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**MARKET REPORT
ECONOMIC AND REAL ESTATE TRENDS
IN LITHUANIA H1 2014**

Partner:

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CONTENT

SUMMARY	3
REVIEW OF LITHUANIAN ECONOMY	5
HOUSING MARKET REVIEW.....	7
Housing market in Vilnius	8
Housing market in Kaunas.....	10
Housing market in Klaipeda	11
Housing market in Palanga and Neringa	13
BUSINESS CENTRE MARKET REVIEW	14
SHOPPING CENTRE MARKET REVIEW.....	17
LOGISTIC CENTRE MARKET REVIEW.....	19
RE MARKET GROWTH PROMOTES DEVELOPMENT OF LEASE RELATIONS.....	21
AUTHORS.....	22
ABOUT COMPANIES / CONTACTS.....	23

SUMMARY

In the beginning of the year the economic growth in Lithuania was one of the most fast-growing economies in the European Union, and the future prospects of the country also remain optimistic. Wage and unemployment rates are improving, low inflation promotes domestic consumption in the country along with reducing the economic dependence of the country on adverse changes in the export markets. According to the data of the Department of Statistics, the volumes of exports and imports in Lithuania, which have shrunk in early 2014, became stable in May. The first improving rates of 2014 have been achieved – respectively 7.1 and 11.5 percent in comparison with May of the previous year. The adoption of the euro in Lithuania from 2015, which will also improve conditions of borrowing, should contribute to the growing exports in the future as well.

The improving economic situation of the country preconditions the increase in real estate (hereinafter – RE) transactions, however the stimulus for housing prices to grow is less than expected. Low interest rates, high expectations, improving household financial situation and permit for Lithuania to join the euro zone may act as motivating factors allowing some citizens to forget the former crisis and put their savings in purchasing own housing. As a result it is probable that in the nearest future the activity of housing trade will remain high in the market, which will also be followed by increasing supply of housing. High activity of new project developers should bring the balance to the real estate market and function as a factor surpassing increase in prices.

The growth of the real estate market in Lithuania has continued in the first half of 2014. Transactions in the apartment segment have been reaching fast, and in the private house market – even overtook, the pre-crisis volumes of transactions. In the beginning of the year, the significantly-increased demand in Vilnius preconditioned the increase in RE prices, however the developers, who have immediately responded to the situation, have augmented the supply within the second quarter of this year and halved the increase in prices. In early 2014, the prices in new construction projects in Vilnius had increased by 2-5 percent averagely (depending on a segment) over the first quarter, however late half-year the increase in prices have reached just 1-2.5 percent averagely. Meanwhile, according to the analysts of Inreal, developers have not been so active in Kaunas, Klaipeda and seaside

second-home segment, thus purchasers' positive attitudes and growing sales of new construction apartments have led to trends different to those in the capital city – prices of new construction apartments continued to grow in almost all segments. Kaunas market was the most exclusive one, where prices of apartments in new construction projects in economic and middle-class segments have increased by 14.7 and 9.1 percent, respectively, within the half-year.

The record-breaking number of private house purchase-sale transactions testifies the fact that more and more people are not only willing but also able already to purchase a higher-class housing. There were 6,087 private house purchase-sale transactions concluded within the half-year – by 21.2 percent more than in the corresponding period in 2013, and this rate is the highest, which had ever been in the first half-year. Although the private house segment is about 2.5 times smaller than that of apartments, however, unlike the apartment segment, where the increase of transactions is fizzling out, further increase may be forecasted for the private house segment due to improving economic situation of the country and citizens' opportunities to purchase a higher-class housing.

In the first half of this year the number of transactions in the land plot market decreased by 19.2 percent. The reduction of this rate was resulted by new restrictions for purchasing agricultural land, which entered into force on 1 May 2014. Still, according to the analysts of Inreal, the statistics does not reflect the real situation and the decrease in transactions does not mean lower demand of agricultural land plots in the market. There are interested purchasers, but long-term lease is frequently chosen instead of purchase-sale transactions.

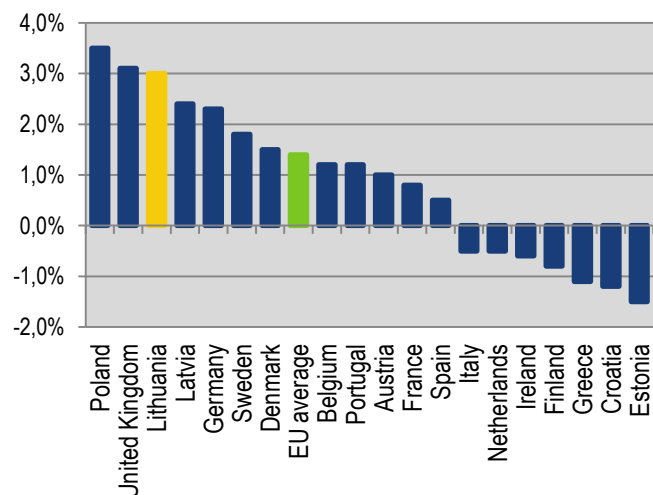
Positive trends in the commercial segment. Vacancy rates continued to decrease in modern business centres located in Vilnius and Kaunas. In order to meet high demand, new business centres, absorbing the possible growth in lease prices by the new supply, have been built actively. Meanwhile, the business centre segment in Klaipeda incurs stagnation due to relatively high lease prices and high vacancy rates. Increasing consumption in the shopping centre segment and particularly low vacancy rates have led to continuous active expansion of the major shopping centres and supermarkets in the major cities of Lithuania. It is intended to offer about 78,000 sq. m of additional trading area in the major cities by the end of 2015. Ambivalent moods are observed in the logistics segment – the re-export sector to Russia has been affected seriously by the political crisis in Ukraine, therefore new logistics projects are

being planned carefully. On the other hand, the trends in Kaunas and Klaipeda, where logistics companies mostly run business with Western and Scandinavian markets, are positive – vacancy rates are decreasing, new logistics centres are being expanded in order to meet the increasing demand.

REVIEW OF LITHUANIAN ECONOMY

In the first half of 2014, the recovering European countries have faced the challenges. The struggle against high unemployment and critically low inflation rates in the eurozone, as well as different paces of economic development in member-countries have remained the conundrums, that the European Central Bank was dealing with by applying additional measures fostering economic development. According to the data of Eurostat, the annual inflation rate in the eurozone has reached 0.5 percent in July, while the overall economic growth was 0.2 percent in the first quarter this year, in comparison with the previous one. The recovery in the countries of the region has slowed down, while EUR/USD exchange rate has remained growing and at the end of the half-year became the highest over the last couple of years. As a result the production in the eurozone is becoming more and more expensive for the global market, the competitiveness of the region is becoming weaker, thus being one more factor encumbering the economic recovery.

Annual GDP growth rate in Q1 2014 (percent)

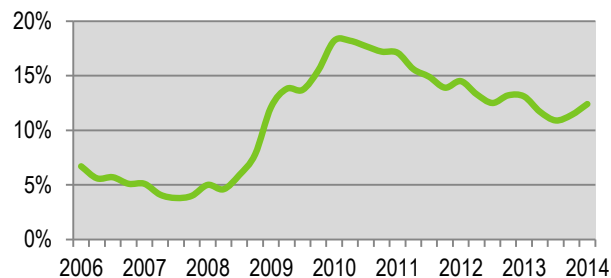


Source: Eurostat

In early 2014 Lithuanian economic growth was one of the most rapid ones in the European Union, and future prospects of the country also remain optimistic. Improving wage and unemployment rates, and low inflation rates were promoting domestic consumption in the country along with

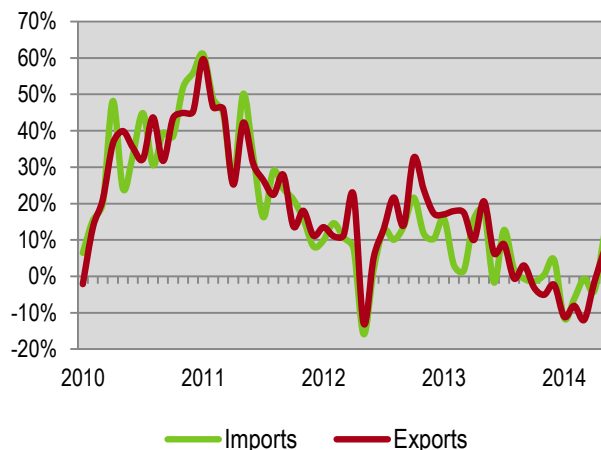
reducing the economic dependence of the country on adverse changes in the export markets. According to the data of the Department of Statistics, the volumes of exports and imports in Lithuania, which have shrunk in early 2014, became stable in May, recording the first growth indicators this year – respectively 7.1 and 11.5 percent in comparison with May of the previous year. The adoption of the euro in Lithuania from 2015, which will also improve conditions of borrowing, should contribute to the growing exports in the future as well.

Unemployment rate in Lithuania (percent)



Source: Department of Statistics

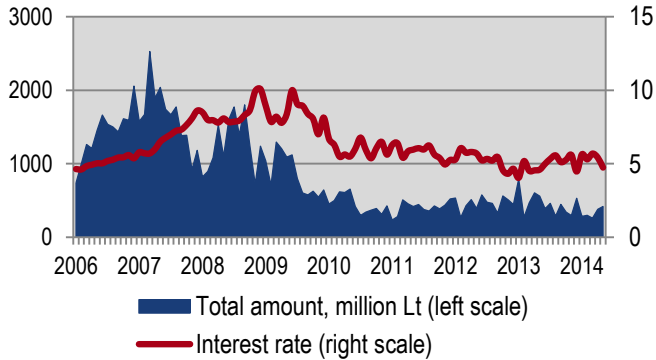
Annual fluctuations in Lithuanian imports and exports (percent)



Source: Department of Statistics

Regardless of remaining low interest rates, lending remains moderate in Lithuania. According to the data of the Bank of Lithuania, the average interest rate in Lithuania was fluctuating from 4.7 to 5.7 percent in the first half-year – at a similar level as in 2006-2007. However, in opposition to the situation at that time, low interest rates do not promote companies and consumers to borrow more. By no means – the amount borrowed in Lithuania within the first 5 months this year was about 40 percent less than in the corresponding period in the previous year.

