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20 YEARS IN RE MARKET

**ECONOMY AND RE
MARKET REPORT
Q3 2015**



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INVESTICINIS BANKAS

C O B A L T

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SUMMARY

The trend of economic development of the country has not changed – the domestic demand, which is mostly stimulated by private consumption, was growing thus improving the results of economic development in the third quarter. One can expect that this factor will remain as the main cause of economic development till the end of the year. Households have something to be happy about – as a result of economic growth, the number of employed people is growing; if the situation remains, the average wage will be growing fast. Likely, the European Central Bank, not seeing the sustainable economic growth of the entire region and sufficient level of inflation, will already revise the scales of stimulating policies in December.

In the third quarter of 2015, the activity of RE market was further growing in Lithuania. In comparison with the second quarter, the increase in the number of apartment transactions was 13.3 percent; of private houses – 4.3 percent. Market activity has returned to the level of 2014, when a record-breaking level of RE transactions was observed as a result of upcoming euro adoption. Nevertheless, this year the RE market was partially stimulated by stricter regulations on responsible lending approved by the Bank of Lithuania, what resulted in a rush to acquire RE. It could be forecasted that the end of the year will be calmer and market activity will calm down. On the other hand, one should take into account that the geopolitical situation has been quite calm for some time, residents' income is growing, and thus their expectations remain positive. It can be forecasted that the market will also remain active after the 1st of November, when stricter regulations on responsible lending will enter into force.

In the third quarter of 2015, there were 1,350 apartments supplied to the market in the segment of new-construction apartments in Lithuania, 1,250 thereof – in Vilnius. Developers' activity in the capital city was not fading out – in comparison with the second quarter, the number of new-construction apartments offered to the market was less by 6.6 percent only. Meanwhile, the developers sold about 950 apartments in the third quarter, i.e. by 10.2 percent less than a quarter ago. The total number of unsold (vacant and reserved) apartments was about 4,880 in the end of the third quarter. Despite the improving macroeconomic indices, the possible growth in housing prices in Vilnius is absorbed by the growing supply and competition among developers. In the end of the third quarter of 2015, the average price of economic class apartments was 1,280 EUR/sq.m., showing an annual increase of 1.1 percent. The average price of mid-class apartments was 1,700 EUR/sq.m., showing an annual decrease of 0.1 percent. The average price of the luxury-class apartments was 2,420 EUR/sq.m., showing an annual decrease of 3.1 percent.

The total level of housing purchase-sale transactions in Kaunas and Klaipeda has returned to the level of 2014, however, if compared with the market of the capital city, the activity has remained ten-times weaker. Actually, Kaunas housing market could be much more active if the city managed to attract more foreign IT and service companies; the demographic issues could be solved and the demand of new housing could grow through well-paid jobs offered by such companies. In accordance with the data of "Invest Lithuania", Kaunas lost some potential investors due to inability to offer sufficient modern office premises. Being aware of the success story of Vilnius, which started in 2009 with "Barclay's" and "Western Union", a similar effect could also be expected in Kaunas if more foreign companies could settle there.

In the third quarter of 2015, Vilnius was dominating in the business centre segment as well – the business centre "k29" was opened on the right bank of the Neris, which supplied the market with approx. 14,000 sq.m. GLA. One more business centre (7000 sq.m.), which is being developed by "Vastint Lithuania", will be opened in the fourth quarter of 2015. More than 13 modern business centres were being built or are expected to be started in the nearest future, thus Vilnius market will probably have a record-breaking GLA in the next two years – i.e., about 173,930 sq.m. In order to ensure successful take-up, about 17 thousand additional new job places should be established. It is unlikely, that it will be achieved in two years; therefore it is obvious that vacancies will inevitably grow and the competition among the business centres will be stronger.

Growing competition can also be noticed in the segment of logistics centres. In the third quarter of 2015, the number of vacant modern warehouse premises was growing in the major cities of Lithuania. The largest increase in vacancies was noticed in Kaunas and Klaipeda, where vacancies were 21.2 percent and 7.6 percent, respectively. The best result was shown by Vilnius

market with the vacancy rate of approx. 3.9 percent. Nevertheless, taking into account the fact that there are at least four logistic centres being built in Vilnius and Klaipeda, which will supply the market with about 37,800 sq.m. GLA, it can be foreseen that the vacancy rate should grow in Vilnius and Klaipeda. Accordingly, it should increase the pressure on rents, although it will be insufficient to expect the rents to decrease. However, the conditions for development of new projects in this segment will not be very favourable in the near future.

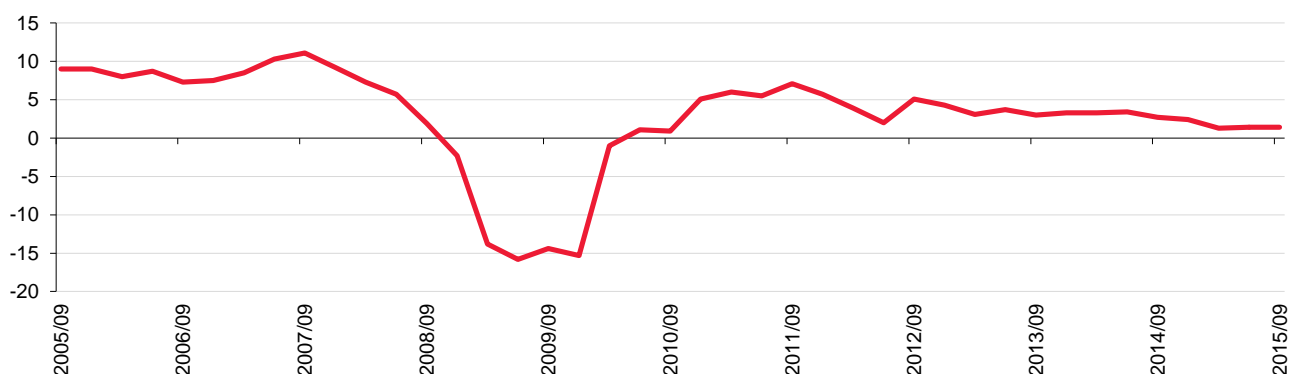
Many changes related to the construction of residential houses as well as their acquisition are expected in the Lithuanian real estate market, especially in the segment of residential housing, in the near future. Firstly, the updated Regulations on Responsible Lending, adopted by the Bank of Lithuania, came into force on 1 November 2015. Later, from the beginning of 2016, the obligation to build buildings complying with energy efficiency Class A will enter into force. Finally, no later than by the end of March 2016, Lithuania will have to transpose the Directive of the European Parliament on credit agreements for consumers relating to residential immovable property, also called as the Housing Directive.

“All of these new requirements will unambiguously influence the developers of real estate and purchasers of residential housing. Restrictive requirements to financial institutions, which are the main creditors of residential housing, will complicate the possibilities for consumers to get credits, meanwhile a higher energy efficiency class will probably increase the prices of newly built residential housing”, – stated Simona Oliškevičiūtė-Cicėnienė, Head of Real Estate & Infrastructure Practice Group at “COBALT”.

LITHUANIAN ECONOMY REVIEW

Lithuania's economic growth remains low. Domestic demand, fueled by private consumption, has increased at the same time improving economic development of the 3rd quarter. It is predicted that until the end of this year it will remain the main indicator of Lithuania's economic growth. This year export will go up slowly but it is expected to increase more next year when Lithuanian companies will gain their market share in new foreign markets. Favorable financial environment, low prices of commodities and increasing consumption in developed countries may result in more active Lithuania's economic activity. According to Bank of Lithuania forecast, the GDP growth for 2015 will result in 1.6 % while export of goods and services will increase by 0.7 %.

Graph No. 1: Lithuania's GDP, %, Annual change



Source: Bank of Lithuania, Statistics Lithuania

This year investment of all types is increasing including means of production, residential and non-residential buildings.

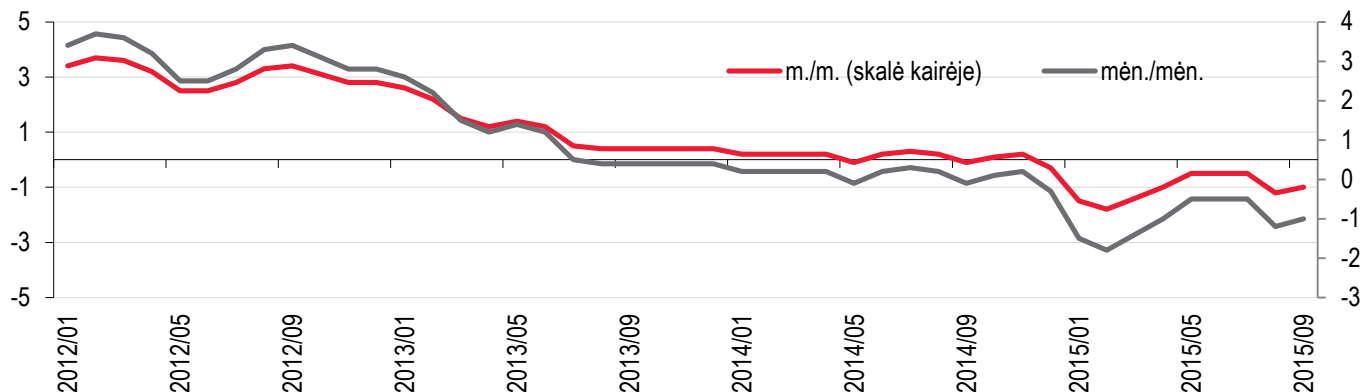
First of all, it can be related to the trend that during the period of economic recovery public sector (institutions controlled by state and municipalities' budget) grew more than overall economy and, compared to the pre-crisis period, now adds approximately 17 % more value. Furthermore investments in machinery and equipment grow because of intensive implementation of infrastructure projects.

Another type of investment which increased significantly is real estate construction. These investments are positively affected by various factors including improved state of the economy, growing household income and favorable borrowing conditions due to extremely low EURIBOR interest rates. Despite the fact that investments are increasing, uncertainty as well as future perspective remains vague. Future growth of real estate construction may be limited by a slowdown in a housing market and comparatively large supply of newly built residential buildings

Inflation is continuously decreasing but it lost its pace. At the beginning of the year price of oil in euros was by half, while price of fuel about 20 % lower than a year ago. Although halfway through the year price of oil recovered, it still had a cut in price of about one third. Oil reserves have been growing in the US. Also a slowdown in China's economic growth did not stimulate the demand of oil related products. International Energy Agency predicts that surplus of oil will remain next year as well because of Iran's upcoming supply to the market. A decreasing number of oil rigs in USA could be seen, however, most of the OPEC members, including Saudi Arabia are going to keep high production volumes. According to the forecast of the OPEC, supply flowing from countries which do not belong to OPEC organization should gradually decrease. It is supposed that production volume from the US will reach 280 thousand barrels per day. OPEC is optimistic about next year's oil demand – it is expected

that demand of oil related products will increase because of growing number of automobile sales. In the near future, however, inflation should not be positive because consumer friendly prices will remain low because of cheap energy and commodities. It is predicted that inflation in 2015 will be -0.5 % while it will become positive next year reaching 1.5 %.

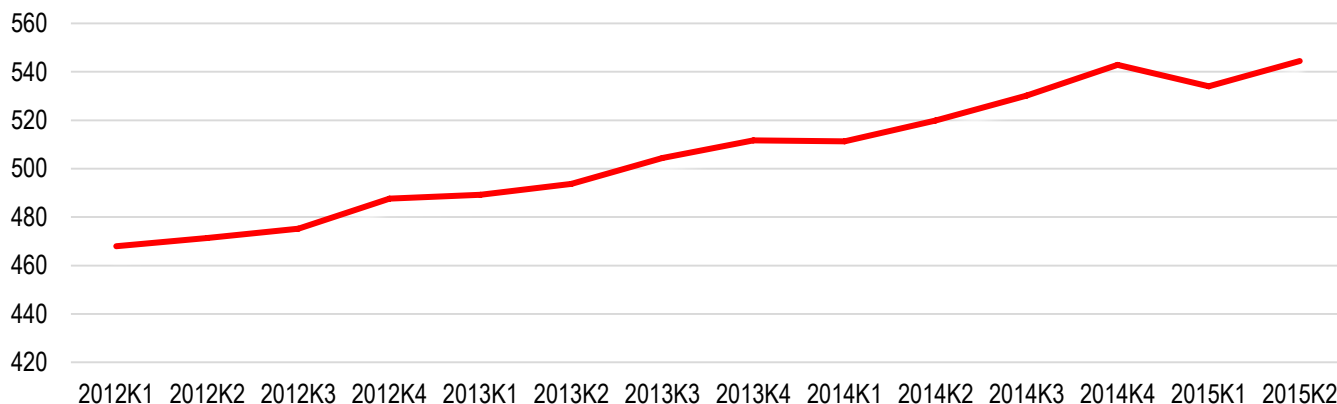
Graph No. 2: Average annual inflation, %



Source: Bloomberg

Difficulties in foreign markets have not had negative impact on rapid job creation and household income growth. Since the beginning of the year employment of Lithuania’s population increased by almost 2 percent while wages grew by 4.5 %. These two rising factors had a positive impact on consumption which fosters Lithuania’s economy to expand. Basic basket of goods which remains stable will stimulate domestic consumption because of growth in wages what will improve overall standard of living.

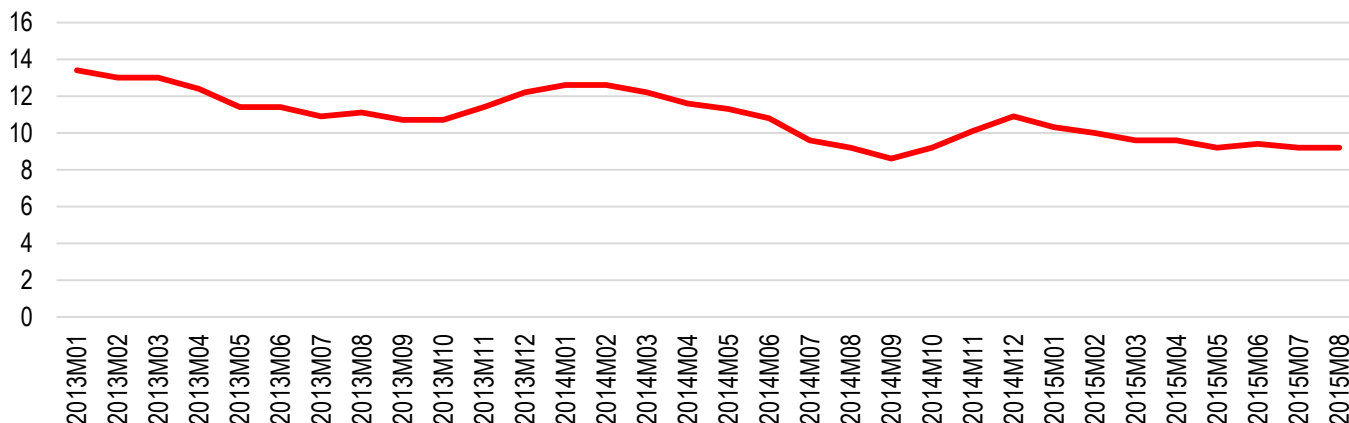
Graph No. 3: Wages, neto



Source: Statistics Lithuania

Unemployment rate decreased because of growing economy, however, if this continues, average income will rise faster than work efficiency what will result in a boost in payroll costs. A research completed by Department of Statistics of Lithuania shows that unemployment rate fell from 10 % in the first quarter of 2015 to 9.4 % in the second quarter. On the other hand, with a decreasing unemployment rate come complaints that it is harder to find not only qualified employees but also workers to do jobs, which do not require high level of skill. All factors mentioned above directly affect discrepancy between workforce supply and demand which results in lower quality of products and services.

