Real Estate Market Overview
Annual Review
In 2015 the Lithuanian economy grew almost twice as slowly compared to 2014. This was mainly a consequence of geopolitical resonance from relations between the European Union and Russia. Notwithstanding, the commercial RE market performed well, demonstrating sustainable growth. The biggest changes were recorded in the Vilnius office market, where new supply almost doubled after five years of stability and further attempts to maintain strong growth in the period 2017 - 2018.

The retail market, which has recently been experiencing a fundamental shift in the concept of shopping, showed outstanding activity in qualitative changes. Conversion of shopping areas into leisure and entertainment venues became of key importance. Meanwhile the industrial market managed to maintain stability, with domination of built-to-suit facilities in terms of new construction and Kaunas achieving a leadership position in this field, while the hotel market was the segment that experienced the greatest challenges, although performance results achieved confirmed the country’s resilience to geopolitical events. Finally, 2015 was particularly successful for the investment market with a new record for commercial property transactions closed in Lithuania, i.e. 48 per cent growth compared to last year, with retail properties taking over the leading position in terms of total investment attracted (about 50 per cent of the total).

2016 promises to be another interesting year. The Vilnius office market is likely to face some challenges, especially at the end of the year, as strong growth in supply will affect the leasing process, providing tenants with a greater choice of lease alternatives and thus placing pressure on rent rates. Meanwhile development of other commercial real estate sectors will be more balanced as a result of sustainable growth in domestic consumption. Besides, lack of attractive investment options as well as intensifying competition between investors will continue to encourage investment in commercial RE, leading to further yield compression.

Sincerely,

Ramune Askiniene
Economic Overview

Summary

Despite further growth in domestic consumption, improving business indicators and a constantly decreasing unemployment rate, growth of the Lithuanian economy in 2015 was almost twice as slow compared to 2014, with GDP growth reaching 1.6 per cent (a decrease of 1.4 per cent, y-o-y). This was mainly caused by events related to the tense geopolitical situation (trade restrictions, emigration, stagnation of the Russian economy) which Lithuania had to cope with as well as a slowed expansion in the construction sector, compared to 2014. Nevertheless, domestic consumption remained the main driver of the country’s economic growth together with sustainable export performance.

The average annual change in consumer prices was negative almost throughout the year, at the end of 2015 standing at -0.7 per cent y-o-y, mostly due to declining oil prices. As a result, a significant decrease has been observed in transport services (-7.2 per cent, y-o-y) and in housing, water, electricity, gas and other fuels (-3.5 per cent, y-o-y). Since on 1 January 2015 Lithuania changed its currency to the Euro, speculation about increase in prices was high. However, a more significant increase was recorded only in the service sector (restaurant and hotel services increased by 4.8 per cent, y-o-y; health services increased by 2.7 per cent, y-o-y; various goods and services increased by 2.5 per cent, y-o-y).

According to the Lithuanian Department of Statistics, the situation in the labour market maintained positive trends in 2015 with the unemployment rate reaching 9.1 per cent (a decrease of 1.4 per cent, y-o-y) and the gross monthly wage rose by 5.1 per cent, y-o-y. Still, some negative features appeared, such as: high youth unemployment (16.7 per cent) and uneven gender unemployment prevailing: 10.2 per cent of men, 8 per cent of women. The labour market is expected to preserve earlier trends along with new international companies coming to the market and creating new workplaces with better working conditions and additional social benefits.

Growth of real earnings positively affected the retail trade market in Lithuania, which grew by 4.3 per cent y-o-y in 2015, although a short-term decline in retail turnover growth was observed at the beginning of the year (2.9 per cent during Q1 2015). This was mostly influenced by the change of national currency and some seasonal fluctuations. Meanwhile, other periods of the year were much more favourable with domestic consumption remaining the main driver of the country’s economic growth. In addition, a significant increase (38.1 per cent, y-o-y) was recorded in retail sales via mail order houses or via internet during 2015, confirming that consumer habits are evolving along with changes in the economy and technological development.

Tendencies and Forecasts

- Domestic consumption encouraged by improving labour conditions and household optimism will remain the main driver of Lithuanian economic growth. Still, the prime barrier to economic evolution will continue to be export restrictions to Russia and instability in the geopolitical situation.
- Despite the fact that integration in the Euro zone has brought an inflation outbreak in the eyes of inhabitants (though the contrary is proved based on statistical data), lower interest rates, stronger trade ties and increasing tourist flows are expected to create higher value added for the Lithuanian economy in the future.
- Expansion of international companies as well as a government decision to raise the minimal wage twice in 2016 will positively affect the labour market with the unemployment rate further decreasing and sustainable growth of wages.
- E-commerce is expected to maintain its growing trend mostly due to increasing demand to receive goods in the most convenient manner as well as retailers expanding their services on the internet with personalized marketing solutions.

Key Economic Indicators of Lithuania

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP, EUR billion</td>
<td>24.1</td>
<td>29.0</td>
<td>32.7</td>
<td>26.9</td>
<td>28.0</td>
<td>31.2</td>
<td>33.3</td>
<td>35.0</td>
<td>36.4</td>
<td>37.2</td>
<td>n/a</td>
</tr>
<tr>
<td>GDP at Chain-linked Volume, EUR billion</td>
<td>28.4</td>
<td>31.5</td>
<td>32.3</td>
<td>27.6</td>
<td>28.0</td>
<td>29.7</td>
<td>30.9</td>
<td>31.9</td>
<td>32.9</td>
<td>33.5</td>
<td>34.5</td>
</tr>
<tr>
<td>GDP growth, % yoy</td>
<td>7.4</td>
<td>11.1</td>
<td>2.6</td>
<td>-14.8</td>
<td>1.6</td>
<td>6.1</td>
<td>3.8</td>
<td>3.3</td>
<td>3.0</td>
<td>1.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Industrial Production, % yoy</td>
<td>5.4</td>
<td>1.5</td>
<td>4.9</td>
<td>-13.8</td>
<td>6.3</td>
<td>6.4</td>
<td>3.7</td>
<td>3.3</td>
<td>3.8</td>
<td>4.8</td>
<td>n/a</td>
</tr>
<tr>
<td>Unemployment Rate, % avg.</td>
<td>5.6</td>
<td>4.3</td>
<td>5.8</td>
<td>13.7</td>
<td>17.8</td>
<td>15.3</td>
<td>13.4</td>
<td>11.8</td>
<td>10.7</td>
<td>9.1</td>
<td>9.0</td>
</tr>
<tr>
<td>Growth of Average Monthly Gross Earnings, %</td>
<td>17.2</td>
<td>20.5</td>
<td>19.4</td>
<td>-4.4</td>
<td>-3.3</td>
<td>2.9</td>
<td>3.8</td>
<td>5.1</td>
<td>4.8</td>
<td>5.3</td>
<td>n/a</td>
</tr>
<tr>
<td>Total Public Debt, % GDP</td>
<td>17.9</td>
<td>16.8</td>
<td>15.5</td>
<td>29.5</td>
<td>38.5</td>
<td>39.4</td>
<td>38.3</td>
<td>36.6</td>
<td>38.3</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>HICP avg., % yoy</td>
<td>3.8</td>
<td>5.8</td>
<td>11.1</td>
<td>4.2</td>
<td>1.2</td>
<td>4.1</td>
<td>3.2</td>
<td>1.2</td>
<td>0.2</td>
<td>-0.7</td>
<td>1.4</td>
</tr>
<tr>
<td>CPIavg., % yoy</td>
<td>9.8</td>
<td>13.8</td>
<td>9.5</td>
<td>-10.6</td>
<td>-4.3</td>
<td>3.9</td>
<td>3.7</td>
<td>4.1</td>
<td>4.1</td>
<td>2.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Fiscal Balance, % GDP</td>
<td>-0.4</td>
<td>-1.0</td>
<td>-3.3</td>
<td>-9.5</td>
<td>-7.2</td>
<td>-5.5</td>
<td>-3.0</td>
<td>-2.6</td>
<td>-0.7</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Export, EUR billion</td>
<td>11.3</td>
<td>12.5</td>
<td>16.1</td>
<td>11.8</td>
<td>15.7</td>
<td>20.2</td>
<td>23.0</td>
<td>24.5</td>
<td>24.4</td>
<td>22.9</td>
<td>n/a</td>
</tr>
<tr>
<td>Import, EUR billion</td>
<td>15.4</td>
<td>17.8</td>
<td>21.1</td>
<td>13.1</td>
<td>17.7</td>
<td>22.8</td>
<td>24.9</td>
<td>26.2</td>
<td>26.5</td>
<td>25.4</td>
<td>n/a</td>
</tr>
<tr>
<td>C/A Balance, EUR billion</td>
<td>-2.6</td>
<td>-4.1</td>
<td>-4.2</td>
<td>1.0</td>
<td>0.0</td>
<td>-1.2</td>
<td>-0.1</td>
<td>0.4</td>
<td>0.1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>C/A Balance, % GDP</td>
<td>-10.6</td>
<td>-14.4</td>
<td>-12.9</td>
<td>3.7</td>
<td>0.1</td>
<td>-3.7</td>
<td>-0.2</td>
<td>1.2</td>
<td>0.4</td>
<td>n/a</td>
<td>-3.5</td>
</tr>
<tr>
<td>Cumulative FDI, EUR billion</td>
<td>8.4</td>
<td>10.3</td>
<td>9.2</td>
<td>9.2</td>
<td>10.0</td>
<td>11.0</td>
<td>12.1</td>
<td>12.7</td>
<td>12.9</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