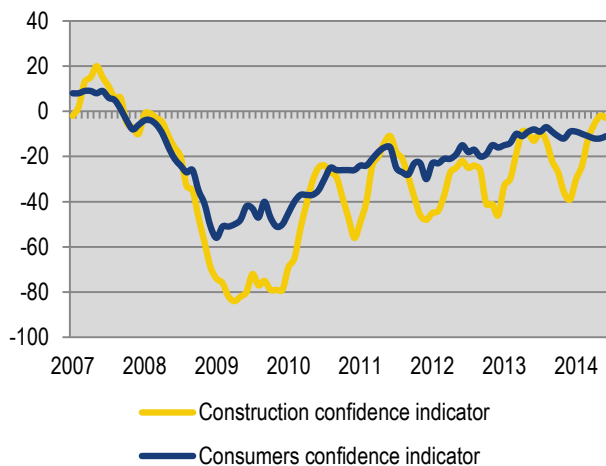
New loans issued to companies and households



Source: Bank of Lithuania

Recently business expectations have been growing, consumers' expectations – not. According to the data of the Department of Statistics, the Consumer Confidence Index has slightly fallen within the first half-year, although it still remains at a high level. Opposite trends have been observed on Industrial, Trade and Service Confidence Indexes – in late half-year, the indexes had fallen, however the overall results in the first half of the year have remained positive. Nevertheless, the highest growth of expectations was recorded in the construction sector – this half-year the confidence-reflecting index has reached the rates, which existed in 2007.

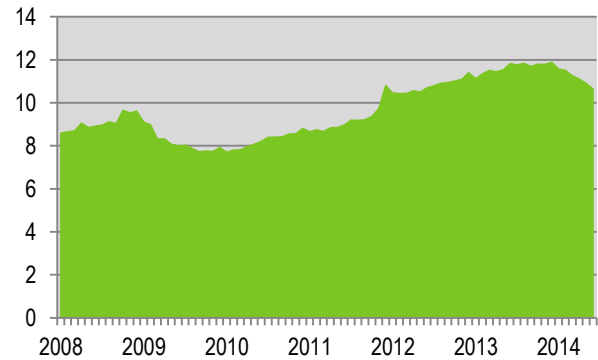
Consumer and Construction Confidence Indexes



Source: Department of Statistics

Not only developers but also purchasers' attitude towards RE was more favourable. It is probable that increased interest in housing was one of the factors leading to significantly reduced amounts of cash flow in circulation. According to the data of the Department of Statistics, it has decreased by LTL 1.25 billion within the first half-year, i.e. by 10.5 percent.

Amount of cash flow in circulation, LTL billion



Source: Department of Statistics

The improving economic situation of the country preconditions the increase in RE transactions, however the stimulus for housing prices to grow is less than expected. Low interest rates, high expectations, improving household financial situation and permit for Lithuania to join the euro zone may act as motivating factors allowing some citizens to forget the former crisis and put their savings in purchasing own housing. As a result it is probable that in the nearest future the activity of housing trade will remain high in the market, which will also be followed by increasing supply of housing. High activity of new project developers should bring the balance to the RE market and function as a factor inhibiting increase in prices.

HOUSING MARKET REVIEW

The real estate (hereinafter – RE) market in Lithuania has been further recovering in the first half of 2014. The improving economic situation of consumers and assessment of the future remaining at an optimistic level, expectations on possible financial benefit of the euro, and other factors were increasing the amount of transactions in the market: rapidly approaching the pre-crisis volumes in the housing segment, and even surpassing the volumes in the private house segment. On the other hand, rapidly growing RE supply is one of the main causes suppressing the increase in housing prices and possible overheating of the market.

In the first half-year 46 multi-dwelling projects were launched in the major cities of Lithuania, i.e. in Vilnius, Kaunas and Klaipeda. They added 2,880 new apartments to the supply, i.e. about 2.7 times more than in the corresponding period of the previous year. The majority of new apartments, about 80 percent, was offered in Vilnius.

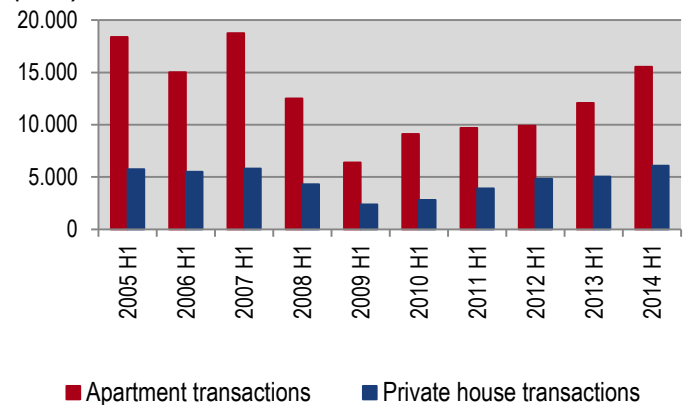
According to the data of SE Centre of Registers, the increase in the amount of apartment transactions in Lithuania halted in the second quarter of 2014, however the overall activity of the half-year remained at a historically high level. Since the beginning of the year, there were 15,518 apartment purchase-sale transactions concluded, i.e. by 28.6 percent more than in the corresponding period of the previous year.

In the first half-year there were 6,087 transactions concluded in the private house segment – by 21.2 percent more than in the corresponding period in 2013. The activity in the private house market has not been growing as rapidly as in the apartment segment, however on the basis of the absolute values this half-year reached a record level in comparison with the previous first half-years. Generally, the second half-year is characterized by a higher amount of transactions, thus we forecast that the amount of private house transactions should be growing this year. Rapid rise of this market testifies the improving economic situation of people in the country and growing affordability in this segment.

The Law on the Acquisition of Agricultural Land, enhanced since 1 January 2014, influenced the volumes of agricultural land trade. According to the data of SE Centre of Registers, there were 13,854 agricultural land purchase-sale transactions registered in Lithuania over the first half-year – by 19.2 percent less than in the corresponding period of the previous year. It should be noted that the amount of transactions has been changing unevenly: it has decreased significantly in some regions, however it has changed

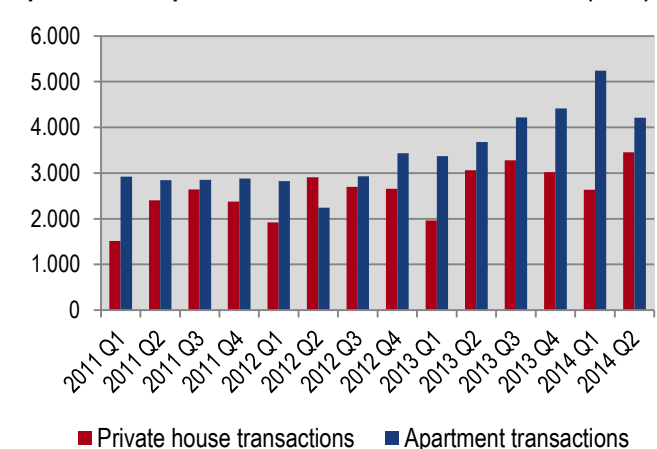
slightly or even increased significantly in the major cities of the country and their regions. Nevertheless, the statistics of transactions does not reflect the real situation in the market, because in most cases potential purchasers simply sign long-term agreements on the lease of agricultural land in order to avoid lengthy procedures.

Apartment and private house transactions in Lithuania in H1 (units)



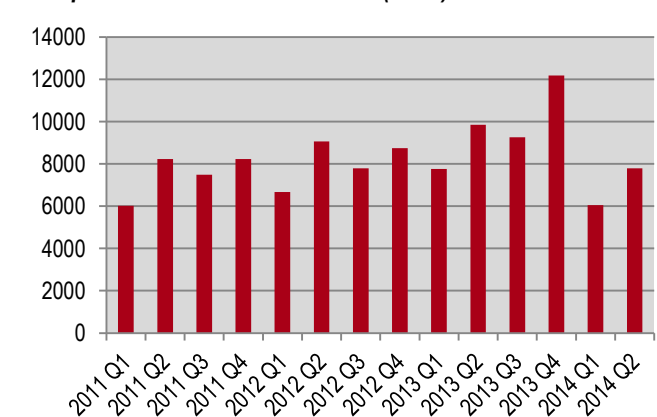
Source: SE Centre of Registers

Apartment and private house transactions in Lithuania (units)



Source: SE Centre of Registers

Land plot transactions in Lithuania (units)



Source: SE Centre of Registers

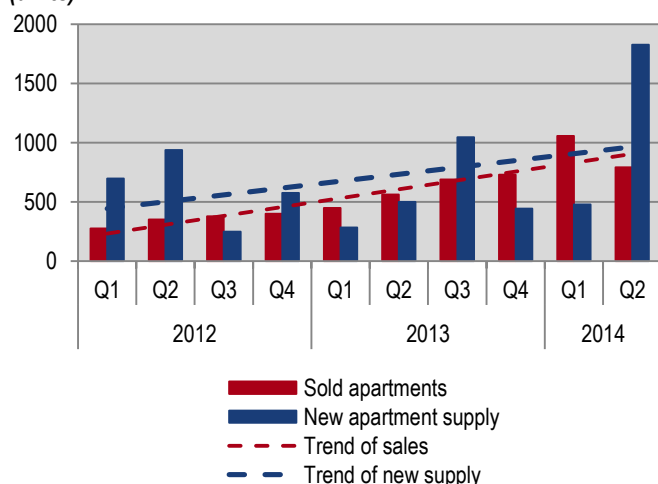
Housing market in Vilnius

According to the data of SE Centre of Registers, 31.7 percent of all transactions of apartments, registered in Lithuania over the first half of 2014, were concluded in Vilnius. There were 4,927 transactions concluded in Vilnius in the first half-year, i.e. by 26 percent more than in the corresponding period of the previous year.

The amount of new construction apartments sold in Vilnius projects has increased considerably faster, i.e. by 82.9 percent. There were 1,850 new construction apartments sold over the first half-year.

Multi-dwelling developers responded appropriately to the increasing demand of new housing: they have launched 30 projects in the capital over the first half-year. The market was offered about 2,300 new apartments, i.e. even about three times more than in the corresponding period in 2013. Obviously, this year the developers are highly optimistic in assessing the RE market, and the supply growth pace is outpacing significantly the sales, thus it is possible, that this year the supply will become excessive.

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



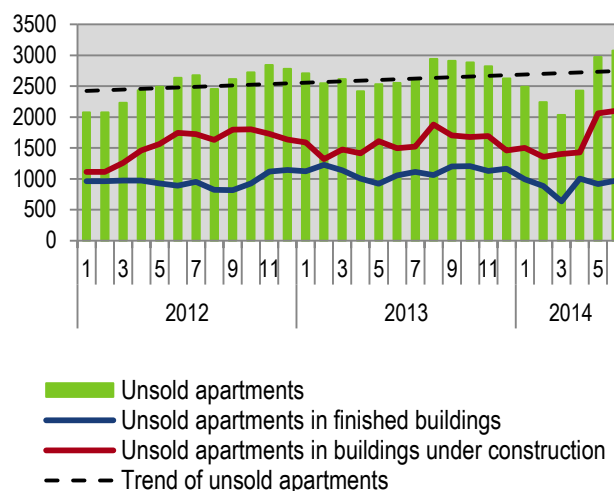
Source: Inreal

The supply, which exceeds the demand of new housing, encumbers opportunities for RE developers to implement their projects under construction. Since the beginning of the year, the amount of new construction apartments unsold has increased by approx. 17 percent, reaching 3,080. About a third of them are located in already finished projects of multi-dwellings, the remaining part – in unfinished houses yet. It is forecasted that due to significant acceleration of new constructions, the level of unsold apartments may exceed 3,500 apartments at the end of this year.