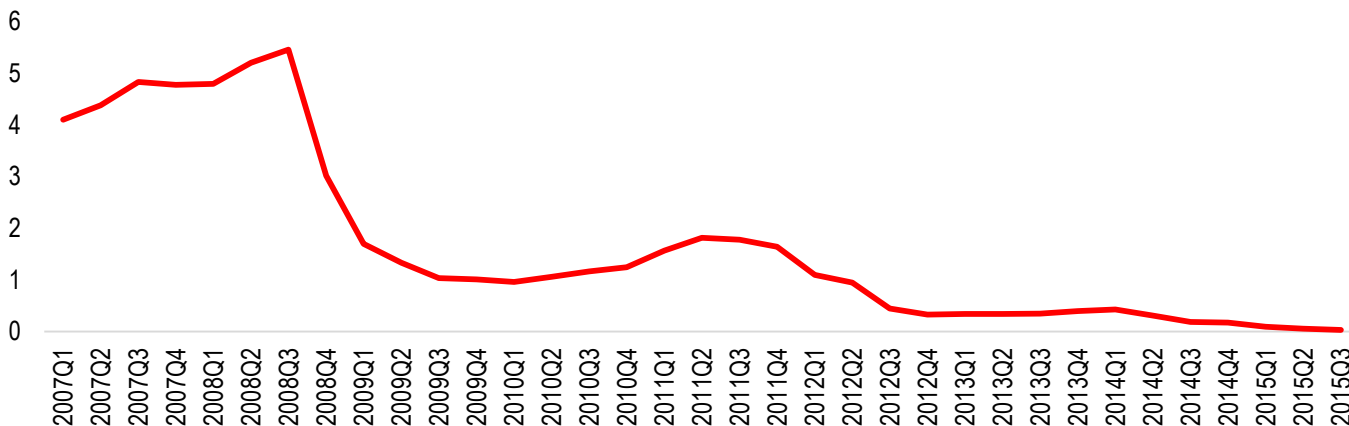
Graph No. 4: unemployment rate, %



Source: Statistics Lithuania

During 2015 condition of public finance has improved, however, it remains fragile. Quantitative easing program of Europe Central Bank (ECB) which was introduced to suppress inflation pressure, was not successful in stimulating economic growth and increasing the level of inflation. The reason for that is because this program was implemented at the time when yields of securities have been at the historically low levels. It is likely that the scale of ECB quantitative easing program should be reevaluated in December.

Graph No. 5: EURIBOR (6 month), %



Source: Bloomberg

HOUSING MARKET REVIEW

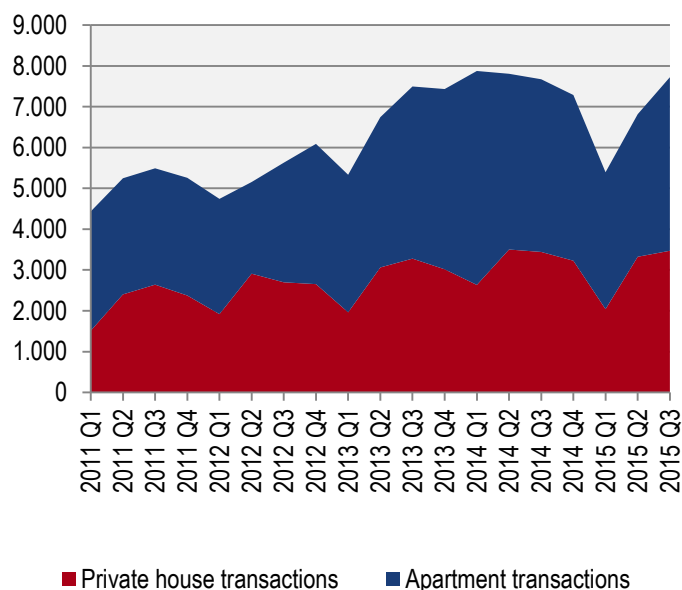
Housing market in Lithuania – stable positivism

As a result of positive moods in the real estate (RE) market in Lithuania, good purchase-sale transaction rates have remained in the third quarter of 2015. Lithuanian economy as well as purchasing power is growing further, while external stimuli, which have a negative influence on RE purchasers/investors moods, are almost gone. The level of purchase and sale transactions is broadly consistent with the rates registered in 2014, showing some sort of stabilization in demand.

According to the data of SE Centre of Registers:

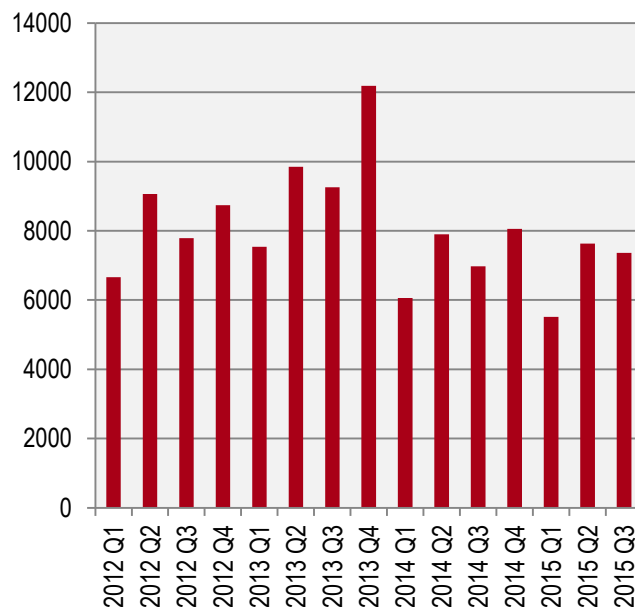
- There were 7,723 apartment purchase-sale transactions concluded in Lithuania during the third quarter of 2015, i.e. by 13.3 percent more than in the second quarter and by 0.7 percent more than in the corresponding period in 2014.
- There were 3,471 private house purchase-sale transactions concluded in Lithuania during the third quarter of 2015, i.e., by 4.4 percent more than in the second quarter and by 0.8 percent more than in the corresponding period in 2014.
- There were 7,361 land plot purchase-sale transactions concluded in Lithuania during the third quarter of 2015, i.e., by 3.5 percent less than in the second quarter and by 5.5 percent more than in the corresponding period in 2014.

Apartment and house transactions in Lithuania (units)



Source: SE Centre of Registers

Land plot transactions in Lithuania (units)



Source: SE Centre of Registers

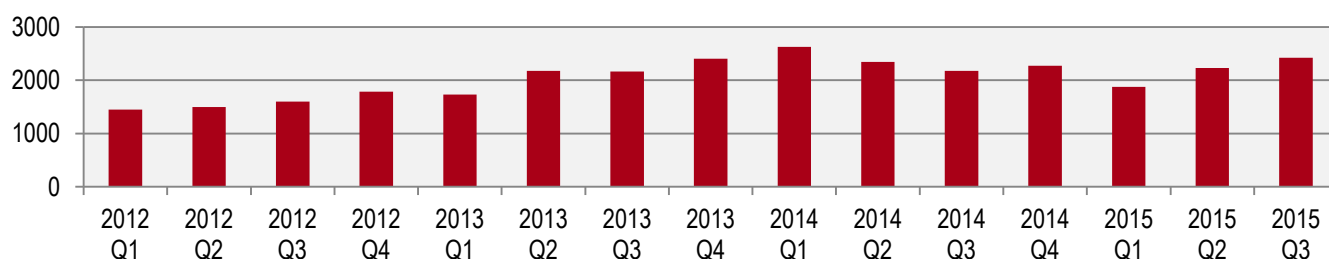
Vilnius market – ongoing market’s growth

The RE purchase-sale transactions in Vilnius showed positive trends in the third quarter of 2015. According to the data of SE Centre of Registers:

- There were 2,424 apartment purchase-sale transactions concluded during the third quarter of 2015, i.e. by 8.6 percent more than in the second quarter and by 11.4 percent more than in the corresponding quarter of 2014.
- The increase in purchase-sale transactions in the private house segment was noticed both in the city and region. There were 434 private house purchase-sale transactions concluded in Vilnius city during the third quarter of 2015, i.e., by 5.1 percent more than in the second quarter and by 9.6 percent more than in the corresponding quarter of 2014. There were 181 private house purchase-sale transactions concluded in Vilnius region, i.e. by 9 percent more than in the second quarter and by 10.4 percent more than in the corresponding quarter of 2014.
- The increase in purchase-sale transactions in the land plot segment was also noticed both in the city and region. During the period in question, there were 412 land plot purchase-sale transactions concluded in Vilnius city, i.e. by 7 percent more than in the second quarter and by 33.3 percent more than in the corresponding quarter of 2014. There were 531 land plot purchase-sale transactions concluded in Vilnius region, i.e. by 2.7 percent more than in the second quarter and by 5.4 percent more than in the corresponding quarter of 2014.

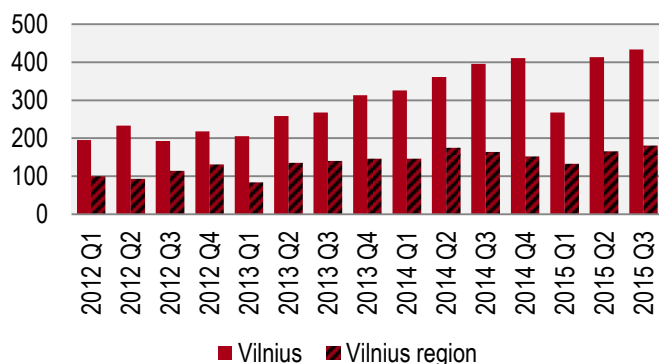
Vilnius RE market is showing a high liquidity in all segments. Nevertheless, one should highlight the segment of private houses, since it remained popular and showed solid growth as well as registered new records of private house purchase-sale transactions throughout the year, except the first quarter of 2015. Due to economic growth and the increase in residents’ income, this segment will remain popular. On the other hand, a significant increase in prices should not be expected, because of the wide supply in the market, which is continuously supplied by smaller RE developers, who take up the new territories.

Transactions on apartments in Vilnius (units)



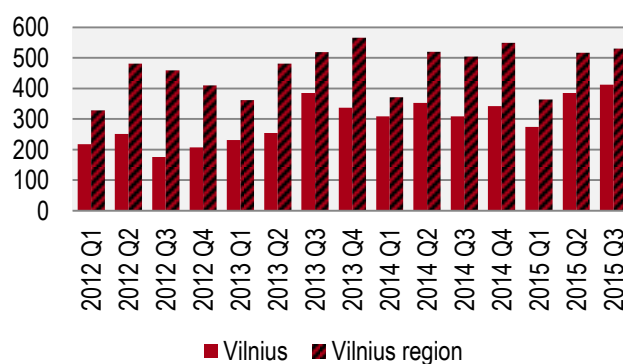
Source: SE Centre of Registers

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



Source: SE Centre of Registers

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



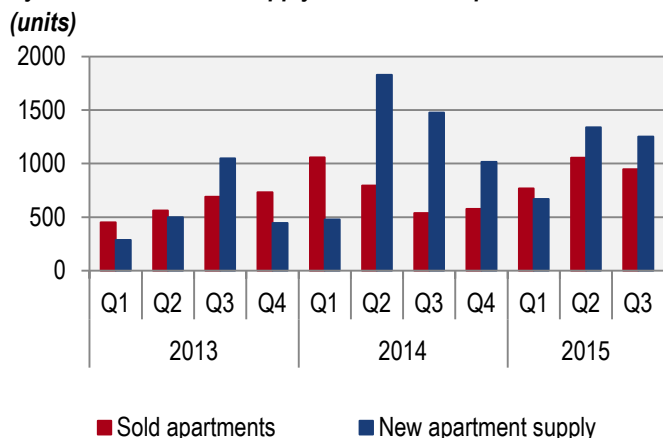
Source: SE Centre of Registers

Developers' sales in the primary market failed to maintain the paces of the second quarter – in comparison with the previous period a decrease of 10.2 percent was noticed in the third quarter. In fact, the decrease was caused by worse sales of economy class projects – in comparison with the second quarter the number of transactions decreased by 22.5 percent. It is possible that the sales of economy class apartments will decrease by approx. 10 percent, since the share of transactions in this segment were likely concluded in the second quarter of 2015, when residents were hurrying to acquire housing due to stringent borrowing conditions, which came into force on 1 November 2015.

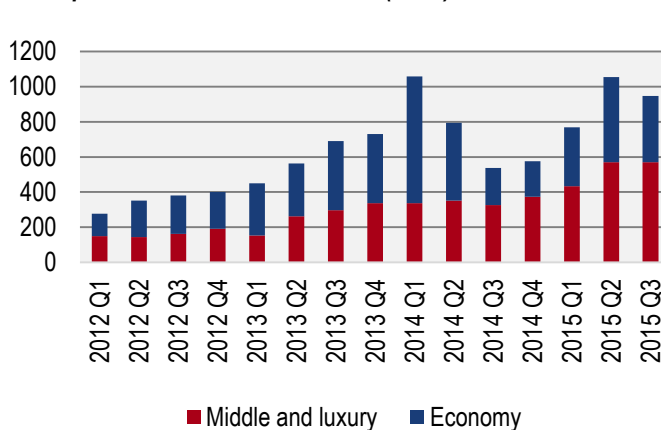
On the other hand, the demand of middle class and luxury class apartments has remained stable. The upper-class apartment segment is not sensitive to external stimuli – escalation of geopolitical problems, changes in housing funding policy, etc.; therefore, it is possible to state that record-breaking sales of upper-class housing should remain in the near future.

In the third quarter of 2015, the developers of new projects almost did not reduce their speed – they supplied the market with about 1,250 new apartments, i.e. just by 6.6 percent less than a quarter ago and by 15.2 percent less than in the corresponding quarter a year ago. The trend, where newly-emerged supply exceeds the sales, has remained, thus the total rate of unsold (free or reserved) apartments has increased up to about 4,880 in the capital city. Nevertheless, the supply and sales were changing rather evenly, therefore the new construction apartment liquidity rate, calculated by "Inreal", has stabilized at the limit of 1.5-1.6 in Vilnius; and it is remaining at this level for almost a year. Such liquidity rate means that the market is balanced, thus changes in prices should not be expected.