† - forecast
Source: The Lithuanian Department of Statistics, Ministry of Finance, Bank of Lithuania
Investment Market

General Overview

- During 2015 the Lithuanian RE investment market maintained a growing trend along with new players coming to the market and continuously shrinking yields.
- 2015 was exceptionally active with EUR 444 million of investment recorded in commercial RE (growth of 48 per cent, y-o-y) which was mainly a consequence of overall economic growth and Lithuania’s integration in the Euro zone.
- Retail properties took over the leading position as the most popular investment objects, forming 50 per cent of total investment volume in Lithuania.
- Nordic and Baltic investors together with major international investment funds dominated the market in 2015.

Investment Volumes

Continuous economic development, positive trends in foreign policy together with integration in the Euro zone from 1 January 2015 made an impact on the Lithuanian RE market, which gained more confidence not only from local investors but from international funds as well. Its growing attractiveness was confirmed by total investment volume, which amounted to EUR 444 million in 2015 and surpassed the previous year by 48 per cent. In terms of number of transactions closed, 2015 produced 154 transactions, exceeding 2014 by 81 per cent.

During 2015 a significant increase was observed in investment transactions over EUR 20 million, with growth of 23 per cent compared to 2014. This showed that large, experienced investors prevailed in the market, mainly targeting prime properties.

In 2015 the key investors in the Lithuanian RE market were Nordic, Baltic and major international investors, the latter displacing previously active Russian funds. Partners Group (International investor), EfTEN Capital (Baltic investor) and Northern Horizon Capital (Scandinavian investor) acquired RE for over EUR 160 million and formed 36.2 per cent of total investment volume in Lithuania. Two of these (Partners Group and EfTEN Capital) are newcomers to the market. This made a significant impact on Lithuanian investment volume by acquisition of well performing office and retail properties there.

Investment Properties

In contrast to the previous year, when the main focus of investors was dedicated to the Vilnius office market, during 2015 RE investors were more confident about the Lithuanian retail market more generally, allocating major investments to retail properties between Vilnius and other cities. As a result, 2015 stood out with the retail investment share reaching 50 per cent of total investment volume (28 per cent growth, compared with 2014) with such property acquisitions as Molas SC in Kaunas, BIG SC in Klaipeda, Europa SC in Vilnius and Saules Miestas SC in Siauliai. Meanwhile, the office market investment share shrank significantly to 27 per cent (a 29 per cent decrease, compared with 2014) due to lack of investment alternatives, although several large acquisitions were still implemented in this segment during 2015 (Vertas BC, Menulio 11 BC, Ulono BC and Kernave BC). The industrial sector remained quite conservative in 2015, reaching an 18 per cent share of total investment with two major transactions recorded: a bulk cargo terminal in Klaipeda and the Dominari logistics centre in Panevezys. The latter property was acquired from Litectus, a wholly-owned company in the SEB Group, which they had already been leasing for some time.

Dynamics of Investment Volume in Lithuania

![Dynamics of Investment Volume in Lithuania](source: Colliers International)

Investment Turnover by Sector in 2015

![Investment Turnover by Sector in 2015](source: Colliers International)
Investment Yields

The compression of prime investment yields continued in 2015 due to lack of attractive investment objects and increased confidence in the Lithuanian economy related to integration in the Euro zone. As a result, during 2015 investment yields fluctuated within the range of 7 per cent and 8.75 per cent depending on property type and location. The lowest yields were recorded among prime retail and office properties, while the highest yields remained in the industrial segment.

As lack of attractive investment alternatives together with high interest in office and retail properties are expected to continue in 2016, yields will continue their downward trend, reaching less than 7 per cent for prime office and retail properties. Still, the industrial sector is quite passive at the moment, so no significant changes in investment yields for industrial properties are forecast in the short term.

The recovery of investment yields in other Lithuanian cities is not yet significant despite a strong increase in investment volumes in these cities. For instance, Kaunas, Klaipeda, Siauliai and Panevezys formed a 43.7 per cent share of total investment in 2015, whereas this share amounted to only 19.4 per cent in 2014. The shift has been mostly encouraged by increased activity in retail property investment by Partners Group, Westerwijk Investments and EfTEN Real Estate Fund III.

Tendencies and Forecasts

- Lithuania will continue to recover its attractiveness to investors because of reduced risk and still greater investment returns than in some other European regions (for instance, Scandinavian or Western countries).
- Lack of investment options with attractive returns will encourage investment in commercial real estate.
- Office and retail properties with stable cash flows located in core locations will further attract the highest volume of investment.
- Further yield compression among office and retail properties will continue in Vilnius in 2016 as competition between investors is constantly increasing.

### Top 5 Investment Deals in Lithuania in 2015

<table>
<thead>
<tr>
<th>NO.</th>
<th>OBJECT</th>
<th>SECTOR</th>
<th>GBA, SQM</th>
<th>INVESTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Vertas BC, Molas SC, BIG SC</td>
<td>Office/Retail</td>
<td>53,000</td>
<td>Partners Group</td>
</tr>
<tr>
<td>2.</td>
<td>Europa SC</td>
<td>Retail</td>
<td>22,600</td>
<td>BPT Baltic Opportunity Fund</td>
</tr>
<tr>
<td>3.</td>
<td>Saules Miestas SC</td>
<td>Retail</td>
<td>22,850</td>
<td>EfTEN Real Estate Fund III</td>
</tr>
<tr>
<td>4.</td>
<td>Molas SC</td>
<td>Retail</td>
<td>22,640</td>
<td>Westerwijk Investments</td>
</tr>
<tr>
<td>5.</td>
<td>Bulk Cargo Terminal</td>
<td>Industrial</td>
<td>16,300</td>
<td>Biriu kroviniu terminalas</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td>137,390</td>
<td></td>
</tr>
</tbody>
</table>

Source: Colliers International

### Investment Turnover by Size in 2015

- Above EUR 20 million: 6%
- EUR 10 - 20 million: 13%
- EUR 5 - 10 million: 19%
- EUR 3 - 5 million: 11%
- EUR 1 - 3 million: 10%
- Up to EUR 1 million: 64%

Source: Colliers International

### Average Transaction Size by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>5.5</td>
</tr>
<tr>
<td>Retail</td>
<td>3.4</td>
</tr>
<tr>
<td>Industrial</td>
<td>1.8</td>
</tr>
<tr>
<td>Hotel</td>
<td>0.7</td>
</tr>
<tr>
<td>Residential</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Colliers International

### Prime Yield Dynamics in Vilnius

Source: Colliers International
Office Market

General Overview

> During 2015 the Vilnius office market reflected optimism with 5 new office projects completed and many others in the pipeline. Besides, Kaunas city was quite active too, while other cities remained passive.