The increased supply of housing influenced the liquidity of the new construction apartment market. The index, which has

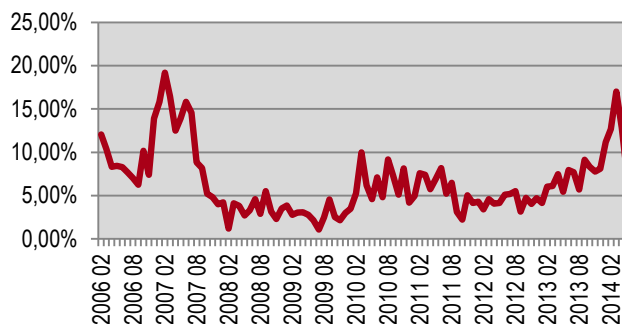
significantly increased in late March of this year, returned to its ordinary level, reaching 5.6 percent at the end of the half-year. Such index value shows that in case of unchanging demand of new construction apartments, all newly built apartments existing in the supply would be bought out within some 17 months.

New construction apartments, unsold in Vilnius (units)



Source: Inreal

Liquidity of new apartments in Vilnius (percent)



Source: Inreal

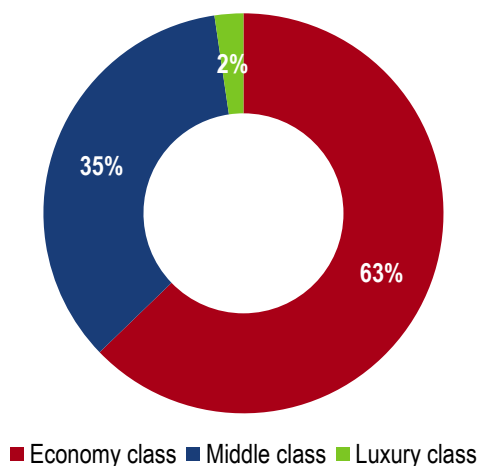
Economic-class apartments, forming 63 percent of overall sales, were prevailing among the new construction apartment purchase-sale transactions in Vilnius. In comparison with the first half of the previous year, the marketability of apartments in this segment has increased by 7 percent. The proportion of middle-class apartment transactions has decreased from 39 to 35 percent; luxury-class – from 5 to 2 percent.

Pilaite and Pasilaiciai remain the most popular urban districts under the sales of new construction apartments. Along with Baltupiai and Visoriai urban districts they have made up about a half of overall sales of new construction apartments in the capital city.

The supply, which exceeds the demand of new construction apartments, remains one of the essential factors, preventing from acceleration of increase in prices of new construction

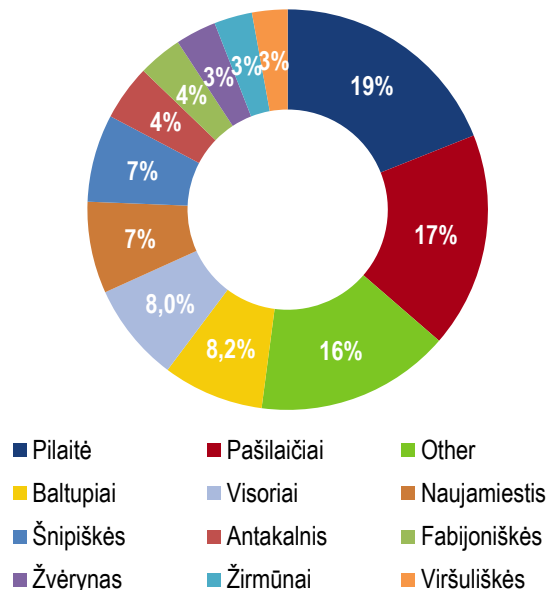
apartments. The average price of new construction apartments in the capital city has increased by about 5 percent within the half-year, and reached about 5,390 LTL/sq. m. The major part of this increment was resulted by changes in the structure in the primary market: within the abovementioned period the amount of new construction apartments for sale in Vilnius has decreased in the economic-class segment, and increased in the luxury-class segment. Such alternation has increased the average price in the city, however the increases in separate new construction apartment classes have not been so high.

Apartment sales under classes (percent)



Source: Inreal

Apartment sales under urban districts (percent)



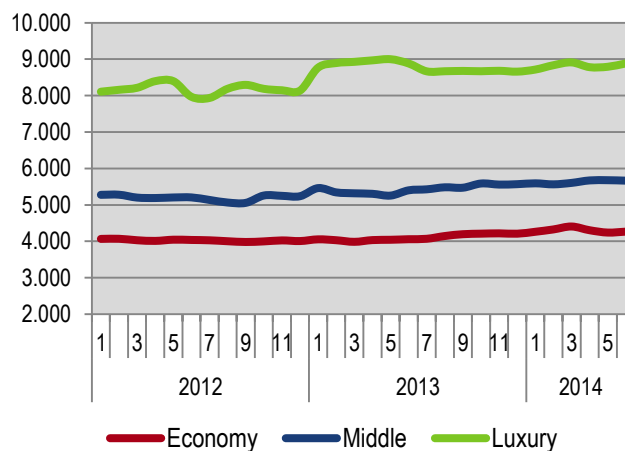
Source: Inreal

In June the average asking price of the most popular economic-class apartments in Vilnius was higher by 1.3 percent than in early 2014 – about 4,270 LTL/sq. m. The price of new construction,

middle-class apartments has increased by approx. 1.7 percent – up to 5,670 LTL/sq. m. The prices of luxury-class apartments have increased by about 2.6 percent, - averagely up to 8,890 LTL/sq. m.

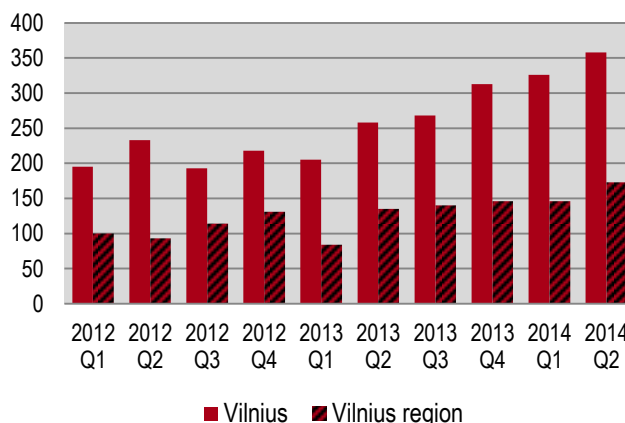
Transaction volume of individual houses, which started increasing in late 2012, has continued to increase in Vilnius and Vilnius region. According to the data of SE Centre of Registers, during the first half-year there were 684 private house purchase-sale transactions concluded in Vilnius city – by 47.7 percent more than in the corresponding period last year. Transaction volumes, in Vilnius region have increased by a similar percentage – 45.7 percent. The amount of transactions registered – 319.

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



Source: Inreal

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

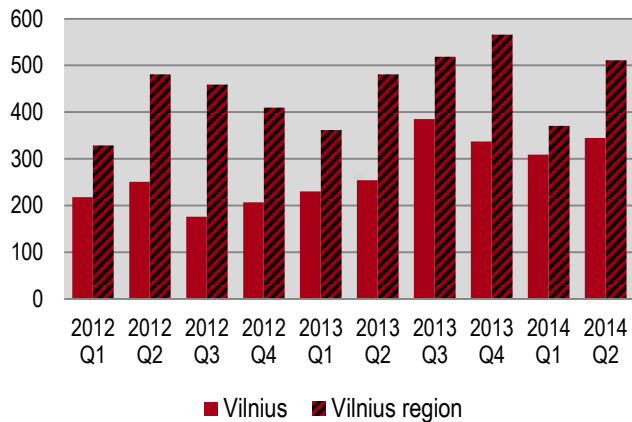


Source: SE Centre of Registers

According to the data of SE Centre of Registers, the volume of land purchase-sale transactions has increased in Vilnius and Vilnius region. During the first half-year the amount of

transactions concluded in the capital city reached 654, and 882 in the region. In comparison with the first half-year, the amount of transactions registered in Vilnius was higher by 34.8 percent, while the increase in Vilnius region was 4.6 percent.

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



Source: SE Centre of Registers

Housing market in Kaunas

According to the data of SE Centre of Registers, there were 2,086 purchase-sale transactions of apartments concluded in Kaunas within the first half of 2014 – by 34.4 percent more than in the first half of 2013.

The sales of new construction apartments in Kaunas have increased even more significantly. During the first half of 2014, there were 207 new construction apartments sold, i.e. 2.3 times more than in the corresponding period in 2013.

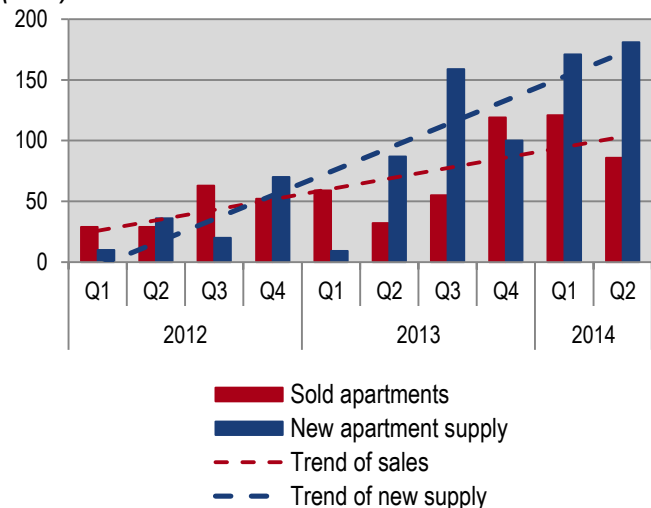
During the first half-year the amount of available options of new construction apartments has also increased significantly. 10 multi-dwelling projects with about 350 new construction apartments were launched in the market, i.e. 3.7 times more than in the corresponding period last year. The supply, which exceeds the demand of new construction apartments, increased the amount of unsold new construction apartments up to 540. For comparative purposes, in the beginning of the half-year the amount of unsold new construction apartments was by 23 percent less, i.e. about 440 apartments.