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



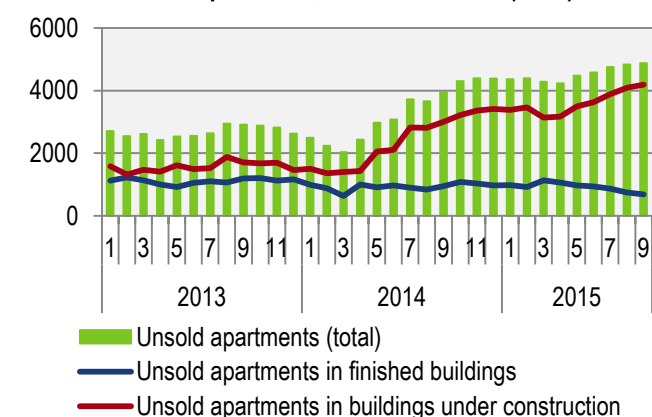
New apartment sales under classes (units)



Source: Inreal

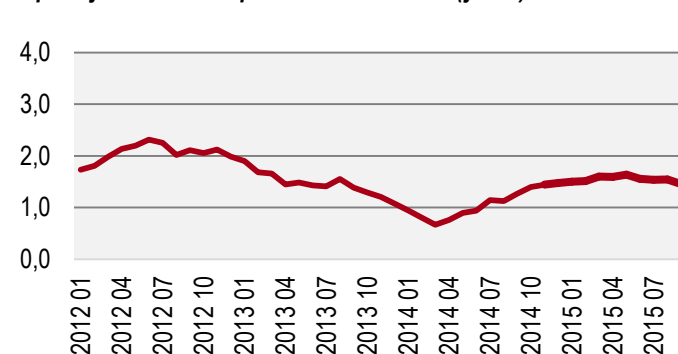
Source: Inreal

New construction apartments, unsold in Vilnius (units)



Source: Inreal

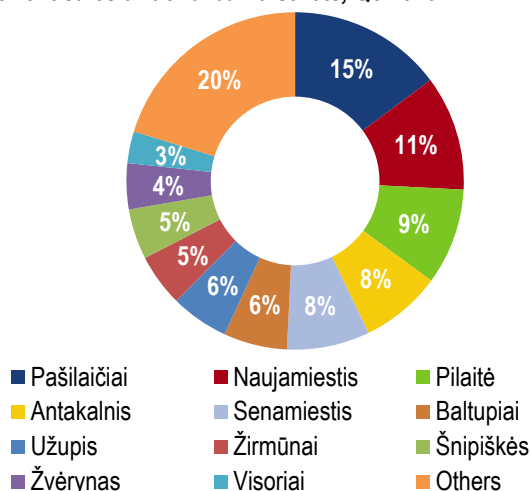
Liquidity rate of new apartments in Vilnius (years)



Source: Inreal

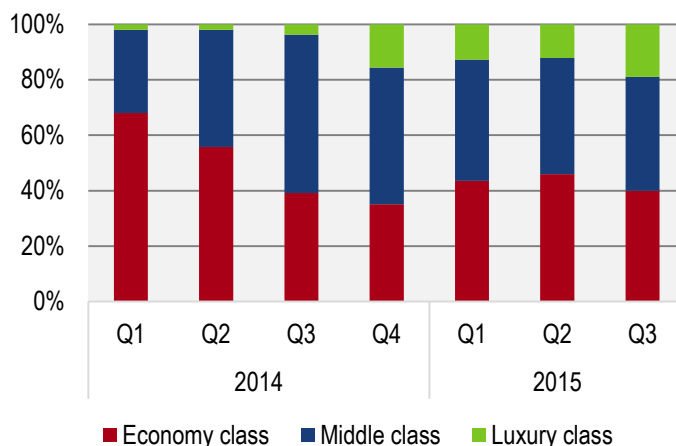
Despite the particularly active new construction works and a record-breaking supply in Vilnius, in the third quarter of 2015, the level of unsold apartments in already-built projects has decreased unexpectedly to 690 apartments, i.e. by 27.5 percent less than in the end of the second quarter. It shows that the situation in the market is normal so far, and the developers have no presumptions to fall into panic due to a possible oversupply, however the number of unsold apartments in the ongoing projects gives some disturbance, which is permanently growing. It can be forecasted that in 3-6 months some of these apartments will fall among the “residuals”, what will result in much tighter competition among the developers.

Apartment sales under urban districts, Q3 2015



Source: Inreal

Apartment sales under classes



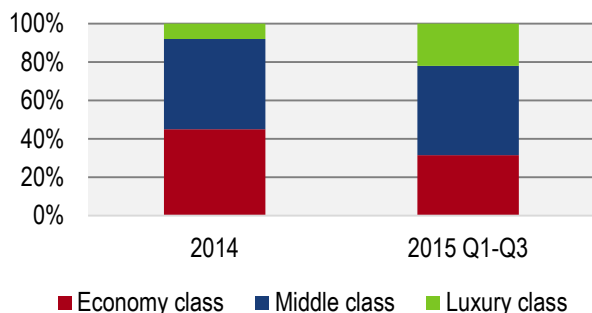
Source: Inreal

In the third quarter of 2015, the trends of new construction apartment prices in Vilnius were different in various segments.

- The average price of economy-class apartments was 1,280 EUR/sq.m. and increased by 1.1 percent within a year.
- The average price of mid-class apartments was 1,700 EUR/sq.m. and decreased by 0.1 percent within a year.
- The average price of luxury-class apartments was 2,420 EUR/sq.m. and decreased by 3.1 percent within a year.

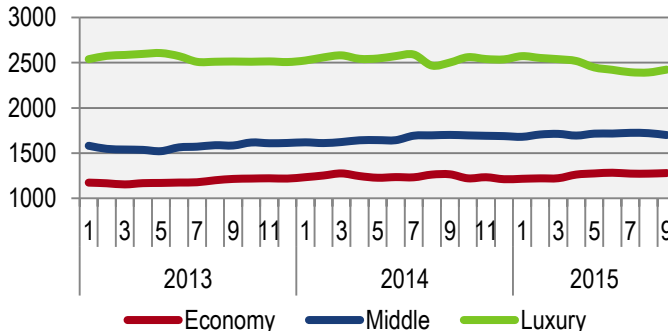
The annual change in the prices of new-construction apartments is insignificant; and it is possible to state that growing competition does not allow them to increase. A slight correction in prices is even observed in some segments. Taking into account the intense construction of new projects and permanently growing supply, similar trends should remain in the near future as well.

New apartment supply under classes



Source: Inreal

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



Source: Inreal

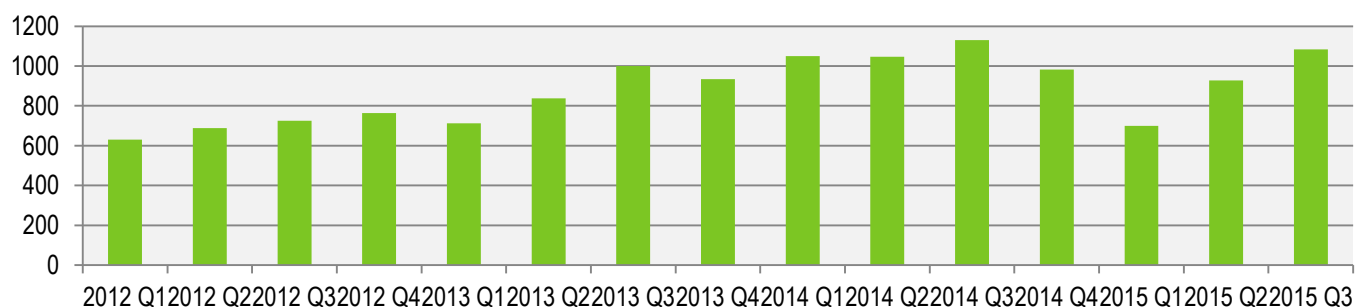
Kaunas market – prolonged stagnation in the new-construction apartment market

The trends of RE purchase-sale transactions in Kaunas were similar to the general trends of housing transactions in Lithuania – the market activity was growing in the majority of segments, however, some of the segments showed a decrease in transactions. According to the data of SE Centre of Registers:

- There were 1,084 purchase-sale transactions concluded in the apartment segment during the first half-year, i.e. by 16.9 percent more than in the second quarter, but by 4.1 percent less than in the corresponding quarter of 2014.
- The trends of purchase-sale transactions in the segment of private houses were different. There were 161 private house purchase-sale transactions concluded in Kaunas city during the third quarter of 2015, i.e., by 9 percent less than in the second quarter and by 11 percent less than in the corresponding quarter of 2014. Meanwhile, there were 285 private house purchase-sale transactions concluded in Kaunas region, i.e. by 5.2 percent more than in the second quarter and by 5.9 percent more than in the corresponding quarter of 2014.
- The trends of purchase-sale transactions in the segment of land plots were also different in the third quarter of 2015. During the period in question, there were 175 land plot purchase-sale transactions concluded in Kaunas city, i.e. by 7.4 percent more than in the second quarter and by 10.8 percent more than in the corresponding quarter of 2014. There were 379 land plot purchase-sale transactions concluded in Kaunas region, i.e. by 8.5 percent less than in the second quarter and by 7.8 percent less than in the corresponding quarter of 2014.

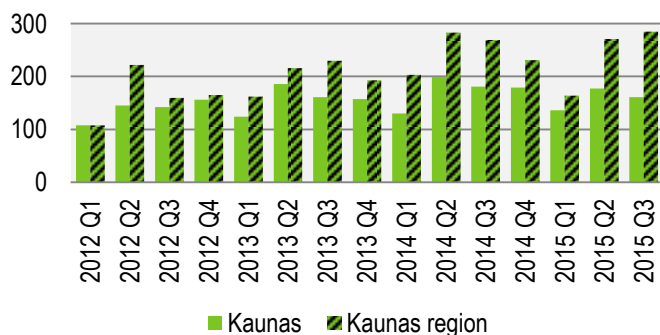
The volumes of RE purchase-sale transactions have returned to the level of 2014, however different trends are observed in various segments. Likely, it shows that the “ceiling” of purchase-sale transactions was reached; therefore higher activity of the market should not be expected in the near future.

Transactions on apartments in Kaunas (units)



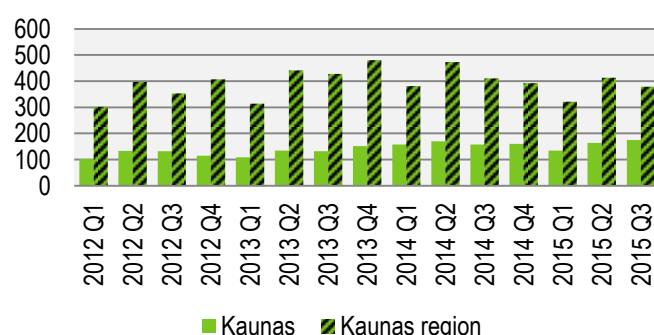
Source: SE Centre of Registers

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



Source: SE Centre of Registers

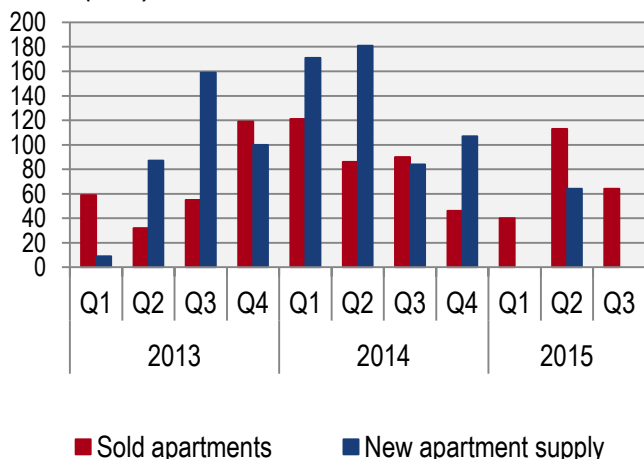
Land purchase-sale transactions in Kaunas and Kaunas region (units)



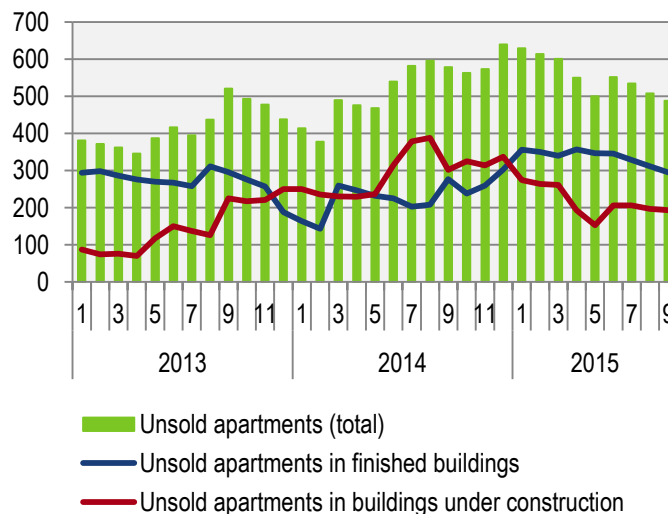
Source: SE Centre of Registers

During the third quarter of 2015, there were about 65 new-construction apartments sold in Kaunas, i.e. by 28.9 percent less than in the previous period. However, the supply of new apartments was decreasing even more – no new apartments occurred in the market within the quarter. As a result the new-construction apartment liquidity rate in Kaunas, calculated by “Inreal”, was close to 2 in September again. The market liquidity remains quite weak, thus the development of new projects will not be very attractive to the RE developers in the nearest future.

