

in real
20 YEARS IN RE MARKET

2015-2016
LITHUANIAN
ECONOMIC AND
RE MARKET
REPORT



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SUMMARY

Economy

Last year, Lithuania's economy was growing slower than in the past few years. Like throughout the year, in the last quarter of 2015 an unfavourable external environment was the main factor leading to slower economic development. However, this factor has not so far affected households' expectations and consumption which is the main driver for economic growth.

Most countries in the world did not see an expected breakthrough of economic development in 2015. International organizations have repeatedly adjusted the forecasts for global economic growth, postponing the recovery momentum until next year. The uncertainty in respect of the prospects of the global economic growth remains high, however, a slightly faster economic growth in Lithuania can be predicted in 2016 - it should be up to 2.5 percent.

Exports to the European Union, the main Lithuanian foreign trade market, are consistently growing. Adaptability in redirecting exports to new markets will have an even greater positive impact on the overall annual economic growth in 2016.

Households' consumption is the brightest light in Lithuanian economy. Consumption is growing quite significantly, regardless of the persisting uncertainty in respect of the country's economic prospects. It is forecasted that the unemployment rate will continue to decline and will reach the natural rate of unemployment. This year, wages are expected to increase approximately by 5 percent, thus, given low inflation, consumer purchasing power will continue to grow.

The average annual inflation rate remains negative hence prices are lower than they were a year ago. A fall in prices was mostly determined by a decline in the prices of energy raw materials, especially oil prices. Annual inflation is likely to become positive this year, however, raw material prices having hit new lows at the beginning of the year, trends in the price fluctuations should continue to be favourable to consumers.

New measures for the ECB monetary policy stimulus are likely to be announced in March this year. They should ensure the Eurozone's continuing economic recovery.

Real Estate market

In 2015, the real estate (hereinafter – RE) market was less active than in 2014. In 2015, there were 27,652 apartment purchase-sale transactions concluded, i.e. 9.8 percent less than in 2014; 11,908 private house purchase-sales transactions, i.e. by 7 percent less than in 2014; and 28,464 land-plot purchase-sale transactions, i.e. by 1.8 percent less than in 2014. Such outcome was resulted mostly by particularly sluggish start of the year 2015. Nevertheless, the RE purchase-sale transactions has grown significantly in the second half-year, and the market turned back to its normal pace, thus the situation should be better in 2016. More active late 2015 has led to better expectations in the secondary market, where an increase in apartment prices by 4-8 percent was observed in Vilnius, Kaunas, Klaipėda and Šiauliai. The prices of apartments in Panevėžys and Alytus grew less – by 2-3 percent, meanwhile the prices in smaller towns have remained stable. The prices of private houses have not changed in Lithuania in a year.

The number of transactions in the market of new-construction apartments was growing in Vilnius only – there were about 3,680 apartments sold in a year, i.e. about 20 percent more than in 2014. In a year, there were about 290 new apartments sold in Kaunas, i.e. by approx. 15 percent less than in 2014; about 210 new apartments sold in Klaipėda, i.e. by approx. 27 percent less than in 2014; about 240 apartments sold in Palanga, i.e. by approx. 40 percent less than in 2014; and about 16 apartments sold in Neringa, i.e. by a half less than in 2014.

Another trend was revealed in 2015: the number of new-construction apartments offered by RE developers in all cities was lower than a year ago. There were about 3,650 new apartments offered in Vilnius, i.e. by 24 percent less than a year ago; 114 apartments in Kaunas, i.e. 4.8 times less than a year ago; 176 apartments in Klaipėda, i.e. by 33 percent less than a year ago; and 132 apartments in Palanga, i.e. 3.8 times less than a year ago; meanwhile, no new-construction apartments were offered in Neringa.

The shrinking supply of new apartments allowed some developers to increase asking prices insignificantly. The prices of economic

class apartments in Vilnius increased by 7.5 percent, up to 1,304 EUR/sq.m, meanwhile, due to a more active competition the prices of mid- and luxury-class apartments have remained unchanged, respectively: 1,696 EUR/sq.m and 2,539 EUR/sq.m. As a result of lower competition in Kaunas, the prices of new-construction economic-class apartments have increased by 2.3 percent up to 1,046 EUR/sq.m, and by 7.6 percent in the economic-class segment, i.e. up to 1,402 EUR/sq.m. Despite the less active competition in Klaipėda, insignificant correction of new-construction apartments was not avoided – the prices of mid- and luxury class apartments went down by approx. 1 percent, up to 1,297 EUR/sq.m and 1,950 EUR/sq.m, respectively. The only economic-class segment maintained stable prices, i.e. 1,162 EUR/sq.m. Less active competition among the RE developers in Palanga allowed them to increase the prices of economic- and mid-class apartments insignificantly: by 2.3 percent up to 1,067 EUR/sq.m and by 0.9 percent up to 1,561 EUR/sq.m, respectively. The prices of new apartments in the luxury-class segment have remained stable – 2,323 EUR/sq.m.

We forecast that, in 2016, the RE developers will be less active in the capital city, i.e. they should supply the market with about 3,000 new apartments, meanwhile the demand will depend on external factors – the influence of Russian, Chinese and other problematic economies on our economy. Vilnius is distinguished by a very strong internal demand, therefore, it is possible that the market will remain active in 2016, what allows expecting the increase in RE prices by 3-4 percent at an average. On the other hand, according to the analysts of Inreal, in 2015, the demand in other cities of Lithuania was much weaker even with lower level of prices. However, it is observed that residents become more interested in investing in RE, therefore, in 2016, we should expect the activity to grow in other largest cities as well. It is difficult to distinguish reasons for activity of housing market to grow in smaller towns, thus the level of prices will likely remain stable there.

Vilnius stood out in the segment of business centres – five new business centres were opened: Premium, One, Sostena BC, k29, UNIQ. They have supplied the market of modern offices in Vilnius by approx. 37,600 sq.m GLA. In 2016, at least 4 new modern business centres will be offered for Vilnius market; they will supply the market with approx. 66,900 sq.m GLA. In early 2017, the market will also be supplied with another 4 business centres, which will offer 47,500 sq.m GLA. Obviously, Vilnius should expect for the record-breaking GLA of new business centres, meanwhile the doubts are raised whether such an active expansion of business centres does not provoke vacancy rates to grow and lease prices to be corrected. On the other hand, there is no strong reason for this, because the majority of business centres, which are currently being built, are rented out successfully by the end of their construction and the majority of their lessees are strong foreign companies, which are expanding their activities and offer new jobs. For example, the business centre k29 was fully rented out on the day of its opening, and the business centre UNIQ was also fully occupied before the completion of construction. 50 percent of premises is already occupied in one of the largest business centres Quadrum (North and East), which is being built currently.

4 small new business centres were opened in Kaunas in 2015: they have supplied Kaunas modern business centre market with 7,150 sq.m GLA. Two other office buildings are expected to be opened in Kaunas in 2016; they will supply the market with 5,300 sq.m GLA. Meanwhile, no new business centres were opened in Klaipėda in 2015. It is planned to open one small (2,500 sq.m) office building in early 2016. Lease prices in the largest cities have remained stable in 2015 and changes are not foreseen for 2016.

In 2015, retail trade volumes increased by 2.1 percent in comparison with 2014. Positive situation in labour market, i.e. decreasing unemployment and growing wages, allows us assuming that a moderate growth of retail trade should be further observed. Therefore the environment will be more favourable for investments in this segment. In 2015, there were four new shopping centres opened in Lithuania, three of which supplied Vilnius market with 27,600 sq.m GLA; and one in Panevėžys, which added 1,600 sq.m GLA. In 2016, it is expected to open four newly built or expanded shopping centres: three in Vilnius (48,000 sq.m) and one in Kaunas (30,000 sq.m).

Although the vacancy rates in shopping centres have increased insignificantly, but they remain particularly low, i.e. not exceeding 3 percent, what allows the managers of shopping centres to hold better positions in negotiations and increase lease prices moderately.

In 2015, increasing vacancies were observed in warehousing lease segment in the largest cities of the country. Vilnius has maintained a stable level of vacant premises only, despite the fact that two new logistics centres, which added 14,000 sq.m GLA, were opened in Vilnius in 2015. Vacancy rates in Kaunas and Klaipėda have become worse. There were about 6,330 sq.m of modern warehousing premises vacated in the logistics centre Kaunas Terminal, which is located in the free economic area. Several modern logistics centres offered vacant premises in Klaipėda market. Taking into account the fact that 2 modern logistics centres were being built in Klaipėda and they will supply the market with up to 29,000 sq.m GLA, i.e. up to 24 percent of the entire supply of logistics centres in Klaipėda, it can be expected that the vacancy rate will also be higher in 2016 than in 2015. This, in turn, will increase the pressure on warehouse lessees and impede the expansion of logistics centres.

Regardless of decrease in tourist flows from Russia, in 2015, the occupancy rates of Lithuanian airports and hotels have continued to grow in the hotel segment, presenting favourable conditions for the segment to grow in Lithuania. The environment was favourable for the expansion of hotel segment in Lithuania, and further development is expected for 2016. In 2015, there were 6 hotels built or reconstructed in Lithuania, supplying the market with 442 rooms. In early 2016, "MG Valda" plans to open a new 34-room hotel in Pilies street in Vilnius. The hotel chain "Hilton", which is entering the market in Lithuania, intends to open 3 hotels; one of them will be located in Rinktinės street. "Accor Hotels" and other foreign hotel chains are also looking for the opportunities to expand in the capital city. In mid-2016, a renovated hotel of Smiltynė yacht club (40 rooms) will be opened in the Curonian Spit. Meanwhile, there were no plans of opening new hotels in Kaunas in late 2015. In comparison with 2014, the rents have increased insignificantly; however, the expansion of hotels is stimulated by the increasing occupancy rates in Lithuania, which reached the limit of 50 percent in 2015.

Current issues of law

The year 2015 brought significant new legislative developments in the real estate sector. The year started with the coming into force of amendments obligating to obtain notarial certification for most of securities transactions that are also relevant in the context of RE transfers. The year saw an update to the PPP Rules, granting a right to persons to initiate partnership projects; the amendments to the Law on Investments have introduced the concept of industry parks. In addition, a review of VAT and RE taxes resulted in the introduction of reverse charging of VAT on construction operations, and amendments to the Law on Immovable Property Tax introduced a new rate of tax of 0.5 per cent chargeable on the value of real estate properties owned by individuals which is in excess of the non-taxable amount of EUR 220 000. The legal framework adopted in 2015 imposed new obligations on developers to register incomplete buildings, and the residential housing market was "frozen" due to the Responsible Lending Regulations adopted in November.

Finally, in compliance with the European Union requirements, a set of provisions was enacted, obligating construction of buildings having no lower than Class A energy efficiency ranking. Although such provisions were initially scheduled to take effect yet in January 2016, by decision of the Minister of Environment that date was postponed to November this year.

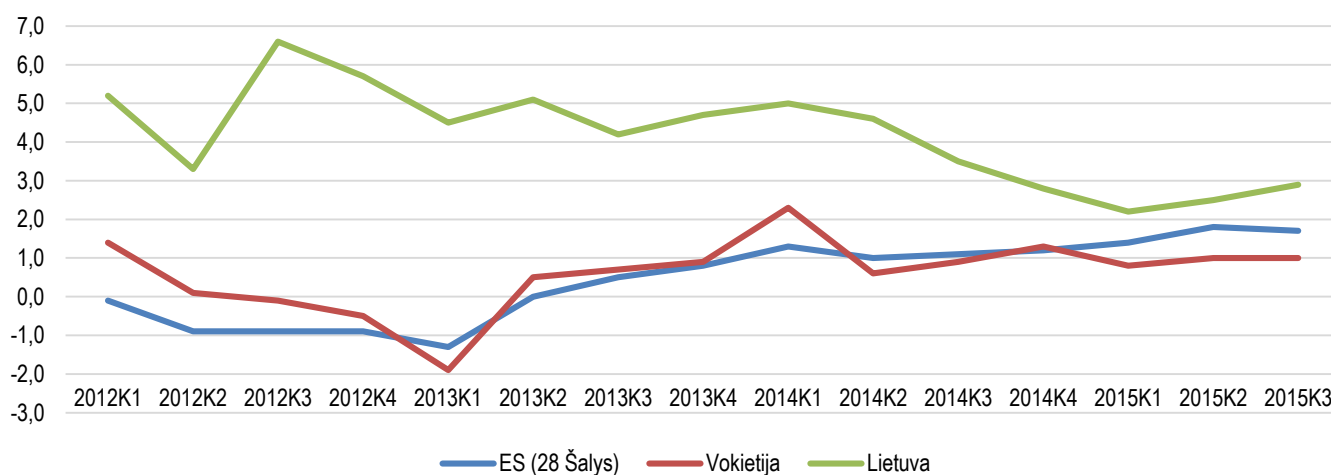
Before that, yet in spring 2016, we should see the coming into force of the Law on Credit Agreements Related to Immovable Property transposing the Housing Directive, which provides for the main conditions of granting credits intended for the acquisition of residential property.

LITHUANIAN ECONOMIC REVIEW

Last year, Lithuania's economy was growing slower than in the past few years. Like throughout the year, in the fourth quarter an unfavourable external environment was the main factor leading to slower economic development. However, this factor has not so far affected households' expectations and consumption which is the main driver for economic growth.

Most countries in the world did not see an expected breakthrough of economic development in 2015. International organizations have repeatedly adjusted the forecasts for global economic growth, postponing the recovery momentum until next year. Emerging economies slowed down due to a fall in raw material prices whereas the recovery of the developed economies was not sustainable. Growth in the Eurozone's countries was limited by high debts of these countries, hesitant implementation of structural reforms, low investment growth, and persistently high rates of unemployment. **The uncertainty regarding the prospects of the global economic growth remains high, however, a slightly faster economic growth in Lithuania can be predicted in 2016 - it should be up to 2.5 percent.**

Graph 1. GDP growth, %



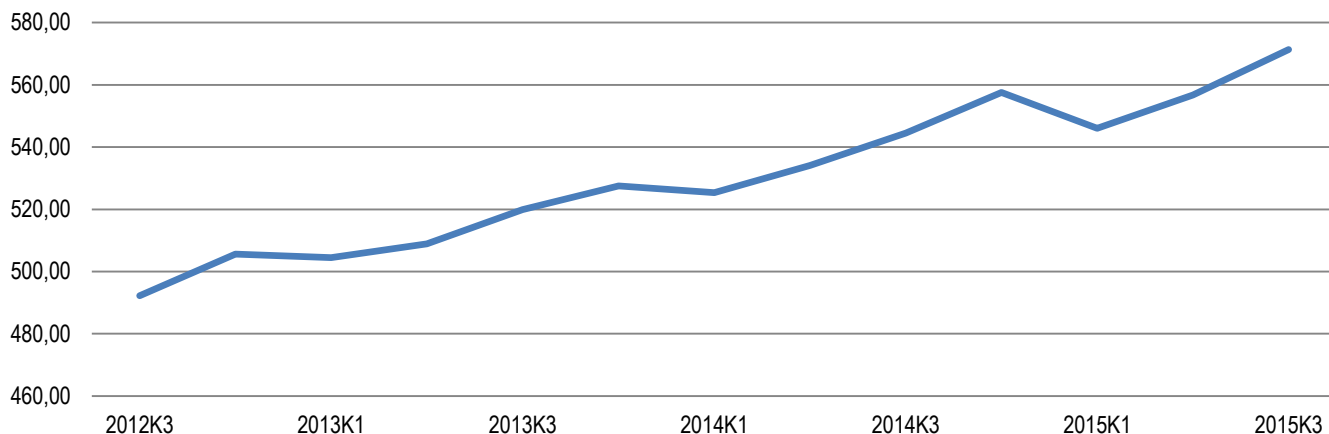
Source: Eurostat.

Exports to the EU, the main Lithuanian foreign trade market, are consistently growing. Although the nominal value of exports fell by slightly more than 5 percent in 2015, the growth of exports represents slightly more than 4 percent, following the removal of the consequences of an impact related to the Russian economy. It is important to future prospects for the development of exports that the United States and some Asian and Middle Eastern countries have become more significant trading partners of Lithuania. **Adaptability in redirecting exports to new markets will have an even greater positive impact on the overall annual economic growth in 2016.**

Households' consumption is the brightest light in Lithuanian economy. Consumption is growing quite significantly regardless of the prevailing uncertainty in the country's economic prospects. As in the past few years, private consumption was driven by the improving labour market environment, increasing employment rates and rising wages. Decreasing unemployment (having reached 9.4 percent in 2015, it is likely to fall to 9 percent in 2016) and new emerging jobs have determined the growth of wages at a similar pace as in 2014. In addition, it was increased by the monthly minimum wage raise. Last year, wages were raised by over 5 percent. The private sector saw the largest increase in fixed wages. It was influenced by a growing demand for labour force and the need to retain qualified professionals. Next year, the macroeconomic environment should have a positive effect on consumption. **It is**

forecasted that the unemployment rate will continue to decline and will reach the natural rate of unemployment. This year, wages are expected to increase approximately by 5 percent, thus, given low inflation, consumer purchasing power will continue to grow.

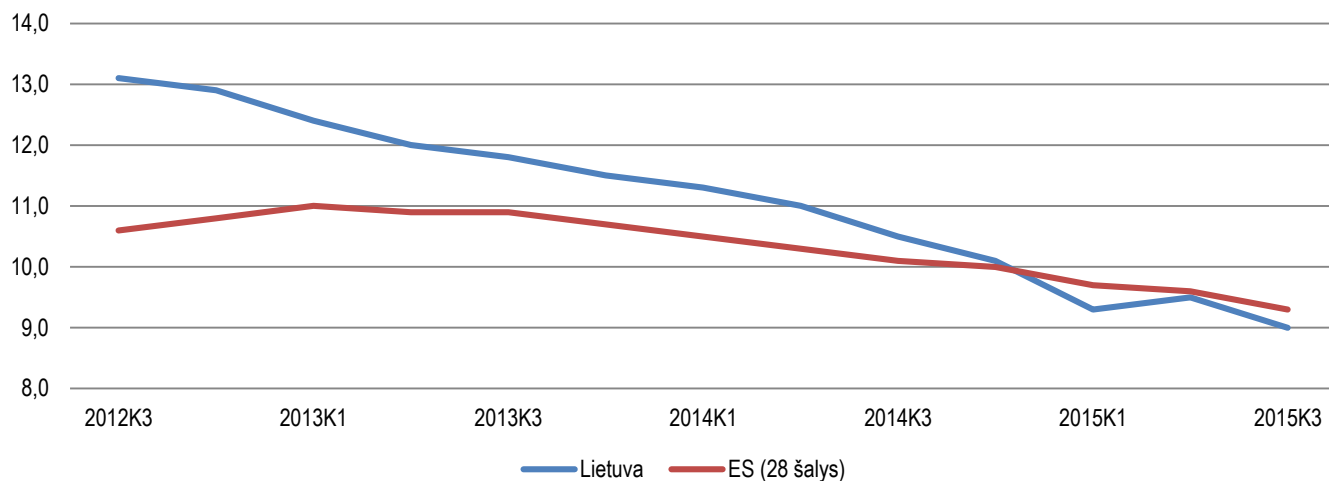
Graph 4. Average wages, net



Source: *Statistics Lithuania*

The unemployment rate in the European Union countries was lower until the fourth quarter of 2014, but a significantly faster reduction in unemployment rate in Lithuania allowed it to overhaul the EU average already in the first half of 2015.