The economic-class new construction apartments have remained the most popular in Kaunas. They made up about 65 percent of all new construction apartments sold in the city during the first half of 2014, while the remaining 35 percent of sales – middle-class apartments.

At the end of the half-year the average asking price of new

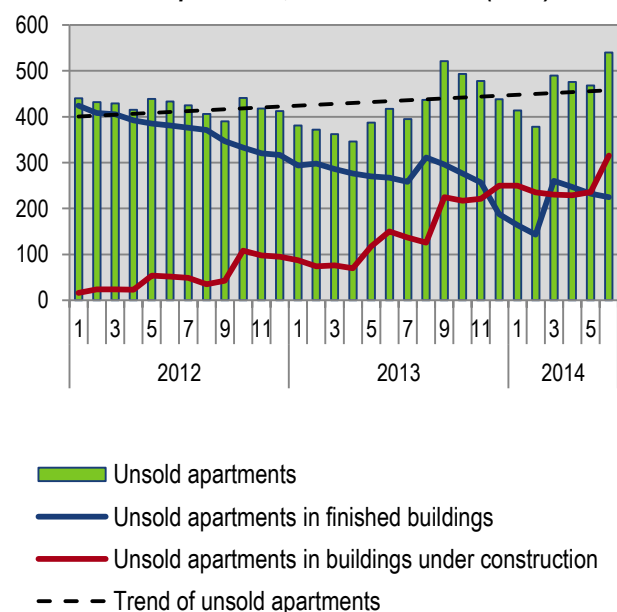
construction economic-class apartments in Kaunas was 3,570 LTL/sq. m, i.e. by 14.7 percent more than in early 2014. In the same period, the prices of new construction apartments in the middle-class segment have increased by 9.1 percent, i.e. up to about 4,700 LTL/sq. m. It should be noted that during the first half-year the supply of new construction economic-class apartments in Kaunas has increased significantly, while it has not changed in the middle-class segment. As a result, the average price of new construction apartments in the supply has increased less significantly than in separate classes – by 5.8 percent and reached 3,890 LTL/sq. m. During the first half-year, no luxury-class apartments have been sold in Kaunas.

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



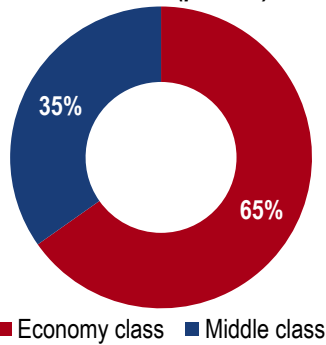
Source: Inreal

New construction apartments, unsold in Kaunas (units)



Source: Inreal

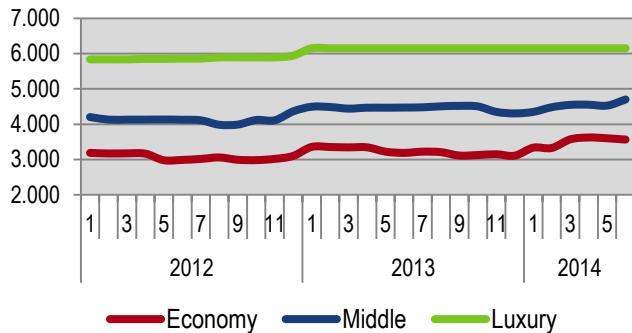
Apartment sales under classes (percent)



Source: Inreal

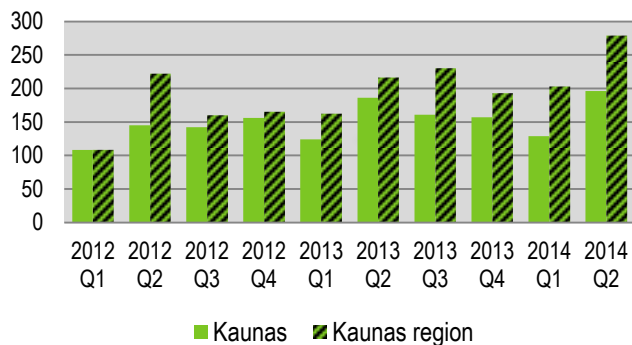
According to the data of SE Centre of Registers, the sales of private houses in Kaunas city have been increasing slightly in the first half-year and reached 325 – by 4.8 percent more than in the corresponding period of the previous year. The volume of private house sales in Kaunas region have been increasing more significantly – by 27.5 percent more and reached 482 houses.

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



Source: Inreal

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

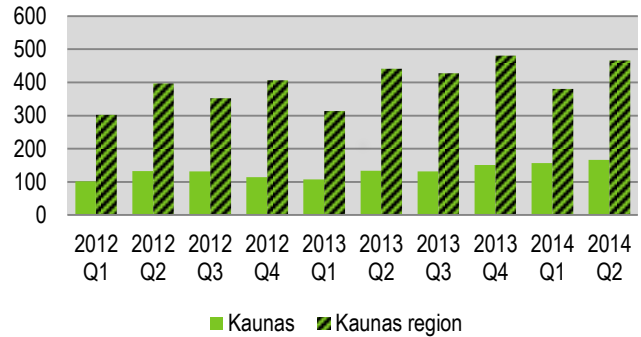


Source: SE Centre of Registers

An increase in land plot purchase-sale transactions has been observed. According to the data of SE Centre of Registers, there were 242 transactions concluded in Kaunas in the first

half-year – by 33.5 percent more than in the corresponding period last year. The amount of transactions in Kaunas region reached 848, thus the increase was 12.3 percent.

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



Source: SE Centre of Registers

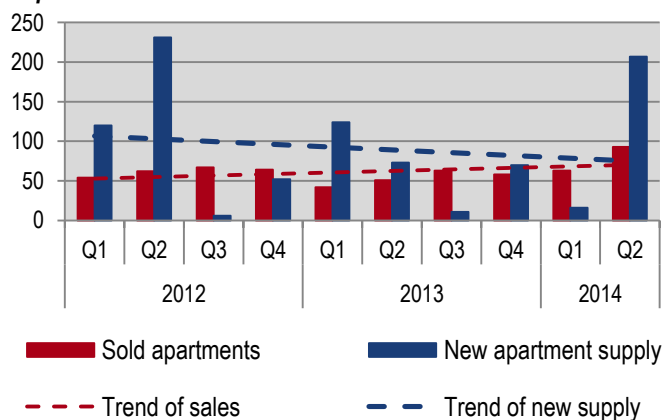
Housing market in Klaipeda

According to the data of SE Centre of Registers, there were 1,594 apartments purchase-sale transactions concluded in Klaipeda city in the first half of 2014 – by 34.4 percent more than in the corresponding period last year.

The amount of transactions in the primary apartment market has been increasing even more rapidly. During the first half-year about 160 new apartments were sold in Klaipeda – by 68 percent more than in the first half of 2013.

During the first half-year, 6 new multi-dwelling projects were launched in Klaipeda apartment market, that have supplemented the market with 220 apartments. In comparison with the corresponding period of the previous year, the supply of new apartments in Klaipeda has increased by about 13 percent.

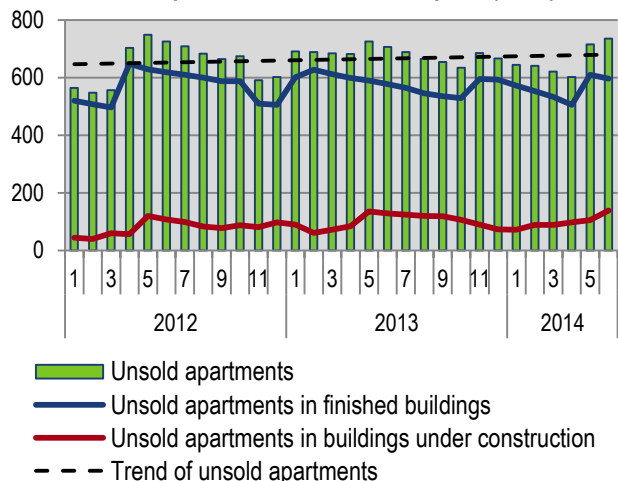
Dynamics of the new supply and sales of apartments in Klaipeda



Source: Inreal

The amount of apartments unsold in Klaipeda has increased by about 10 percent in the half-year – up to about 740. The amount of apartments unsold in already-finished buildings has remained almost unchanged, however the amount of apartments unsold in the buildings under construction has almost doubled.

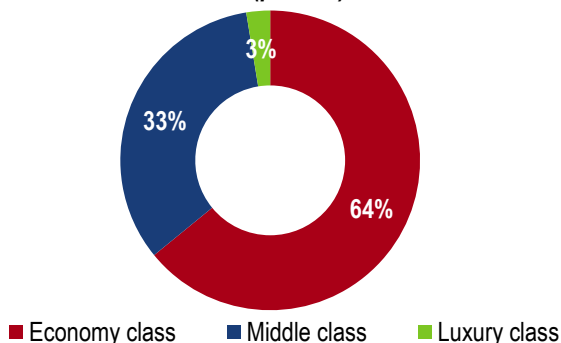
New construction apartments, unsold in Klaipeda (units)



Source: Inreal

New economic-class apartments in Klaipeda, as well as in Vilnius and Kaunas has remained the most popular and made up about 64 percent of all transactions concluded in the half-year. The middle-class apartments made up 33 percent, and luxury-class – 3 percent.

Apartment sales under classes (percent)



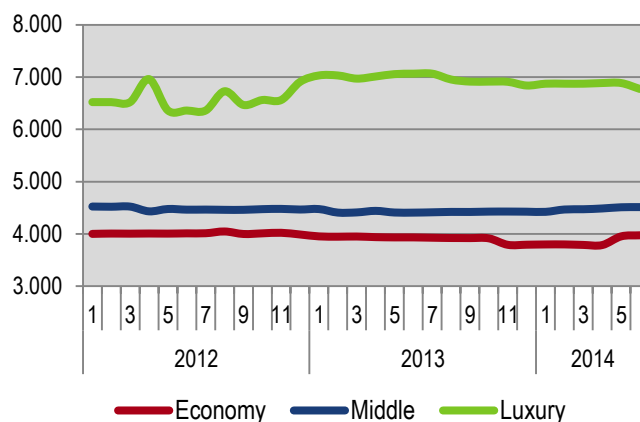
Source: Inreal

During the first half-year the average price of new construction apartments in Klaipeda has been increasing gradually and reached about 4,280 LTL/sq. m, i.e. by about 1.9 percent more than in early 2014. During H1 2014 the prices of economic-class apartments have increased the most. The average asking price of the economic-class apartments was about 3,970 LTL/sq. m – by about 5 percent more than a half-year ago. The average asking price of the middle-class apartments reached about 4,510 LTL/sq. m and was by about 2 percent higher than in early 2014. Meanwhile, the price of new constructed

apartments in the luxury-class segment has decreased by about 1 percent – up to 6,770 LTL/sq. m.