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



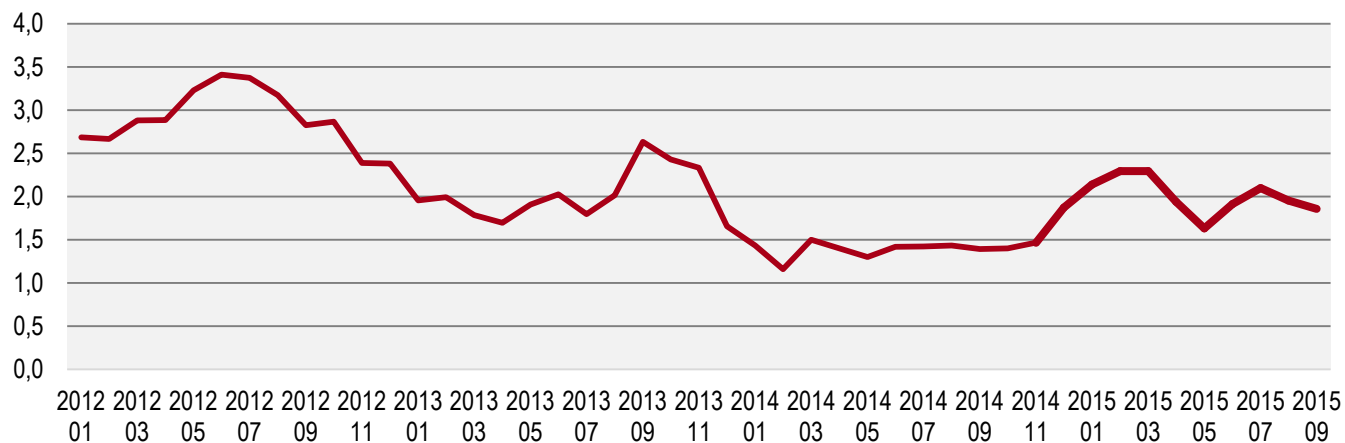
New construction apartments, unsold in Kaunas (units)



Source: Inreal

Source: Inreal

Liquidity rate of new apartments in Kaunas



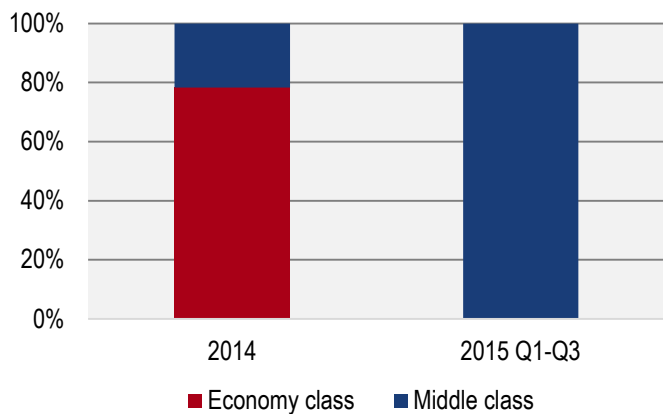
Source: Inreal

The majority of apartments in Kaunas market supply belong to the economy class. Respectively, the sales in this segment cover the major share of sales. In the third quarter of 2015, the trends of new-construction apartment prices in Kaunas were similar in various segments – a moderate increase in prices was observed.

- The average price of economy-class apartments was 1,050 EUR/sq.m. and increased by 2.3 percent within a year.
- The average price of mid-class apartments was 1.385 EUR/sq.m. and increased by 4.8 percent within a year.
- There were no luxury-class projects developed in Kaunas in the first half-year of 2015.

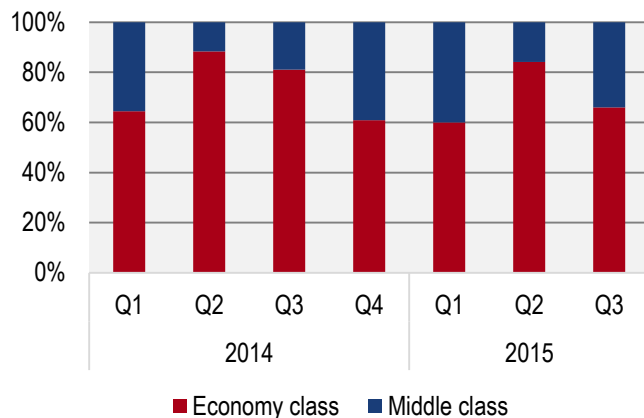
The absence of new supply results in weaker competition in the market, therefore an insignificant annual increase in asking prices was observed. Nevertheless, the market remains low-active, and the demand is quite weak, therefore it would be difficult to forecast further increase in the new construction apartment prices in the near future.

New apartment supply under classes



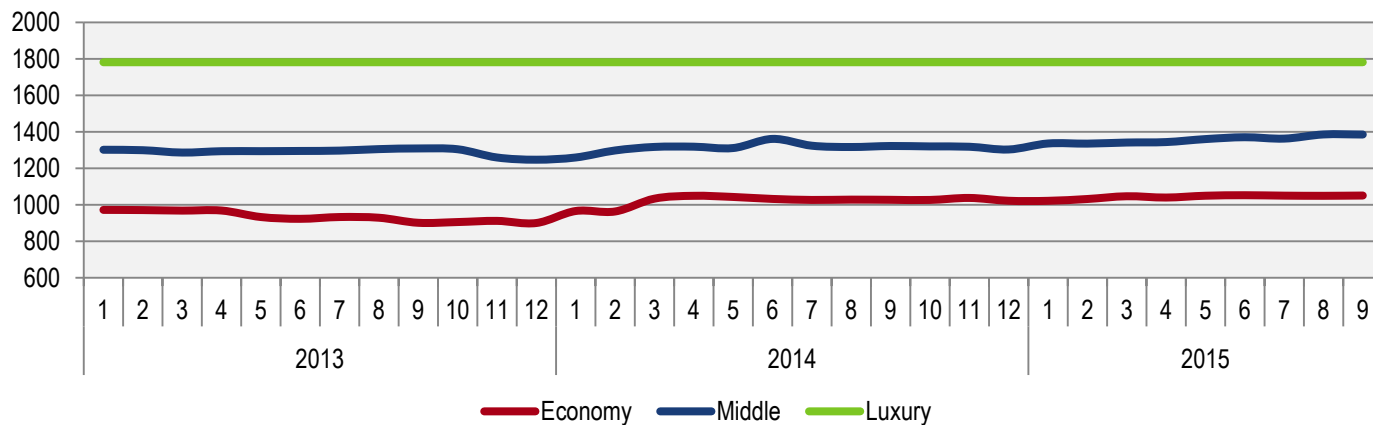
Source: Inreal

New apartment sales under classes



Source: Inreal

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



Source: Inreal

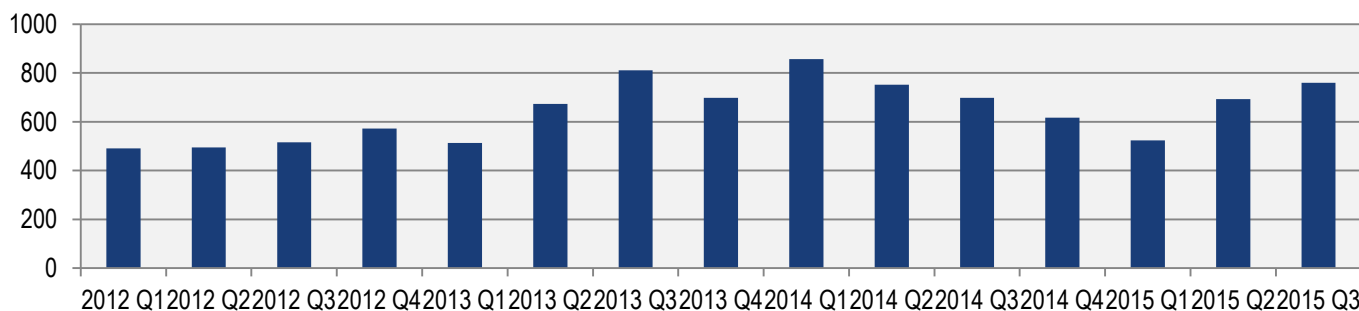
Klaipeda market – return to the level of 2014

In the third quarter of 2015, the trends of RE market in Klaipeda did not differ from the trends in other cities – increase in transactions was observed in the majority of segments. According to the data of SE Centre of Registers:

- There were 760 purchase-sale transactions concluded in the apartment segment during the third quarter of 2015, i.e. by 9.7 percent more than in the second quarter and by 8.9 percent more than in the corresponding quarter in 2014.
- The trends of purchase-sale transactions in the segment of private houses were different. There were 36 purchase-sale transactions concluded in Klaipeda city during the third quarter of 2015, i.e., by 18.2 percent less than in the second quarter, but by 33.3 percent more than in the corresponding quarter of 2014. Meanwhile, there were 173 purchase-sale transactions concluded in Klaipeda region, i.e. by 13.8 percent more than in the second quarter and by 16.9 percent more than in the corresponding quarter of 2014.
- In the third quarter of 2015, the increase in transactions was observed in the segment of land plots. During the period in question, there were 42 land plot purchase-sale transactions concluded in Klaipeda city, i.e. by 23.5 percent more than in the second quarter and almost twice more than in the corresponding quarter of 2014. There were 472 land plot purchase-sale transactions concluded in Klaipeda region, i.e. by 15.1 percent more than in the second quarter and by 4.2 percent more than in the corresponding quarter of 2014.

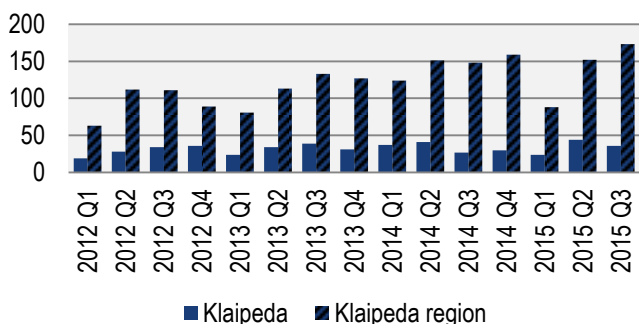
After a sudden transaction decrease in early 2015, Klaipeda market has returned to the level of 2014 in the third quarter. On the other hand, a continuous growth in transactions can be hardly expected for the future – the market activity will likely remain in similar level.

Transactions on apartments in Klaipeda (units)



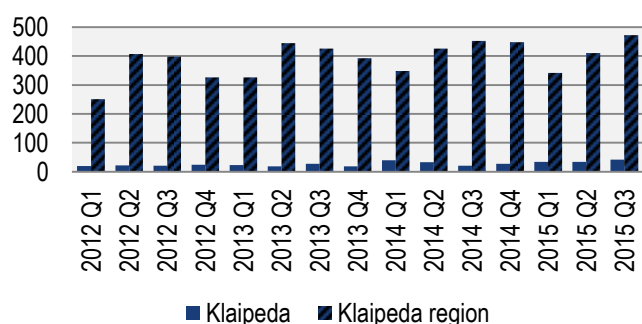
Source: SE Centre of Registers

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



Source: SE Centre of Registers

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



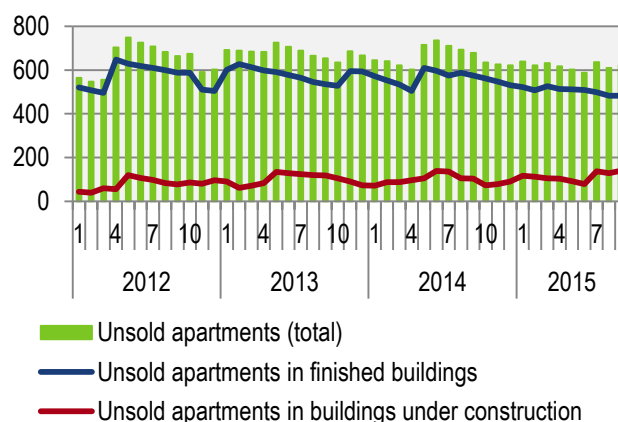
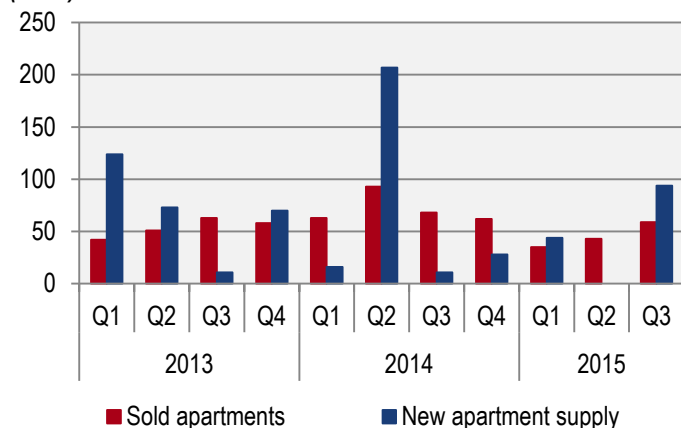
Source: SE Centre of Registers

In the third quarter of 2015, new-construction apartment market in Klaipeda has not got more explicit direction; the level of

transactions has remained similar to the ones of the previous periods – RE developers sold about 60 apartments in three months. Such level of transactions has remained in Klaipeda for four years. Unsurprisingly, the investors do not express their willingness to be active in developing new projects – just 94 new apartments were supplied to the market in the third quarter.

Low sales in the primary housing market resulted in a significantly worse liquidity rate in Klaipeda, i.e. it exceeded 3 in the third quarter of 2015 (i.e. current supply could be sold out in three years). It is forecasted that this rate should remain at the limit of 3; therefore, it means that the conditions for the development of new projects will be unfavourable in Klaipeda in the short-term, due to much tighter competition and price reduction pressure.

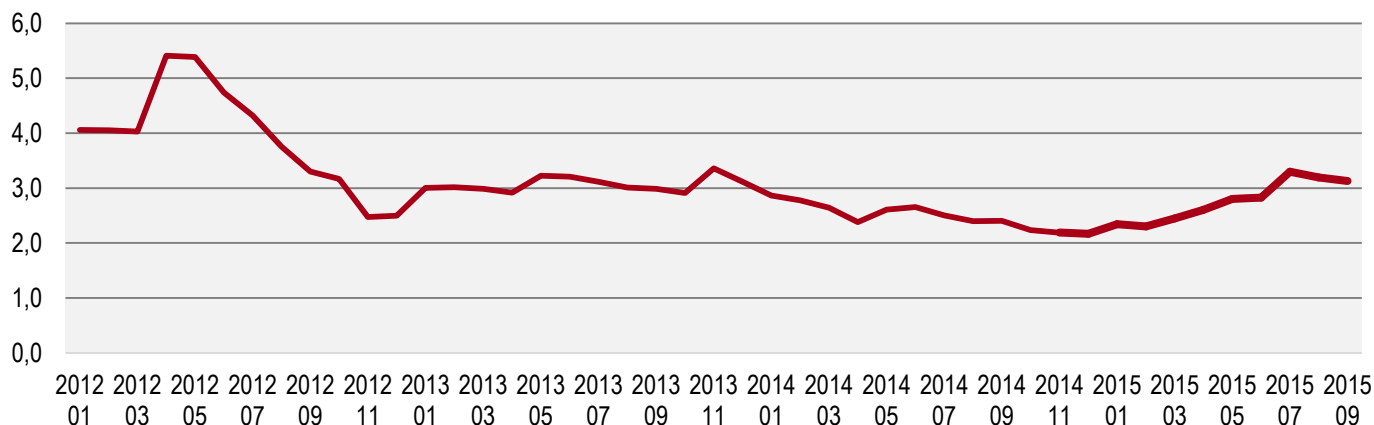
Dynamics of the new supply and sales of apartments in Klaipeda *New construction apartments, unsold in Klaipeda (units)*
(units)



Source: Inreal

Source: Inreal

Liquidity rate of new apartments in Klaipeda



Source: Inreal

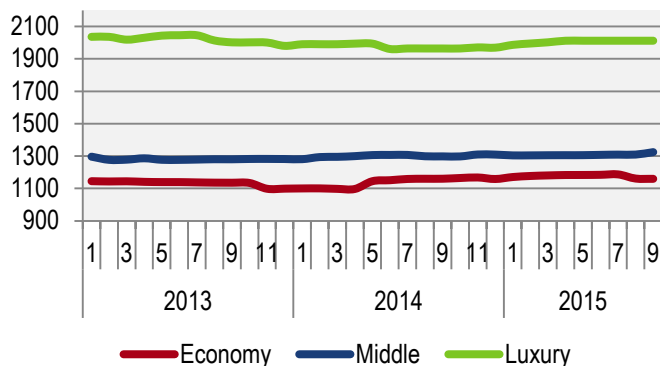
Economy-class apartments cover the major share of supply in Klaipeda market. Respectively, the sales in this segment cover the major share of total sales. In third quarter of 2015, the trends of new construction apartment prices in Klaipeda were different from other cities:

- The average price of economy-class apartments was 1,160 EUR/sq.m. and did not change within a year.
- The average price of mid-class apartments was 1,325 EUR/sq.m. and increased by 2.0 percent within a year.
- The average price of luxury-class apartments was 2,010 EUR/sq.m. and increased by 2.4 percent.