> At the end of 2015 more than 135,000 sqm of new leasable office space was under construction in Vilnius of which more than 98,000 sqm is planned to be offered in 2016.

> The current market situation in Vilnius can be defined as landlord dominant due to high demand and lack of possible lease alternatives.

> Attractive conditions for doing business and an abundance of highly qualified specialists are appealing elements that attract new international companies to Lithuania, forming about 20 per cent of total office space demand.

> During 2015 the most significant growth of rent rates was observed in Kaunas (by 6.2 per cent) due to new office projects offered to the market, while Vilnius experienced sustainable growth of 2.8 per cent.

> Positive trends in vacancy levels in Vilnius together with a wider variety of office space in Kaunas reflected healthy overall growth of the office market in Lithuania.

Dynamics of Speculative Office Space in Major Cities of Lithuania

Supply

During 2015 the Vilnius office market was as active as ever with five new business centres (Sostena BC, K29 BC, Premium BC, BC One and Uniq BC) increasing existing office space supply to 467,650 sqm, recording 8.8 per cent growth compared with 2014.

The period 2016 - 2017 is expected to remain highly active in Vilnius as more than 182,000 sqm of new speculative office space is in the pipeline. More than half of new supply under development will be located in the central part of the city (53.4 per cent). Besides, class A office space will continue to form a reasonable part (39.4 per cent) of new office supply due to constantly growing demand for high quality offices.

Contrary to previous years, in 2015 the Kaunas office market also saw some activity, demonstrating a 14.2 per cent growth in total supply. Three new business centres (Chemijos 9D BC, Mikrovisata BC, Ozeskienes BC) with GLA of 5,560 sqm were opened, while Plaza BC was fully refurbished. Nevertheless, the Kaunas office market remained predominant with small business centres. However, it seems that the market has finally matured for new large office developments such as a new class A business centre (14,000 sqm) planned by SBA Group in K. Donelaiicio St. 60.

The Klaipeda office market continued to be the least active compared to Vilnius and Kaunas with a still high vacancy level as well as market supply strongly exceeding demand. No new business centres were implemented. The only project maintaining market activity was the old administrative building at Minijos St. 19 which was under reconstruction during 2015. Upon completion of reconstruction in 2016, it will offer 1,500 sqm of newly built office space together with 500 sqm of commerce.

A pre-lease agreement for one fifth of the building had already been signed by the end of 2015.

Demand

SSC and ITC companies continued to be the most active in the Vilnius office market as during 2015 just these companies signed lease agreements for more than 30,000 sqm of office space. Recent market activity led to an immediate reaction by RE developers resulting in a pipeline of over 182,000 sqm of new office space. From a retrospective point of view, over the last decade market absorption in Vilnius has fluctuated within the range of 25,000 - 35,000 sqm yearly, which leads to the conclusion that further market assimilation will highly depend on the ability to attract new international companies.
well as examples of good practice from companies successfully expanding in Lithuania (e.g., Barclays, Western Union, Danske bank, Intermedix Lietuva). Furthermore, the coming year is expected to be even more favourable for business centres offering high quality office space because local companies have also started to show interest in higher working environment standards following international business experience.

**Rent Rates and Vacancy**

Contrary to previous years, 2015 saw growth of rent rates not only in the capital city Vilnius but also in Kaunas, mainly related to active introduction of new office projects with higher than existing rent rates. In 2015 rent rates in Vilnius demonstrated steady growth, reaching an average of 2.8 per cent with the most significant increase in class A and B1 business centres, by 3.6 and 3.7 per cent respectively. Meanwhile Kaunas stood out with 6.2 per cent growth. Klaipeda city maintained the status quo, recording no changes in rent rates due to market inactivity.

Due to intense market supplementation and high competition among RE developers in Vilnius, rent rates are expected to come under pressure but to remain quite stable with a possible slight rent correction in an upward direction in 2016. Meanwhile other major cities (Kaunas, Klaipeda) are expected to demonstrate stability with no significant changes in rent rates. However, in the coming years, Kaunas is expected to witness more significant rent rate changes especially in class A offices as a result of newly planned, high quality office developments. Meanwhile rent rates in Klaipeda are expected to remain stable for a longer period as further absorption of existing oversupply will continue.

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**Completed Office Projects in Vilnius in 2015**

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>CLASS</th>
<th>ADDRESS</th>
<th>GLA, SQM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sostena BC</td>
<td>B1</td>
<td>Užimėgerės St. 280</td>
<td>2,300</td>
</tr>
<tr>
<td>K29 BC</td>
<td>A</td>
<td>Konstitucijos Av. 29</td>
<td>15,470</td>
</tr>
<tr>
<td>Premium BC</td>
<td>B1</td>
<td>Sporto St. 18</td>
<td>7,120</td>
</tr>
<tr>
<td>Business Centre One (former Vertingis BC)</td>
<td>B1</td>
<td>Užimėgerės St. 322</td>
<td>6,000</td>
</tr>
<tr>
<td>Uniq BC</td>
<td>A</td>
<td>A. Gostauto St. 12A</td>
<td>6,820</td>
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</table>

**TOTAL** 37,710

**New Development Pipeline of Office Projects in Vilnius**

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>CLASS</th>
<th>ADDRESS</th>
<th>GLA, SQM</th>
<th>DEVELOPER</th>
<th>OPENING YEAR</th>
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</thead>
<tbody>
<tr>
<td>Quadrum BC (1st stage)</td>
<td>A</td>
<td>Konstitucijos Av. 21</td>
<td>33,160</td>
<td>Schage RE</td>
<td>2016</td>
</tr>
<tr>
<td>Zalgirio 135 BC</td>
<td>B1</td>
<td>Zalgirio St. 135</td>
<td>8,400</td>
<td>Eila</td>
<td></td>
</tr>
<tr>
<td>City BC</td>
<td>B1</td>
<td>Zalgirio St. 90</td>
<td>18,000</td>
<td>Hanner</td>
<td></td>
</tr>
<tr>
<td>Green Hall BC (2nd stage)</td>
<td>A</td>
<td>Upes St. 21</td>
<td>7,400</td>
<td>SBA Koncernas</td>
<td></td>
</tr>
<tr>
<td>Delta BC</td>
<td>B1</td>
<td>J. Balčikonio St. 9A</td>
<td>21,600</td>
<td>Technopolis</td>
<td></td>
</tr>
<tr>
<td>Fabrikas BC</td>
<td>B1</td>
<td>Saltoniškio St. 29</td>
<td>4,800</td>
<td>ZIA Valda</td>
<td></td>
</tr>
<tr>
<td>Highway</td>
<td>B2</td>
<td>Savanorių Av. 178</td>
<td>4,900</td>
<td>Inreal Valdymas</td>
<td></td>
</tr>
<tr>
<td>Narbuto BC</td>
<td>A</td>
<td>Narbuto St. 5</td>
<td>4,650</td>
<td>E.L.L. Real Estate</td>
<td></td>
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<tr>
<td>Duettos BC</td>
<td>B1</td>
<td>Viršulinio Al. 34</td>
<td>16,650</td>
<td>YIT Kausta</td>
<td></td>
</tr>
<tr>
<td>Park Town BC (1st and 2nd stages)</td>
<td>B1</td>
<td>Lvovo St. 101, 103, 105</td>
<td>20,200</td>
<td>MG Valda</td>
<td>2017</td>
</tr>
<tr>
<td>Pentagon BC</td>
<td>B1</td>
<td>Ozas St. 12A</td>
<td>13,730</td>
<td>Realco</td>
<td></td>
</tr>
<tr>
<td>S7 BC</td>
<td>A</td>
<td>Saltoniškio St. 7</td>
<td>11,770</td>
<td>M.M.M. Projektai</td>
<td></td>
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<tr>
<td>3 Bures BC (expansion)</td>
<td>A</td>
<td>Lvovo St. 25</td>
<td>13,000</td>
<td>East Capital</td>
<td></td>
</tr>
<tr>
<td>Domus Pro (3rd stage)</td>
<td>B1</td>
<td>Bielsiuju St. 1</td>
<td>4,380</td>
<td>Northern Horizon Capital</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL** 182,640