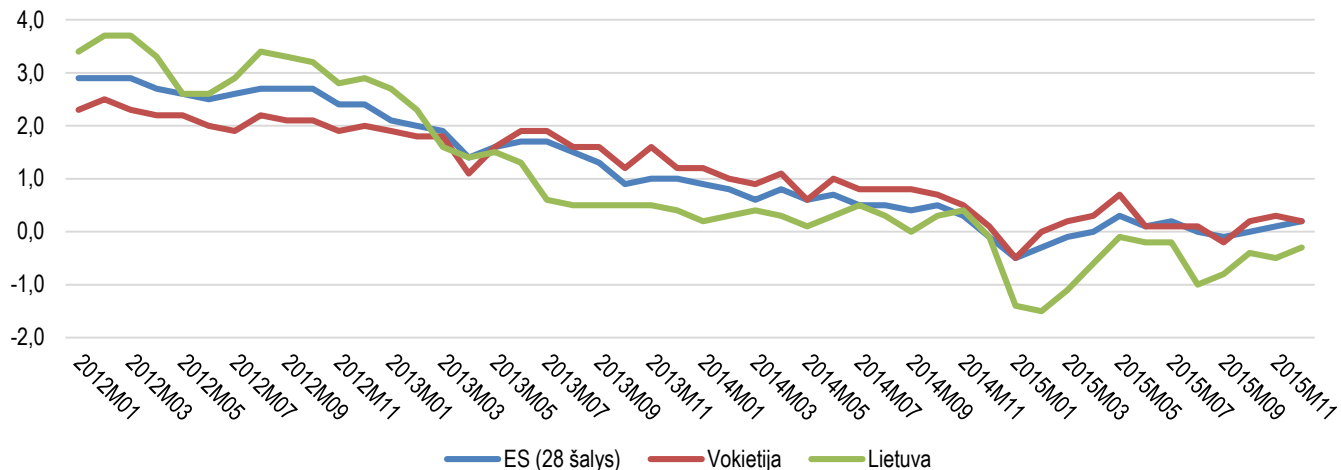
Graph 3. Unemployment rate, %



Source: *Eurostat*

The average annual inflation rate remains negative. The annual inflation rate has been negative since the end of 2014 hence prices are lower than they were a year ago. A fall in prices was mostly determined by a decline in the prices of energy raw materials, especially oil prices. During 2015 alone WTI oil price has lost more than 35 percent of its value. The increasing oil reserves in the US and the slowing Chinese economy were the main factors that had an impact on such a price fall. **Annual inflation is likely to become positive this year, however, raw material prices having hit new lows at the beginning of the year, trends in the price fluctuations should continue to be favourable to consumers.**

Graph 2. Annual inflation rate, %



Source: Eurostat

In order for the economy of the Eurozone's countries to gain sustainable growth and lower inflation, interest rates set by the European Central Bank remain low and a stimulative monetary policy is being further pursued. **New measures for the ECB monetary policy stimulus are likely to be announced in March. They should ensure the Eurozone's continuing economic recovery.**

HOUSING MARKET REVIEW

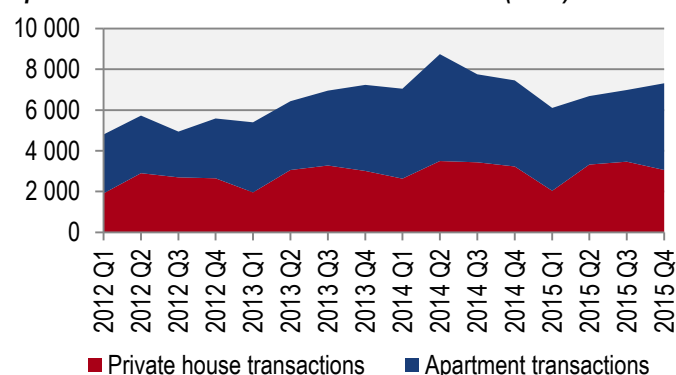
Housing market in Lithuania – stable positivism

The beginning of 2015, as could have been expected, was particularly sluggish after Euro adoption, however, the RE demand has recovered rapidly in the second half-year, particularly in the largest cities. This resulted in the fact that the overall annual RE market activity was insignificantly lower than in the record-breaking year of 2014. More active late 2015 has led to better expectations in the secondary market, where prices increased by 4-8 percent in Vilnius, Kaunas, Klaipėda and Šiauliai. The prices of apartments in Panevėžys and Alytus were growing less – by 2-3 percent, meanwhile the prices in smaller towns have remained stable. The prices of private houses have not changed in Lithuania in a year.

In accordance with the data of SE Centre of Registers, in 2015:

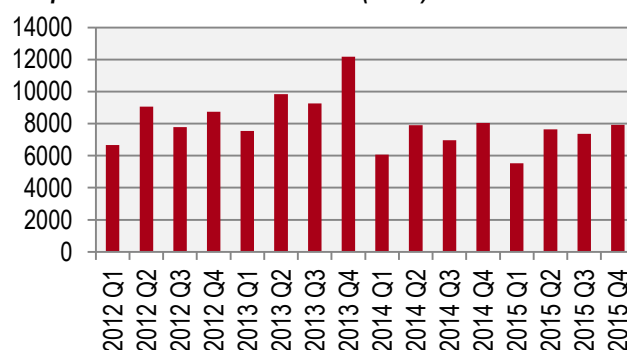
- There were 27,652 apartment purchase-sale transactions concluded in Lithuania, i.e. by 9.8 percent less than in 2014.
- There were 11,908 private house purchase-sale transactions concluded in Lithuania, i.e. by 7 percent less than in 2014.
- There were 28,464 land-plot purchase-sale transactions concluded in Lithuania, i.e. by 1.8 percent less than 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

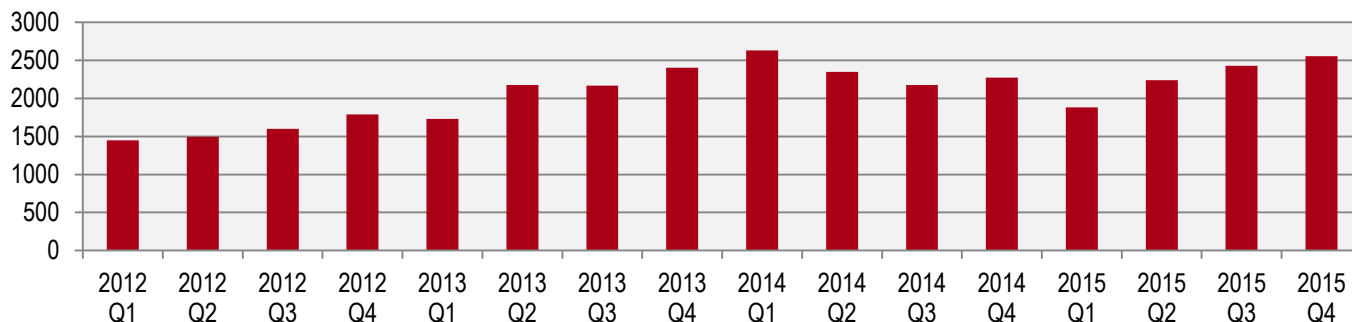
Vilnius market – a balance between new-construction supply and demand

The year 2015 was positive in Vilnius housing market. Although, the number of purchase-sale transactions was decreasing in some segments, however it was resulted by a particularly poor first quarter of 2014, when some purchasers had stopped for some time due to the new currency. Meanwhile, the remaining three quarters showed the results similar to the ones in corresponding periods a year ago. Vilnius market maintained active demand and high liquidity of the market. These trends should remain in 2016 as well. In accordance with the data of SE Centre of Registers, in 2015:

- There were 9,108 apartment purchase-sale transactions concluded, i.e. by 3.3 percent less than in 2014.
- The annual change in purchase-sale transactions in the private house segment was very insignificant. There were 1,521 purchase-sale transactions concluded in Vilnius city, i.e. by 1.8 percent more than in 2014. The number of transactions concluded in Vilnius region was 632, i.e. by 0.8 percent less than in 2014.
- The trends were also different in the land-plot segment. There were 1,441 land-plot purchase-sale transactions concluded in Vilnius city, i.e. by 9.7 percent more than in 2014. The number of land-plot purchase-sale transactions concluded in Vilnius region was 1,883, i.e. by 3.1 percent less than in 2014.

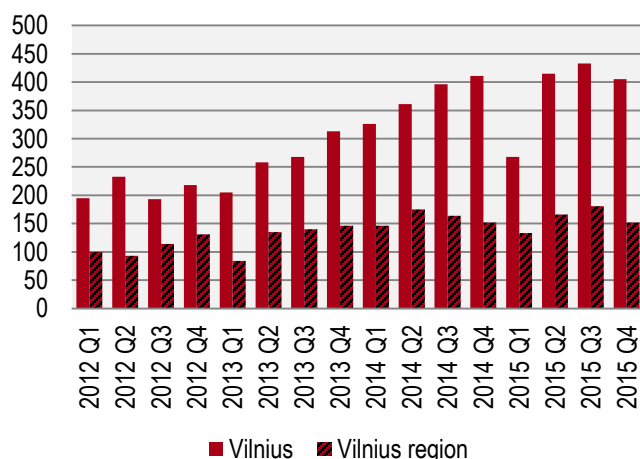
It was noticed, that, in 2015, RE in Vilnius city was much more popular than in Vilnius region. Growing transport flows and traffic force potential purchasers to take these factors into account when choosing the locations of future housing. It can be forecasted that RE objects located in Vilnius centre will receive more attention from potential purchasers; meanwhile the peripheral districts and Vilnius region will become less attractive. The latter trend resulted in the fact that the prices were increasing in the secondary market only: fully-equipped new-construction apartments by 5-6 percent, at an average, and old-construction apartments by 7-8 percent. Essentially, the prices in other segments have remained unchanged.

Transactions on apartments in Vilnius (units)



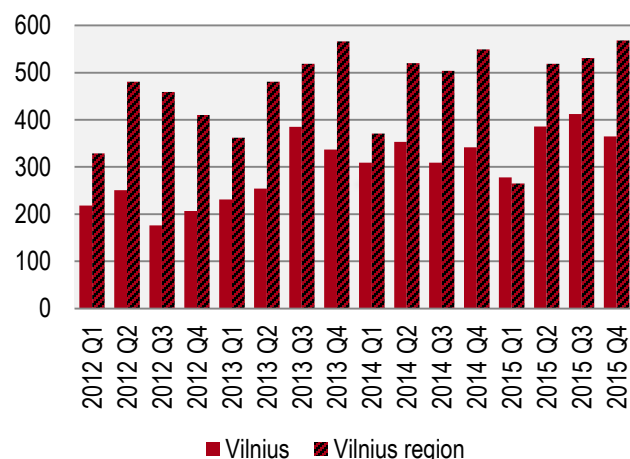
Source: SE Centre of Registers

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)



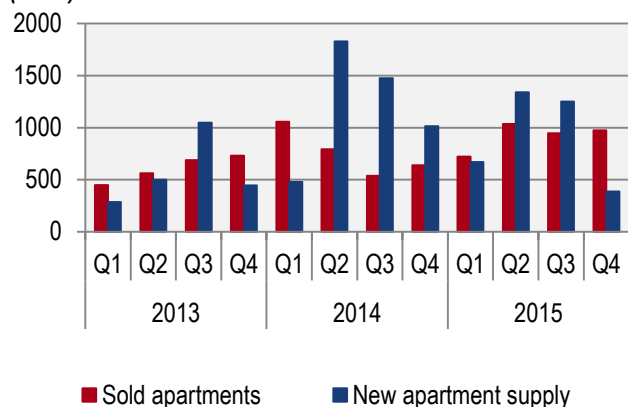
Source: SE Centre of Registers

In 2015, the sales in the primary market grew by more than a fifth, in comparison with 2014; there were about 3,680 new apartments sold. Such an increase was mostly resulted by the sales in the mid-luxury-class segment, which increased by 39 percent. In comparison with 2014, the increase in economic-class apartment sales was 5 percent in 2015. The upper-class apartment segment is less sensitive to external factors – escalation of geopolitical issues, changes in crediting policy, etc. Therefore, it is possible to state that record-breaking sales of upper-class housing should remain stable in the near future.

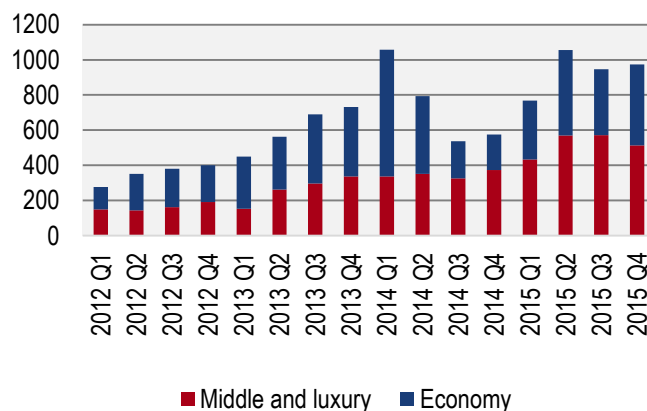
Although the first three quarters of 2015 had promised record-breaking amounts of new apartment supply, but less active developers in the last quarter of 2015 resulted in the fact, that about 3,650 new apartments were offered to the market in a year, i.e. by 23,9 percent less than in 2014. Unlike in 2014, the sales exceeded the new supply in 2015, therefore the total level of unsold apartments (vacant and reserved) decreased to about 4,180 apartments in the capital city. In 2015, the supply and sales were changing rather evenly, thus the liquidity rate of new-construction apartments, calculated by Inreal, was decreasing during the last 8 months and stopped at the limit

of 1.1 in late 2015. It means that the developers may expect sell the apartments in 1.1 years, and it is a favourable factor to increase asking prices. Nevertheless, as a result of uncertainties in financial markets and possible economic challenges, the developers will hardly tend to increase the prices – more likely, they will seek to sell them faster.

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



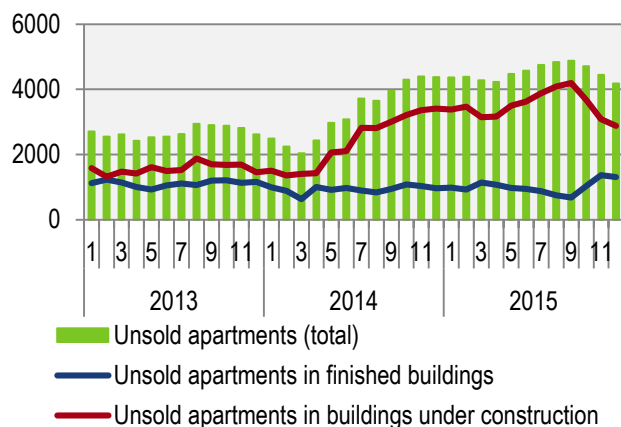
New apartment sales under classes (units)



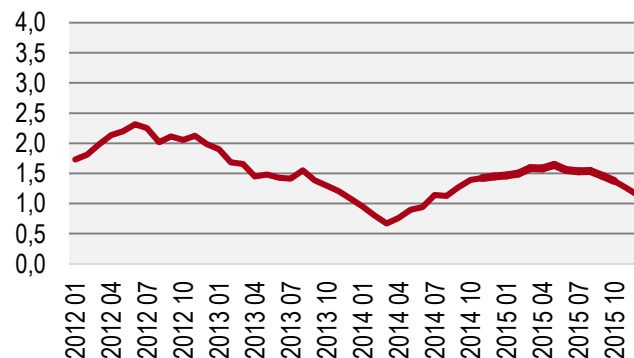
Source: Inreal

Source: Inreal

New construction apartments, unsold in Vilnius (units)



Liquidity rate of new apartments in Vilnius (years)

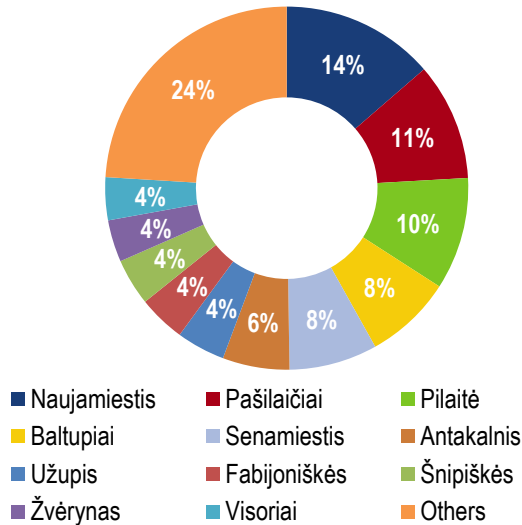


Source: Inreal

Source: Inreal

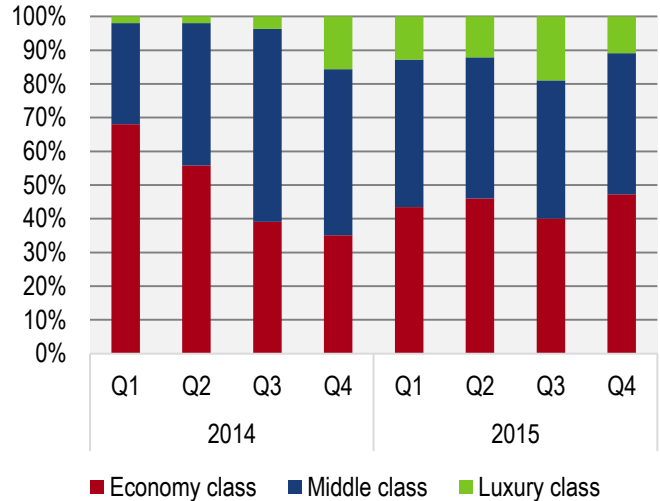
In Q4 of 2015, the level of unsold apartments in already finished projects was about 1,300 apartments, i.e. by 34.9 percent more than in late 2014. Meanwhile, the number of unsold apartments in the projects, which are being built currently, was about 2,880 apartments, i.e. by 15.7 percent less than in late 2014. This allows assuming that there is no threat of oversupply in Vilnius market, because the level of unsold apartments is decreasing, which is likely to decrease further in Q1 2016. It is also forecasted that, in 2016, the developers will not be as active in Vilnius as in 2015 – they should supply the market with about 3,000 new-construction apartments, i.e. by approx. 18 percent less than in 2015. Even in the event of lower demand than in 2015, the market is capable to take-up such amount.

Apartment sales under urban districts, year 2015



Source: Inreal

Apartment sales under classes



Source: Inreal

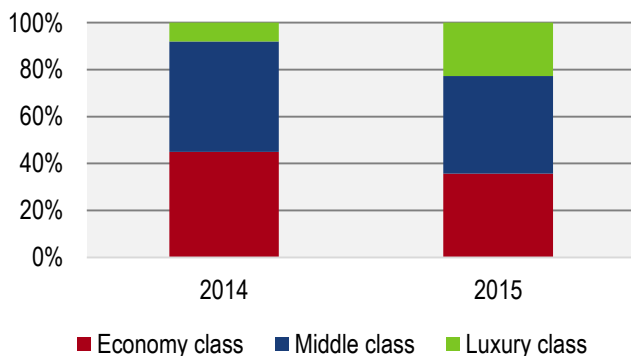
In late 2015, the trends of new-construction apartment prices in Vilnius were different in various segments:

- the average price of economic-class apartments was 1,304 EUR/sq.m. and increased by 7.5 percent in a year.
- the average price of mid-class apartments was 1,696 EUR/sq.m. and increased by 0.4 percent in a year.
- the average price of luxury-class apartments was 2,539 EUR/sq.m. and had not changed in a year.