A slight increase in the prices of new construction apartments in mid-class and luxury-class segment does not mean that a long-

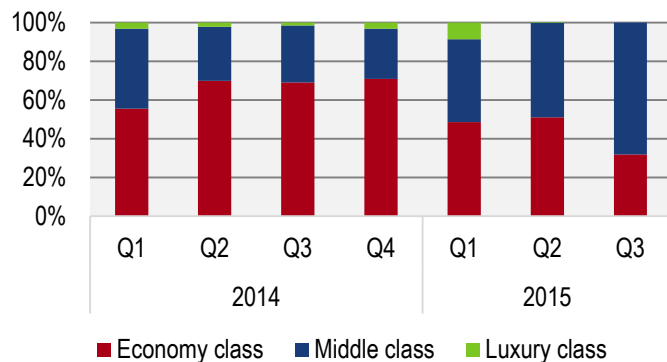
term price growth should be expected. Current price-related trends resulted from conducted sales and changes in the structure of supply rather than economic incentives. Therefore, it is possible to forecast that the prices of new-construction apartments will remain stable in Klaipeda in the short-term, while the sales will be stingy.

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



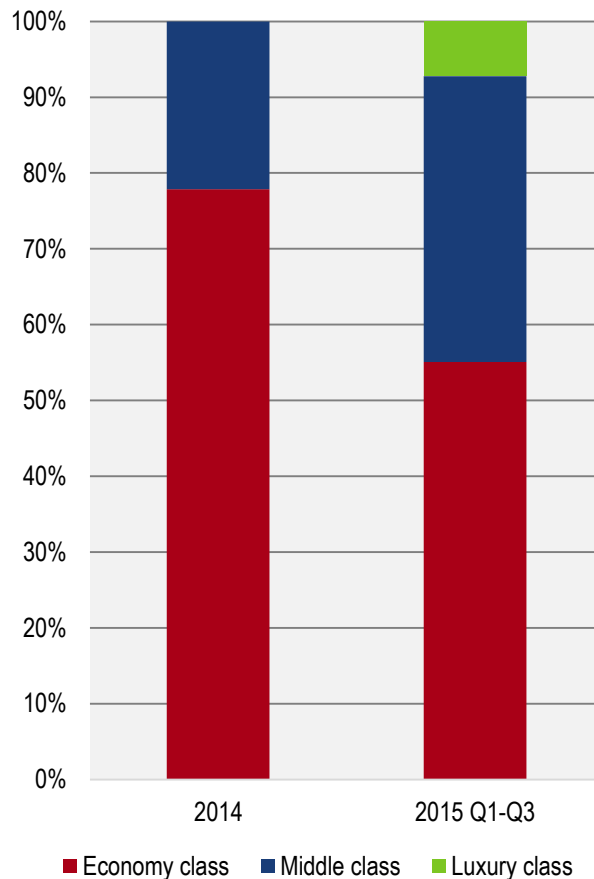
Source: Inreal

Apartment sales under classes



Source: Inreal

New apartment supply under classes



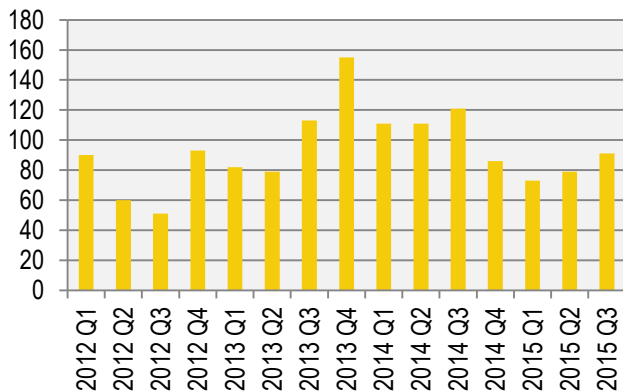
Source: Inreal

Palanga and Neringa market – a respite in Palanga, still low-active market in Neringa

In the third quarter of 2015, the number of apartment purchase-sale transactions in the second-home market, i.e. Palanga and Neringa, decreased by 24.8 and 18.2 percent respectively in comparison with the corresponding period a year ago. Nevertheless, in comparison with the second quarter, the number of apartment purchase-sale transactions registered in Palanga was higher by 15.2 percent, meanwhile it was less by 30.8 percent in Neringa. In fact, a very low number of transactions is being concluded in Neringa, thus the change in percentage is quite significant.

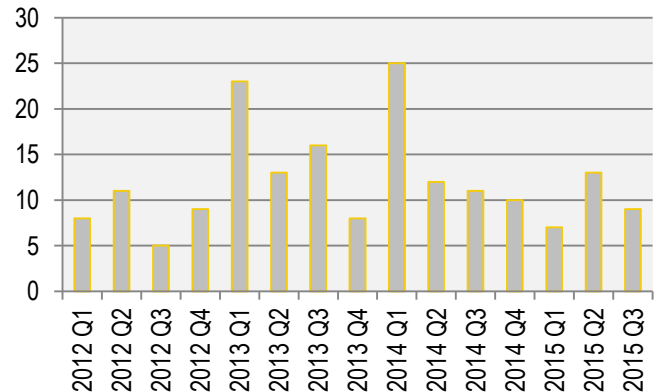
The activity of RE developers in both regions was particularly weak in the third quarter this year – there were no new apartments supplied to the market. Developers' activity was mostly resulted by low sales of new construction apartments in both regions.

Transactions on apartments in Palanga (units)



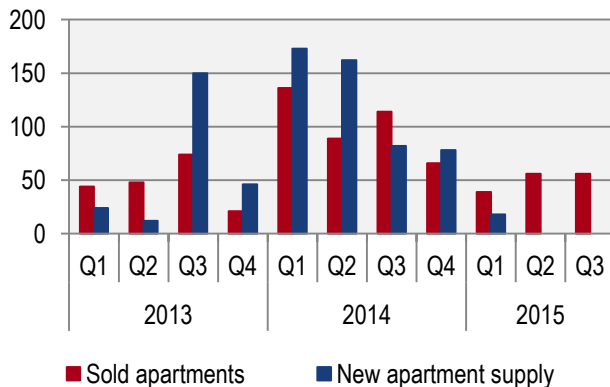
Source: SE Centre of Registers

Transactions on apartments in Neringa (units)



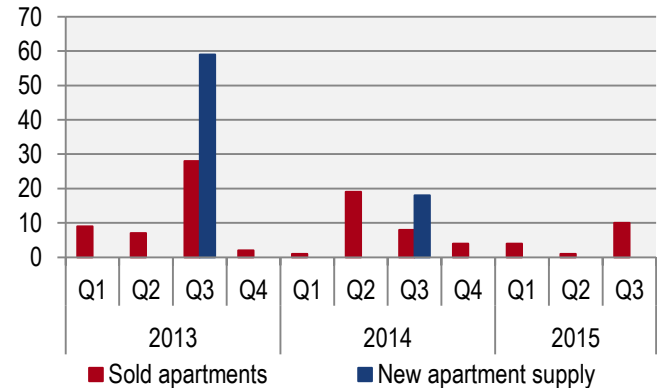
Source: SE Centre of Registers

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



Source: Inreal

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

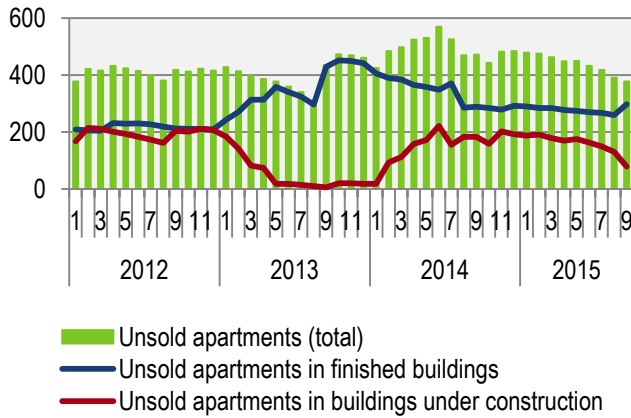


Source: Inreal

In the third quarter of 2015, the prices of economy-class apartments increased in Palanga new-construction apartment segment. The prices of mid-class and luxury-class apartments decreased:

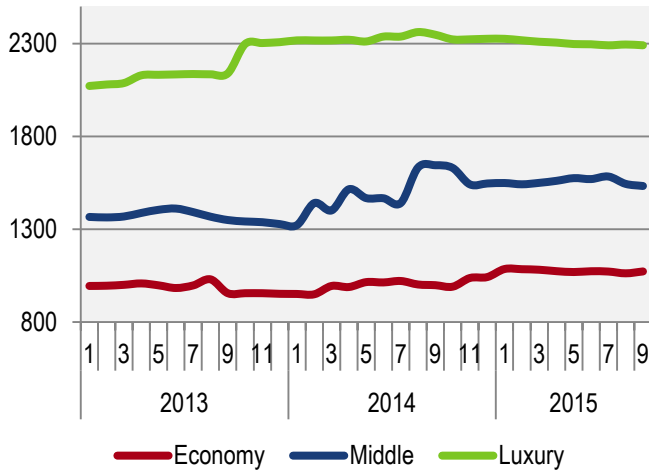
- The average price of economy-class apartments was 1,070 EUR/sq.m. and increased by 7.4 percent within a year.
- The average price of mid-class apartments was 1,530 EUR/sq.m. and decreased by 6.8 percent within a year.
- The average price of luxury-class apartments was 2,290 EUR/sq.m. and decreased by 2.4 percent within a year.

New construction apartments, unsold in Palanga (units)



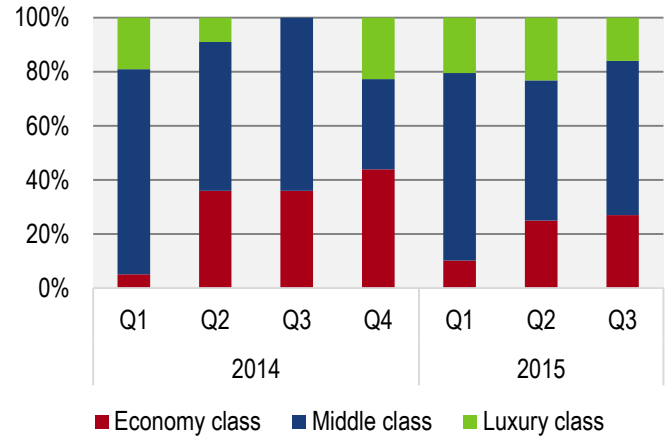
Source: Inreal

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



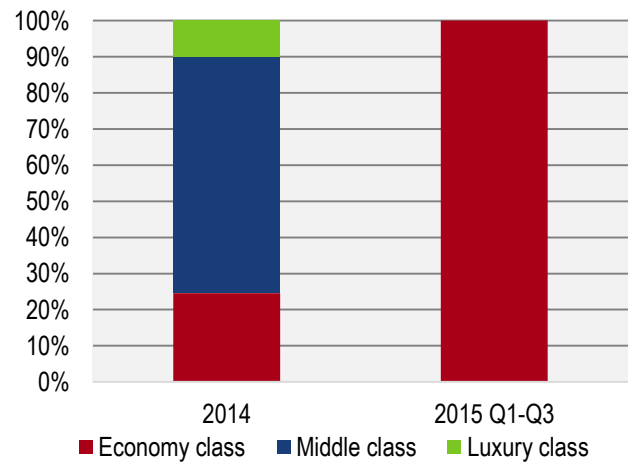
Source: Inreal

Apartment sales under classes in Palanga, Q1 2015



Source: Inreal

New apartment supply under classes in Palanga



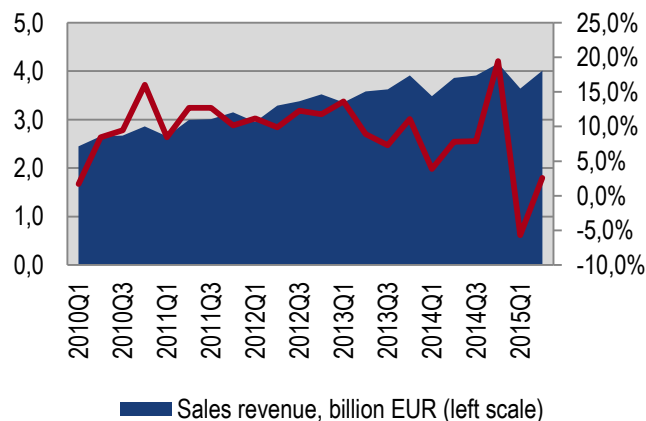
Source: Inreal

BUSINESS CENTRE MARKET REVIEW

The companies of service sector have maintained the growth trend in the third quarter of 2015 – in comparison with the second quarter, the income in this sector increased by 5 percent. Nevertheless, sector confidence indicator was decreasing, what indicates a possible slowdown in this segment.