---

**Distribution of Speculative Office Space in Vilnius by Class in 2015**

![Distribution of Speculative Office Space in Vilnius by Class in 2015](source: Colliers International)
The fact of the Vilnius office market being as active as ever during 2015 was reflected in vacancy rates, which continued their decreasing trend, reaching an average of 4.3 per cent. Class A office space has been practically leased out, bringing vacancy to a record low level of 0.8 per cent, while among class B offices it stood at 6.1 per cent. However, active development of new office space during the period 2016 - 2017 will significantly enlarge Vilnius office stock causing the vacancy level to go up. This factor is likely to switch a landlord market to tenant dominance, bringing more favourable lease conditions for tenants as well as greater options in alternative office space.

While the Kaunas office market was supplemented with new modern office space, the vacancy level reached 6.3 per cent. Nevertheless, there is still room for new developments, especially larger ones, as the Kaunas market is predominant with small business centres and big international companies do not have the ability to lease all needed office space in one place yet. During 2015 the Klaipeda office market remained inactive in terms of new developments with market supply already exceeding demand. As a result, the vacancy level stood at 13.6 per cent with a slight decrease of 0.9 per cent compared to 2014. Due to improving economic conditions the absorption of market oversupply is expected to continue as practically no new development is expected in Klaipeda in the short term.

## Tendencies and Forecasts

> The Vilnius office market will remain the most active compared to other cities in Lithuania, with a new office pipeline of more than 182,000 sqm for 2016 - 2017 of which about 135,000 sqm is already under construction.

> Future market assimilation in Vilnius will highly depend on the ability to attract new international companies as expansion by locals will not be able to absorb new supply.

> Due to strong market development during the period 2016 - 2017, which is likely to exceed current demand, the Vilnius office market is expected to switch from landlord dominance to tenant dominance, creating more favourable lease conditions for tenants.

> Although demand for office space is expected to grow, landlords of older business centres will have to put in more effort in order to retain tenants as newly built office space will attract more attention.

> Rent rates in Vilnius in 2016 are expected to come under pressure but to remain quite stable throughout the year due to intense market growth. Other major cities (Kaunas, Klaipeda) are expected to demonstrate stability.

> Vacancy rate tendencies are expected to differ in all three major cities. Growth is expected in Vilnius but decline in Klaipeda. Kaunas will most likely maintain stability with possible minor contraction.
Business Centres in Vilnius

**Existing Developments**
1. BPT
2. MG Baltic
3. Baltic Centre
4. Elka
5. Office Plus
6. Victoria
7. BC12
8. Tauralynis
9. Merchants Club
10. Vertas
11. BC 2000
12. House of Europe
13. Plaza 31/1
14. Administrative Building, Roziu St.
15. VIH
16. Helios City
17. Evita
18. LJB
19. Vilbra
20. Vytenio 46
21. Siraja
22. Smolensko
23. Straiženis
24. Marenta
25. Green Hall
26. Hanner
27. Saltoniskio St.
28. Saltoniskio Trikampis
29. Baltic Hearts
30. Europa
31. 3 Bures
32. IBC
33. Zalgiris
34. Kernave
35. Tuliuvalais
36. North Star
37. Domus Centre
38. Danola
39. Ulotu
40. Ozio
41. Akropolis
42. Jin & Jan
43. Trapočia
44. L3
45. Evolution
46. Commercial & Administrative building
47. Unimodus
48. Business Park 4
49. Trio
50. Kamane
51. Orange Office
52. Alfa
53. Beta
54. Gama
55. Business - Residential Complex, Zirmunu St.
56. Business - Commercial Centre, Zirmunu St.
57. Zirmunu BC
58. Menulio St. 11
59. Grand Office
60. Basanavicius

**Completed in 2015**
1. Sostena
2. I29
3. Premium
4. BC One
5. Uniq

**Under Construction**
1. Quadrum, 1st stage
2. Park Town
3. Green Hall, 2nd stage
4. City
5. BC 135
6. Delta
7. Pentagon
8. Duetto
9. Narbuta 5
10. Fabrikos
11. Highway
Retail Market

General Overview

- Despite the closure of grocery retail chain Fresh Market and Lidl not yet operating in Lithuania, for the Lithuanian retail market 2015 was quite positive with increasing retail space supply and major grocery retail chains further straightening their positions in the market.
- The construction of neighbourhood type SCs continued as investors were still too careful with investment in large regional retail projects.
- Qualitative changes in SCs became essential in order to attract more visitors. As a result, transformation of usual SCs into leisure locations offering new technological solutions and personalized marketing is considered to be the future of every SC.
- During 2015 retail volume in Lithuania remained sustainable, despite a significant decline in visitors from Eastern countries, showing good performance in domestic consumption.
- Notwithstanding the growth of retail space supply, the vacancy level remained low as the majority of new projects had tenants in advance.
- Rent rates had a tendency to grow by 1 - 4 per cent in SCs in the major Lithuanian cities due to lack of alternative lease options in the market.

Supply

At the end of 2015 Vilnius retail space supply stood at 596,590 sqm, recording 3.9 per cent growth compared with 2014. Two new SCs opened, both having Rimi Hypermarket as the anchor tenant. These, as well as the second stage of Domus Pro SC being partially completed, have supplemented Vilnius retail stock by GLA of 22,300 sqm.

The Kaunas retail market also showed some activity in 2015. Two new DIY stores opened (Senukai and Moki Vezi) to increase supply by GLA of 9,700 sqm, bringing total stock to 296,370 sqm at the end of 2015. Besides, the expansion of one of the largest SCs in Kaunas, Mega, is already under way and is expected to supplement the Kaunas retail market by additional GLA of 30,000 sqm in 2016.

Meanwhile Klaipeda city showed no signs of increased activity, leaving retail space supply at the same level of 200,640 sqm. Notably, the Ikea order and pick-up point (1,400 sqm) which opened in October 2015, has not been included in Klaipeda retail stock due to its concept specificity and rather small size.

Grocery retailers remained the most important drivers of retail market development in Lithuania in 2015, despite the unexpected closure of grocery retail chain Fresh Market and Lidl not yet operating in Lithuania. Major grocery retail chains further actively strengthened their positions in the market by opening new stores and reconstructing old ones. Besides, huge investment in e-commerce imposed by the already closed Fresh Market moved Lithuanian grocery e-shops to a higher level, forcing competitors (such as Barbora, which is owned by Maxima) to pull up their services and significantly improve their performance.
As to construction of new SCs, slight growth is predicted in 2016, although the majority will be expansions of existing SCs. In general, total retail stock in Lithuania is expected to grow by additional GLA of 78,570 sqm, although having tenants in advance it should not have a significant impact on vacancy.

Looking ahead, 2017 - 2018 is expected to be even more active, especially in Vilnius, taking into account a real estate developer’s VPH plans to convert the former Audejas factory territory into a retail and business complex of 37,000 sqm. If successful, this will be a good indicator that the Vilnius retail market is finally ready to absorb a large new retail development.

