"

JSC "Inreal GEO"

Palangos Str. 4, 01402
Vilnius

Tel +370 5 273 0944

Fax +370 5 273 3065

www.inreal.lt

AB BANKAS NORDEA



"Nordea Bank Lithuania" belongs to the largest financial services group in Northern Europe. In 2012 "Nordea" was awarded the best bank in Western Europe (The Banker, Financial Times). "Nordea" ranks 20th in the World's 50 Safest Banks ranking. "Standard & Poor's" rating agency has affirmed Nordea's AA- rating.

"Nordea" started its operations in Lithuania in 2000. Currently, "Nordea" ranks number four among Lithuanian banks in terms of assets under management and is one of the fastest growing banks providing all main banking services to private and corporate customers. In the corporate customer segment, "Nordea Bank Lithuania" is known as a financial supporter of large projects providing a wide range of individual services for corporate customers.

NORDEA BANK LIETUVA

Didžioji Str. 18/2, 01128
Vilnius

www.nordea.lt

LAW FIRM SORAINEN



SORAINEN is the leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today SORAINEN numbers more than 140 lawyers and tax consultants advising international and local organisations on all business law and tax issues involving the Baltic States and Belarus.

SORAINEN has eight times been recognised as the "Baltic Law Firm of the Year" – by *The Financial Times & Mergermarket*, *International Financial Law Review* and *PLC Which lawyer?*. SORAINEN has also three times received the "Baltic States Tax Firm of the Year" award and once the "Baltic States Transfer Pricing Firm of the Year" award from *International Tax Review*.

The SORAINEN Real Estate & Construction Team is headed by partners Aušra Mudėnaitė and Kęstutis Adamonis – two of the three top-ranked Lithuanian real estate law professionals.

SORAINEN

Jogailos Str. 4, 01116 Vilnius

Tel +370 5 268 5040

Fax +370 5 268 5041

www.sorainen.com