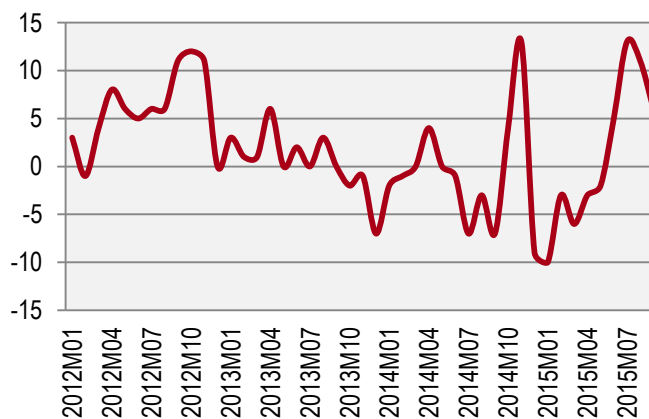
As usually, the highest activity was in Vilnius in the third quarter of 2015. One business centre was opened in the capital city: k29, on the right bank of the Neris, which supplied the market with approx. 14,000 sq.m. GLA. One more business centre UNIQ (7000 sq.m.), which is being developed by "Vastint Lithuania" on the left bank of the Neris, will be opened by the end of 2015. At least 13 modern business centres were being built or are expected to be started in the nearest future. They should supply the market with about 173,930 sq.m., thus Vilnius market will probably have a record-breaking GLA in the next two years. The situation is somehow similar to the situation in 2008, when RE developers suddenly turned to the development of business centres, but in contrast to 2008, the majority of business centres under development are already successfully rented before the construction works are finished, and usually the tenants are strong foreign companies expanding their activities and establish new jobs. For example, the business centre k29 was fully occupied on the day of its opening, while the business centre UNIQ is also completely rented before the end of construction works.

Dynamics of service sector enterprise income in Lithuania, billion EUR



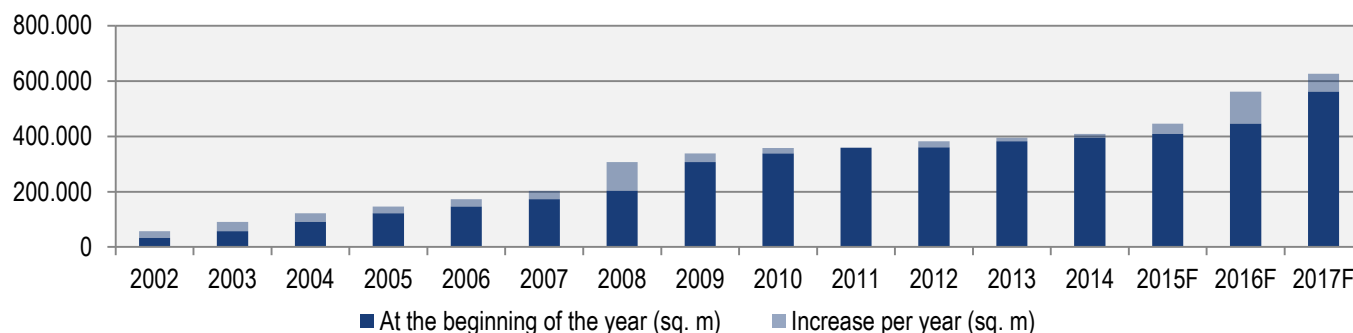
Source: Department of Statistics

Dynamics of service sector confidence indicator in Lithuania



Source: Department of Statistics

Expansion of modern business centres in Vilnius

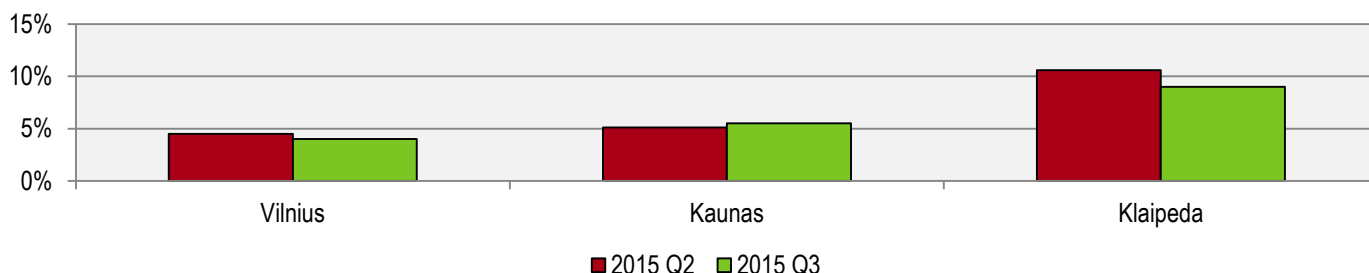


Source: „Inreal“

Despite the impressive development of business centres in Vilnius, vacancy rates were not growing, but even showed a slight decrease – up to 4.0 percent in comparison with second quarter of 2015. This shows that the demand of modern office premises remains high in the capital city. Nevertheless, the new supply, which will emerge in the market in 2016-2017, will probably exceed the demand, thus the increase in vacancies will not be prevented in Vilnius modern business centre segment.

The expansion of business centres in Kaunas and Klaipeda continues to be sluggish. No new business centres were opened in the third quarter. The area of vacant premises in Kaunas increased mostly due to the premises vacated in lower-class office buildings. In contrast to Vilnius market, the vacated premises in Kaunas business centre market are not leased quickly.

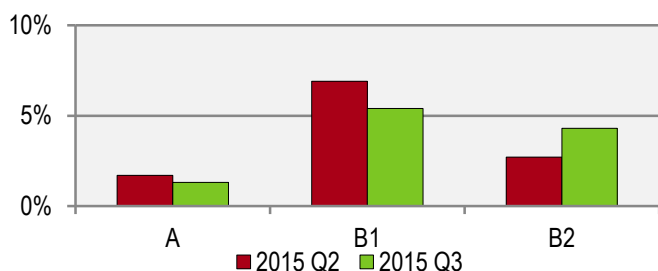
Dynamics of vacancies in the sector of business centres in the country



Source: „Inreal“

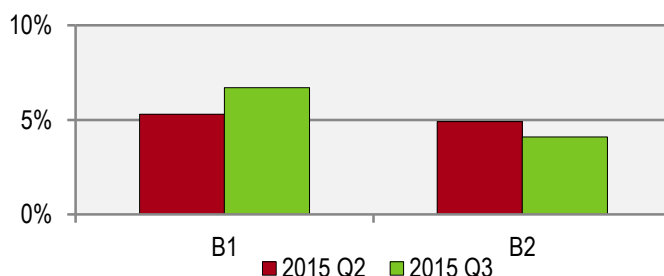
Recently, Kaunas market is showing an increased demand for modern offices and more active interest of foreign businesses, IT and service centres in particular, in the opportunities to expand their business in Lithuania. Unfortunately, the Kaunas does not have enough vacant modern offices, which could be rented by potential foreign clients; therefore, it can be stated that Kaunas does not use the full potential of the segment. Likely, a more active development of foreign IT and service centres would lead to a similar “effect of Renaissance”, which was observed in Vilnius in 2009-2010, when “Barclay’s” and “Western Union” entered the market. Well-paid jobs in Kaunas would be a stimulus not only for the development of the business centre segment, but for the entire RE market as well.

Dynamics of vacancies in Vilnius business centres under classes



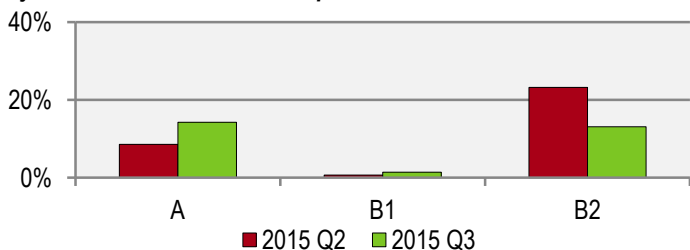
Source: „Inreal“

Dynamics of vacancies in Kaunas business centres under classes



Source: „Inreal“

Dynamics of vacancies in Klaipeda business centres under classes



Source: „Inreal“

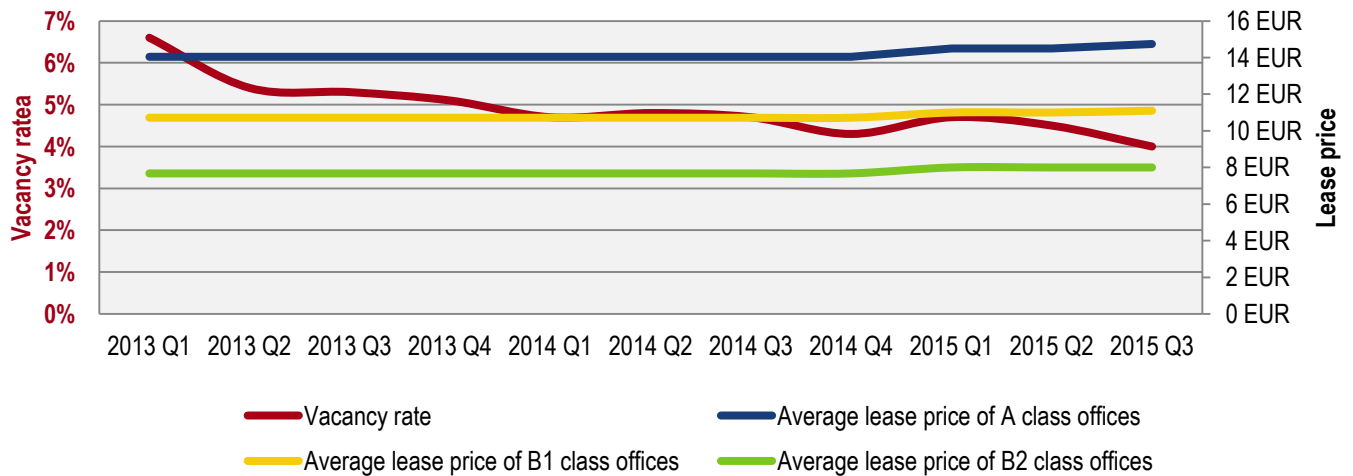
Business centres being developed or planned to be developed in Q3 of 2015

Verslo centras	Miestas	Klasė	Nuomojamas plotas, kv. m	Atidarymo data
Uniq	Vilnius	A	7000	2015 K4
Quadrum (North and East)	Vilnius	A	33100	2016
Hall 2	Vilnius	A	8000	2016
Narbuto VC	Vilnius	A	4280	2017
Saltoniškių VC	Vilnius	A	10000	2017
Lvovo VC	Vilnius	A	24500	2017
Burės 3	Vilnius	A	13000	2017
Duetto	Vilnius	B1	8000	2016
135	Vilnius	B1	7800	2016
Delta	Vilnius	B1	20000	2016
Hanner VC	Vilnius	B1	18500	2016
Eleven	Vilnius	B1	6150	2017
Pentagon	Vilnius	B1	13600	2017
			173930	
K. Donelaičio g.	Kaunas	A	14000	2016
Minijos g.	Klaipėda	B1	2500	2016
			16500	

Source: „Inreal“

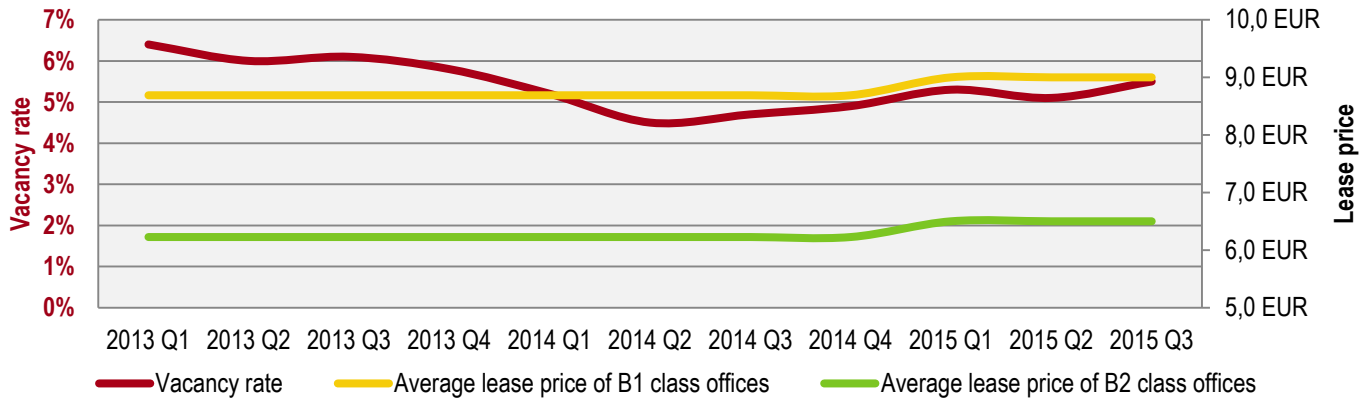
In 2015, lease prices should remain stable in the major cities, because newly developed business centres in Vilnius should meet the increasing demand, while the market of modern offices in Kaunas and Klaipėda does not gain greater activity.