Demand

Recently the Lithuanian retail market has been experiencing a fundamental shift in the concept of shopping. Growing requirements for quality in SCs as well as changing customer habits are gradually converting usual shopping areas into leisure and entertainment venues, causing property managers to review SCs’ tenant mix. These trends can be tracked taking a closer look at current tenant changes in major SCs. For instance, in 2015 Panorama SC experienced a strong expansion in catering services by attracting such tenants as McDonald’s, Drama Burger, Soul&Pepper and Manami, while Europa SC opened a Lemon Gym sports club. Moreover, growing customer needs to obtain goods in the most convenient manner is encouraging managers of SCs to invest in new technologies starting from self-service payment for goods, leading to personalized marketing as well as development of e-commerce. As a result of previous growth, e-commerce is expected to form a considerable share in the total retail market in the near future.

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Rent Rates and Vacancy

2015 maintained trends from the previous period. Vilnius city was as usual the most dynamic in terms of rent rate growth in SCs going up by 3 - 4 per cent on average, y-o-y, while Kaunas was slightly calmer with 1.5 - 2.5 per cent growth mainly in small and medium retail units. Klaipeda city was the most stable demonstrating about 1 per cent growth, mostly observed in the retail street segment.

Future prospects seem to remain positive and rent rates are expected to grow in 2016 due to a low vacancy level and lack of attractive SC alternatives for tenants.

The Lithuanian retail market in 2015 continued to remain a landlord’s market with lack of alternative lease options for tenants. A low vacancy level recorded in SCs in the major Lithuanian cities (including Siauliai and Panevezys) fluctuated from 1 up to 4 per cent on average. 2016 is not expected to bring significant changes to the market because a major portion of new supply has already been leased out.

Tendencies and Forecasts

› Grocery retail chains will remain the most active in development and reconstruction of retail properties driven by high competition among retailers.
› Construction of new retail properties will mainly concentrate on neighbourhood type SCs with an anchor tenant - a grocery retailer in advance together with extensions of existing retail projects.
› Qualitative changes will continue to be essential for SCs in order to attract more customers and increase attractiveness to investors.
› Rent rates are expected to grow slightly due to a forecast low vacancy level and increasing competition among tenants encouraged by sustainable growth of internal demand.
› The economic outlook in the Euro zone, wage changes, the impact of emigration and rapid development of e-commerce will significantly affect consumption habits and development of the retail market in the near future.

Rent Rates* for 2015 and Trends for 2016 in Major Shopping Centres and Retail Streets

<table>
<thead>
<tr>
<th>UNIT SIZE</th>
<th>VILNIUS</th>
<th>KAUNAS</th>
<th>KLAIPEDA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RENT RATES</td>
<td>TRENDS FOR 2016</td>
<td>RENT RATES</td>
</tr>
<tr>
<td>Large retail unit (anchor tenant)</td>
<td>6.0 - 11.0</td>
<td>➔</td>
<td>6.0 - 11.0</td>
</tr>
<tr>
<td>Medium retail unit (150 - 350 sqm)</td>
<td>13.0 - 24.0</td>
<td>➔</td>
<td>10.0 - 21.0</td>
</tr>
<tr>
<td>Small retail unit (up to 100 sqm)</td>
<td>22.0 - 42.0</td>
<td>➔</td>
<td>17.5 - 30.0</td>
</tr>
<tr>
<td>Retail streets</td>
<td>14.0 - 58.0</td>
<td>➔</td>
<td>8.0 - 16.0</td>
</tr>
</tbody>
</table>

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses.
➔ - stable, ➔ - slight increase
Source: Colliers International
Retail Projects in Vilnius

- **Existing Developments**
  1. Panorama
  2. Europa
  3. VCP
  4. GC9
  5. Akropolis
  6. IKI Minskas
  7. Helios City
  8. Maxima XXX
  9. RIMI Hypermarket
  10. Maxima XX
  11. IKEA
  12. Norfa Baze
  13. Furniture Gallery
  14. Maxima-Baze XXX
  15. Puza
  16. MADA
  17. Laisves SC
  18. Norfa XL
  19. Ozas
  20. RIMI Hypermarket
  21. Domus Galeria
  22. Bangiris

- **Completed in 2015**
  23. Parkas Outlet
  24. Norfa XXL
  25. Statau
  26. IKI Fabijoniskes
  27. Senukai
  28. Berry
  29. Maxima XXX
  30. Mandarinas
  31. BIG
  32. Link Moletu
  33. Prisma
  34. Norfa XXL
  35. Domus Pro, 1st stage

- **Declared for Completion in 2016**
  1. Domus Pro, 2nd stage (final completion)
  2. Unideco
  3. Nordika, 2nd stage
  4. Parkas Outlet (expansion)

* under reconstruction

* under reconstruction
Industrial Market

General Overview

- The industrial market continued to be positive with construction of built-to-suit projects dominating, adding a record number of 55,300 sqm of warehouse space in Kaunas in 2015.
- Trade restrictions from Russia did not affect the industrial sector as much as initially expected. A large part of transportation companies managed to diversify their working geography and still remain positive about the future.
- E-commerce growth not only had an impact on construction of new parcel sorting terminals (DPD, Lietuvos Pastas) but was also meaningful for demand growth for small and easily accessible industrial premises.
- Relatively low rent rates together with an inexpensive qualified labour force continued to attract foreign companies to Lithuania looking for industrial space not only in the capital city but in other regions as well.

* Industrial space includes all modern warehouse buildings built after 2000 with GLA of over 5,000 sqm.

Supply

The major portion of warehouse space in Lithuania is located in the industrial territories of major cities (Vilnius, Kaunas, Klaipeda) as well as along the main highways. Vilnius continues to have the highest amount of warehouse space. This at the end of 2015 stood at 525,195 sqm with the dominance of speculative objects amounting to almost 80 per cent of total supply. During 2015 the Vilnius warehouse market was quite calm with only one speculative project (9,000 sqm) introduced that increased total supply by 1.7 per cent.

Kaunas, as in the previous year, stood out with active development of built-to-suit projects adding to the market 55,300 sqm of new warehouse space with three new projects implemented: Lidl LC, Lietuvos pastas and DPD parcel sorting terminals. A low vacancy level and lack of lease alternatives led to development of built-to-suit projects, which currently form a significant part of the Kaunas warehouse market.

Klaipeda city remained the most passive in the industrial segment during 2015 as no new projects were implemented. However, 2016 is expected to be more active and bring about 17,470 sqm of new warehouse space to the market.

Due to the current situation, when the majority of new projects are built-to-suit or developed only after an anchor tenant is found, the industrial sector seems to be well-balanced and one of the healthiest segments of commercial real estate. Specific objects are being built for specific customers in this manner, avoiding oversupply in the market.

Completed Industrial Projects in Lithuania in 2015

<table>
<thead>
<tr>
<th>REGION</th>
<th>PROJECT TYPE</th>
<th>TOTAL AREA, SQM</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vilnius</td>
<td>Transimelisa (expansion)</td>
<td>Built-to-suit/Speculative</td>
<td>9,000</td>
</tr>
<tr>
<td>Kaunas</td>
<td>Lietuvos Pastas</td>
<td>Built-to-suit</td>
<td>8,300</td>
</tr>
<tr>
<td>Kaunas</td>
<td>DPD Terminal</td>
<td>Built-to-suit</td>
<td>5,000</td>
</tr>
<tr>
<td>Kaunas</td>
<td>Lidl Logistics Centre</td>
<td>Built-to-suit</td>
<td>42,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>64,300</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Colliers International

New Projects in Lithuania in 2016

<table>
<thead>
<tr>
<th>REGION</th>
<th>PROJECT TYPE</th>
<th>TOTAL AREA, SQM</th>
<th>DEVELOPER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vilnius</td>
<td>Warehouse at Ilgoji St. 2G</td>
<td>Speculative</td>
<td>6,800</td>
</tr>
<tr>
<td>Vilnius</td>
<td>Woodline LC (Tintago Logistic Park, 1st stage)</td>
<td>Speculative</td>
<td>6,000</td>
</tr>
<tr>
<td>Kaunas</td>
<td>Volfas Engelman at Kaunaiemio St. 2</td>
<td>Built-to-suit</td>
<td>7,000</td>
</tr>
<tr>
<td>Klaipeda</td>
<td>VPA Logistics</td>
<td>Speculative/Built-to-suit</td>
<td>17,470</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>37,270</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Colliers International
Demand

2015 showed decreasing export volumes, which were mainly the consequence of deterioration of trade relations with Russia due to import restrictions since August 2014, reinforced Lithuanian truck inspection at the border and the decreasing value of the rouble. These factors reduced demand for industrial space for companies that worked with Russia, although some of these managed to diversify their working geography and still remain positive about the future. Besides, decreasing profits of transportation companies have been partially compensated by declining fuel prices as well as increasing domestic demand.