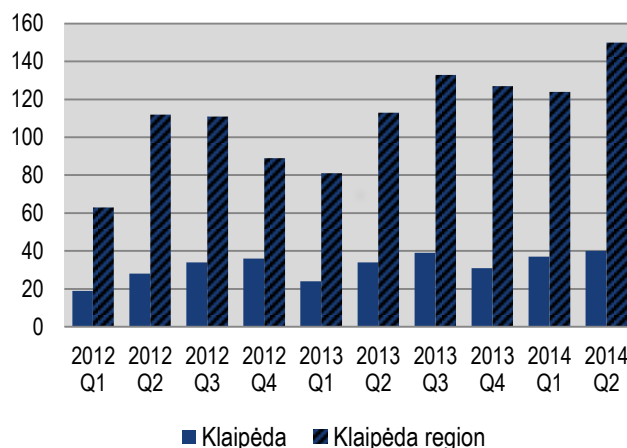
According to the data of SE Centre of Registers, during the first half of 2014, there were 77 private houses sold in Klaipeda city and 274 – in Klaipeda. In comparison with the corresponding period last year, the total amounts of private house transactions in Klaipeda and its region have increased, respectively, by 33.8 and 41.2 percent.

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



Source: Inreal

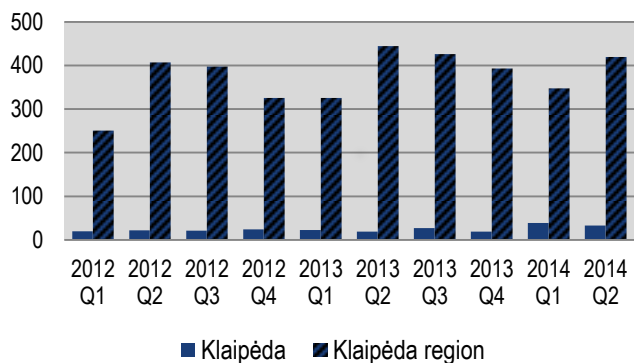
Private house purchase-sale transactions in Klaipeda and Klaipeda region (units)



Source: SE Centre of Registers

During the first half of 2014, the volumes of land plot trade in Klaipeda have been increasing significantly, and remained unchanged in Klaipeda. According to the data of SE Centre of Registers, there were 72 land plot purchase-sale transactions registered in Klaipeda, i.e. by 71.4 percent more than in the first half of 2013. The amount of transactions in the region reached 768, i.e. by 0.4 percent less than in the corresponding period last year.

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



Source: SE Centre of Registers

Housing market in Palanga and Neringa

According to the data of SE Centre of Registers, during the first half of 2014 there were 220 apartments purchase-sale transactions concluded in Palanga and 37 – in Neringa. In comparison with the first half of 2013, the amount of transactions in Palanga has increased by 36.6 percent, and remained almost unchanged in Neringa.

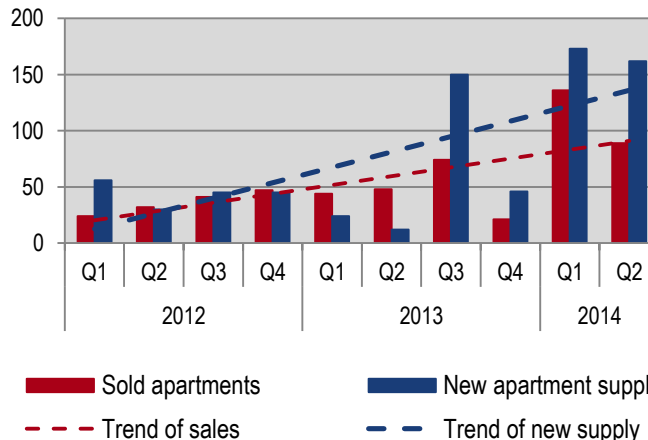
During the first half-year new construction apartment sales in Palanga have increased by about 2.5 times, reaching 225. About 20 transactions on new construction apartments were registered in Neringa – by about 5 percent more than in the corresponding period last year.

Palanga stood out by a high increase of the new construction apartment supply. During the first half-year 4 multi-dwelling projects were launched in Palanga, that have supplemented the market with 335 apartments, i.e. even by 8.5 times more than offered in the first half of 2013. Meanwhile, this year there were no projects launched in Neringa.

At the end of the half-year, the average asking price of economic-class new construction apartments in Palanga was 3,500 LTL/sq. m – by about 6 percent more than in early 2014. The prices of middle-class apartments has increased even more, by about 10 percent, reaching 5,070 LTL/sq. m at an average. The prices of luxury-class apartments have increased by about 1 percent at an average – up to 8,070 LTL/sq. m. Nevertheless, the overall price level in Palanga has not been increasing as significantly as in separate classes – by about 1 percent and reached about 5,250 LTL/sq. m. It was resulted by changes in structure of new construction apartment supply in Palanga – although the overall supply in the city has been

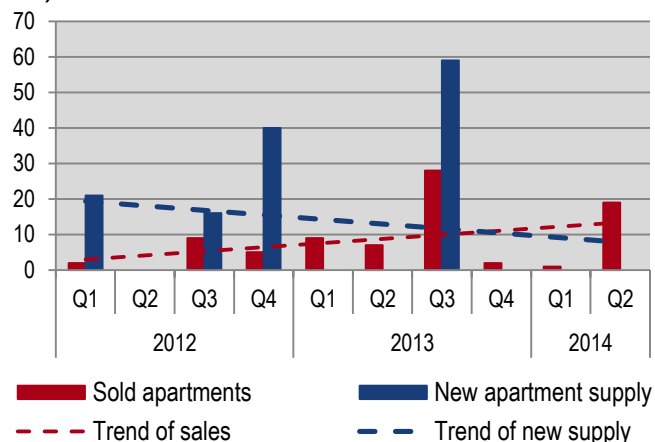
increasing, however the supply of the most expensive luxury-class apartments – decreased.

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



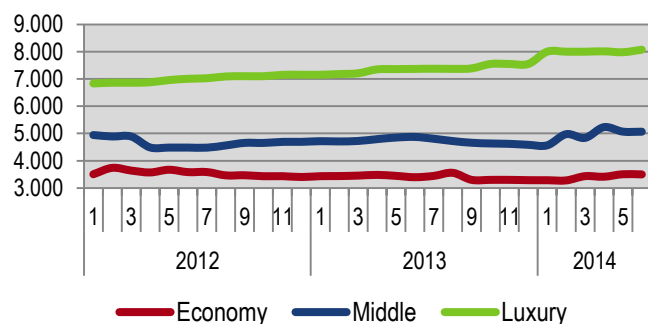
Source: Inreal

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



Source: Inreal

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

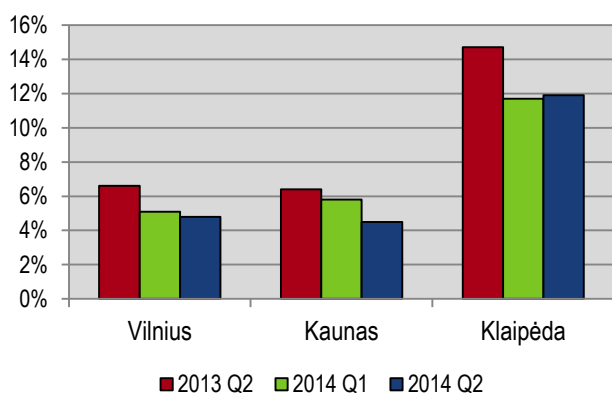


Source: Inreal

BUSINESS CENTRE MARKET REVIEW

During the second quarter of 2014, the trends in the Lithuanian business centre sector have remained the same as in the first quarter. Vacancy rates have been further decreasing in modern business centres, located in Vilnius and Kaunas. In order to meet the non-decreasing demand, the construction of new business centres has been continued further in the major cities of the country.

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



Source: Inreal

During the second quarter of 2014, a new modern business centre “Grand Office” was opened in Vilnius. This business centre perfectly reflects the situation in the market – the modern centre was opened just in the mid-quarter this year, but, at the end of the quarter 88 percent of it was occupied already. A significantly high demand of higher-class and, in particular, new construction offices is observed in Vilnius.

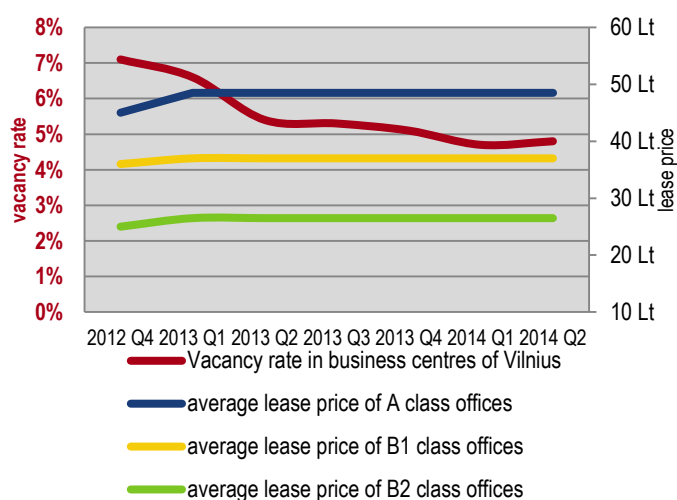
Due to a newly opened business centre, that supplemented the market by more than 10,000 sq. m, the overall vacancy rate in Vilnius has increased from 4.7 to 4.8 percent. Such insignificant percentage increase, including additionally emerged new vacant area and its take-up, means a persisting high demand in the modern office segment.

During the second quarter of 2014, the highest take-up of offices was in A-class business centres. Currently, vacancy rates are reaching just 1.3 percent in these business centres. In comparison with the previous quarter, this rate has decreased by 0.7 percent. During the second quarter of 2014, the area of more than 700 sq. m was taken up in A-class business centres. Vacancy rates in B1-class business centres have increased from 5.5 to 5.8 percent. During the quarter, the area available for lease, including the new vacant area in “Grand Office” (1,200 sq. m), has

increased by 1,300 sq. m in total. In general, the interest in B2-class business centres has remained unchanged.

The price level remained stable. The average lease prices in modern business centres have remained unchanged in the second quarter of 2014: 42-55 LTL/sq. m in A-class business centres; 32-42 LTL/sq. m in B1-class, and 23-30 LTL/sq. m in B2-class. It should be noted, that business centres, which currently are being built, apply prices higher by 10-15 percent than the average price in the market. As a result of low inflation in the European Union and Lithuania, the price indexation had no significant influence, and the supply of modern business centres, which will significantly grow in next several years, did not allow to raise prices.