Dynamics of lease prices and vacancies in Vilnius business centres



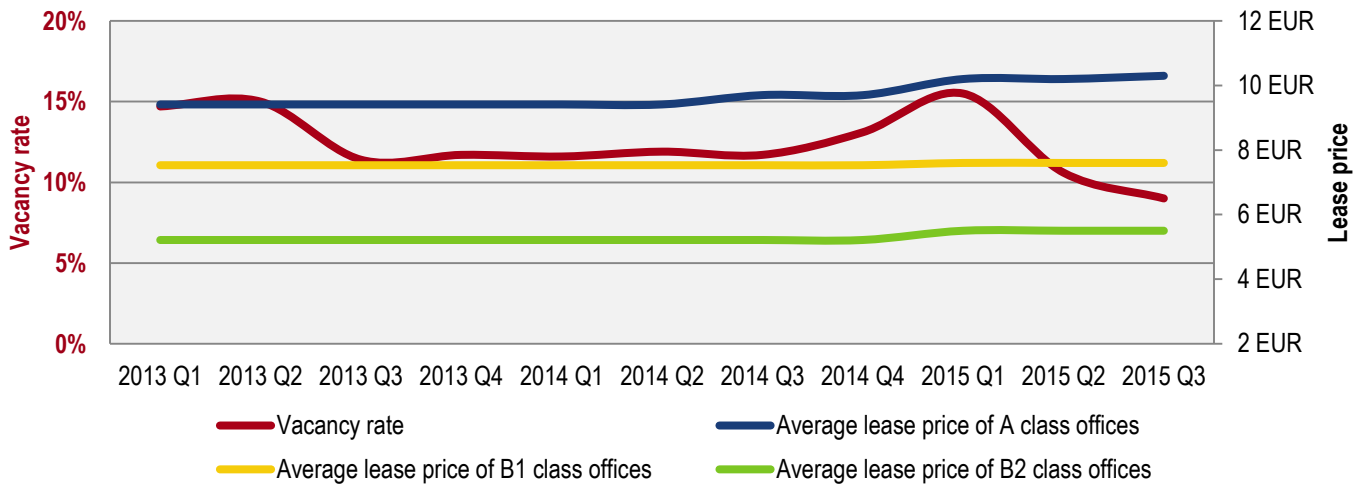
Source: „Inreal“

Dynamics of lease prices and vacancies in Kaunas business centres



Source: „Inreal“

Dynamics of lease prices and vacancies in Klaipeda business centres

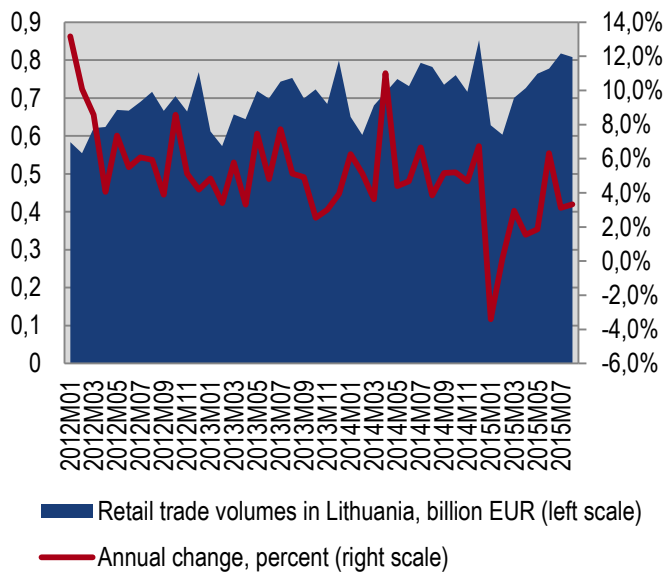


Source: „Inreal“

SHOPPING CENTRE MARKET REVIEW

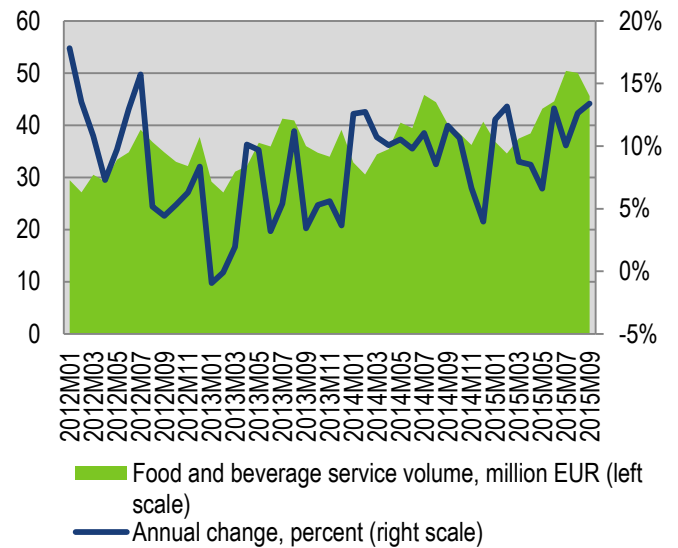
In the third quarter of 2015, the retail trade volumes increased by 4.7 percent in Lithuania, in comparison with the second quarter; however the statistics of the last two months does not give optimism, since a general decrease in turnovers was registered. Nevertheless, the situation in labour market, i.e. decreasing unemployment and increasing wages, allow assuming that a moderate growth of retail trade should be noticed eventually. Therefore, investment environment will be more favourable in this segment.

Retail trade volumes in Lithuania, billion EUR



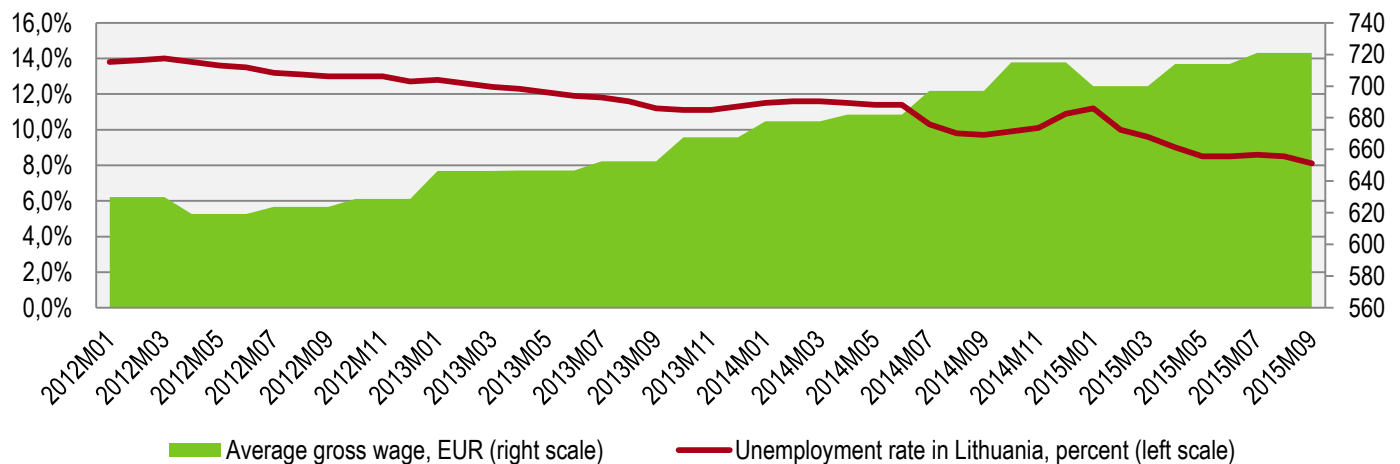
Source: Department of Statistics

Food and beverage service volumes, million EUR



Source: Department of Statistics

Dynamics of unemployment and gross wage, percent



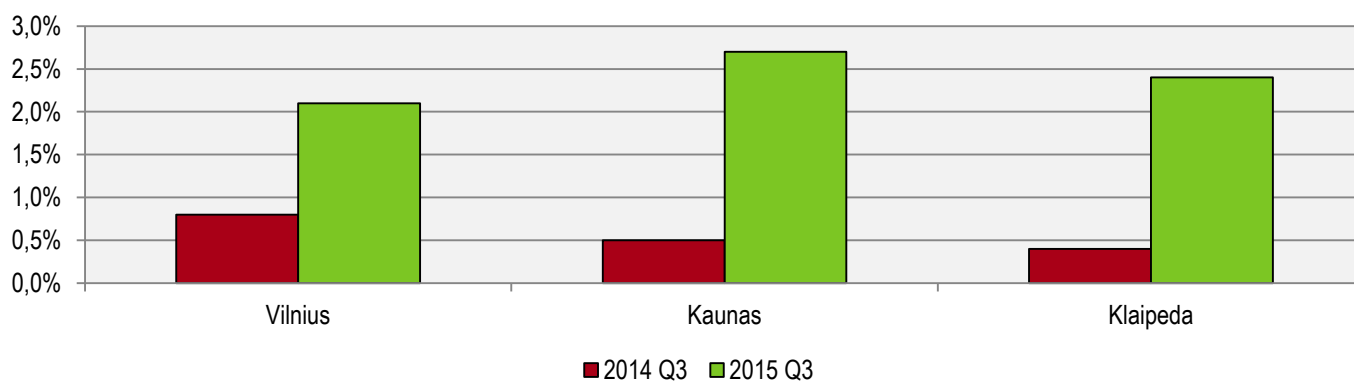
Source: Department of Statistics

In the third quarter of 2015, one new shopping centre was opened in Vilnius – “Nordika” (approx. 17,000 sq.m.). The construction works of planned shopping centres were also continued.

In comparison with the period a year ago, it is noticed that the average vacancy rate in the segment of shopping centres has increased. Although the Lithuanian economy is growing and the domestic consumption is increasing, it however does not ensure that all retailers will manage to remain in the shopping centres. A quite active migration of tenants was observed in the shopping centres, particularly, in the major shopping centres, where some less popular and weaker retailers had to stop their activities. Nevertheless, the demand of commercial premises is high, thus the vacated area is occupied by new tenants, and the vacancy rates remain low.

Although the economic environment has remained favourable for the shopping centres to expand, the developers are careful, when investing in this segment. Firstly, this is a segment which poses sufficient risks, since the majority of marketable goods are not first-priority commodities. Moreover, the increasing popularity of e-shops poses many challenges to ordinary trading, thus the need of shopping centres may even start decreasing in a long time perspective.

Dynamics in shopping centre vacancies in the major cities, percent



Source „Inreal“

Shopping centres being developed in Q3 2015

Miestas	Pavadinimas	Plotas kv. m	Planuojama statybų pabaiga
Vilnius	Rimi	5600	2015 K4
Vilnius	PC Domus Pro (II etapas)	5000	2015 K4
Vilnius	Nordika (II etapas)	20000	2016 K2
Vilnius	Parkas Outlet (plėtros etapas)	3000	2016 K2
Kaunas	Mega (plėtros etapas)	30000	2016 pab.
Iš viso:		63600	

Šaltinis: „Inreal“

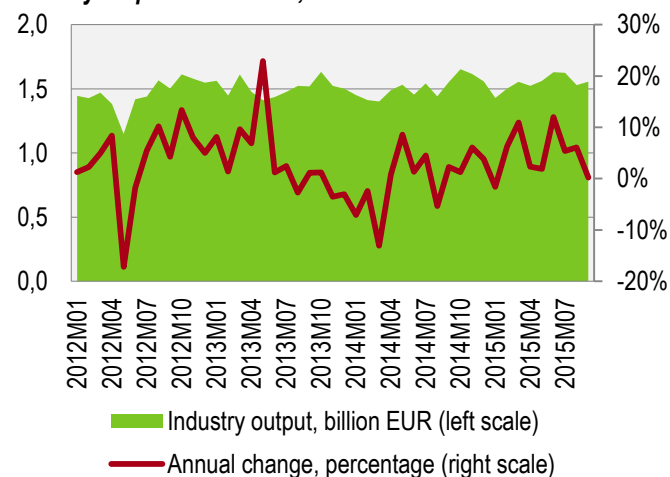
INDUSTRIAL AND WAREHOUSING MARKET REVIEW

In the third quarter of 2015, the expectations were decreasing in the industrial sector. However, looking at the past, it is possible to notice that every autumn is met by industry representatives with gloomier moods. In the third quarter of 2015, gloomier expectations could have been influenced by a slowdown in industrial output, which showed that the potential of new investments has significantly decreased in this segment.

Analysing the results of industry survey on the exports for the upcoming three months, it is possible to state that the situation is assessed rather positively. The majority of sector representatives expect exports to grow, however the level of reserves is assessed as sufficient, meaning that the representatives are unlikely to increase their outputs in the near future.

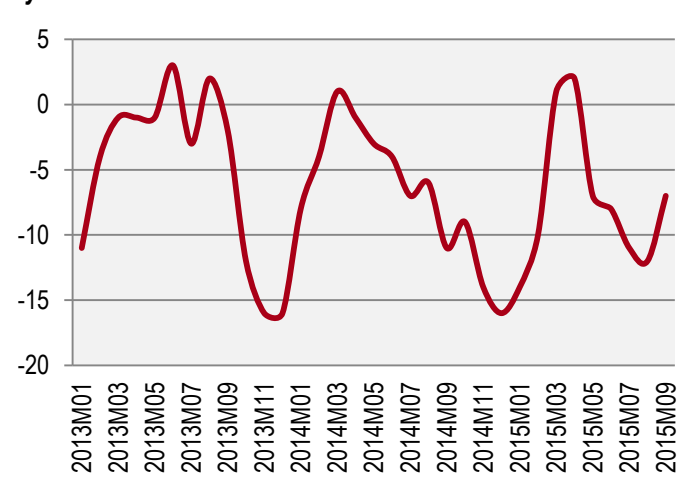
The forecasted period of stabilisation in the industrial segment should affect the warehousing market adequately – the demand for new leasable premises or build to suit objects will likely be decreasing.

Industry output in Lithuania, billion EUR



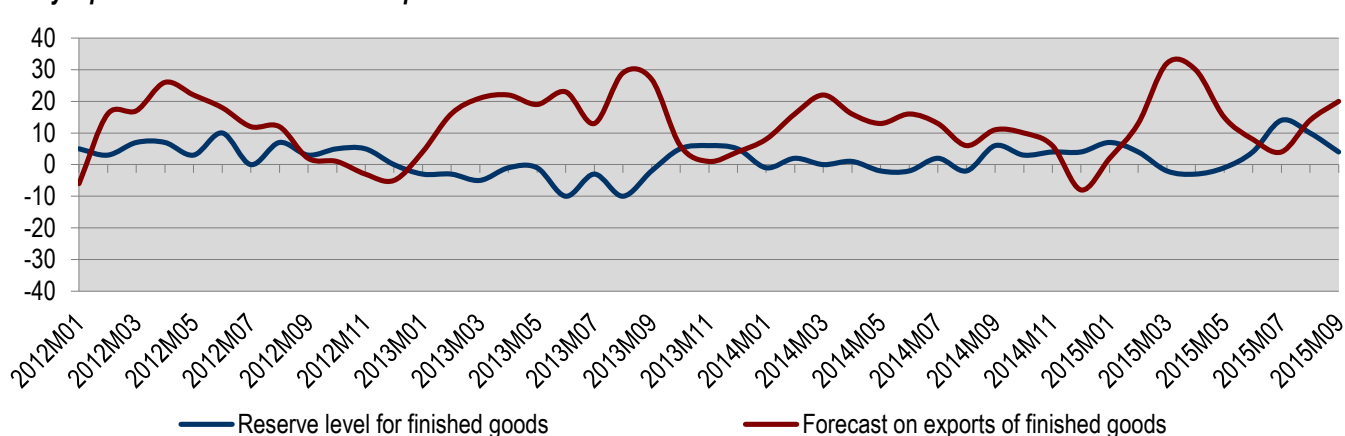
Source: Department of Statistics

Dynamics of Industrial Confidence Index in Lithuania



Source: Department of Statistics

Industry representatives' forecasts on exports and reserves



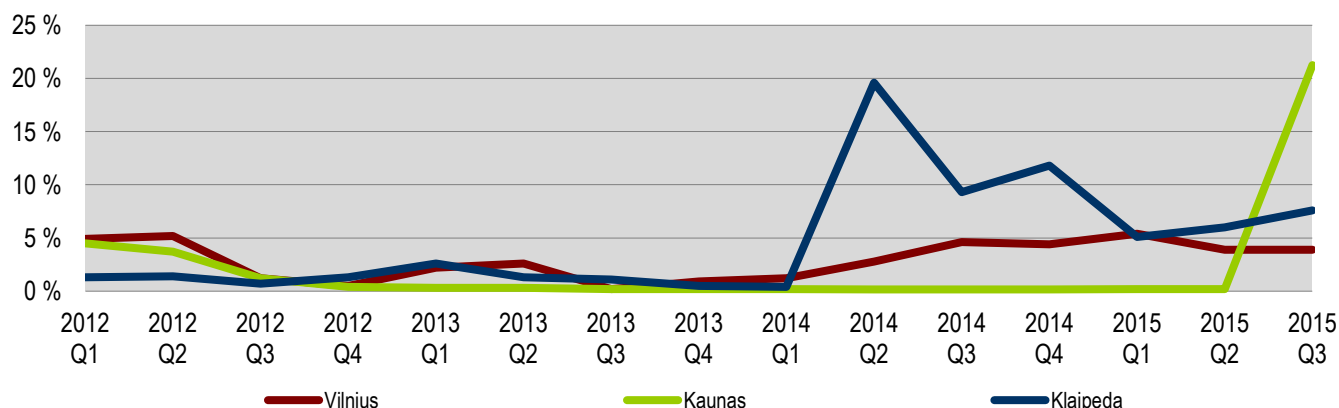
Source: Department of Statistics

In the third quarter of 2015, the increase in vacancies was observed in the major cities. Vilnius was the only city, where the level of vacant premises has remained stable, but it is possible, that this rate will become worse in the end of the year or in early 2016, because new logistics centre on Dobrovoles street will emerge in Vilnius market. In addition, after the active holiday period, the demand for warehousing premises should start decreasing. Therefore, it can be forecasted that the vacancy rate in Vilnius should increase by 1-2 percent in early 2016.