During 2015 small and medium sized industrial units in easily accessible locations were the most in demand as a result of the rapid growth of e-commerce. In addition, construction of parcel sorting terminals (for instance, Lietuvos pastas, DPD) has also intensified. Lively activity has also been recorded among industrial companies searching for industrial space not only in the major cities but also in other regions of Lithuania. International companies are attracted by relatively low rent rates and an inexpensive qualified labour force, which create a favourable environment for production of manufacturing facilities or re-export of goods to other countries.

Rent Rates and Vacancy

In 2015 a slight growth of rent rates by 1 - 2 per cent was observed in Lithuania as a result of overall economic growth, although the industrial market had some difficulties related to export restrictions to Russia. The highest rent rate increase was observed in Kaunas (1.9 per cent) followed by Klaipeda (1.3 per cent) and Vilnius (1.1 per cent). Looking ahead, rent rates are expected to maintain positive trends, fluctuating within the range of 1 - 3 per cent.

Tenant rearrangement and some minor warehouse projects implemented in 2015 have raised vacancy levels in all three major Lithuanian cities. The vacancy level in Vilnius, Kaunas and Klaipeda was fluctuating within the range of 3.5 - 4 per cent. Vilnius and Kaunas are expected to remain stable throughout 2016, while Klaipeda will most likely experience growth in vacancy because of significant warehouse space supplementation (17,470 sqm).

Warehouse Rent Rates* for 2015 and Trends for 2016

<table>
<thead>
<tr>
<th>REGION</th>
<th>RENT RATES</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vilnius</td>
<td>3.8 - 5.1</td>
<td>→↑</td>
</tr>
<tr>
<td>Kaunas</td>
<td>3.3 - 4.6</td>
<td>→↑</td>
</tr>
<tr>
<td>Klaipeda</td>
<td>3.2 - 4.4</td>
<td>→↑</td>
</tr>
</tbody>
</table>

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→↑ - slight increase
Source: Colliers International

Dynamics of Industrial Space in Major Cities of Lithuania

Distribution of Industrial Space by Size in Vilnius Region in 2015

Dynamics of Rent Rates* in Major Cities of Lithuania

Warehouse Rent Rates* for 2015 and Trends for 2016

REGION | RENT RATES | TRENDS FOR 2016
---|------------|-----------------|
Vilnius | 3.8 - 5.1  | →↑              |
Kaunas  | 3.3 - 4.6  | →↑              |
Klaipeda| 3.2 - 4.4  | →↑              |

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
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Source: Colliers International

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Klaipeda| 3.2 - 4.4  | →↑              |

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→↑ - slight increase
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Klaipeda| 3.2 - 4.4  | →↑              |

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→↑ - slight increase
Source: Colliers International
Tendencies and Forecasts

➢ Development of built-to-suit projects will continue to dominate the market in the coming years, while wider expansion of speculative industrial space will be limited until rent rates reach a sufficient level to cover the investment required.

➢ Improving economic conditions and better expectations for the future will stimulate companies to expand. This in turn will lead to a continuous increase in demand for industrial space. However, lack of new market players and an unstable geopolitical situation will keep the market from faster growth.

➢ International companies are looking not only for warehouse space to store their goods but for production opportunities as well. The combination of warehouse facilities with opportunities to produce goods is expected to be in high demand in the coming years.

➢ Rent rates are expected to grow slightly by 1 - 3 per cent in 2016 due to increasing demand and lack of possible alternatives in the market. However, existing rent rates will not encourage developers to start large speculative industrial projects in the short term.

➢ The vacancy level in Lithuania is expected to remain stable mostly related to smaller supply of new speculative space and an improving overall economic environment.

Vacancy Rates for 2015 and Trends for 2016

<table>
<thead>
<tr>
<th>REGION</th>
<th>VACANCY</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vilnius</td>
<td>3.5 %</td>
<td>➔➔</td>
</tr>
<tr>
<td>Kaunas</td>
<td>3.7 %</td>
<td>➔➔</td>
</tr>
<tr>
<td>Klaipeda</td>
<td>4.0 %</td>
<td>➔➔</td>
</tr>
</tbody>
</table>

➔➔ - stable, ➔ - slight increase

Source: Colliers International

Dynamics of Vacancy Rates in Major Cities of Lithuania

Source: Colliers International

Tendencias y Pronósticos

➢ El desarrollo de proyectos build-to-suit continuará dominando el mercado en los próximos años, mientras que el expansionismo de espacio industrial especulativo será limitado hasta que los rendimientos alcancen un nivel suficiente para cubrir la inversión requerida.

➢ Los mejores indicadores económicos y expectativas mejoradas para el futuro estimularán a las empresas a expandirse. Esto a su vez llevará a un aumento constante en la demanda de espacio industrial. Sin embargo, falta de nuevos participantes en el mercado y una situación geopolítica incierta detendrán el crecimiento más rápido del mercado.

➢ Las empresas internacionales buscan no solo almacenamiento de bienes, sino también oportunidades de producción. La combinación de instalaciones de almacenamiento con oportunidades para producir bienes se espera que esté en alta demanda en los próximos años.

➢ Se espera que los rendimientos aumenten ligeramente entre 1 - 3 % en 2016 debido a la demanda creciente y la falta de alternativas posibles en el mercado. Sin embargo, los rendimientos actualmente existentes no harán que los desarrolladores inicien grandes proyectos especulativos de espacio industrial a corto plazo.

➢ El nivel de vacancia en Lituania se espera que permanezca estable, principalmente debido al menor suministro de espacio industrial especulativo de nuevas adquisiciones y un mejor entorno económico general.

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Hotel Market

General Overview

- Albeit with lower growth, Lithuanian tourism performed quite well, recording 1.97 million tourists accommodated in all types of accommodation establishments in Q1 – Q3 2015, or 6.0 per cent growth compared with Q1 – Q3 2014.
- The geopolitical resonance from relations between the EU and Russia was felt in the country; however, its effects were not as strong as initially expected.
- As the growth of the Lithuanian economy continued leading to a steadily improving standard of living, locals were strong hotel demand generators, especially in Kaunas.
- Despite the contraction in foreigners, the period Q1 – Q3 2015 saw further growth of occupancy rates with the most unexpected performance by Kaunas hotels (a 10.3 per cent increase).
- The VAT reduction to 9 per cent for hotel accommodation in Lithuania since 1 January 2015 as well as strong demand for this type of service were the main factors that led to growth in average hotel rates.

Supply

In 2015 the supply of hotels in Lithuania stood at 377 units of which 233 were classified. The number of classified hotels increased by 6.9 per cent y-o-y. Three-star hotels prevailed in the market (a total of 48.5 per cent). In the context of political events the Lithuanian hotel market continued to show positive results.

Changes in hotel supply structure were minor in 2015, mainly related to hotel reconstruction and rebranding processes. For instance, upon completion of reconstruction of the City Hotels Algirdas and Hotel Ambassador in Vilnius they have become hotels in the 4-star category. Moreover, the latter hotel has enlarged the number of rooms up to 50 and changed the name to Congress Avenue. In addition, the 92-room Campanile Vilnius Airport has been rebranded to the Ibis Styles Vilnius hotel causing the withdrawal of Louvre Hotels Group from the market.