The only segment, where a more significant annual change in prices (7.5 percent) was observed, was the economic segment. It can be related to the decreased supply – in 2015, the supply has shrunk by 18.8 percent in the economic segment, what allowed the developers to apply prices of new-construction apartments in economic-class projects higher than the average level. Meanwhile, as a result of much tighter competition in the mid- and luxury-class segments, the prices of new-construction apartments have remained almost unchanged.

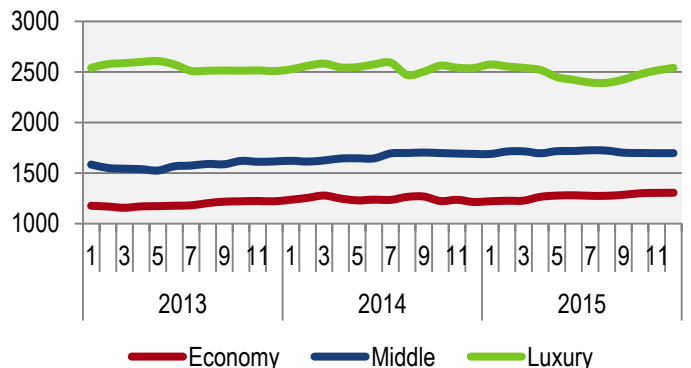
The changes in new-construction apartments in 2016 will highly depend on the developers and purchasers' actions. It seems that RE developers tend to invest carefully into the development of new projects in 2016, therefore it is highly expectable that along with the shrinking supply of unsold apartments the prices will increase by 3-4 percent.

New apartment supply under classes



Source: Inreal

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



Source: Inreal

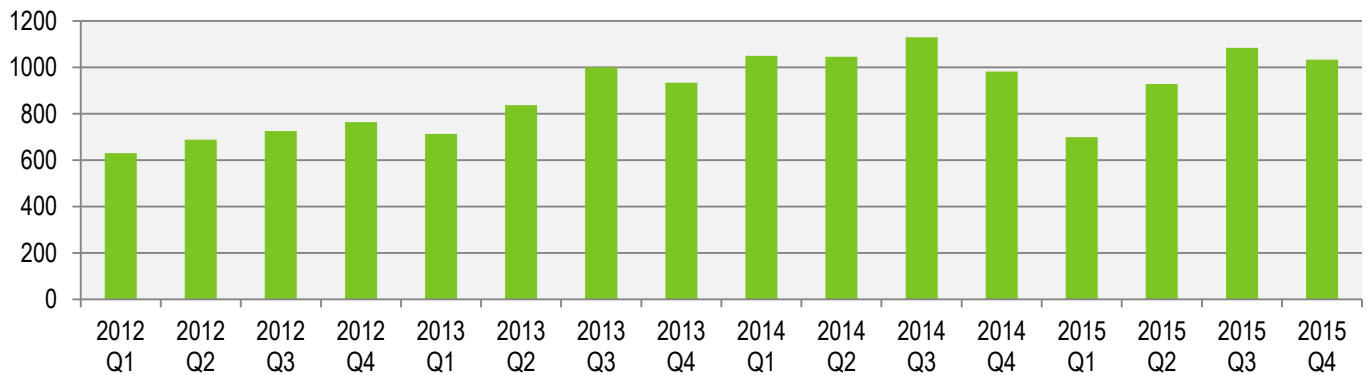
Kaunas market – weak demand made all the segments shrink

The year 2015 was worse in Kaunas market than 2014 – the number of purchase-sale transactions was decreasing in all segments. However, such rates were mostly resulted by a particularly poor Q1 of 2015, meanwhile, the remaining quarters showed similar results as in 2014. In accordance with the data of SE Centre of Registers:

- There were 3,746 apartment purchase-sale transactions concluded in 2015, i.e. by 11 percent less than in 2014.
- The number of purchase-sale transactions was decreasing in the private house segment. In 2015, there were 665 purchase-sale transactions concluded in Kaunas city, i.e. by 3.5 percent less than in 2014. The number of transactions concluded in Kaunas region was 685, i.e. by 0.1 percent less than in 2014.
- The trends were different in the land-plot segment. There were 669 land-plot purchase-sale transactions concluded in Kaunas city, i.e. by 3.7 percent more than in 2014. The number of land-plot purchase-sale transactions concluded in Kaunas region was 1,535, i.e. by 7 percent less than in 2014.

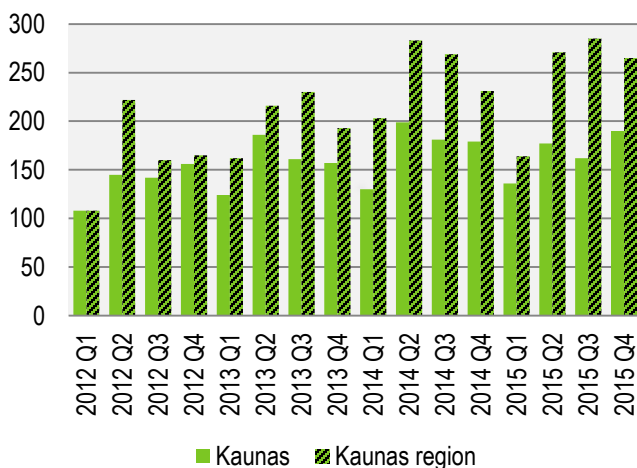
When analysing the trends of purchase-sale transactions in different segments of Kaunas market, it is possible to state that the liquidity “ceiling” was reached in Kaunas. Nevertheless, the annual increase in apartment prices was observed in the secondary market – by 5-6 percent at an average. Meanwhile, the prices in the private house segment have remained stable. Currently, the demand of apartments in Kaunas is lightly too small in order to expect for sustainable increase in prices – the present balance between demand and supply allows expecting a period of stable RE prices.

Transactions on apartments in Kaunas (units)



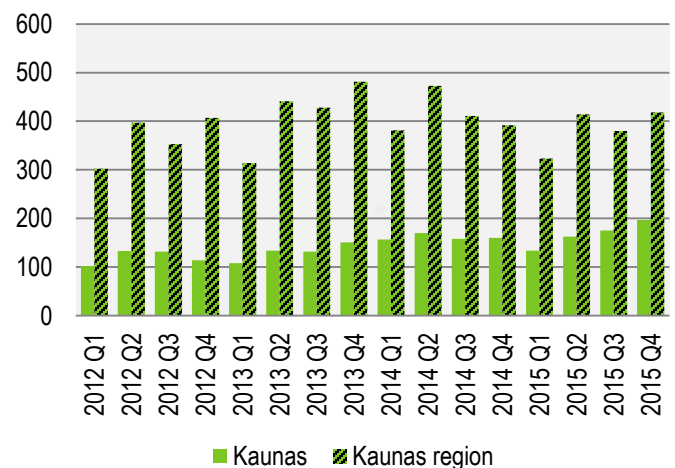
Source: SE Centre of Registers

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



Source: SE Centre of Registers

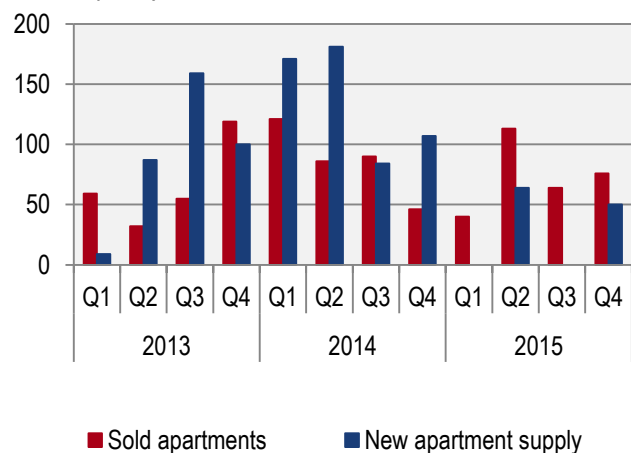
Land purchase-sale transactions in Kaunas and Kaunas region (units)



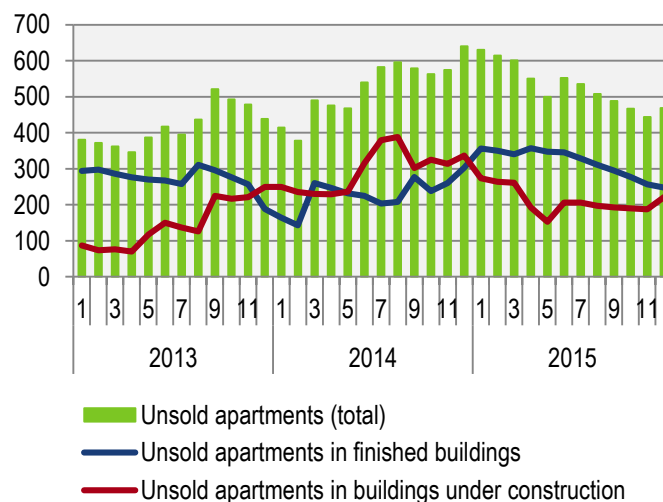
Source: SE Centre of Registers

In 2015, there were about 290 new-construction apartments sold in Kaunas, i.e. by 14.6 percent less than in the previous year. The supply has shrunk even more – in 2015, the market was supplied with 114 new apartments, i.e. 4.8 times less than in 2014. As a result, in late 2015, the liquidity rate of new-construction apartments, as calculated by Inreal, decreased to 1.6 in Kaunas. The market liquidity is quite well-balanced, therefore the situation is quite convenient to RE developers to start developing new projects again, however, as a result of such a liquidity rate, stable prices should be expected

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



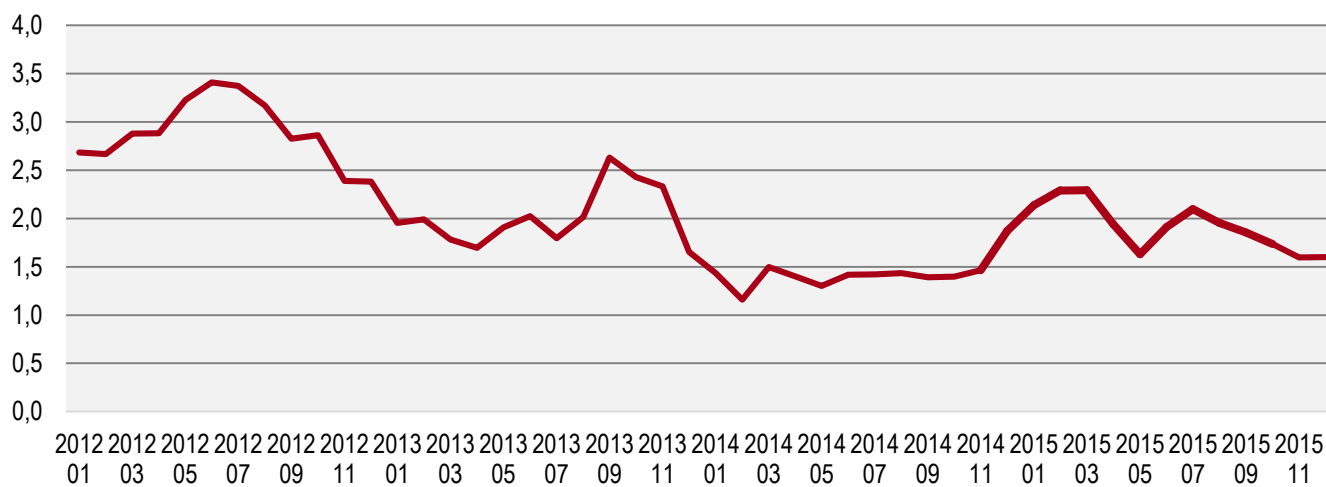
New construction apartments, unsold in Kaunas (units)



Source: Inreal

Source: Inreal

Liquidity rate of new apartments in Kaunas



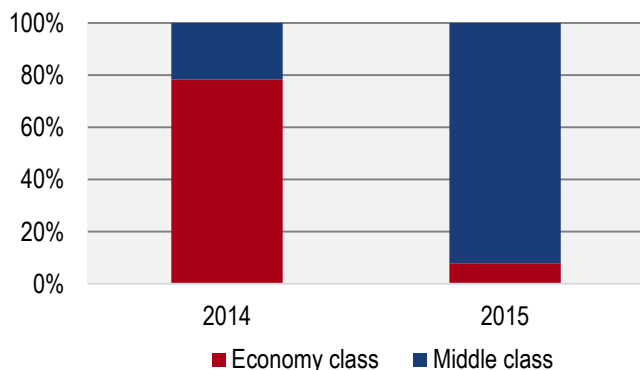
Source: Inreal

The majority of apartments in Kaunas market belong to economic-class segment. Respectively, the sales in this segment have made up the major share of the overall sales. In 2015, the prices of new-construction apartments were growing in Kaunas:

- the average price of economic-class apartments was 1,046 EUR/sq.m. and increased by 2.3 percent in a year.
- the average price of mid-class apartments was 1,402 EUR/sq.m. and increased by 7.6 percent in a year.
- no luxury-class projects were developed in Kaunas in 2015.

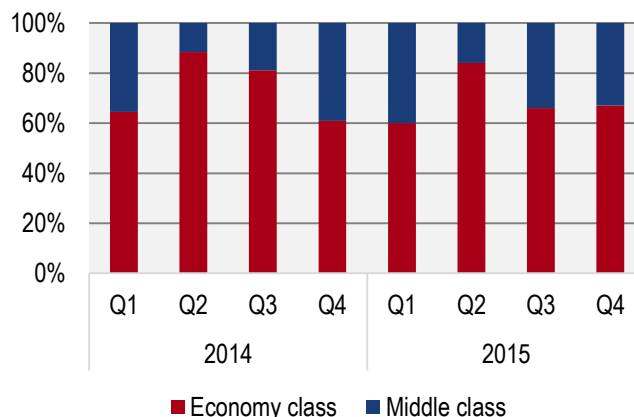
The absence of new supply in Kaunas, reduces the competition in the market, therefore a temporary increase in prices was observed. Since the market remains low active – the demand is quite weak, thus further increase in prices is hardly probable.

New apartment supply under classes



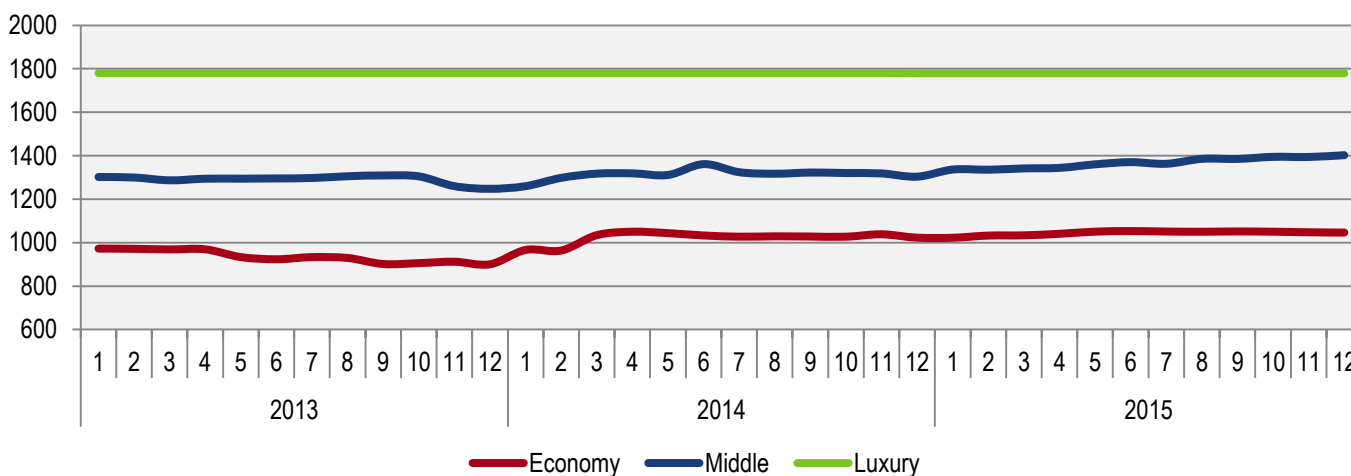
Source: Inreal

New apartment sales under classes



Source: Inreal

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



Source: Inreal

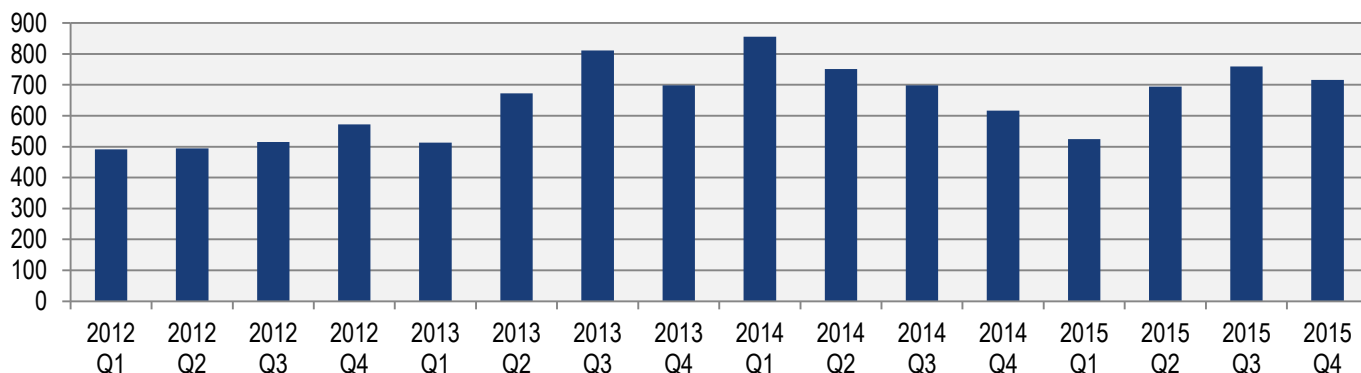
Klaipėda market – more active Klaipėda region poses more challenges to Klaipėda city

In 2015, the number of purchase-sale transactions was decreasing in all segments in Klaipėda RE market; however, such rates were mostly resulted by a particularly poor Q1 of 2015. The remaining three quarters showed a good liquidity of the market, therefore the latter trends should also be observed in 2016. In accordance with the data of SE Centre of Registers:

- There were 2,694 apartment purchase-sale transactions concluded in 2015, i.e. by 7.8 percent less than in 2014.
- The number of purchase-sale transactions was increasing in the private house segment. In 2015, there were 144 purchase-sale transactions concluded in Klaipėda city, i.e. by 6.7 percent more than in 2014. The number of transactions concluded in Klaipėda region was 596, i.e. by 2.4 percent more than in 2014.
- The trends were different in the land-plot segment. There were 141 land-plot purchase-sale transactions concluded in Klaipėda city, i.e. by 17.5 percent more than in 2014. The number of land-plot purchase-sale transactions concluded in Klaipėda region was 1,654, i.e. by 1.3 percent less than in 2014.