Dynamics of lease prices and vacancies in Vilnius business centres



Source: Inreal

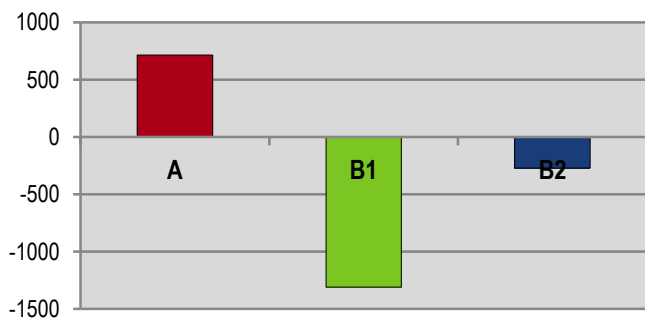
General trends have been further showing the recovery in the sector. The need of the highest class offices has been further growing. Meanwhile, the lower B2-class offices have been becoming less popular gradually. Lithuanian and foreign companies tend to allocate more and more funds for office rental. The developers benefit from this trend. It is expected to finish at least five A-class business centres in Vilnius by the third quarter of 2015, that will supplement the market with 63,150 sq. m. of rentable area.

Business centres, being built in Vilnius, Q2 2014

Business Centre	Class	Rentable area, sq. m
Baltic Hearts III	A	3,300
K29	A	14,250
Goštauto 12A	A	10,400
Premium	A	8,200
Quadrum I	A	27,000
Total:		63,150

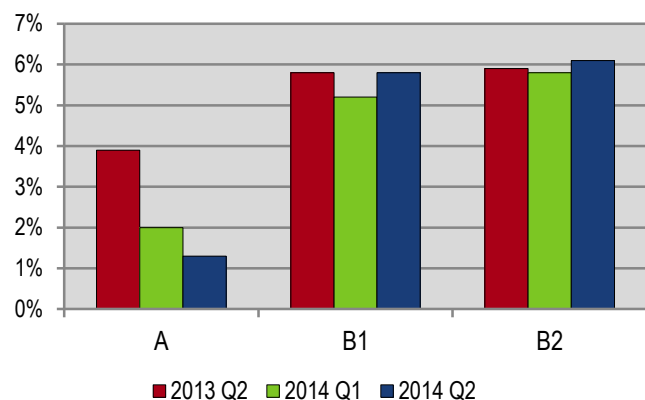
Source: Inreal

Take-up of vacant office premises in Vilnius, Q2 2014 (sq. m)



Source: Inreal

Dynamics of vacancies in Vilnius business centres under classes



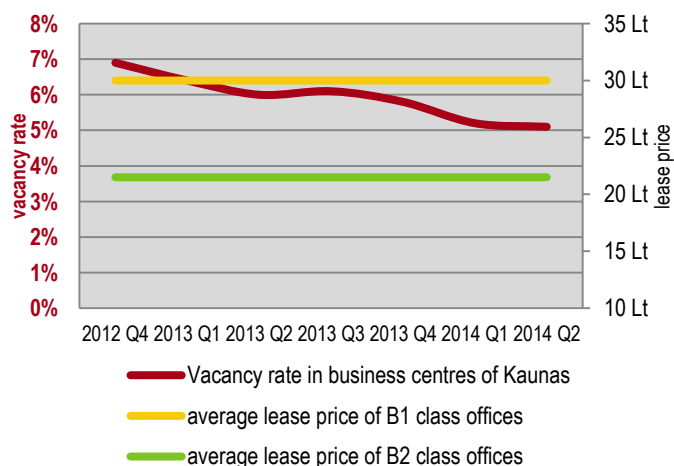
Source: Inreal

The vacancy rate in Kaunas modern business centres have been further decreasing. The vacancy rate of B-class offices has decreased from 5.3 to 5.1 percent. Almost 100 sq. m of premises were taken up in the quarter. B2-class office vacancies have changed more significantly – decreased from 5.1 to 3.9 percent. The area taken-up in the business centres of this class in the quarter was 471 sq. m.

As well as in the first quarter, B2-class offices were more popular in Kaunas business centre market. On the other hand, it should be noted, that the amount of B2-class offices (in terms of area) in Kaunas is less than the amount of B1-class.

There were almost no changes in lease prices of business centres in Kaunas, as well as in Vilnius. The average B1-class office lease price reached from 25 to 35 LTL/sq. m, meanwhile the lease price in a B2-class office was from 18 to 25 LTL/sq. m.

Dynamics of lease prices and vacancies in Kaunas business centres

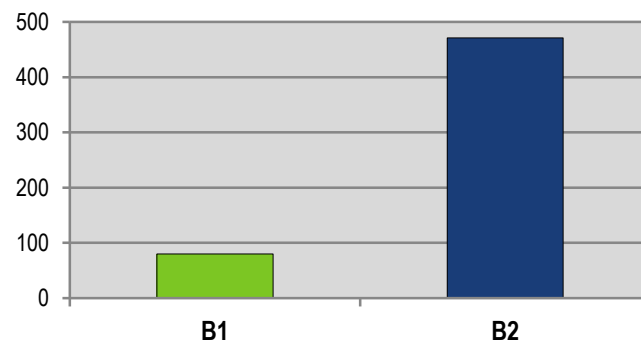


Source: Inreal

No new projects were developed in Kaunas since the opening of the administrative building “Senukai”, finished near the shopping centre “Mega” in 2013 and occupied by the company itself. The business centre “Mikrovisatos valda” with a rentable area of 3,500 sq. m have been further built. It is expected to finish this modern business centre by the end of the first quarter of 2015.

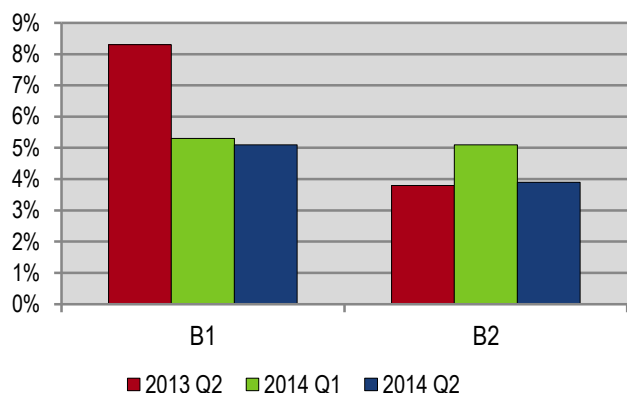
Currently there are no more modern business centres, which could supplement the market in the nearest future, being developed in Kaunas. Recent data show, that Vilnius creates the third of GDP in Lithuania, thus there is no surprise, that the business centre market is recovering in the capital first. It is possible, that over the next several years, the investments in the business centre development in Vilnius will generate an increasingly less return due to a high number of new projects. Therefore more active investing may occur in other major cities of Lithuania.

Take-up of vacant office premises in Kaunas, Q2 2014 (sq. m)



Source: Inreal

Dynamics of vacancies in Kaunas business centres under classes



Source: Inreal

During the second quarter of 2014, the most insignificant changes were observed in Klaipeda business centre market. In comparison with the previous quarter, the vacancy rate in Klaipeda has increased by 0.3 percent – from 11.6 to 11.9 percent. Vacancy rate has been increasing in the business centres of all classes. Changes were insignificant, but the general trend of the previous quarter in Klaipeda is not encouraging.

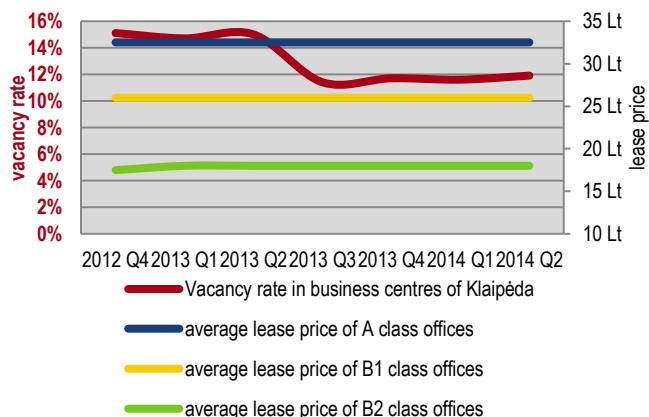
Vacancy rate in A-class business centre has increased by 0.6 percent. The amount of the highest class offices increased by 100 sq. m in the quarter. In general, this change has no significance and probably reflects the natural fluctuations in the market, that are resulted by companies, who frequently move to other premises or reduce the rentable area.

Vacancy rate in B1-class business centres has increased from 7.6 to 7.9 percent. In terms of figures it means, that 70 sq. m area was vacated. Vacancy rate in B2-class business centres have remained almost unchanged and reached 7.4 percent. Just 11 sq. m area was vacated.

Modern business centre market in Klaipeda is stagnating. In contrast to Vilnius and Kaunas, there is no need of offices in high-class modern business centres felt in Klaipeda. It is influenced by the specifics of the city. Klaipeda is a seaport and a marine logistic centre of Lithuania, therefore many companies in this city are engaged in marine logistics. Meanwhile, the majority of administrative and management activity is carried out in other cities of Lithuania.

During the second quarter of 2014, the average lease price in A-class business centres in Klaipeda was 30-35 LTL/sq. m. The lease prices of B1-class offices was ranging 22-30 LTL/sq. m; B2-class – reached 16-20 LTL/sq. m.

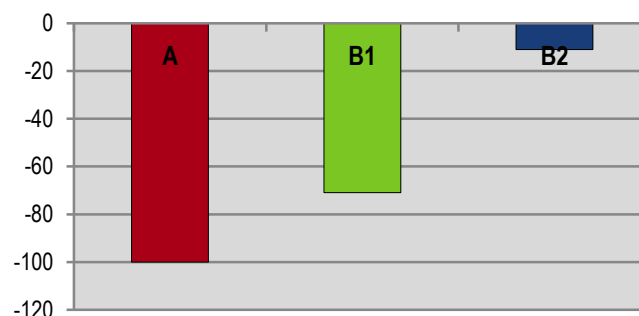
Dynamics of lease prices and vacancies in Klaipeda business centres



Source: Inreal

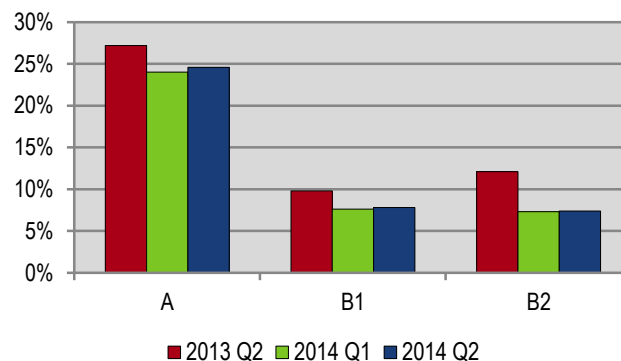
The relatively high lease prices may justify the stagnation of modern business centre market in Klaipeda. They are not attractive to lessees, thus high vacancy rates do not promote new investments in this segment.