The decline in vacancy rates in Kaunas and Klaipeda was significant. About 6,330 sq.m. of modern warehousing premises were vacated in the logistics centre “Kaunas Terminal”, which is located in the Free Economic Zone. Meanwhile, even several existing modern logistics centres supplied the market with vacant leasable area in Klaipeda. Taking into account the fact, that two modern logistic centres, which will supply the market with 29,000 sq.m. GLA (i.e. about 24 percent of the entire demand in Klaipeda), are being built in Klaipeda, it can be forecasted that the vacancy rate in Klaipeda will increase much more in the end of this year or in early 2016.

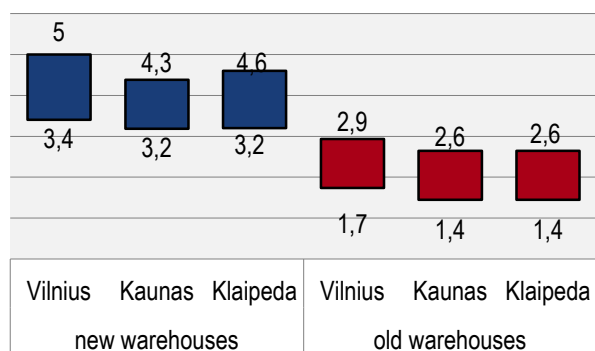
More modest results of industrial sector and worse future expectations of representatives had an influence on warehousing segment. Less demand for warehousing premises is noticeable, thus vacated premises will probably be more complicated to lease than before. Newly opened logistics centres will likely result in even tighter competition. On the other hand, lease prices should remain stable.

Dynamics of vacancies in modern logistics centres in Lithuania



Source: „Inreal“

Lease prices of modern logistics centres, EUR/sq.m



Source: „Inreal“

Logistics centres being developed in Lithuania in 2015

Miestas	Pavadinimas	Plotas, kv. m	Statybų pabaiga
Vilnius	LC Dobrovolės g.	4000	2015 K4
Vilnius	Woodline LC	4800	2016 K1
Klaipėda	Klaipėdos LEZ sandėlis	13000	2015 K4
Klaipėda	VPA Logistics	16000	2016 K1
Iš viso:		37800	

Source: „Inreal“

Simona Oliškevičiūtė-Cicėnienė, *Managing Associate, Head of Real Estate and Infrastructure Practice Group at the Law Firm COBALT*

Simas Paukštys, *Associate at the Law Firm COBALT*

NEW LEGISLATIVE REQUIREMENTS WILL BRING CHANGES IN THE HOUSING MARKET

The Lithuanian real estate market, and in particular its residential property segment, will face quite a few changes affecting the construction and purchase of residential housing properties. Firstly, the amended Responsible Lending Regulations adopted by the Bank of Lithuania entered into force as of 1 November 2015; somewhat later, from the beginning of 2016, the obligations to ensure construction of buildings having no lower than Class A energy efficiency ranking will take effect, and, eventually, the Directive of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property, also known as the Housing Directive, will have to be transposed into Lithuanian law before the end of March 2016.

All of such newly adopted requirements will inevitably affect both real estate developers and purchasers of residential housing properties. Due to increasingly stringent obligations for financial institutions, which are the main providers of residential loans, the ability of consumers to borrow will be impaired, while a higher energy efficiency class will possibly cause the price of new construction residential housing property to rise.

Amendments to the Responsible Lending Regulations

In the wake of the financial crisis having shaken the global and Lithuanian real estate markets, in 2011 the Bank of Lithuania adopted the Responsible Lending Regulations which, as stated in them, are intended to promote responsible lending practices of credit institutions, reduce imbalanced changes in the real estate market prices and protect consumers against a too heavy burden of financial obligations, as well as promote responsible borrowing habits. To achieve this, possibilities for credit institutions to grant risky loans were heavily curtailed by adopting the following means: the maximum maturity period, the duty to assess the debtor's creditworthiness, the maximum ratio between the loan amount and the value of the property to be acquired, as well as the ratio between the loan and sustainable income of the individual.

Although throughout the period of validity of the Responsible Lending Regulations making substantial amendments was avoided, the wording with effect as of 1 November 2015 provides for measures yet more markedly constraining possibilities for financial institutions to grant residential loans.

Among the most significant amendments is the curtailment of the maximum maturity period from 40 to 30 years, which implies that the practice to extend a loan "until retirement age", which has been quite widespread until now, will often not be capable of being applied and likewise will cause monthly loan payments to get more expensive, thus narrowing the range of individuals eligible for a loan due to a lack of sustainable income.

Further, as of the entry into force of the restated Responsible Lending Regulations, the privilege which entitled to increase the loan amount up to 95 per cent of the value of the property being acquired (i.e. allowing to reduce the down payment on a loan from 15 to 5 per cent) if state sponsored insurance from a home-loan insurance company was in place was lifted. It is noteworthy that in many cases the main obstacle for even high-income earners or affluent families to own residential property is namely that they cannot come up with the down payment. Young individuals and families will oftentimes be forced to sustain double expenses over a lengthy period of time – save for the down payment and pay the rent for residential property, which in certain cases exceeds the amount of a monthly loan payment.

Housing Directive

Among other things, no later than until 21 March 2016, the Housing Directive intended to unify the conditions for granting residential loans across the European Union must be transposed into Lithuanian national law. Although a significant portion of the Housing Directive is comprised of provisions defining the rights of the borrowers of residential loans to obtain all necessary and accurate information about the loan, but added to this, there are other legal measures which may have the effect of making the loan more expensive.

The Housing Directive provides for the mandatory reflection period after which a final decision to conclude a credit agreement may be taken, i.e. the Housing Directive obligates to set a period of at least 7 days for rejection of the offer or withdrawal of a credit agreement (or a combination of both) by the individual, and, accordingly, during such period the financial institution will not be entitled to withdraw its credit offer.

Likewise, the Housing Directive prohibits tying practices, i.e. combining a credit agreement with other financial products (e.g. consumer credit) as a package, where an individual may not conclude a credit agreement separate from the other components of the package, because offering such additional products or services may negatively affect the individual's ability to make informed and well-considered choices regarding the credit.

Whereas the Housing Directive leaves quite much space for national regulation, and currently the issue is included in the agenda of the Seimas' autumn session only as the development of a draft Law on Credit Agreements Related to Immovable Property, i.e. neither the legislator, nor the Government has registered any specific proposals as to how the Directive will be implemented, there are many still remaining unanswered questions as to what regulation we are going to see next spring. However, having regard to comments in the public space, it is likely that financial institutions will no longer be able to require that the individual's accounts to which his or her income is transferred are opened namely with such financial institutions or require covering the cost of valuation of the property acquired for the credit obtained. It is also likely that determining a loan prepayment penalty cap will be considered.

Obligations to construct buildings having no lower than Class A energy efficiency ranking

Another major new development which will take effect as of 1 January 2016 is related to new construction residential property. Legislative amendments obligating construction of buildings with no lower than Class A energy efficiency will take effect as of that date. In addition, requirements for energy efficiency of buildings will be further gradually tightened, i.e. after 1 January 2008 the energy efficiency class will have to be not lower than A+, after 1 January 2021, not lower than A++.

Consequently, higher energy efficiency requirements will cause the prices of new construction residential property and commercial real estate to go up. For this reason and adding increasingly stringent loan issue conditions discussed above, access to new construction residential property will be still more difficult for some purchasers, and they will consider options which are less expensive and of lower quality.

Housing purchasers are recognised in case law as customers who enjoy respective remedies

Against the background of an extremely rapid rate of growth of the residential property market, we more frequently hear questions in the public space about legal remedies available to protect the consumer, especially if the expensively acquired property fails to meet the consumer's expectations.

The first thing to note is that an individual would be considered a consumer only in case s/he is a natural person who concludes a contract with an entrepreneur for personal, family or household purposes. Consequently, transactions concluded by two ordinary natural persons or two businesses would not be treated as consumer transactions.

Secondly, the legal regulation currently in place is not uniform – two key pieces of legislation (the Civil Code and the Law on Consumer Protection) contain different provisions, and it cannot be expressly stated whether or not agreements in respect of real estate fall within the category of consumer agreements. On the one hand, the Civil Code provides for the general rule that a real estate sale agreement may not be categorised as a consumer agreement. However, the Law on Consumer Protection does not distinguish between movable and immovable items and defines goods as any item offered for sale or being sold to a consumer.

This problem is step by step being resolved through precedent-making court decisions stating that the type of an agreement (sale, lease, loan for use, etc.) or the subject-matter of an agreement (movable, immovable property, property rights, etc.) is not the feature which determines whether a particular agreement should be recognised as a consumer agreement. Courts rely on European Union law in seeking to establish that real estate sale agreements, if concluded for personal rather than commercial purposes, may be treated as consumer agreements by the parties eligible to form a consumer agreement.

The relevance of categorising agreements as consumer agreements firstly lies in the fact that in case of a dispute between the parties to a consumer agreement the fairness of the contractual provisions is far more strictly evaluated – it gains a special significance, because an unfair contractual provision is not enforceable against the consumer, i.e. it does not produce adverse legal consequences to the consumer and is deemed void since the formation of the agreement. Furthermore, a declaration of invalidity of a material condition of the agreement (i.e. value of the agreement, quality of the item or any other condition that the parties agreed to consider material) renders the consumer agreement invalid as a whole with the consequence that restitution may be applied – property may be returned to the seller. Among other things, in case of restitution the consumer would not only be entitled to get a refund of the entire price paid, but also would gain a right to compensation of such losses as, for example, the cost of formation and performance of the loan agreement, property valuation expenses, etc.

It may be noted that the legal acts also single out exemplary cases in which unfairness of contractual provisions is presumed. Such conditions, by way of example, include contractual provisions which (i) exclude or limit the entrepreneur's liability; (ii) exclude or limit the consumer's rights in the event of improper performance of the agreement by the entrepreneur; (iii) provide that the consumer must perform the contractual provisions, while the entrepreneur's obligations are subject to other conditions depending on the entrepreneur's will; (iv) grant the entrepreneur the right not to refund the consumer for any sums paid by the latter if the consumer decides not to conclude or perform the agreement, while the consumer's right to receive from the entrepreneur such sums in the event of the entrepreneur's unilateral termination of the contract is not provided; (v) provide for non-proportionally high consumer's civil liability; (vi) provide that only the entrepreneur is entitled to terminate the agreement unilaterally or withdraw from it at any time; (vii) grant the entrepreneur the right to assign its rights and duties to third parties without the consumer's consent with the result that the consumer's warranties are thereby impaired; (viii) abolish or restrict the consumer's right to file an action or invoke other legal remedies (e.g. requirement to resolve the dispute by arbitration only, shifting the burden of proof on the consumer), etc.

Further, although it is recognised in the Lithuanian legal system that the supervision of fairness of contractual provisions is carried out by notaries public, the mere formation of a notarised agreement does not, however, avoid the entrepreneur's liability, because the supervision of the contractual provisions is dual: first, it is preliminary – carried out by the notary public certifying the agreement and, second, in the event of a dispute, by the court hearing the case.

A second important aspect of consumer agreements is related to defects in quality of the acquired property which were not properly disclosed in the sale agreement. In dealing with similar types of disputes courts have noted that the seller must confirm the quality of the item offered for sale, i.e. the seller is liable for any discrepancy which existed at the time of passing of title to the purchaser even if such discrepancy is discovered later. Likewise, the seller is liable for any non-compliance of the item with the contractual provisions which is the consequence of the breach of any obligation by the seller. This determines a broad liability of the seller – the seller's conduct is carefully evaluated both during the formation and performance of the agreement.

However, the seller's liability for the quality of the item being transferred is not absolute – the purchaser must check the quality of the item delivered to him within a reasonable period and in case any defects are discovered notify the seller accordingly, while in the event of non-compliance with such duty the purchaser is deprived of the right to claim defects in goods. Such conditions ensure that the purchaser will not abuse his rights and after a considerable span of time will not be able to raise entirely unfounded claims regarding allegedly improper quality of the acquired property which he should have been able and should have observed at the time of taking over of the item.

Still, taking into account the specificity of such relations, as well as the status of the purchaser as a consumer, the purchaser's duty of care may not be equated to the seller's duty to guarantee the suitability of the item being transferred. Responsibility for the quality of the item being sold rests with the seller, because the seller's obligation to confirm the quality of an item is characterised by the highest rate of compliance, and the seller is not subject to liability for an improper quality of an item only on expressly defined statutory or contractual grounds. This implies that the seller is liable for latent (not obvious) defects of the item, while liability may be not applied only in the cases where the defects of the item were known to the purchaser or so obvious that every careful purchaser would have noticed them without undertaking any special investigation.

Again, the purchaser's carefulness is not precisely defined and is measured on a case-by-case basis. For this reason, firstly, no specific rules can be distinguished in reliance on which an early assessment can be made if defects in real estate might and ought to have been discovered and, second, if the purchaser exercised a sufficient degree of care in the inspection of the acquired property.

It can be noted that in the event of discovery of defects in the acquired property, in addition to the legal remedies available to the purchaser under the sale agreement, the purchaser may also rely on the general rules, i.e. he has the right to claim that the seller should: (i) reduce the purchase price respectively; (ii) within a reasonable period cure the defects free of charge or compensate the cost of curing such defects, where such defects are capable of being cured; (iii) or even refund the price paid and withdraw from the agreement if quality defects are material for the purchaser and the agreement.

In light of this, individuals purchasing residential housing should adopt a responsible approach as they conclude transactions, very high-priced transactions in particular, because a simple oversight may deprive of possibilities to defend own rights. Likewise, sellers of real estate (entrepreneurs) should be interested to find out in advance and disclose all information about the sale property, make its technical evaluation and be active during the inspection and highlight to the purchaser (consumer) potential defects of the item, indicate how they are important when using the item. By failing to do so and also failing to evaluate the fairness of the provisions of the agreement provided to the purchaser/consumer for signing the seller himself risks incurring potential damages by having to compensate the purchaser's damages.

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ADVOKATŲ KONTORA COBALT



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