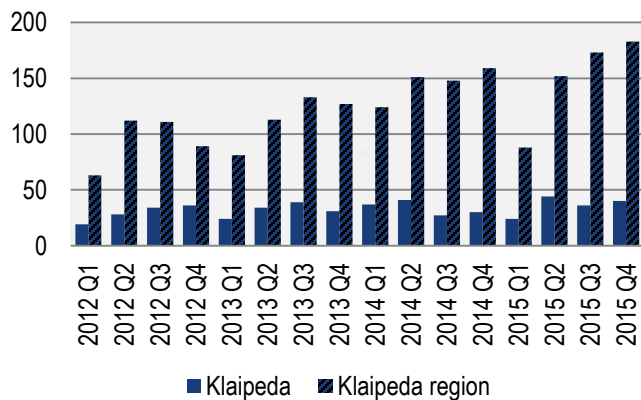
When analysing the trends of purchase-sale transactions in different segments of Klaipėda market in 2015, it is possible to distinguish the private house segment of Klaipėda region. Although the end of the year showed record-breaking activity, it is possible to assume that the activity “ceiling” has not been reached yet, therefore, in 2016, the private house segment of Klaipėda region should be more active than in 2015. Regardless of high demand, the market is permanently supplied with new objects, therefore the prices of private houses are not increasing. In 2015, only the prices of old-construction apartments were growing in Klaipėda – by 5-6 percent at an average.

Transactions on apartments in Klaipėda (units)



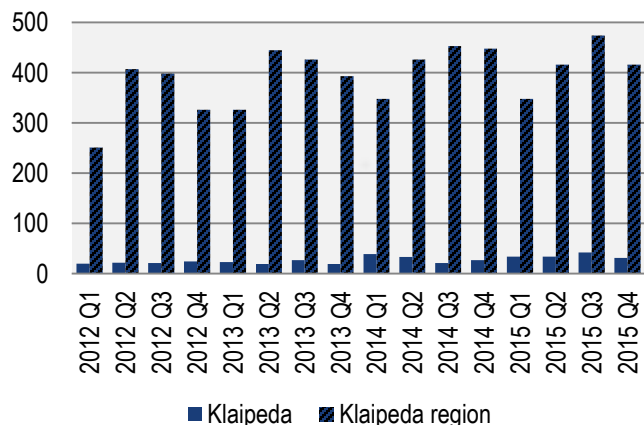
Source: SE Centre of Registers

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



Source: SE Centre of Registers

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

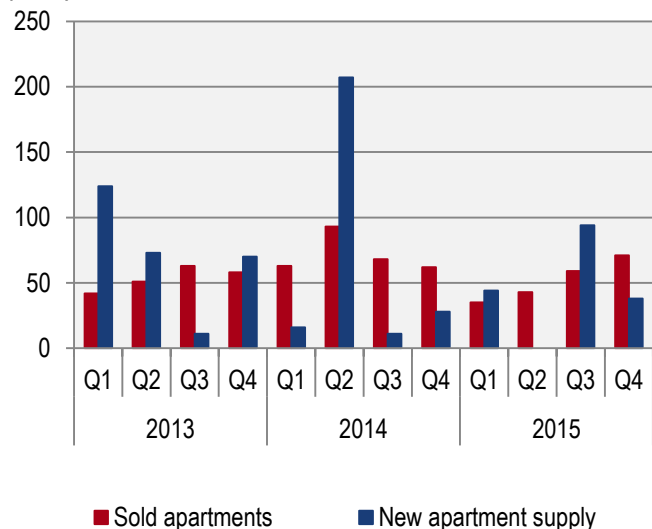


Source: SE Centre of Registers

In 2015, the developers sold about 210 new-construction apartments in Klaipėda, i.e. by 27.3 percent less than in the previous year. Therefore, there is no surprise that investors are not very active in developing new projects – in 2015, the market was supplied with 176 new apartments, i.e. by 32.8 less than in 2014.

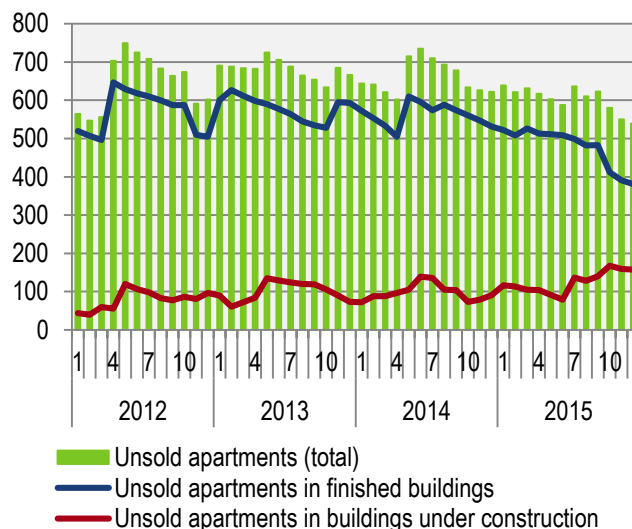
Poor sales in the primary apartment market resulted in the fact that the liquidity rate of new-construction apartments, as calculated by Inreal, has increased from 2.2 in late 2014 to 2.6 in late 2015. It is forecasted that this rate will remain stable in the near future, therefore the situation will not be favourable for developing new projects in Klaipėda because of much tighter competition among developers, and the increased pressure to reduce asking prices.

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



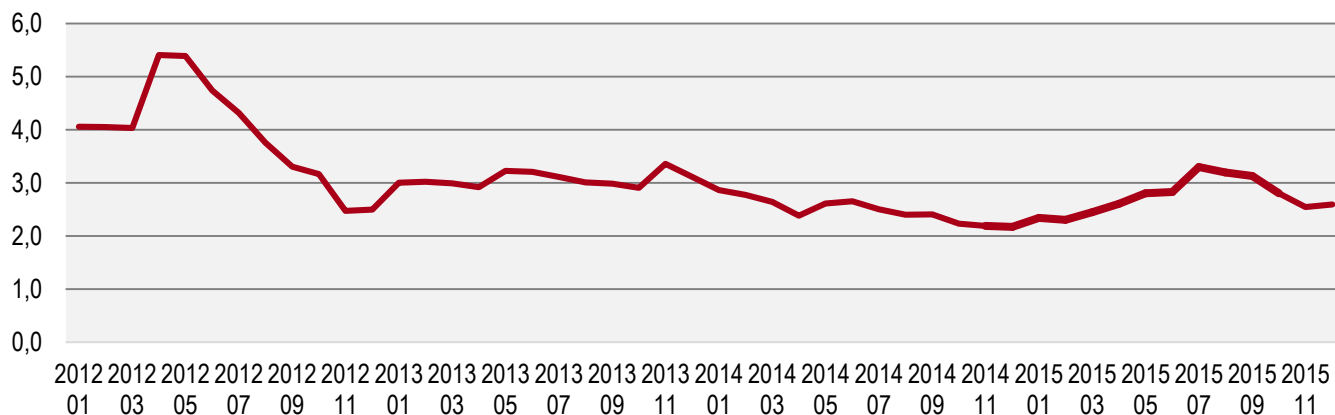
Source: Inreal

New construction apartments, unsold in Klaipėda (units)



Source: Inreal

Liquidity rate of new apartments in Klaipėda



Source: Inreal

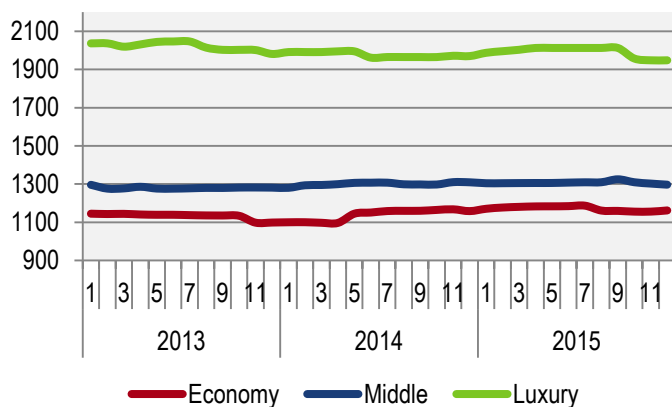
Economic-class apartments were the most popular in Klaipėda market. Respectively, the sales in this segment have made up the major share of the overall sales. In 2015, the prices of new-construction apartments in Klaipėda were different from those in other cities:

- the average price of economic-class apartments was 1,162 EUR/sq.m. and had not changed in a year.
- the average price of mid-class apartments was 1,297 EUR/sq.m. and decreased by 0.9 percent in a year.

- the average price of luxury-class apartments was 1,950 EUR/sq.m. and decreased by 1 percent in a year.

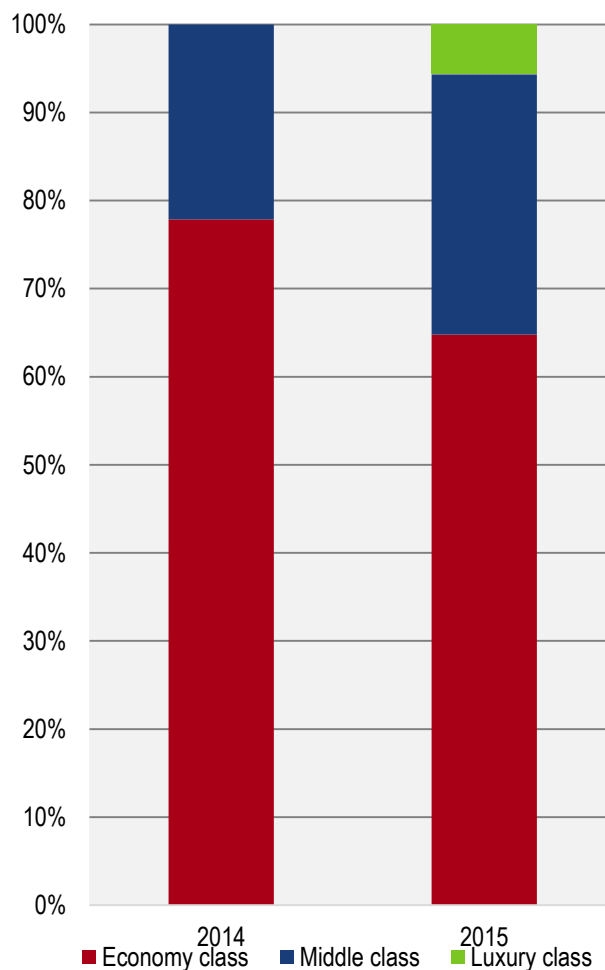
Insignificant changes in new-construction apartment prices are possible due to the changing structure of apartment supply. However, poor liquidity of apartments does not allow expecting prices to grow – they will likely remain stable in 2016.

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



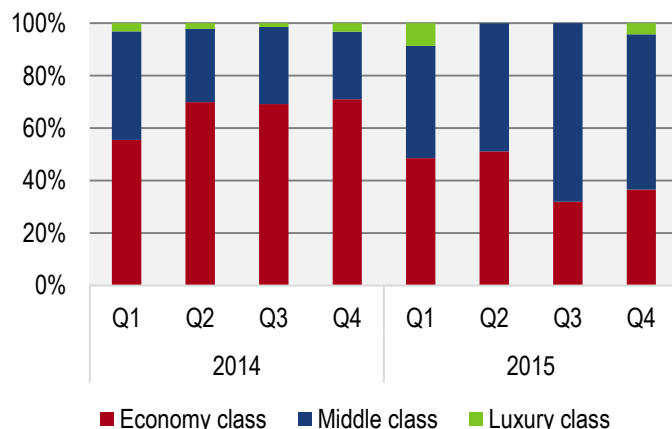
Source: Inreal

New apartment supply under classes



Source: Inreal

Apartment sales under classes



Source: Inreal

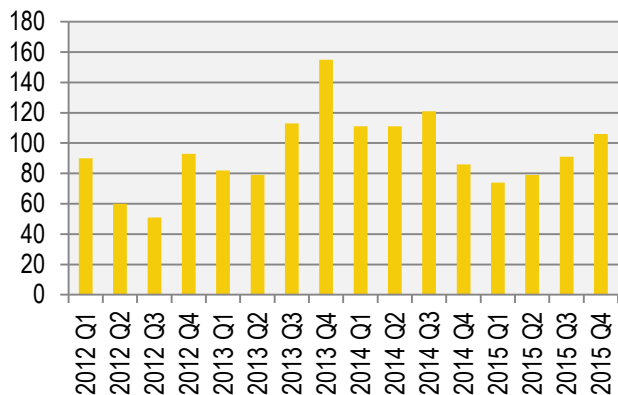
Palanga and Neringa market – a light rest in Palanga and low-active market in Neringa

In 2015, in comparison with the corresponding period a year ago, the number of apartment purchase-sale transactions in the second-home market in Palanga and Neringa has decreased by 18.4 percent and 27.6 percent, respectively. Actually, the number of transactions concluded in Neringa is particularly low, therefore the change is so distinct.

The trends in the primary market were also similar – the sales decreased by 40.5 percent in Palanga, and by a half less in Neringa than in 2014.

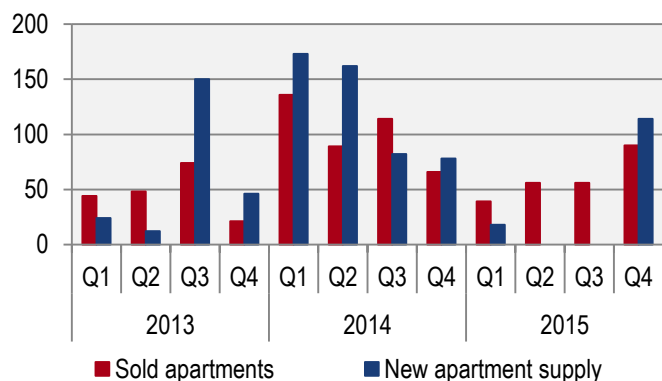
In 2015, RE developers were particularly low-active in both regions – 132 new apartments were offered in Palanga, i.e. 3.8 times less than in 2014. Meanwhile, no new apartments were offered in Neringa. Developers' passivity was mostly resulted by low sales of new-construction apartments.

Transactions on apartments in Palanga (units)



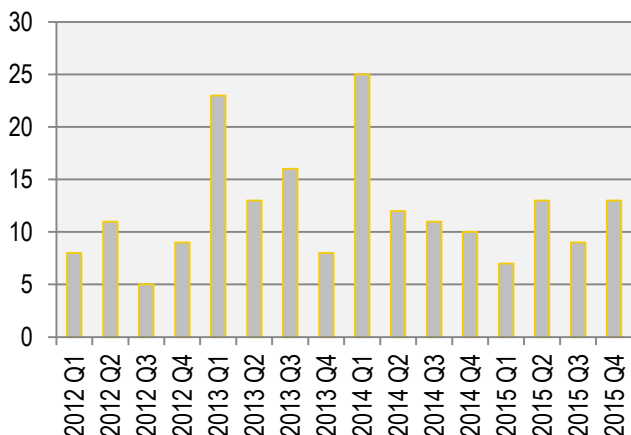
Source: SE Centre of Registers

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



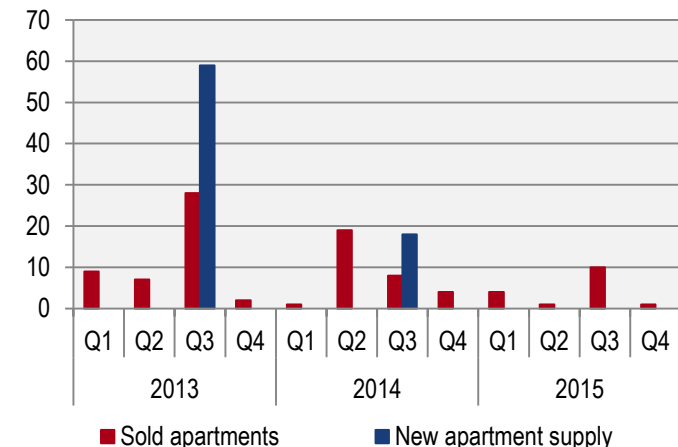
Source: Inreal

Transactions on apartments in Neringa (units)



Source: SE Centre of Registers

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

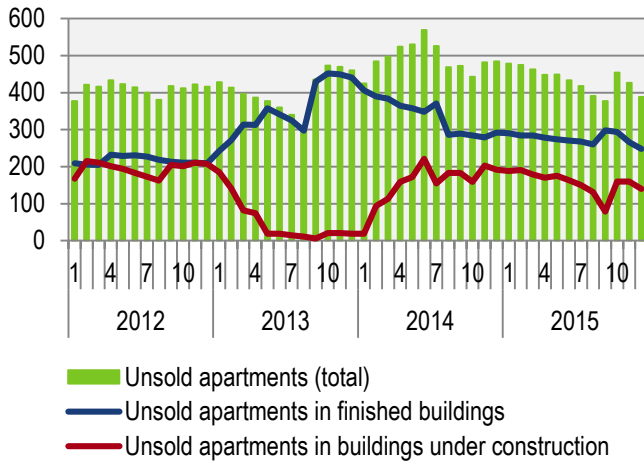


Source: Inreal

In 2015, the prices were increasing in economic- and mid-class segment in Palanga. The prices of luxury-class apartments have remained stable:

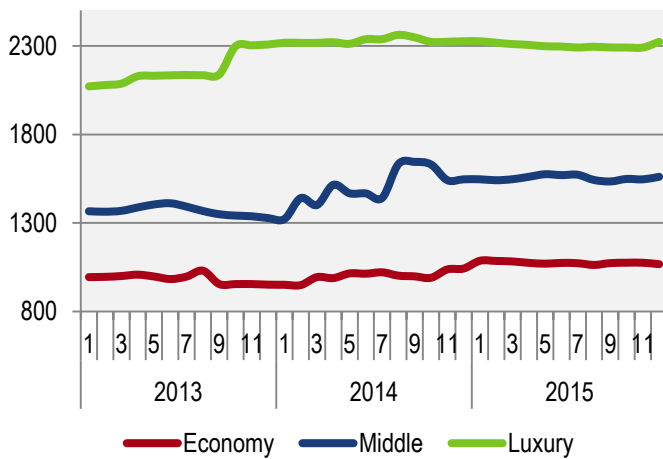
- the average price of economic-class apartments was 1,067 EUR/sq.m. and increased by 2.3 percent in a year.
- the average price of mid-class apartments was 1,561 EUR/sq.m. and increased by 0.9 percent in a year.
- the average price of luxury-class apartments was 2,323 EUR/sq.m. and had not changed in a year.