Similar events took place in other major cities. In Kaunas the 11-room Monte Pacis hotel has been given a 4-star rating, while the previous 26-room motel Sandija has become a 3-star hotel. In Klaipeda, Achema Group has changed the manager of the Old Port Hotel and given the hotel the new name Old Mill Conference. Moreover, the newly-launched 4-star Duneton hotel has come as a result of radical reconstruction of the former Vecelrug hotel, while the 144-room Europa City Aura hotel has been connected to the Accor Global Sales and Distribution System under the name Ibis Styles Klaipeda Aurora.

Dynamics of Number of Hotels in Lithuania

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</thead>
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<tr>
<td>Total</td>
<td>300</td>
<td>310</td>
<td>320</td>
<td>330</td>
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<td>350</td>
<td>360</td>
<td>370</td>
<td>380</td>
<td>390</td>
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</tbody>
</table>

Distribution of Hotels by Number of Stars in Lithuania

- 1-star: 28%
- 2-star: 16%
- 3-star: 41%
- 4-star: 10%
- 5-star: 3%

Distribution of Hotels by Number of Stars in Vilnius

- 1-star: 30%
- 2-star: 41%
- 3-star: 16%
- 4-star: 10%
- 5-star: 3%

Source: The Lithuanian Department of Statistics, the Lithuanian Association of Hotels and Restaurants
Future prospects for the Lithuanian hotel market in the coming years are optimistic as growth of the Lithuanian economy continues and Euro zone recovery is picking up pace. Quite an active expansion of hotel supply is expected, especially in Vilnius, as numerous new hotel projects are in the development pipeline. However, an abundant number of new openings are expected no earlier than 2017 - 2018 as most of these still are at project level.

Demand

During Q1 - Q3 2015 the number of tourists accommodated in Lithuanian hotels amounted to 1.48 million, i.e. a 4.9 per cent increase compared with the same period in 2014. Vilnius was the city that confidently showed stable growth of tourist flow, albeit more modest (a 3.8 per cent increase), compared with previous years. Meanwhile Kaunas and Klaipeda were on opposite poles. Klaipeda experienced a severe contraction demonstrating an absolute decline in both the number of tourists accommodated and the number of overnight stays (a 6.6 per cent and 9 per cent fall respectively, compared with Q1 - Q3 2014). In contrast, Kaunas showed an unexpectedly good performance as a result of strong growth in domestic demand (a 5.8 per cent increase in total visitors and a 9.1 per cent increase in overnight stays, compared with Q1 - Q3 2014). However, all major Lithuanian cities saw a reduction in the flow of foreigners. In Q1 - Q3 2015 the length of foreigners’ stay in hotels was longer (1.92 days), compared with Lithuanians (1.81 days), but shorter compared with foreigners’ stay (1.95 days) in Q1 - Q3 2014.

The top five countries in terms of the highest number of tourists visiting Lithuania during Q1 - Q3 2015 remained the same apart from changes in order. Most tourists arrived from Germany - 151.9 thousand (+4.2 per cent), Belarus - 118.3 thousand (-12.6 per cent), Russia - 118.0 thousand (-33.7 per cent), Poland - 102.8 thousand (+7.6 per cent) and Latvia - 88.6 thousand (+14.1 per cent). Significant growth of tourists was also recorded from Portugal (+141.2 per cent), Korea (+79.5 per cent) and Iceland (+49.5 per cent), compared with the same period in 2014.
Occupancy

In 2015 improving general tourism trends across Europe continued to positively stimulate Lithuanian hotel performance. However, some cities’ markets experienced challenges. Although not to the extent expected, Russia was by far the biggest brake on performance given its size as a major source market.

During Q1 - Q3 2015 the average occupancy rate in Lithuanian hotels grew by 2.3 per cent, compared with the same period in 2014, reaching 51.4 per cent. As before, the highest occupancy rate was recorded in Vilnius hotels. This stood at 65.2 per cent, confirming sustainable growth (a 4.3 per cent increase). Strong domestic demand in the Kaunas hotel market set a record high occupancy of 53.5 per cent (a 10.3 per cent increase), the highest in the post-crisis period. Meanwhile Klaipėda experienced some turbulence. Despite a significant decrease in the number of arrivals (by 6.6 per cent) and overnight stays (by 9 per cent) during Q1 - Q3 2015 the market saw further hotel occupancy growth, albeit very modest (a 0.7 per cent increase), reaching 55.7 per cent. We expect the current situation to be of a temporary nature with major challenges left behind in 2015 and a generally positive occupancy trend in coming years.

Prices

In 2015 hotels in Lithuania demonstrated average rate increases, reversing a downward trend that has recently been observed. The VAT reduction to 9 per cent for hotel accommodation in Lithuania since 1 January 2015 plus strong demand for this type of service were the main factors that led to growth in average daily rates.

Following the latest hotel market trends in Europe and Lithuania, we expect average daily rates in Lithuania to remain steady or to slightly grow in 2016. Moreover, hoteliers’ efforts to improve hotel performance until new competitive openings begin to appear on the market are likely to keep at least minimum rate growth.

Price Range* for Double Standard Hotel Rooms in 2015

<table>
<thead>
<tr>
<th>STARS</th>
<th>VILNIUS</th>
<th>KAUNAS</th>
<th>KLAIPEDA</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-star</td>
<td>90 - 230</td>
<td>-</td>
<td>-</td>
<td>➔</td>
</tr>
<tr>
<td>4-star</td>
<td>70 - 125</td>
<td>50 - 70</td>
<td>52 - 110</td>
<td>➔</td>
</tr>
<tr>
<td>3-star</td>
<td>40 - 90</td>
<td>32 - 50</td>
<td>35 - 55</td>
<td>➔</td>
</tr>
<tr>
<td>2-star</td>
<td>35 - 65</td>
<td>38 - 44</td>
<td>25 - 50</td>
<td>➔</td>
</tr>
</tbody>
</table>

* - rack rate, EUR

Tendencies and Forecasts

> Lithuania as an emerging and cheaper destination remains attractive to foreign arrivals and is competitive with other European countries; therefore, further growth in the hotel market is expected in the coming year.

> The constantly increasing attractiveness of the country will retain strong interest of global hotel operators in the Lithuanian hotel market.

> Despite the economic downturn in Russia, which continued contraction is expected in 2016, tourist flows are likely to maintain a growth trend in Lithuania stimulated by action from the country’s Tourism department. However, there is a risk of foreign arrivals falling as in 2016 less money is budgeted for marketing Lithuania abroad.

> As growth of the Lithuanian economy continues along with a rising standard of living and decline in unemployment, and as the Euro zone recovery is picking up pace, we expect the general occupancy trend in Lithuania to remain positive with stable or slightly growing average hotel rates in 2016.
Legal Overview

Commercial real estate in Lithuania can be purchased in two ways - via asset transfer deal or via share transfer deal. Asset deals and share deals are both commonly used in practice.

Asset Transfer Deals

Main Steps

Usually a sale of real estate by one party (seller) to another party (buyer) would be carried out following these main steps:

1. In the case of a larger real estate transaction, before signing the final sale-purchase agreement the parties usually conclude preliminary documents (eg, letter of intent or preliminary purchase agreement) setting out the main terms of the deal (eg, purchase price, payment mechanism, main timelines to complete due diligence of the real estate and sign the final agreement).

2. Before concluding the final sale-purchase agreement the seller must offer third parties with the right of first refusal the opportunity to acquire the property (eg, property co-owners, if such rights exist) by exercising those rights on the same conditions as agreed with the buyer.

3. In the case of price settlement through a notary or bank escrow (deposit) account simultaneously with conclusion of the final sale-purchase agreement, the parties negotiate and conclude an agreement on the terms of use of the escrow account.

4. If purchase of real estate is financed by a third party (eg, a bank), then the lender will require security in the form of a mortgage. In that case the mortgage is usually created immediately after registration of the real estate in the name of the new owner or the new owner may mortgage real estate to be acquired in the future.

5. The parties sign an asset purchase agreement, which must be certificated by a notary. Non-compliance with the requirements of form makes the asset transfer invalid.