Take-up of vacant office premises in Klaipeda, Q2 2014 (sq. m)



Source: Inreal

Dynamics of vacancies in Klaipeda business centres under classes



Source: Inreal

SHOPPING CENTRE MARKET REVIEW

In early 2014, further increase in retail trade has been observed in Lithuania. Growing domestic consumption and persistent minimum vacancies create a favourable investment environment in the shopping centre segment – new RE objects are being developed or are expected to be developed in all major cities of the country.

Reduced unemployment and growing wages have direct influence on consumption, therefore, there is no surprise that several new shopping centres were opened in the capital city during the second quarter this year. The shopping centre “Prisma” with 10,000 sq. m. area was opened in the middle of the second quarter. At the end of the quarter, there were just 180 sq. m. of vacant premises left in the shopping centre. A new supermarket “Norfa” with 4,600 sq. m of rentable area was opened in Pilaite urban district of the capital city. At the end of the second quarter, there were just 150 sq. m of vacant premises left in the shopping centre.

There were no new shopping centres opened in Kaunas. A new shopping centre “Luize”, where the largest area is occupied by “Rimi”, was opened in Klaipėda. The vacancy rate in SC “Luize” was less than 10 percent at the end of the first quarter of 2014. It is probable that this rate should be decreasing rapidly within the next few months.

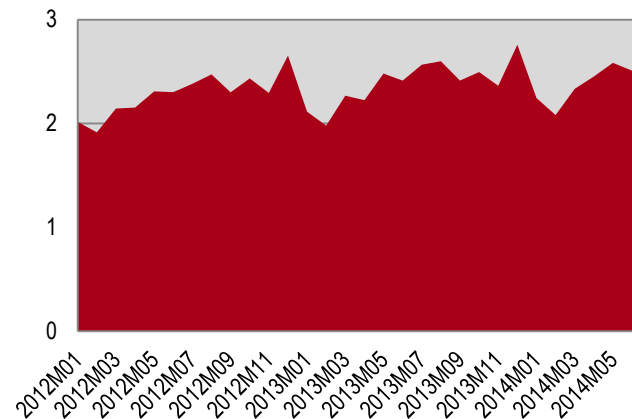
Regardless of two newly-opened shopping centres, the reduction of vacancy in Vilnius was almost double – from 1.5 to 0.9 percent. Vacancy in Kaunas shopping centres have not changed and remained close to zero during the second quarter. In 2015, a new project should emerge in Kaunas market - SC Mega II. This project should enliven the market and attract new brands to Kaunas. Regardless of the newly opened SC “Luize”, vacancy in Klaipėda shopping centres decreased from 0.3 to 0.2 percent.

According to the data of the Bank of Lithuania and excluding foreign direct investments (hereinafter – FDI) to Lithuanian Debt Securities, foreign direct investments to different projects in Lithuania have not been decreasing. According to the data of “Invest Lithuania”, the greater share of FDI falls within Vilnius. Therefore, there is no surprise that the average wage in Vilnius district is the highest in the country, thus resulting in a greater consumption. Therefore the highest demand for new shopping centres occurs in Vilnius.

A low supply of available space in the shopping centres of the country allows managers to increase lease prices for new

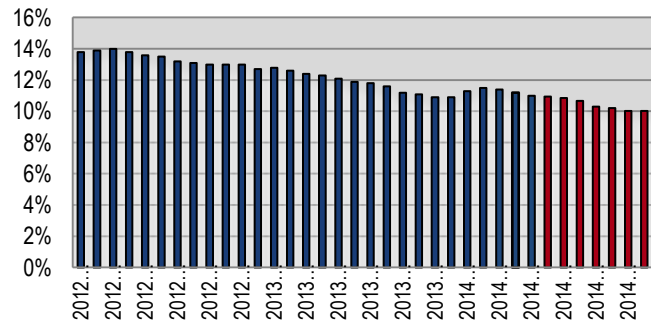
lessees insignificantly. A similar trend in the shopping centres of the country should remain in the near future, because the majority of shopping centres, currently under development or expected to be developed, will be completed and enter the market as early as next year. In 2015, it is likely to expect in total about 70,000 sq. m of retail space in new shopping centres of Lithuanian cities.

Retail trade volumes in Lithuania, billion LTL



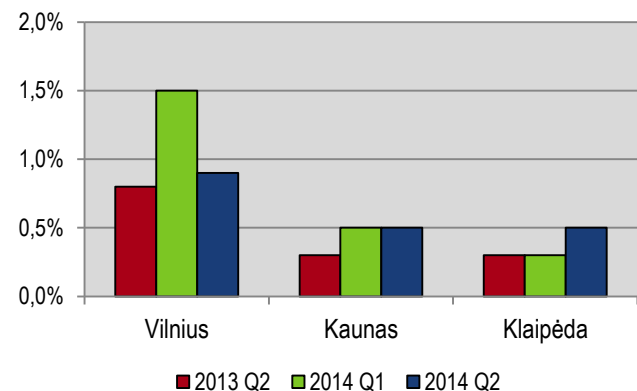
Source: Department of Statistics

Unemployment rate in Lithuania, percent



Source: Department of Statistics

Dynamics in shopping centre vacancies in the major cities, percent



Source: Inreal

Supermarket chains further increase their investments throughout Lithuania. In 2014, “Maxima” is planning to open 6 new and restore 11 existing supermarkets. This year the supermarket chain “Iki” opened 1 new and restored 15 supermarkets. “Norfa” opened a new supermarket in Vilnius. During the second quarter of 2014, “Rimi” opened a new supermarket in Panevezys. The supermarket chain “Prisma” also opened one supermarket near the Western bypass of Vilnius. SC “Kubas” was active and opened three new supermarkets during the second quarter this year – in Vilnius, Kaunas and Panevezys. “Fresh Market” has been expanding the most – this supermarket chain opened even 6 supermarkets throughout Lithuania during the second quarter of 2014; the majority of supermarkets were opened in smaller cities, where “Fresh Market” has had no supermarkets before.

“Lidl”, which is entering the Lithuanian market, should bring changes to the supermarket segment. This supermarket chain intends to open 15 new supermarkets in Lithuania in 2014.

In comparison with the first quarter of 2014, the amount of newly opened supermarkets has not changed, but the amount of reconstructed supermarkets has increased.

Development of supermarket chains in the country, Q2 2014

Supermarket chains	Supermarkets, newly opened	Supermarkets, restored
Maxima	0	2
Iki	0	6
Norfa	1	0
Rimi	1	0
Prisma	1	0
Kubas	3	0
Fresh Market	6	0
Total:	12	8

Source: Inreal

Shopping centres being developed or to be developed in 2014

City	Title	Area, sq. m	End of construction
Vilnius	Prekybos Parkas	20,000	2015 Q2
Vilnius	SC Domus Pro II	5,000	2015 Q1
Kaunas	SC Mega II	22,000	2015 Q4
Klaipeda	SC Luizé	6,200	2014 Q2
Klaipeda	Prekybos centras	25,000	2015 Q3
Total		78,200	

Source: Inreal

The data show that the activity of retail is growing in Lithuania: vacancies in the shopping centres are decreasing, and

investments of supermarket chains are growing further. When not among investments of companies, but also household consumption are growing, it is possible to conclude that business is at that stage of recovery, where profits are shared not only with their shareholders, but also with employees. Thus, such trends in the retail market are encouraging.

LOGISTIC CENTRE MARKET REVIEW

The political crisis in Ukraine, which became intense in early 2014, brought a considerable shock to the Lithuanian logistics sector. The greatest share of Lithuanian exports to Russia is the re-export from Western Europe. Therefore, in general the Lithuanian export sector was affected slightly, however the political unrest had significant influence on the logistics sector.

Although, according to the data of the Department of Statistics of Lithuania, from early 2014 Lithuanian exports (excluding the influence of the season) show significant and positive changes, however, in comparison with late 2013, this index had decreased. During the first 5 months of this year, Lithuanian exports has grown by some 17 percent, however it did not help to reach the average of the last quarter of 2013, which was higher by about 3.5 percent.

Despite the fact that export volumes have not reached the level of 2013 yet, in the event of intense geopolitical situation, the encouraging fact is that the exports, which has significantly decreased in early 2014, is recovering rather rapidly. When assessing the growth rates, that have existed up to the present day, and expecting that no greater economic shock will occur in the future, it is possible that this index will exceed the index of the same period in 2013 by the end of the next quarter.

The situation in logistic centre market is very unfavourable for lessees who are looking for larger premises. As well as in the previous quarter, it is complicated to find modern warehouses and logistics premises exceeding 1,000 sq. m in the market. It promotes larger companies to build their own warehousing premises (built-to-suit) and use them for their own needs or rent.

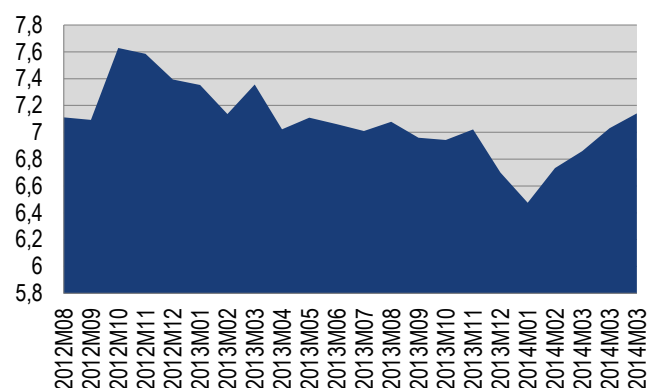
Vacancy rates in the major cities of Lithuania have remained low. Currently, several newly opened projects significantly increased vacancies, however, taking into account the trends in the market, it is realistic that the projects will soon be fully rented.

Although the new logistics centre "Transekspedicija" in Vilnius was not fully occupied at the end of the half-year, however the amount of potential lessees is sufficient. In accordance with the current number of potential lessees, it is possible that no vacant spaces will remain in this logistics centre within the next few months.