New construction apartments, unsold in Palanga (units)



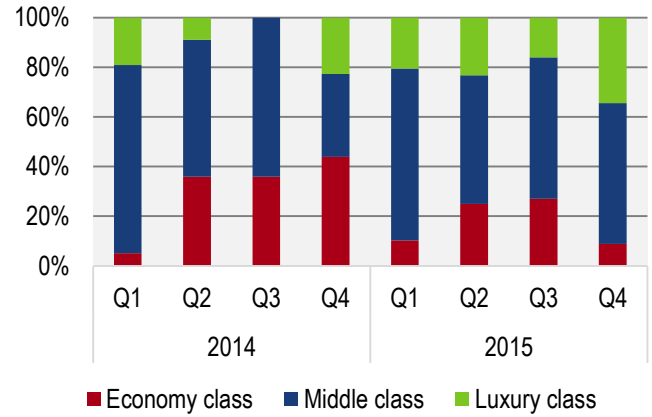
Source: Inreal

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



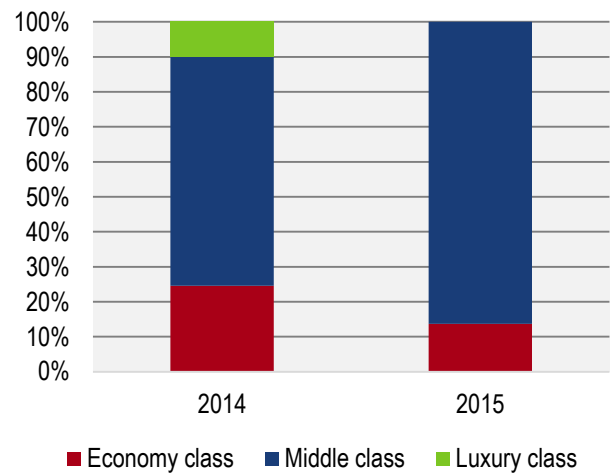
Source: Inreal

Apartment sales under classes in Palanga, 2015



Source: Inreal

New apartment supply under classes in Palanga



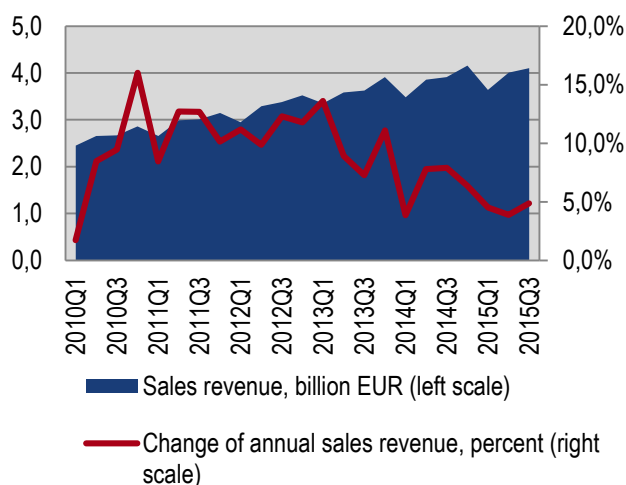
Source: Inreal

BUSINESS CENTRE MARKET REVIEW

In 2015, the companies in service sector continued to grow – the income in this sector increased by 4.4 percent in three quarters, in comparison with the corresponding period in 2014. Nevertheless, the confidence index was decreasing, indicating a possible slow-down in this segment as well.

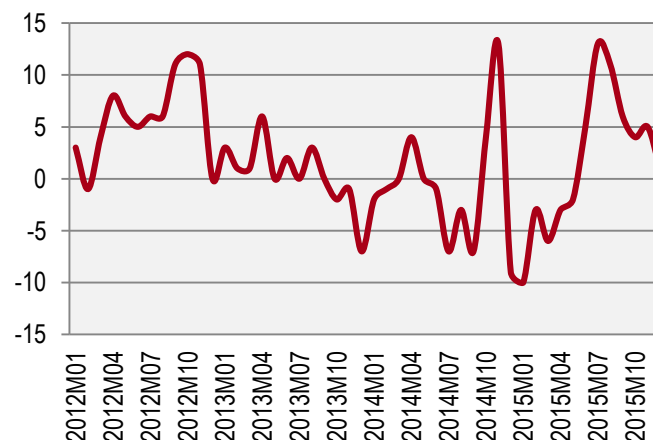
In 2015, as usual, Vilnius showed the highest activity in the segment of business centres. In 2015, five new business centres were opened: Premium, One, Sostena BC, k29, UNIQ. They have supplied the market of modern offices in Vilnius by approx. 37,600 sq.m GLA. In 2016, at least 4 new modern business centres will be offered for Vilnius market; they will supply the market with approx. 66,900 sq.m GLA. In early 2017, the market will also be supplied with another 4 business centres, which will offer 47,500 sq.m GLA. Obviously, Vilnius should expect for the record-breaking GLA of new business centres, meanwhile the doubts are raised whether such an active expansion of business centres does not provoke vacancy rates to grow and lease prices to be corrected. On the other hand, there is no strong reason for this, because the majority of business centres, which are currently being built, are rented out successfully by the end of their construction and the majority of their lessees are strong foreign companies, which are expanding their activities and offer new jobs. For example, the business centre k29 was fully rented out on the day of its opening, and the business centre UNIQ was also fully occupied before the completion of construction. Moreover, 50 percent of premises is already occupied in one of the largest business centres Quadrum (North and East), which is being built currently.

Dynamics of service sector enterprise income in Lithuania, billion EUR



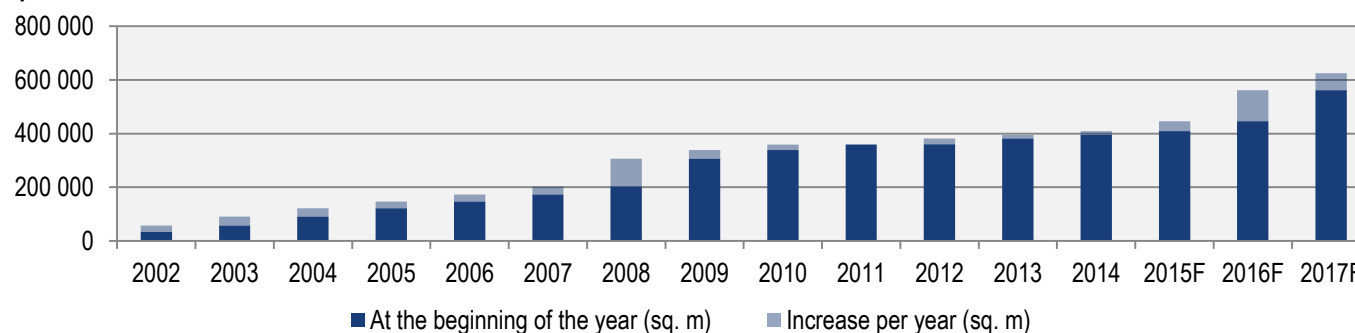
Source: Department of Statistics

Dynamics of service sector confidence indicator in Lithuania



Source: Department of Statisti

Expansion of modern business centres in Vilnius

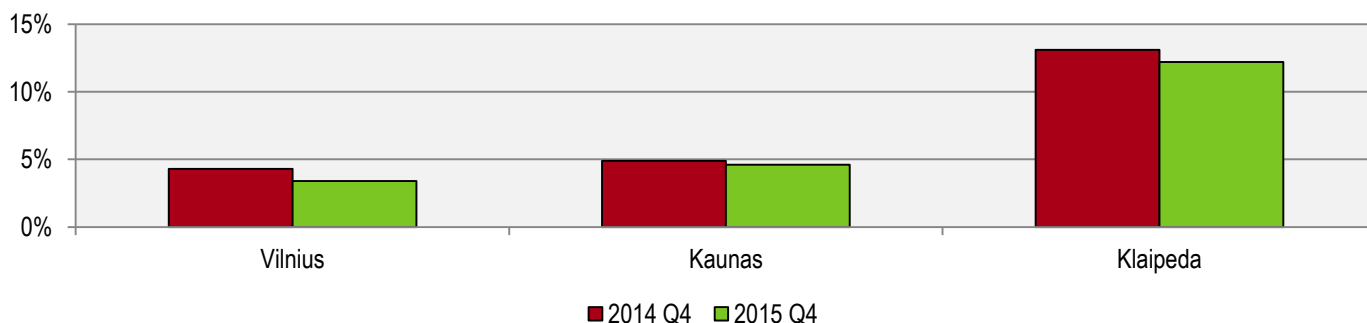


Šaltinis: „Inreal“

Regardless of impressive pace of business centre development in Vilnius, vacancy rate was decreasing rather than increasing: from 4.3 percent in late 2014 to 3.4 percent in late 2015. This indicates that the demand of modern offices still remains strong in the capital city. However, the new supply, which will occur in 2016-2017 will likely exceed the demand, therefore the segment of modern business centres in Vilnius will not avoid increasing vacancy rates.

The development of new business centres still remains sluggish. 4 small new business centres were opened in Kaunas in 2015: they have supplied Kaunas modern business centre market with 7,150 sq.m GLA. Two other office buildings are expected to be opened in Kaunas in 2016; they will supply the market with 5,300 sq.m GLA. Meanwhile, no new business centres were opened in Klaipėda in 2015. It is planned to open one small (2,500 sq.m) office building in early 2016.

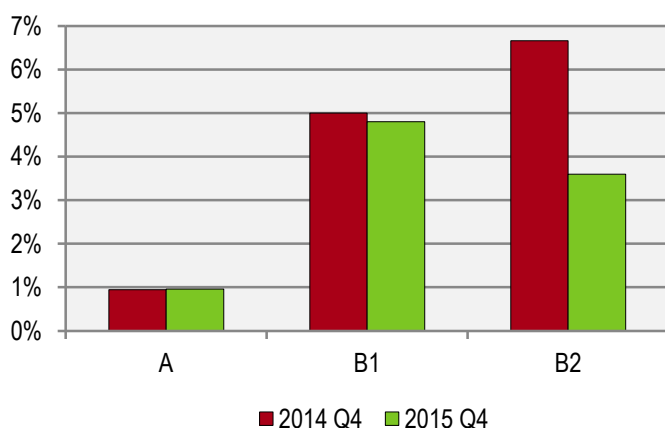
Dynamics of vacancies in the sector of business centres in the country



Source: „Inreal“

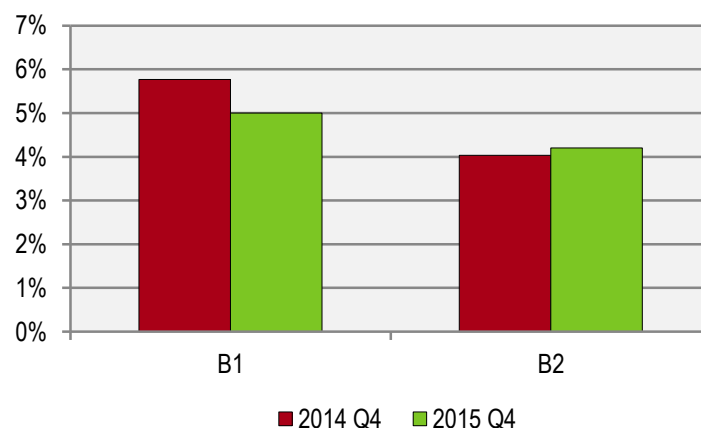
Recently, higher demand of modern offices and an interest of foreign companies, particularly IT and service centres, to expand their business activity was observed in Kaunas market. Unfortunately, there are no sufficient modern office premises in Kaunas, which could be leased by potential customers, therefore it can be stated that Kaunas does not make benefit of the potential. It is possible that more active development of foreign IT and service centre companies could result in a “renaissance”, which was observed in Vilnius in 2009-2010, when Barclay’s and Western Union started their activities in the capital city. Well-paid jobs in Kaunas would not only be a stimulus for the development of business centres segment, but for the entire RE market.

Dynamics of vacancies in Vilnius business centres under classes



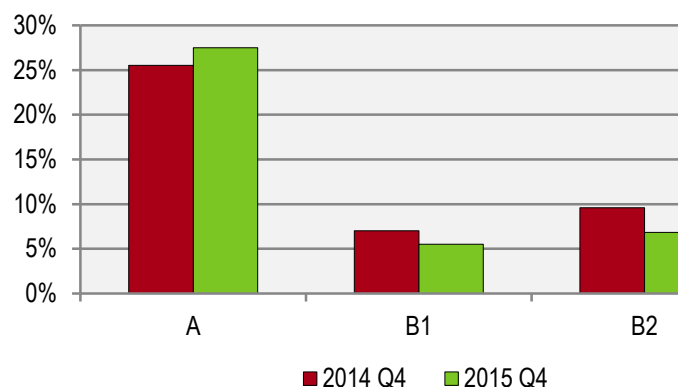
Source: „Inreal“

Dynamics of vacancies in Kaunas business centres under classes



Source: „Inreal“

Dynamics of vacancies in Klaipėda business centres under classes



Source: "Inreal"

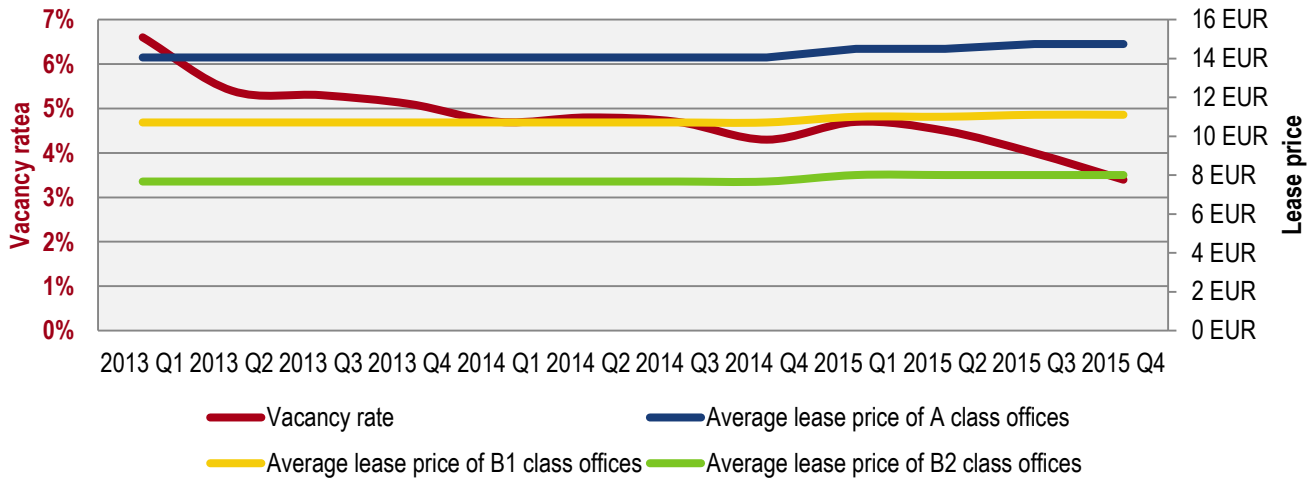
Business centres being developed or planned to be developed in 2015-2017 Q1

Business center	City	Class	Net area sq. m	Open date
Premium	Vilnius	A	8.200	2015 Q2
One	Vilnius	B1	6.106	2015 Q2
Sostena BC	Vilnius	B1	2.300	2015 Q2
K29	Vilnius	A	14.000	2015 Q4
Uniq	Vilnius	A	7.000	2015 Q4
Quadrum (North and East)	Vilnius	A	33.100	2016 Q2
Hanner VC	Vilnius	B1	18.500	2016 Q3
Hall 2	Vilnius	A	8.000	2016 Q3-Q4
135	Vilnius	B1	8.400	2016 Q4
Narbuto VC	Vilnius	A	4.280	2017 Q1
Duetto	Vilnius	B1	8.000	2017 Q1
Delta	Vilnius	B1	21.000	2017 Q1
Pentagon	Vilnius	B1	13.600	2017 Q1
			15.2486	
Mikrovisatos VC	Kaunas	B1	3.500	2015
Pramonės 23	Kaunas	B1	1.550	2015
Chemijos 9D	Kaunas	B1	1.100	2015
Ožėškienės 15	Kaunas	B1	1.000	2015
Pramonės 4E	Kaunas	B1	2.000	2016
Prospekto verslo parkas (A)	Kaunas	B1	3.300	2016
Minijos str.	Klaipėda	B1	2.500	2016
			14.950	

Source: „Inreal“

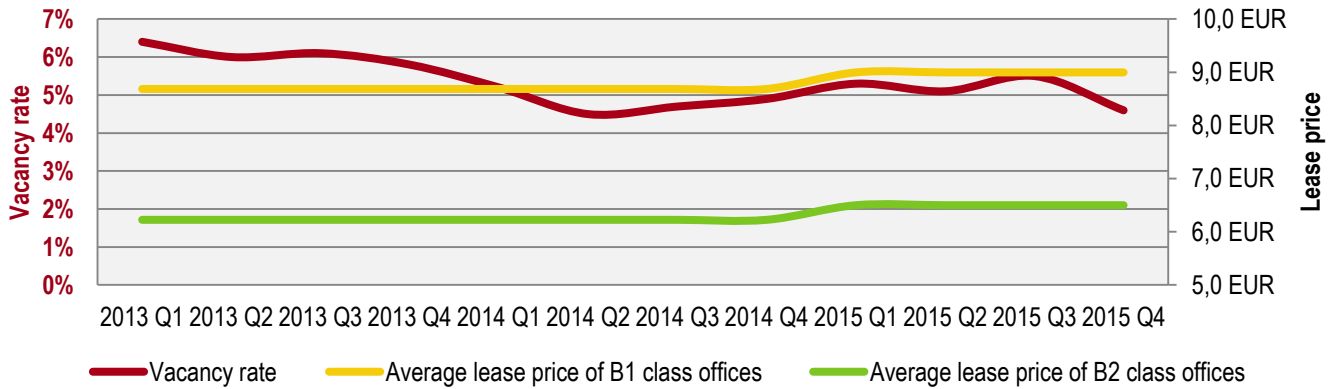
In 2015, the lease prices have remained stable in the largest cities, because the increasing demand in Vilnius is satisfied by the development of new business centres, meanwhile, the lease of modern offices in Kaunas and Klaipėda has not become active yet.

Dynamics of lease prices and vacancies in Vilnius business centres



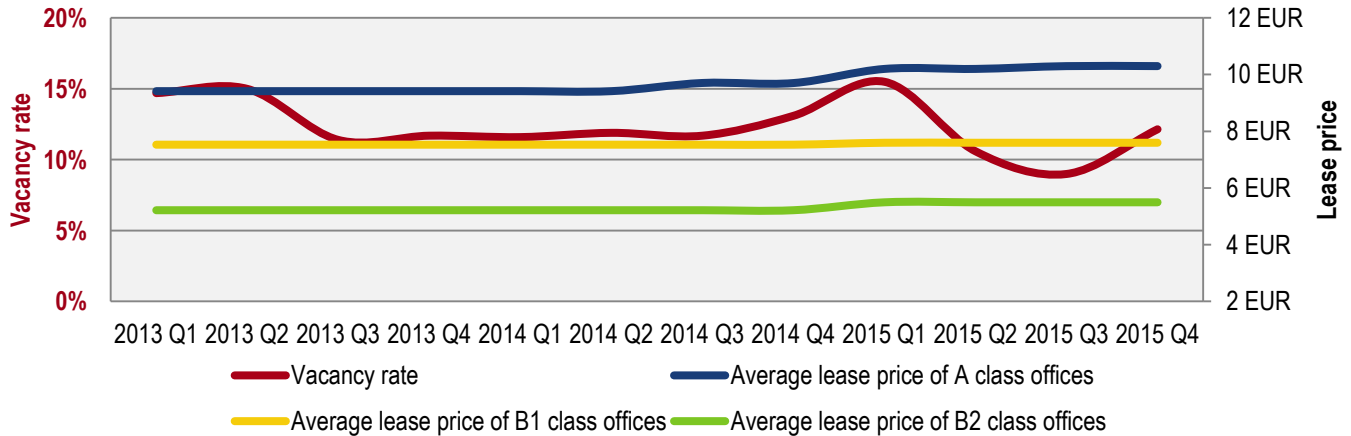
Source: „Inreal“

Dynamics of lease prices and vacancies in Kaunas business centres



Source: „Inreal“

Dynamics of lease prices and vacancies in Klaipeda business centres

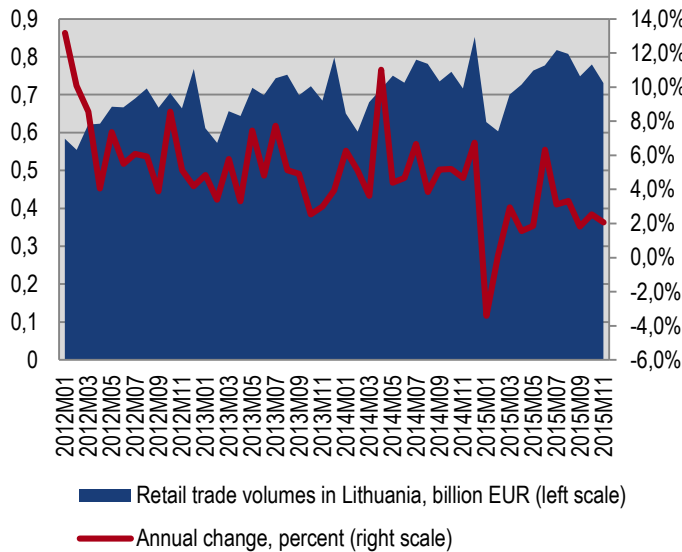


Source: „Inreal“

SHOPPING CENTRE MARKET REVIEW

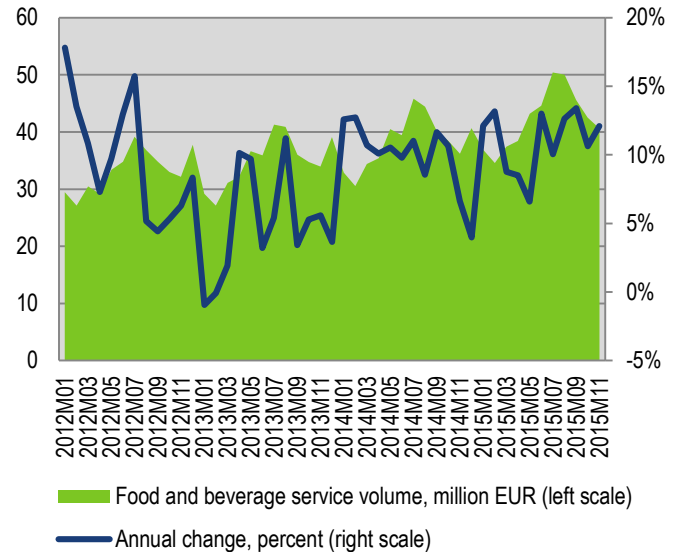
In 2015, retail trade volumes increased by 2.1 percent in comparison with 2014. Positive situation in labour market, i.e. decreasing unemployment and growing wages, allows us assuming that a moderate growth of retail trade should be further observed. Therefore, the environment will be more favourable for investments in this segment.

Retail trade volumes in Lithuania, billion EUR



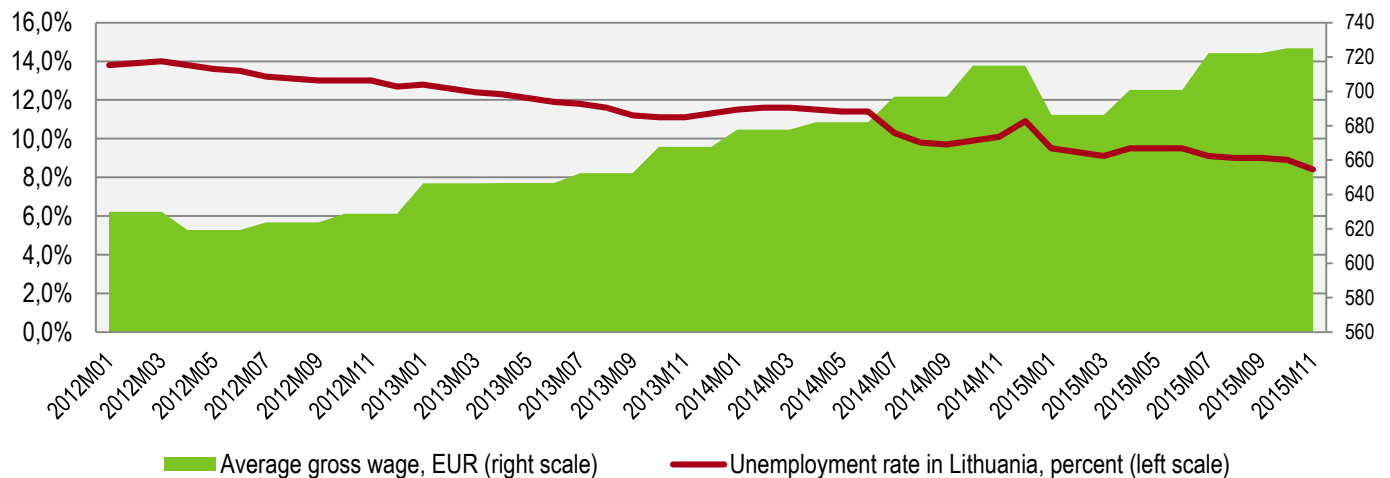
Source: Department of Statistics

Food and beverage service volumes, million EUR



Source: Department of Statistics

Dynamics of unemployment and gross wage, percent



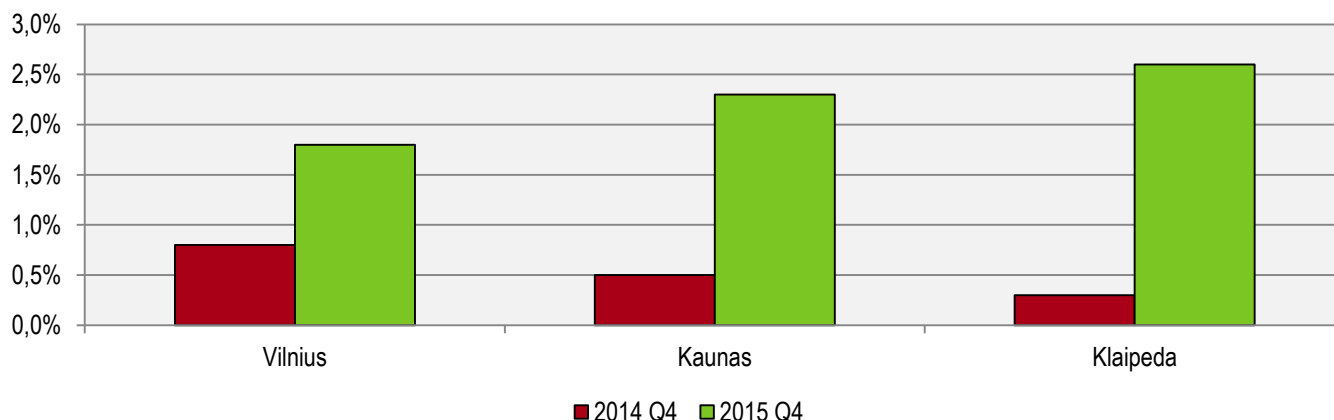
Source: Department of Statistics

In 2015, there were four new shopping centres opened in Lithuania, three of which supplied Vilnius market with 27,600 sq.m GLA; and one in Panevėžys, which added 1,600 sq.m GLA. In 2016, it is expected to open four newly built or expanded shopping centres.

In comparison with the corresponding period a year ago, it was noticed that the average vacancies of the shopping centres in the cities have increased. Although the Lithuanian economy is growing, domestic consumption is also growing; however, it cannot ensure that all entrepreneurs are able to survive in the shopping centres. A quite active change in lessees is observed in the shopping centres, where less known and weaker retailers terminate their activity. Nevertheless, the demand for shopping centre premises is sufficient, therefore the former lessees are replaced by new ones, so the vacancy rates remain low.

Although, the economic circumstances are favourable for the expansion of shopping centres, the developers are investing carefully into this segment. First of all, it is a quite risky segment, since they are selling dispensable products, moreover, the ordinary trade faces more and more challenges raised by growing popularity of on-line shops, therefore, in a long run perspective the need and demand of premises in shopping centres may decrease.

Dynamics in shopping centre vacancies in the major cities, percent



Source „Inreal“

Shopping centres developed/being developed in 2015/2016

City	Name	Area, sq. m	End of construction
Panevėžys	RYO (expansion stage)	1.600	2015 Q1
Vilnius	Nordika I	17.000	2015 Q3
Vilnius	Rimi	5.600	2015 Q4
Vilnius	PC Domus Pro (II stage)	5.000	2015 Q4
Vilnius	Nordika (II stage)	20.000	2016 Q2
Vilnius	Parkas Outlet (expansion stage)	3.000	2016 Q2
Kaunas	Mega (expansion stage)	30.000	2016 Q4
Vilnius	Depo	25.000	2016 Q4
Total:		10.7200	

Source: „Inreal“

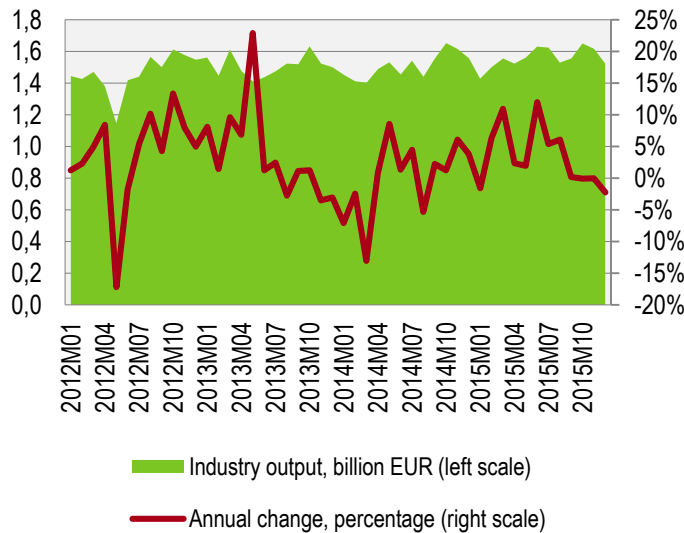
INDUSTRIAL AND WAREHOUSING MARKET REVIEW

In late 2015, the expectations in the industry sector were deteriorating. On the other hand, in the historical point of view, it can be noticed that every autumn-winter is met by industry representatives with gloomier moods. In late 2015, worse expectations could have been influenced by declining growth of industry output.

Analysing the results of industry survey on the exports for the upcoming three months, it is possible to state that the situation in late 2015 is assessed quite negatively. Many representatives have already changed their expectations related to exports growth, while the level of reserves is assessed as sufficient, meaning that the representatives are unlikely to increase their outputs in the near future.

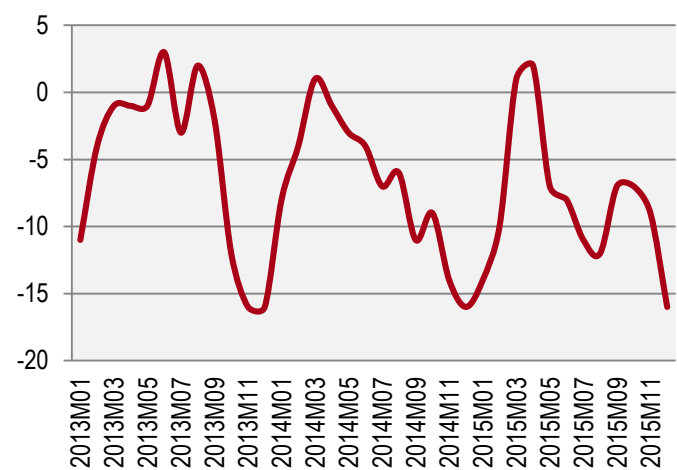
The forecasted period of stabilisation in the industrial segment should affect the warehousing market adequately – the demand for new leasable premises or build to suit objects will likely be decreasing.

Industry output in Lithuania, billion EUR



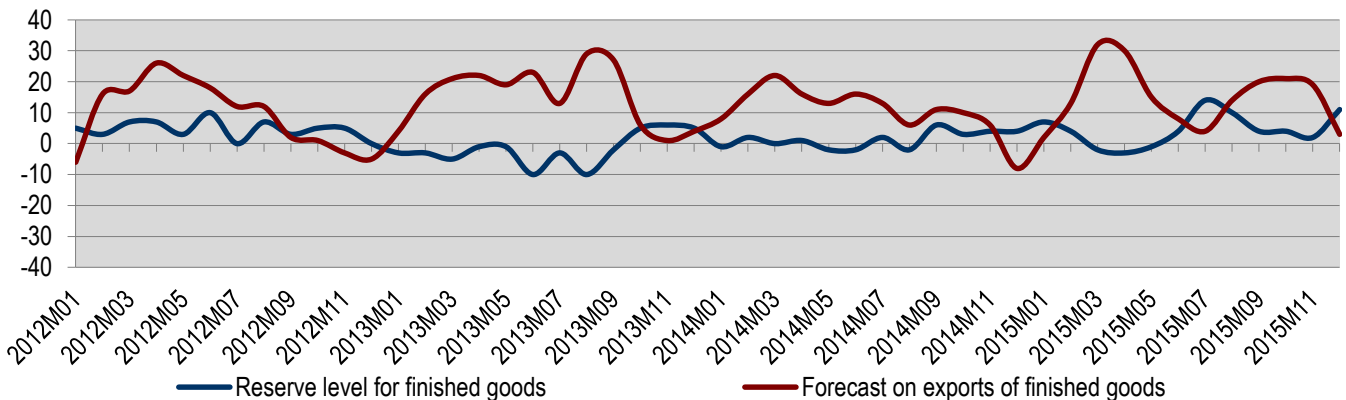
Source: Department of Statistics

Dynamics of Industrial Confidence Index in Lithuania



Source: Department of Statistics

Industry representatives' forecasts on exports and reserves

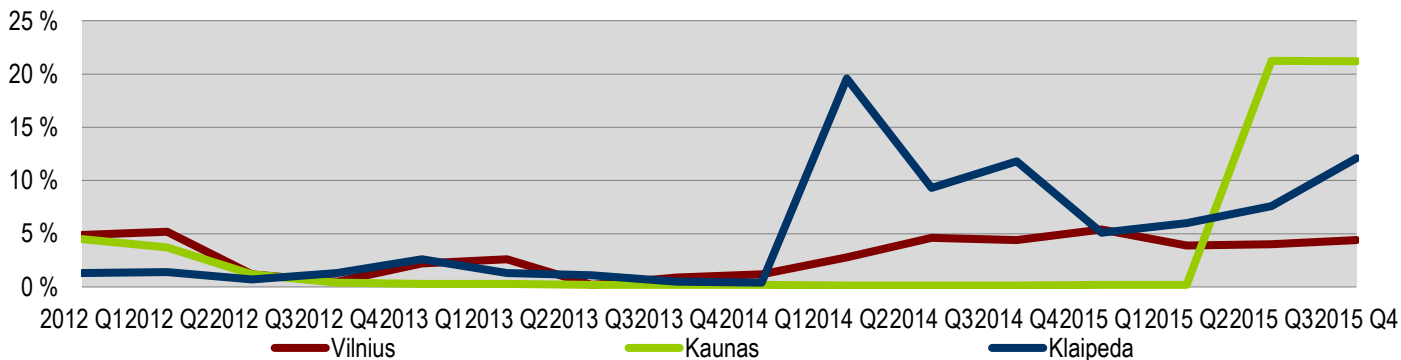


Source: Department of Statistics

In 2015, increasing vacancies were observed in warehousing lease segment in the largest cities of the country. Vilnius has maintained a stable level of vacant premises only, despite the fact that two new logistics centres, which added 14,000 sq.m GLA, were opened in Vilnius in 2015.

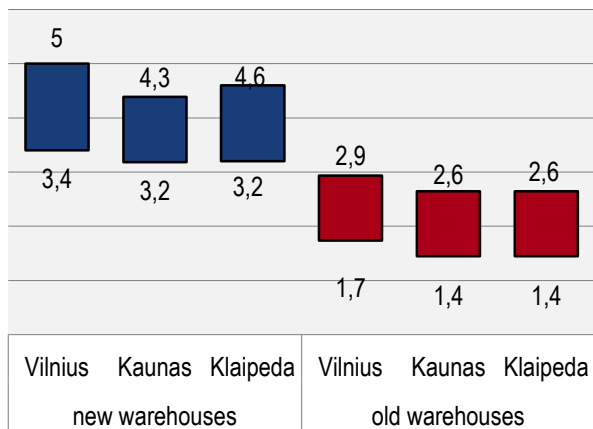
Vacancy rates in Kaunas and Klaipėda have become worse. There were about 6,330 sq.m of modern warehousing premises vacated in the logistics centre Kaunas Terminal, which is located in the free economic area. Several modern logistics centres offered vacant premises in Klaipėda market. Taking into account the fact that 2 modern logistics centres were being built in Klaipėda and they will supply the market with up to 29,000 sq.m GLA, i.e. up to 24 percent of the entire supply of logistics centres in Klaipėda, it can be expected that the vacancy rate will also be higher in 2016 than in 2015. This, in turn, will increase the pressure on warehouse lessees and impede the expansion of logistics centres.