The logistics centre "Vlantana", which was opened in Klaipeda in the second quarter this year, launched the expansion of the second logistics centre (19,200 sq. m). At the end of the half-

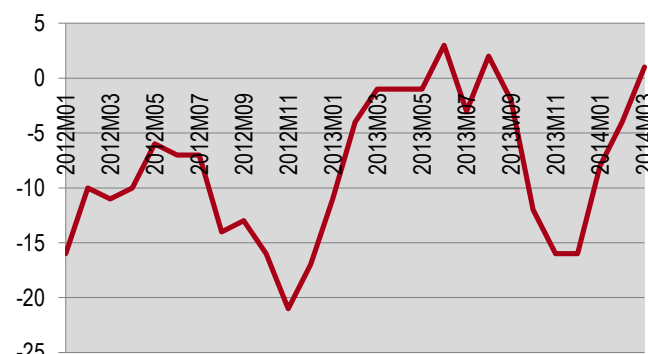
year, vacant space in the newly opened logistics centre was about 15,000 sq. m. As a result, the overall vacancy rates in Klaipeda have increased up to almost 20 percent, however, it is possible, that this gallop is a short-term result.

Lithuanian exports, excluding the influence of season, billion LTL



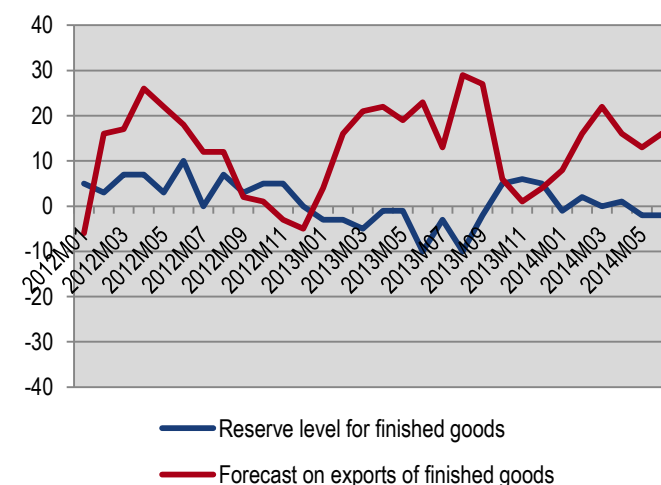
Source: Department of Statistics

Dynamics of Industrial Confidence Index in Lithuania



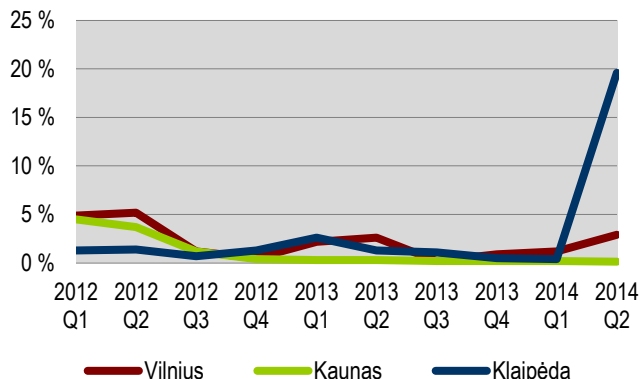
Source: Department of Statistics

Industry representatives' forecasts on exports and reserves



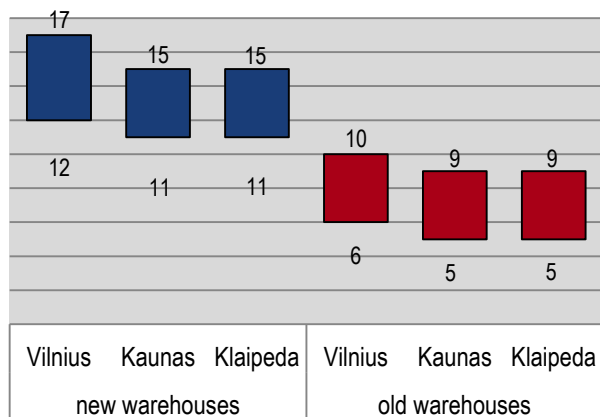
Source: Department of Statistics

Dynamics of vacancies in modern logistics centres in Lithuania



Source: Inreal

Lease prices of logistics centres in Lithuania, Q2 2014 (LTL/sq. m)



Source: Inreal

The expansion of the new logistics centre “Vilpros Logistika” (total area will exceed 13,000 sq. m) will be launched in Vilnius in the next quarter of 2014. Lessees are already offered to rent premises up to 5,000 sq. m, to be built according to their individual needs. The logistics centre should launch its activity in the second quarter next year.

The majority of warehousing premises, that are being built in Kaunas, will be used by their owners. There are no large projects intended for rental market.

The prices in the major cities of Lithuania have remained almost unchanged. Growing demand is further promoting the companies to build surplus warehouses, which could be used by a company itself, and to be rented in the market as well.

Logistics centres, being developed and expected to be developed in Lithuania in 2014

City	Title	Area, sq. m	End of construction
Vilnius	Vilpros Logistika	14,000	2015 Q2
Vilnius	Arvydo Paslaugos II	8,500	2015 Q2
Klaipėda	Ad Rem Lez II	14,600	2014 Q4
Total:		37,100	

Source: Inreal

Currently, Lithuanian trading companies mostly choose to built their own built-to-suit warehouses or use the services of the third party logistics (3PL). Foreign companies particularly appreciate the services of such companies in Lithuania.

Lithuanian exporters usually choose the central and western regions of Lithuania for logistics activities. These regions are much more attractive for those, whose export partners are located in Northern or Western Europe. During the last quarter, Vilnius region has been receiving gradually less attention from logistics sector. As a result of non-improving geopolitical situation in the East, the companies, that are engaged in exports to Russia, assess their future prospects more pessimistically, therefore the expansion is being planned carefully.

General trends remain the same as in the first quarter this year. Geopolitical situation negatively affects the Lithuanian logistics sector due to decreasing re-exports. However, the recovering markets in Western Europe provide Lithuanian exporters with new opportunities. As a result, currently the logistics sector in eastern Lithuania looks worse than in the central or western regions of the country.

RE MARKET GROWTH PROMOTES DEVELOPMENT OF LEASE RELATIONS

Although for the most part individuals make housing purchases in order to own a home, there are many who invest in buy-to-let properties to get a return on investment. A growing number of leases contribute to the development of lease relations – landlords and tenants now tend to make leases regulated by statutes and abandon an obsolescent practice of making oral leases.

It is common that when tenants get familiar with their rights they go to court to defend them. In order to avoid losses, landlords must make sure that the terms of lease are covered in great detail in relevant lease agreements.

A responsible attitude towards lease relations can protect against the risks they may involve. Accordingly, it is essential to ensure that lease agreements contain all required provisions and conditions agreed between the parties. In Lithuania lease agreements are governed by the Civil Code, which prescribes certain information and conditions to be included in lease agreements, such as the address, floor space, engineering (technical) equipment, rent payment dates, payment of utility charges, etc. An agreement may also include certain conditions agreed with other parties. In this respect, it is important to assess, consider and establish a range of conditions, such as grounds for termination, notice periods and so on.

Moreover, it should be remembered that full protection of the interests of the parties can only be afforded by lease agreements registered with the Real Estate Register. E.g. in case of a change of the owner of the property the lease agreement is binding on the new owner only provided that such property was registered. Otherwise, the new owner may insist that the tenant should vacate the premises.

A steady flow of rental income in the commercial real estate segment guarantees a return on investment. In this respect, explicit pricing and well-structured lease agreements, both in legal and commercial terms, play a key role.

An increasing demand for commercial premises has pushed up the rent on office and commercial premises. This factor, coupled with an ongoing construction of new business and shopping centres, leads tenants to change premises.

Tenants terminate existing and form new leases in order to secure more favourable terms of lease or when they propose to expand their activities or seek higher quality premises. Newly built business centres will add to a number of vacant office premises and will even further encourage tenants to search for and try to negotiate more favourable terms of lease.

Due to an ample supply of commercial premises lease relations need to be adequately regulated in order to ensure a long-term and stable flow of rental income. Developers of business and shopping centres should pay sufficient attention to lease agreements. Explicit and regulated rental pricing also ensures a return on investment; however, an increasing level of supply causes the owners to adopt a more liberal approach to changes in rent levels.

Changes in rent levels on the market encourage tenants to ask the landlords to change the pricing in the lease agreements. If the landlords do not agree to do so, agreements are often terminated. Although the parties are in no way restricted to vary the rent charges set out in their lease agreements, such practice is rare. An understandable desire of investors to earn as much lease generated income as possible, and the desire of tenants to use high-quality and cost-efficient premises often lead the parties to spend much time negotiating. Although investors are reluctant to yield, possible changes on the market can lead to an unfavourable situation when investors charge a high rent that cannot ensure a steady tenant flow.

Properly worded and detailed terms of lease can protect against detrimental and unexpected termination of leases. Fixed-term residential and commercial lease agreements are most common on the market – tenants are entitled to early termination if landlords breach the agreement by failing to carry out repairs or if latent defects of the premises are identified, or on other grounds. The parties can also state other grounds for early termination; however in that case it is advisable to set explicit and fair terms of compensation of damages incurred in connection with such termination.

Stating explicitly other terms and conditions of lease agreements can also be important in order to prevent unexpected losses or litigation. Such terms and conditions include failures in the engineering systems and allocation of liability, reimbursement of property improvement costs, utility charges for common areas and administrative fees, including their allocation and payment procedures.

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ABOUT COMPANIES / CONTACTS

INREAL GROUP



Inreal Group, consisting of 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 1,000 residential housing objects, and over 200 land plots. The company mediates in 40 residential housing projects, 24 investment projects, or their portfolios. More than 4,900 valuation reports and about 80 consultations (feasibility studies, investment memorandums, and market research) are being drawn up annually. The value of asset of valuation is above 2.5 milliard Lit. Company offices or representations are operating in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Mažeikiai, Alytus, Plungė and Utena. Currently JSC "Inreal Valdymas" develops two real estate projects: houses in Nida "Kopų vetrunges" ("Dunes weathervanes"; „[Kopų vetrungės](#)“) and apartments and commercial premises in Klaipėda oldtown "Danes uzutekis" ("Danes Bay"; „[Danės užutėkis](#)“)

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JSC "Inreal"

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RAIDLA LEJINS & NORCOUS

The law firms of "Raidla Lejins & Norcou" in Lithuania, Latvia, Estonia and Belarus are the leaders of pan-Baltic legal practice with 120 attorneys. The company renders comprehensive legal services to national, regional and international legal entities, including multinational enterprises, governments, international banks and financial institutions. "Raidla Lejins & Norcou" offices and attorneys are consistently ranked in the top tier by the most prestigious law firm directories as Chambers Global, Chambers Europe, PLC Which lawyer, The European Legal 500, etc. Chambers Europe, one of the most influential Europe's legal directory, and the international M&A directory Financial Times and Mergermarket awarded Raidla Lejins & Norcou as the best legal advisor in the Baltic countries in 2013.

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