Dynamics of vacancies in modern logistics centres in Lithuania



Source: „Inreal“

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



Source: „Inreal“

2015 metais Lietuvoje vystomi logistikos centrai

City	Name	Area, sq. m	End of construction
Vilnius	Sausupio LC	10.000	2015 Q4
Vilnius	LC Dobrovolės str.	4.000	2015 Q4
Vilnius	Woodline LC	4.800	2016 Q2
Klaipėda	Klaipėda LEZ warehouse	13.000	2016 Q4
Klaipėda	VPA Logistics	17.500	2016 Q1
Iš viso:		49.300	

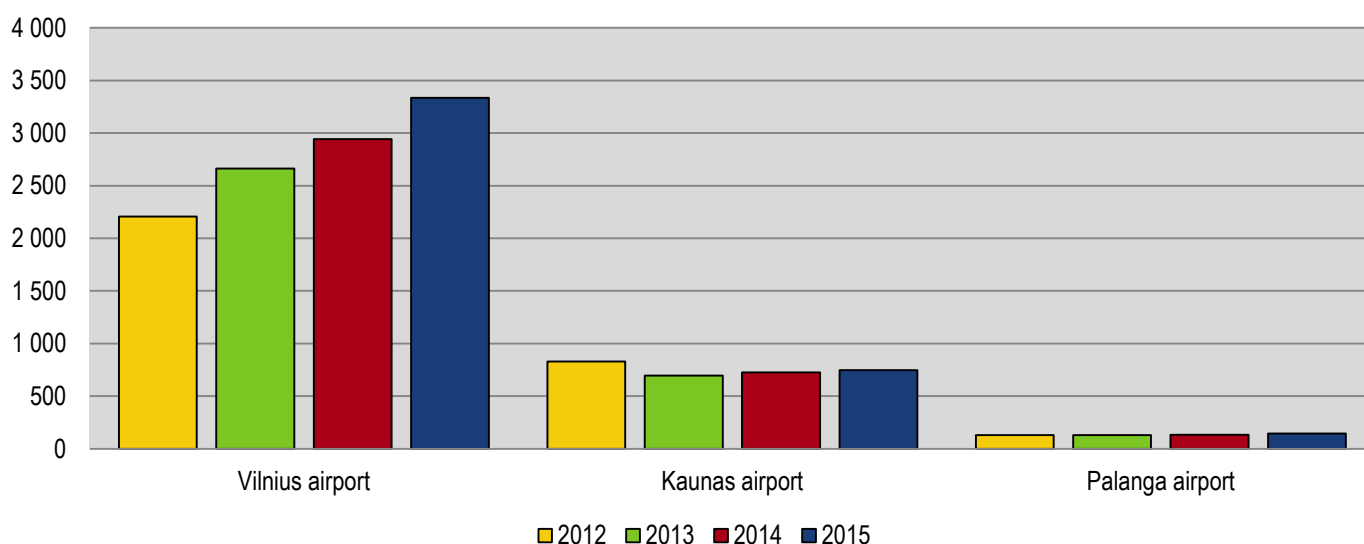
Source: „Inreal“

TOURISM AND HOTEL MARKET REVIEW

Regardless of decrease in tourist flows from Russia, in 2015, the occupancy rates of Lithuanian airports and hotels have continued to grow in the hotel segment, presenting favourable conditions for the segment to grow in Lithuania. The environment was favourable for the expansion of hotel segment in Lithuania, and further development is expected for 2016.

The three international airports in Vilnius, Kaunas and Palanga altogether serviced 4.23 million passengers over 2015 – i.e. by 11.3 percent more than in 2014. In 2015, there were 79 percent of all passengers (3.33 million) serviced in the capital city – i.e. by 13.4 percent more than a year ago. The increase in the number of passengers serviced in Palanga airport was slightly lower – by 9.4. Meanwhile, the number of passengers serviced in Kaunas airport has increased by 3.2 percent.

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



Source: Lithuanian airports

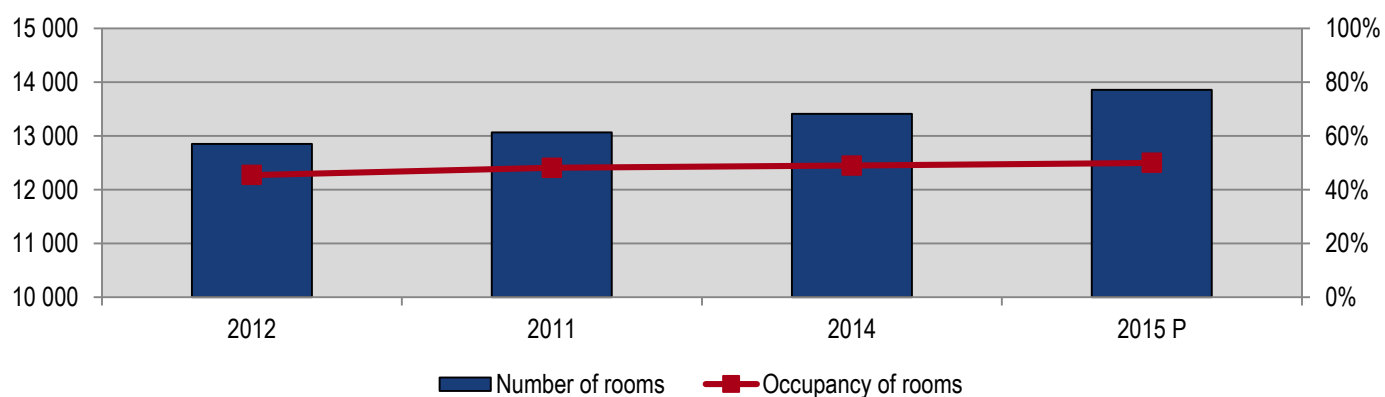
A moderately growing number of passengers in the Lithuanian airports is resulted by improving travellers' living conditions as well as business conditions. Improving infrastructure of tourist destinations, active dissemination of information, as well as the fact that the country is more often included into the list of best places to visit, significantly contribute to the growing flows of passengers as well.

The growing number of serviced passengers in the Lithuanian airports is also the result of improving communication by air transport. Even 15 new direct destinations were offered by existing air companies and newcomers in 2014, and at least 15 additional destinations were offered in 2015, including to: Germany, Sweden, Scotland, Russia, etc. In addition, the Spanish low-cost airlines "Vueling" will start the activity in 2016 under the route expansion plan established by the Lithuanian airports. It will allow expanding the geographical map of potential tourists of Lithuania.

It should be noted that in July 2014 all three international airports were merged by establishing one managing company. It is expected that it will optimize the costs of the airports, and in long-term passengers should also experience it – the quality of airport services will improve. Moreover, it is planned that since 2016 the development of a new airport activity strategy will be launched. As a result, an increasing number of low-cost airlines should be directed to Kaunas airport, meanwhile leaving Vilnius airport for higher-class airlines.

In three quarters of 2015, Lithuanian hotels had accommodated more than 1.974 million visitors – approx. 55 percent of them were foreign tourists. Expanding airports in the country directly influence the increasing occupancy of hotels, which has remained record-breaking in late 2015 – i.e. approx. 50 percent.

Dynamics of hotel rooms and occupation thereof in Lithuania



Source: Department of statistis

The hotel segment was influenced by unfavourable changes in external markets – in three quarters of 2015, the share of tourists from Russia accommodated in the hotels in Lithuania has decreased up to 10.9 percent, meanwhile the average rate in 2014 reached approx. 16.8 percent. It meant a decreased occupancy for some hotels in Lithuania, particularly to the ones focusing on the Eastern markets; they were looking for the ways to attract tourists from other countries. The refocusing was facilitated by further growing number of tourists from some other directions (Poland, Latvia, Germany, Norway, etc.), therefore, regardless of the situation in Russia, the total number of tourists accommodated in hotels has increased by 6 percent in three quarters of 2015. Similar growth is expected for the whole 2015.

In 2015, the number of hotel rooms was further growing in Lithuania – it reached about 13.8 thousand rooms in late 2015. Newly built or reconstructed hotels were opened in 6 cities – the total number of rooms offered in the market was 442.

Hotels, opened in Lithuania in 2015

City	Hotel	Class	Rooms
Klaipėda	Dunetton (reconstructed)	4****	20
Jurbarkas	Best Baltic Panemunės pilis	4****	13
Vilnius	City Hotels-Algirdas (reconstructed)	4****	63
Vilnius	Ibis Styles (reconstructed)	3***	92
Druskininkai	Flores	4****	48
Birštonas	Vytautas Mineral SPA	4****	166
Šventoji	Floros simfonija (reconstructed)	3***	40
Total:			442

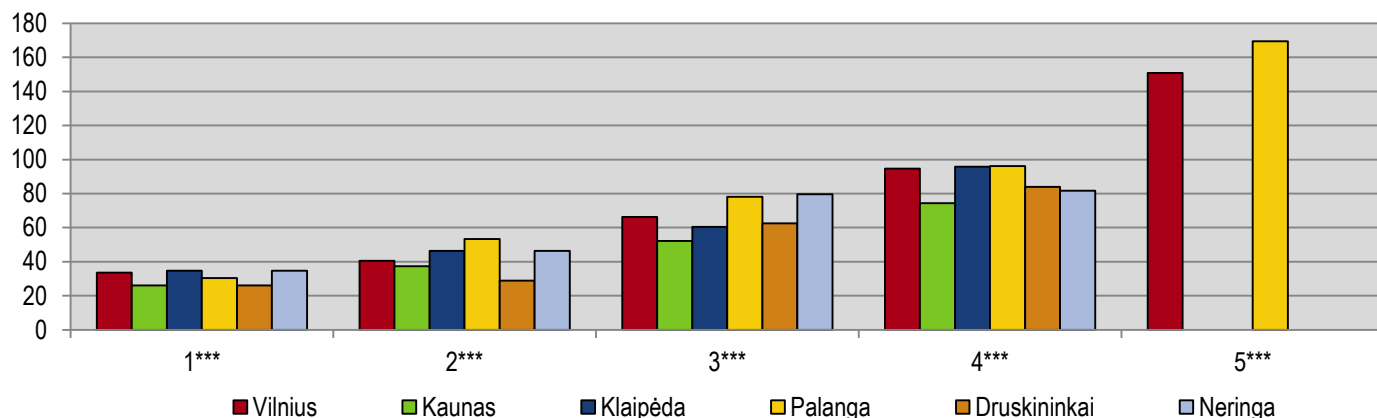
Source: „Inreal“

The expansion of the hotel segment should not stop in 2016 as well. In early 2016, “MG Valda” plans to open a new 34-room hotel in Pilies street in Vilnius. The hotel chain “Hilton”, which is entering the market in Lithuania, intends to open 3 hotels; one of them will be located in Rinktinės street. “Accor Hotels” and other foreign hotel chains are also looking for the opportunities to expand in the capital city. In mid-2016, a renovated hotel of Smiltynė yacht club (40 rooms) will be opened in the Curonian Spit. Meanwhile, there were no plans of opening new hotels in Kaunas in late 2015.

Analysing hotel prices applicable during the season 2015, it was noticed that the lowest price in the most popular hotels applied to double-rooms, depending on the hotel rating, was in Druskininkai and Kaunas, where prices were ranging from 26 to 84 EUR/night. The range of prices in Vilnius, Klaipeda, Palanga and Neringa was higher – from 32 to 96 EUR, at an average. In comparison with the previous year, in 2015, the increase in prices was insignificant and related to the adoption of new currency.

It should be noted, that the luxury 5***** hotels are operating in Vilnius and Palanga only. Accommodation prices in these hotels were significantly higher – from 150 EUR/night in the capital city, and from 168 EUR/night in Palanga.

Average price for a hotel standard double room in Lithuania, in season 2015 (EUR)



Source: „Inreal“

The hotel segment did not avoid changes due to unfavourable circumstances in external markets; however, in 2015 it led to changes in the structure of arriving tourists more rather than worsening market indexes. Moderately improving rates in tourism sector as well as favourable investment environment enable establishment of new hotels, and renewal or further development of existing hotels. This allows us expecting this sector to grow successfully in Lithuania next year.

Simona Oliškevičiūtė-Cicėnienė

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Simas Paukštys

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REAL ESTATE LAW AND TAX NEWS

The obligation to construct buildings having no lower than Class A energy efficiency ranking was scheduled to take effect from the beginning of 2016; however, the situation on the market dictated the postponement of the effective date to 1 November 2016. As of that date, Class A energy efficiency requirement will apply to newly constructed buildings in respect of which an application for a building permit for new construction or for a written approval of the building design by an authorised public official was submitted, or, where documents authorising construction are not mandatory, construction operations were started, after 1 November 2016.

At the end of 2015, the updated Responsible Lending Regulations came into force, imposing more stringent requirements on credit institutions when granting residential loans, and **in the spring of 2016 the Law on Credit Agreements Related to Immovable Property** is scheduled to take effect, transposing the Housing Directive which sets forth the main conditions of granting credits related to residential property.

As of 1 November 2015, a large number of legislative amendments relating to the registration of real estate data, including amendments providing for **the obligation to register incomplete buildings,** came into force.

At the beginning of 2016 we should also see an update to the Law on Protected Areas, aimed at loosening currently applicable excessive restrictions on real estate development in protected areas, and in the second half-year the revised solutions of the Curonian Spit National Park Management Plan, covering, among other things, territories that we know from the high-profile court disputes should see the daylight.

Although initial materials were developed as early as in 2015, **the Law on the Acquisition of Agricultural Land was adopted only in January 2016;** consequently, it can only be expected to take effect no earlier than in summer this year.

The year 2015 also brought some other important changes in the real estate sector: amendments providing for the obligation to obtain notarial certification for RE acquisitions structured as share deals entered into force; the PPP Rules were updated to enable persons to initiate partnership projects; provisions on industry parks were enacted into legislation.

In 2015 there were some changes in taxation relevant for the RE market. From the middle of 2015, amendments to the Law on Value Added Tax came into force providing for reverse charging of VAT. Whereas on account of reverse charging of VAT increasingly higher amounts accumulated monthly in the national budget due to VAT difference, but construction companies were able to reclaim such amounts only twice per year, **on 1 January 2016, an amendment to the Law on VAT was enacted to enable construction companies** to recover VAT difference on a monthly basis.

In 2015, updated provisions of the Law on Immovable Property Tax providing for a rate of 0.5 per cent for natural persons chargeable on the value of real estate properties exceeding the non-taxable amount of EUR 220 000 **entered into force. By the ruling of 22 September 2015 of the Constitutional Court of the Republic of Lithuania, the provisions of the Law on Immovable Property Tax** under which tax was charged on the whole immovable property of the family members by applying the same non-taxable value which is applied to one natural person who is not considered a family member **were repealed.**

2016 is the last year when the coefficients of the transitional period are applied to land tax. A 5-year transitional period set for the calculation of the tax value of land expires namely in 2016, the year during which a 20 per cent discount is applied.

Amendments to the Law on Territorial Planning and related legislation

As of 1 January 2015, the restated **Procedure for Strategic Environmental Assessment of Plans and Programmes**, which is relevant for the industry, energy, transport, telecommunications, tourism, agriculture, forestry and other sectors, entered into force. Compared to previous regulation, the Procedure has reduced the number of strategic environmental assessment documents to be prepared by the organisers of planning and has significantly shortened the mandatory procedures.

In addition, the Procedure enables the organiser of planning to assess the plan or programme without the screening procedure; the public and the authorities will consider SEA documentation simultaneously, while the participants of the assessment will consider it within shorter time limits.

As of 1 November 2015, amendments to the Law on Territorial Planning entered into force. The wording of the Law on Territorial Planning which was effective before that date generally did not include provisions relating to the modification and revision of documents of special territorial planning; consequently, the new wording **resolves the issue as to the manner and procedure applicable to the development of modifications to special plans**.

The amendments to the Law on Territorial Planning are designed to amend and supplement **the procedure for the development of documents of special territorial planning** and provide that documents of special territorial planning may be subject to modifications and revisions. The Law on Territorial Planning was likewise supplemented to include provisions that a decision to modify a document of special territorial planning will be made by the state or municipal authority having adopted the relevant document in line with the statutory process of special territorial planning and the procedure for document approval.

Amendments to the Law on Construction and related legislation

As of 1 January 2015, amendments to the definitions contained in construction technical regulation STR 1.05.06:2010 "Design of a construction works" entered into force – **the definition "a group of buildings" was deleted and the following new definitions were added: total floor space of the building, useful floor space of the building, volume of the building, and thermo-insulated separating structure**. In addition, the definitions of technical, work and technical work design documentation, and the scope of preparation of technical specifications were amended accordingly.

Importantly, since the taking effect of the amendments, the design documentation for changing the purpose of the building (room, premises) or an engineering structure, when reconstruction or major repairs need not to be carried out, **must determine and implement other solutions**, unless such new purpose is subject to more stringent legislative requirements (number of parking spaces, engineering networks, playgrounds, greenery, etc.).

The list of cases when no mandatory minimum energy performance requirements for buildings are applied was extended by the amendment to the Law on Construction adopted on **23 June 2015**. After the effective date of the amendment, no mandatory minimum energy performance requirements for buildings are applied in respect of buildings in need of emergency repairs for which renovation in terms of costs calculated over an estimated lifecycle of buildings in need of emergency repairs would be inexpedient.

The amendment to the Law on Construction which entered into force as of **1 November 2015 introduced a new requirement for construction completion procedures** – a building and its rights *in rem* must be registered in the Real Property Register not later than within three months from the date of the certificate of completion, the date of approval and registration of a declaration of completion of construction, and in the cases where approval and registration of a declaration is not required, as of the date of its signing.

The procedure for registration of incomplete buildings was also amended as follows: a building not completely built or reconstructed and its rights *in rem* must be entered in the Real Property Register no later than within three years after the date of issue of the document authorising construction. The preceding version of the Law on Construction in general did not prescribe any time-frame for the registration of incomplete buildings.

Likewise, in respect of buildings completed, started but not completed over a period of more than three years and not registered in the Real Property Register before the effective date of the Law and their rights *in rem*, registration in the Real Property Register is required not later than within one year after the effective date of the Law.

As of 1 April 2016, one more amendment to the Law on Construction will come into force, according to which compliance of construction or reconstruction design solutions with the applicable requirements will be verified in compliance with the procedure defined by the Ministry of Environment no longer by county public health centres, but rather by the National Public Health Centre under the Ministry of Healthcare, according to the competence vested in it.

On 10 December 2015, the Minister of Environment adopted orders amending construction technical regulation STR 2.01.09:2005 “Energy performance of buildings. Energy performance certification” and construction technical regulation STR 2.05.01:2013 “Energy performance design of buildings” by which **the coming into force of the requirement to ensure that newly constructed buildings have Class A energy efficiency ranking, initially scheduled for the beginning of 2016, was postponed**. The amendments revised the timing and conditions of the coming into force of the requirement for Class A energy efficiency ranking for buildings.

The amendments to the construction technical regulations adopted by the Minister of Environment provide that Class A energy efficiency requirement applies to new construction buildings in respect of which an application for a building permit for new construction or for a written approval of the building design by an authorised public official was submitted after 1 November 2016, or, where documents authorising construction are not mandatory, construction operations were started after 1 November 2016. Meanwhile, in accordance with the previous procedure, the requirement to achieve Class A energy efficiency would apply to buildings for which building permits were issued after 1 January 2016 or, if documents authorising construction are not mandatory, construction operations were started after 1 January 2016.

Amendments to the Law on the Real Property Register

As of 1 November 2015, the amendments to the Law on the Real Property Register, **supplementing the procedure for filing applications to register the rights *in rem* to a real property item, restrictions of such rights, and other rights affecting such property** came into force. For instance, where title to, attachment or lease of a real property item is created after certification of the deal by a notary public, applications to register rights *in rem*, restrictions of such rights, and other rights affecting such property or other documents confirming their existence may be transmitted to the territorial manager of the register only from the office of a notary public via remote communication means (by transmitting data directly to the Real Property Register).

Likewise, persons who acquired real property but not registered the rights *in rem* to real property, restrictions of such rights, or other rights affecting such property before the effective date of the amendments to the Law on Immovable Property Tax (1 November 2015) must file relevant applications to the territorial manager of the register within one year after the coming into force of the amendments to the Law.

Amendments to the Law on the Real Property Cadastre

As of 1 November 2015, amendments to the Law on the Real Property Cadastre entered into force by which **the concept of an object of the Real Property Cadastre was revised**: an object of the Real Property Cadastre is defined as a building (including incomplete construction) that requires a construction permit or any other lawful document authorising construction. The concepts of “temporary construction works” and “simple construction works” were deleted from the wording which was in force until 1 November 2015. The amendments also **provide for additional cases when cadastral data need to be changed**. Making such changes will also be possible in the cases specified by the Law on Construction.

Another new development is that when data needs to be entered or modified in connection with tax administration, the tax administrator is also entitled to make such a request. Previously, only the owner of the real property item or a person holding the property on trust was entitled to do so.

As of 1 May 2016, amendments to the Law on the Cadastre of Real Property related to **the requirements for individuals determining the data to be included in the Cadastre of Real Property, their rights and obligations** will take effect. It is further established that the cadastral map encompasses not only the territory of the Republic of Lithuania, but also its exclusive economic zone and the continental shelf in the Baltic Sea.

Amendments to the Law on Land and related legislation

As of 3 December 2015, an amendment to the Law on Land was adopted, **supplementing the list of cases when public authorities have the right to lease the state-owned land without an auction**. It is established that the state-owned land can also be leased without an auction where it is required for implementing regional projects for social, economic development and/or infrastructure projects, recognized by the regional development office in line with the procedure established by the Government of the Republic of Lithuania as projects of regional significance.

As of 1 May 2016, amendments to the Law on Land will come into force, having the effect of **expanding the purpose of the Law** – the Law is applied in the entire territory of the Republic of Lithuania and within its exclusive economic zone and the continental shelf in the Baltic Sea; provisions of the Law related to the qualification of persons developing land-use planning documents were also modified.

On 19 January 2016, a draft law amending Law No. II-1314 on the Acquisition of Agricultural Land, **restating the Law on the Acquisition of Agricultural Land and providing for a number of amendments to the Law** was registered.

The proposal contained in the draft is to provide for an exception to the application of the Law in the cases of consolidation of land parcels; in the interests of clarity of regulation, to stipulate clearly what persons are entitled to acquire agricultural land on the same terms as the citizens of Lithuania; to revise existing requirements applicable to the acquirers of agricultural land by providing for more alternatives; to add provisions regarding the issuance of a joint permit for spouses to acquire agricultural land. Further proposals include extending the time limit within which a credit institution must realise the land parcel handed over to it, making an exception based on which the provisions of the Law on the maximum permissible area of agricultural land that can be acquired by the right of ownership in the territory of Lithuania are not applied in respect of land transfer transactions between related persons.

Presumably, these and other amendments to the Law will ensure clarity of regulation and create more favourable conditions for agricultural activity and its development.

Real estate acquisitions structured as share deals

As of 1 January 2015, amendments to the procedure for entering into transactions in securities started to apply. The Seimas adopted the controversial amendments to the Republic of Lithuania Law on Companies and the Civil Code of the Republic of Lithuania requiring mandatory notarial certification for share purchase agreements of private limited liability companies involving the sale of 25 per cent or more shares in a private limited liability company or where the price of the sale shares is in excess of EUR 14,500.

The amendments **are aimed at reducing the rate of fictitious and fraudulent deals in civil law**. Notarised deals will help to ensure lawfulness of deals, because a notary public is an individual authorised by the State and responsible for eliminating the possibility of unlawful deals and documents in civil legal relations.

The obligations to obtain notarial certification for share deals will certainly affect not only companies, but also the real estate market. One of the biggest advantages of the arrangement that had existed before such amendments took effect was the possibility to conduct real estate transfer transactions as share deals instead of asset deals. The counterparties were able to agree freely on the desired terms of the deal and to avoid notary fees.

Amendments to the Law on the Fundamentals of Free Economic Zones

As of 1 January 2015, amendments to the Law on the Fundamentals of Free Economic Zones entered into force, **creating more favourable conditions for investors**.

In accordance with the amendments, **in the cases where a FEZ management company is not yet in place, territories of free economic zones (“FEZ”)**, except for land parcels intended for infrastructure, **may be leased to investors**. Later, when the land parcels within the FEZ territory are leased, in whole or in part, to the FEZ management company, the investors having become a FEZ company **must be offered no less favourable terms of land lease than those that had existed before the land parcels within the FEZ territory were leased, in whole or in part, to the FEZ management company**.

It is also provided that the structures and infrastructure facilities that are owned by the state (municipality) may be leased, given as loan for use or sold namely to the FEZ management company, which was not provided in the previous wording of the Law.

Amendments related to legislation governing public and private partnership

As of 1 January 2015, amendments to Government Resolution No. 1480 “Regarding Public and Private Partnership” took effect by which changes were introduced in the Rules for the Preparation and Implementation of **PPP projects**. **The amendments are basically intended to address the main procedural problem areas of PPP project implementation** – lengthy duration and slow progress, complicated, unclear and not smooth PPP procedures.

The amendments provide for involvement by the Central Project Management Agency (CPMA) and the Department of Statistics of Lithuania in the development of PPP projects and for changes to PPP project development procedures. They also state that the implementation of a partnership project must be envisaged in the existing strategic action plans and/or inter-institutional action plans and/or municipal medium or short-term strategic planning documentation.

As of 1 February 2015, an amendment to the Republic of Lithuania Law on Investments entered into force by virtue of which **private entities are entitled to initiate (propose implementing) public and private partnership projects** following the procedure determined by the Government of the Republic of Lithuania, while authorised public sector authorities will have to make decisions regarding the proposed initiatives.

As of 1 November 2015, amendments to the Law on Investments of the Republic of Lithuania entered into force, **regulating the establishment of an industry park, the operation of undertakings within an industry park, and investing**. Such amendments are aimed at promoting competitiveness of the country’s economy and creating new jobs, while creating at the same time an industry which in line with the European Union standards.

Amendments to the Law on Immovable Property Tax

As of 1 January 2015, amendments to the Republic of Lithuania Law on Immovable Property Tax entered into force pursuant to which **as of 1 January 2015 natural persons are subject to tax at a rate of 0.5 per cent**.

Natural persons are required to pay immovable property tax on the value of real properties owned by them which is in excess of the tax-free threshold of EUR 220,000. Meanwhile, families raising three and more children (adopted children) under the age of 18, and families raising a disabled child (adopted child) under the age of 18, as well as a disabled child above the age of 18 (adopted child) with special regular care needs, are eligible to a 30 per cent higher tax-free threshold of real property, i.e. EUR 286,000.

By the ruling of **22 September 2015** the Constitutional Court of the Republic of Lithuania held that the provision of the Law on Immovable Property Tax under which the tax is charged on the whole immovable property of the family members by applying the same non-taxable value which is applied to the property of one natural person who is not deemed a family member for the purposes of the Law, contradicts the principle of equality of individuals established in Article 29 of the Constitution and the provisions of Article 38 of the Constitution, ensuring protection and care of the State for the family, motherhood, fatherhood, and childhood.

Amendments to the Law on Land

In accordance with the Republic of Lithuania Law on Land Tax, **coefficients of the transitional period are applied** for the purposes of calculation of land tax on the market value. A 5-year transitional period is set for the calculation of the tax value of land. In 2015, the coefficient of 40 per cent of the value applied; **for 2016 the same has been reduced to 20 per cent**. In 2017, land tax will be payable on the total value.

As of 1 January 2016, an amendment to the Law on Land Tax **expanding the list of land exempt from land tax** entered into force. From the effective date of this Law, land owned by traditional and other state-recognized religious communities, associations and centres is exempt from land tax.

Amendments to the Law on Value Added Tax

As of 1 July 2015, amendments to Art. 96, para. 1 of the Republic of Lithuania Law on Value Added Tax (the “**VAT Law**”) entered into force. **They are aimed at ensuring more efficient collection to the national budget of VAT charged on construction services** and minimising the risk of non-payment of VAT overall.

Article 96 of the VAT Law was supplemented with provisions that the purchaser of services who is a taxable person registered for VAT purposes, for whom construction operations are carried out on the basis of his order and who has been issued a document recording the operations carried out (services provided) must withhold and pay to the budget VAT calculated on the value of the construction operations (defined in the Republic of Lithuania Law on Construction as all operations carried out when building or demolishing a construction works (land digging, plastering, concrete work, installation work, foundations and roof erection, joinery work, exterior and interior finish, setting in motion and adjustment of equipment)) carried out for him by the service provider.

From the inception, the application of reverse VAT charging revealed an unsolved issue – amounts accumulating monthly in the national budget as a result of VAT difference were increasing, while construction companies were able to recover such funds only twice per year.

As a result, **as of 1 January 2016**, an amendment to the Law on VAT entered into force which makes it possible for **construction companies** to recover VAT difference monthly, i.e. within 30 days of the date of receipt of the request to repay overpaid VAT (difference).

Other legislation related to the real estate market

As of 1 November 2015, Bank of Lithuania approved Responsible Lending Regulations which, among other amendments, **provide for the curtailment of the maximum maturity period from 40 to 30 years**, entered into force. Furthermore, as of the entry into force of the restated Responsible Lending Regulations, **the privilege was lifted which entitled to increase the loan amount up to 95 per cent of the value of the property being acquired** if state sponsored insurance from a home-loan insurance company was in place. The Responsible Lending Regulations, among other things, tightened requirements regarding the maximum permitted loan amount by setting the **maximum ratio between the person’s debt and annual income at up to 6**.

The Responsible Lending Regulations were developed and approved having regard to Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property, which must be transposed into national law until 21 March 2016.

As of 1 February 2016, the Law on Consumer Credit supplemented with **provisions governing the procedure and terms of peer-to-peer lending** will enter into force. Peer-to-peer lending will be considered to refer to activity when natural persons grant or undertake to grant consumer credits to consumer credit borrowers through the use of a peer-to-peer lending platform (information system managed by the operator).

In accordance with the law, total amount of credits granted by the creditor over a 12-month period may not exceed EUR 5 000 and may not exceed EUR 500 per person. Compliance with such requirements must be ensured by the operator of the peer-to-peer lending platform, whose remuneration paid by the creditor and/or consumer credit borrower may be calculated only on the amount repaid by the consumer credit borrower to the creditor. Besides, natural persons and not-for profit entities meeting the applicable statutory capital adequacy and other requirements are not entitled to engage in the activities of a peer-to-peer platform operator.

No later than **until 21 March 2016**, Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) 1093/2010 (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, it also provides for 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.

On 12 January 2016, a draft Law of the Republic of Lithuania on Credit Agreements Related to Immovable Property (the “**Draft Law**”) was registered which **is intended to transpose the Housing Directive into national law**. Currently the Draft Law is submitted for coordination with the relevant authorities and the public. Comments and proposals for the Draft Law may be submitted until 26 January 2016.

Acquisition of real estate

In real estate (RE) acquisitions two types of deals prevail: *indirect*, i.e. share acquisition, and *direct*, i.e. asset acquisition. The former involves the acquisition not of a real estate item itself, but rather the shares of the company which has title to the property. In the latter case the purchaser acquires the real estate itself as a property item under a sale and purchase agreement.

Prior to entering into a RE deal the parties normally conclude preliminary agreements and make other arrangements. Often, and this is particularly the case with high-value real estate deals, a RE deal has to pass through many stages before actual taking-over of property occurs.

Non-disclosure agreements. Under this type of agreements the parties commit not to disclose material aspects of the contemplated deal. Confidential information is one that is valuable in that it is unknown to others (financial, technical information, know-how, information about clients, etc.). Non-disclosure agreements are concluded to give assurance that negotiations will not be unexpectedly disrupted by the purchaser's rival having offered better terms to the seller.

Letter of Intent. In the letter of intent the parties outline their intentions and set the main guidelines for the deal they intend to follow. Under a letter of intent the parties usually agree on exclusivity, i.e. an exclusive right to negotiate over the subject-matter of the deal over a certain period of time, and certain legal consequences ensuing from the failure to comply with the obligations under the letter of intent. Normally letters of intent do not have a binding effect.

Preliminary agreement. In practice the most common type of a preliminary arrangement is a preliminary agreement, which is intended to regulate the main aspects of the contemplated transaction: material conditions of the contemplated transaction and the timeframe for closing. In case of termination of the preliminary agreement liability is limited to liquidated damages (or damages objectively incurred due to unfairly terminated negotiations), thus the limits of liability are quite clearly and narrowly defined. In order to secure a broader scope of obligations, it is advisable to file the preliminary agreement with the Real Property Register.

Due diligence review. When negotiations over the sale of RE are on-going, it is very important for the purchaser to conduct due diligence of the RE he intends to acquire before the deal is concluded. The types of due diligence are as follows: legal, tax, technical, and commercial due diligence. Such due diligence reviews enable the purchaser to evaluate potential risks involved in the acquisition, financial, legal and tax condition of the property he intends to acquire.

Principal agreements. An indirect RE acquisition deal involves the acquisition of securities – the shares of the legal person who owns the RE. Where this type of transaction involves the sale of 25 per cent or more shares in a private limited liability company or is valued at more than EUR 14,500, it is subject to notarial certification. With direct RE acquisition deals notarial certification is

mandatory at all times. In addition, the deal must stipulate the essential terms: the RE item constituting the subject-matter of the deal; the price of the deal (in case the price is not stipulated, the agreement is considered non-existent); the portion of transferrable rights to the RE item; energy performance of the RE item.

Registration of ownership. Once a RE deal is concluded, after signing of the principal contract or an additional document (deed of transfer) the acquirer of RE must register the passing of title with public registers.

Notary and register fees. The notary fee for a RE acquisition deal is 0.45 per cent of the RE price, but not less than EUR 28.96 and not more than EUR 5,792.40. Meanwhile, the fees for registration of RE with the Real Property Register depend on and are calculated according to the average market value of the RE being sold.

Lease of real estate

Requirements for RE lease agreements. RE lease agreements are subject to the following requirements: (i) the lease transaction must identify the subject-matter of the lease agreement and state the intended purpose of the leased property; (ii) the lease agreement must contain the lease period, which may not be longer than 100 years (if the lease period is not indicated, the lease agreement is considered to be an indefinite term agreement); (iii) if the lease period is longer than one year, the lease agreement must be executed in writing.

Registration of a lease agreement. Although there is no statutory requirement for registration of lease agreements with public registers, it is advisable to register them with the Real Estate Register in order to be able to invoke them against third parties. If title to the leased RE passes to a third party, the new owner must maintain the lease agreement only in case it is entered in the Real Estate Register.

Lease period and validity of the agreement. Lease agreements may be fixed term and indefinite term. In practice fixed term agreements are common, because the Civil Code provides that an indefinite term lease agreement may be terminated at any time during the lease period by serving notice of termination to the other party 3 months prior to termination (the lease agreement may provide for a longer notice period).

Beginning of the lease period and validity. The lease period starts to run from signing of the deed of transfer and acceptance of the leased RE and continues throughout the period of validity of the lease, unless the parties agree otherwise in the lease agreement.

Extension of the lease period. The lease period is automatically extended for the duration of the entire period in which the tenant was prevented from occupying the leased RE due to indispensable major repairs. Also, if the tenant continues to occupy the leased RE for 10 days after the expiration of the lease period and the landlord does not take any steps to demonstrate that he intends to terminate the lease, the lease period becomes indefinite.

Tenant's right of first refusal. If the tenant does not breach the terms of the lease throughout the lease period, the tenant retains the right of first refusal for continued use of the RE.

Termination of a lease agreement. The term of a lease agreement expires on the date of its termination. A lease agreement may be terminated prematurely by the landlord if: (i) the tenant is using the RE not in accordance with the agreement or otherwise than for its intended purpose; (ii) the tenant impairs the condition of the RE intentionally or due to negligence; (iii) the tenant defaults on rent payments; (iv) the tenant does not carry out repairs, where he is obligated to do so. The lease agreement may be terminated prematurely by the tenant if: (i) the landlord does not carry out repairs, where he is obligated to do so; (ii) the RE becomes unfit for use; (iii) the landlord fails to deliver possession of the RE to the tenant or prevents the use of the RE for its intended purpose and in accordance with the agreement; (iv) the RE made available for occupation has defects which render the use of the RE for its intended purpose and in line with the terms of the agreement impossible. A lease agreement may also provide for other grounds of termination.

Rent and rent calculation. The tenant normally pays the rent once per month together with all RE maintenance costs (including utility charges and other services). The Civil Code does not provide for a strict procedure for the calculation of rent, so the parties may agree on any form of remuneration for the RE made available for occupation.

Indexation of rent. Usually the parties agree to review the rent on an annual basis having regard to changes in the Consumer Price Index, which is determined and publicly announced by the Department of Statistics of Lithuania. In accordance with the Civil Code, the rent may not be revised more than twice during a one-year period.

Taxes

Value added tax (VAT)

VAT at a standard rate of 21 per cent is chargeable on the sale or other transfer of new buildings, structures or parts thereof (a new building or structure is defined as an incomplete building or structure, as well as a complete building or structure for a period of 24 months after completion of construction or major improvement). VAT is not charged on the lease of immovables by nature other than residential premises.

Corporate income tax (CIT)

Proceeds of sale of real estate of a legal person registered in Lithuania are subject to corporate income tax of 15 per cent.

Personal income tax (PIT)

PIT at a rate of 15 per cent is applicable on income received by residents of Lithuania and non-residents of Lithuania who pay PIT on income sourced in Lithuania. PIT is calculated and paid on all receipts of income, save for the exceptions specified in the PIT Law.

Immovable property tax (IPT)

IPT is charged on immovable property owned by natural and legal persons, except immovable property that is not actually occupied, incomplete construction property, and property developed or acquired on a basis of public and private partnership, as long as the partnership agreement is implemented.

IPT, which may range from 0.3 to 3 per cent, is determined on the municipal level against certain criteria (e.g. designated purpose, use, legal status and technical specifications of immovable property, etc.). IPT is paid on the tax value of immovable property, which is determined using mass valuation or individual valuation methods.

As of 1 January 2015, the amount of the aggregate value of RE items owned or acquired by natural persons which is in excess of EUR 220,000 is subject to immovable property tax at a rate of 0.5 per cent. Certain families are eligible to a 30 per cent higher tax-free threshold for RE, i.e. EUR 286,000.

Land tax

Land tax, which may range from 0.01 to 4 per cent on the tax value of land, is determined at the municipal level. Land tax is paid on land privately owned by natural and legal persons (except forest land and forestry land bearing forest growth).

The tax value of land is determined using mass valuation or individual valuation methods. The transitional period for the calculation of the tax value of land expires in 2016. In 2016, a coefficient of 20 per cent applies (in 2015, a coefficient of 40 per cent applied). Beginning from 2017, land tax will be payable on the total value.

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INREAL GROUP



JSC "Inreal GEO", JSC "Inreal valdymas" and JSC "Inreal", provides probably the widest spectrum of services in Lithuania, related to real estate. Inreal group companies belong to SC "Invalda privatus kapitalas". About 90 employees are currently working in Inreal group; mediations in lease or sale of more than 550 thousand sq.m of commercial premises, over 550 residential housing objects, and over 300 land plots. The company mediates in 50 residential housing projects, 24 investment projects, or their portfolios. More than 4,900 valuation reports and about 80 consultations (feasibility studies, investment memorandums, and market research) are being drawn up annually. The value of asset of valuation is above 725 million euro. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Mažeikiai, Alytus, Plungė, Utena, Tauragė and Druskininkai.

Currently JSC "Inreal Valdymas" develops real estate projects: houses in Nida "Kopų vetrunges" ("Dunes weathervanes"; „Kopų vetrungės“) and apartments and commercial premises in Klaipėda oldtown "Danes uzutekis" ("Danes Bay"; „Danės užutėkis“).

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ŠIAULIŲ BANKAS



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