6. After signature and notarisation of the purchase agreement, title to the property transferred should be registered with the Real Estate Register in the new owner’s name. Registration is through the notary who certified the transaction. Notarisation and registration of transfer with the Real Estate Register marginally increase the transaction costs.

7. According to existing practice, the notary’s fees and costs related to certification of the transaction are covered by the buyer or shared between the parties. The buyer also pays for registration of title in its name with the public register.

A regular real estate transfer transaction is usually completed within 10 - 15 business days. For more complicated transfers (involving preliminary documents, due diligence, fulfilment of certain conditions precedent, third party participation) the transaction may take about 2 - 3 months.

Share Transfer Deals

Main Steps

1. Especially in the event of a larger transaction, a letter of intent, preliminary purchase agreement or similar pre-contractual arrangement is entered into before signing the main share purchase agreement. The letter of intent, preliminary agreement or similar document sets out the main terms of the transaction (eg, purchase price, payment mechanism, main timelines to complete due diligence and sign the final agreement, exclusivity period).

2. Usually a due diligence (eg, legal, tax, commercial, financial) is performed before concluding the main share purchase agreement. Before examining the documents of the target company the purchaser and its advisors sign confidentiality/non-disclosure obligations. In certain situations due diligence may occur after signing the share purchase agreement but before completion of the transaction.

3. It should be noted that a share sale-purchase agreement needs to be notarised when more than 25% of the shares is transferred or the price of the share transfer exceeds EUR 14,500 (not applicable to shares of a public limited liability company). This requirement is not mandatory but only if the accounting of shares follows the rules and procedures of Lithuanian laws on the securities market. Currently, investors circumvent the notarial form requirement by switching to double-tier accounting of shares.

4. If the non-notarial form of share deal is preferred, the following steps are required in order to switch to double-tier accounting of shares:

   - accounting of shares is transferred to an independent manager (eg, licenced credit institution or financial brokerage firm);
   - shares in the company are registered with the Lithuanian Central Securities Depository and an ISIN number issued.

Costs of switching to a double-tier accounting of shares are not fixed by law but are slightly lower than notarial fees.
5. Once the parties reach agreement on the transaction, the share purchase agreement is signed. If the accounting of shares has not been switched to double tier accounting, the share purchase agreement must also be notarised (for exceptions see above). The notarial fee for certifying share sale-purchase agreement amounts to 0.4 – 0.5% of transaction value but is capped at EUR 5,792. For transactions involving transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 14,481.

6. When less than 100% of shares is acquired, waivers have to be obtained from the other shareholders (i.e. those not selling their shares) of their right of first refusal (pre-emptive right) to acquire the shares to be sold by the selling shareholder. These waivers are collected before signing the purchase agreement or before completion of the transaction (in that case obtaining waivers is included as a condition precedent for closing). In addition, when less than 100% is shares is acquired, shareholders’ agreement may be concluded between the buyer and the seller and/or other shareholders.

7. Merger control and other regulatory filings are generally carried out before closing and are included in the transaction documents as conditions precedent for completion.

8. Title to shares is transferred as agreed in the share purchase agreement (eg, on signing, after payment of all or part of the purchase price). Transfer of title is evidenced by entries in the securities’ accounts opened in the name of seller and buyer (in the event of non-certificated shares). If certificated shares are transferred, then entries evidencing the transfer (endorsements) are made on the share certificates. The new list of shareholders should be filed with the Register of Legal Entities.

Issues to Consider

- A share deal, if notarial certification is applicable, involves notarial fees, but not state duty for registration of real estate. However, fees for switching to double-tier accounting also apply.
- A share sale-purchase agreement does not need to be publicly registered, unlike an agreement for sale-purchase of real property. The list of new shareholders must be filed with the Register of Legal Entities. However, failure to so does not have any impact on ownership rights to shares.
- From 2015, a share subscription agreement must also be in written form and certified by a notary when all or part of a share issue is paid up by real estate.
- The buyer takes over the entire company (assets and liabilities) including matters and risks occurring before change of ownership.
- Due diligence investigations are more extensive as a share deal is about transfer of the entire company, as opposed to real estate only.
- Deferred corporate income tax as well as other tax issues may apply.
- Existing management structure, employees, and contractual obligations of the company may be not in line with the buyer’s expectations.

Title to Real Estate, Real Estate Register

Ownership of real estate is acquired upon completion of construction or on the basis of different transactions, such as sale-purchase, grant, or exchange (swap).

Real estate and related rights are registered with the Real Estate Register. There is no mandatory requirement to register transfer of title; however, a transaction must be registered before it can be invoked against a third party.

The Real Estate Register keeps and manages information on the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other rights and obligations; the information it contains is publicly available. Data recorded with the Real Estate Register are considered true and comprehensive until proven otherwise. The rules and requirements for registration are the same throughout Lithuania. Application for registration of real estate and related rights should be filed by the acquirer. An application should be accompanied by the documents evidencing transfer of the title to the real estate, such as a notarised sale-purchase agreement or donation agreement.

Acquisition of Real Estate

General

Ownership of immovable property can be transferred if the property is formed as a real estate object, has a unique number, and is registered with the Real Estate Register. Real estate objects include inter alia land plots, construction objects (e.g., buildings) and premises.

Upon sale of a building, the buyer’s rights to the land plot occupied by the building and necessary for use of the building must be specified in the acquisition agreement. An agreement which does not deal with these rights to a land plot may not be approved by a notary and, even if certified, is still ineffective. If the seller does not own the land plot on which the building stands, the seller may sell the building only with prior consent of the land owner.

Change of Ownership

Title to real estate passes as of the moment of transfer of the property to the new owner. The transfer must be formalised by a transfer-acceptance deed that may either be signed as a separate document or incorporated in the agreement on real estate acquisition.

Form of Agreements

Share transfer transactions must be in written form. Share transfer transactions require notarial form only in certain cases, such when more than 25% of shares is transferred or the price of the share transfer exceeds EUR 14,500 (for possible exemption please see above). Failure to notarise both a share deal (when applicable) and a real estate transfer agreement makes the agreements ineffective. Real estate sale-purchase agreements (asset transfer transactions) must be in written form and certified by a notary.
Language Requirements

Transactions between Lithuanian legal and natural persons must be in Lithuanian. However, translations into one or more other languages may also be attached. Transactions with foreign natural and legal persons may be in Lithuanian and another language acceptable to both parties. However, if a transaction requires approval of a notary, the Lithuanian language document prevails.

Due Diligence

Legal due diligence of target real estate is strongly recommended. This includes, eg, title, encumbrances, third party rights, zoning and planning issues, existing lease agreements - all information including material facts related to real estate. Due diligence analysis may provide the buyer with certainty and information relevant to the transaction and operations after the acquisition is completed. Due diligence forms a basis for contract negotiations, risk allocation, verification of purchase price, and pre- and post-closing commitments.

Right of First Refusal

The right of first refusal may be established by law or contract. Examples of the statutory right of first refusal include a co-owner’s right of first refusal to acquire a share on sale of commonly-owned real estate, except if the sale takes the form of a public auction; the state’s right of first refusal to acquire land in, eg, national and regional parks, or state reservations. In addition, if a building and its land plot have different owners, the owner of the building situated on a land plot to be sold enjoys a right of first refusal to acquire the land plot.

The parties may also agree on a contractual right of first refusal. If real estate is sold in violation of that right, the holder of the right of first refusal is entitled to claim transfer of the buyer’s rights and obligations.

As a general principle, if a seller of real estate fails to comply with an existing right of first refusal, the person who enjoyed the right of first refusal may apply to the court for an order transferring the rights and obligations of the buyer within the statutory limitation period.

Typical Purchase Price Arrangements

The price of real estate must be specified in the sale-purchase agreement, otherwise the agreement is ineffective. The parties are free to arrange payment of the purchase price. Payment may be made in one lump sum or divided into several instalments. For example, the first portion of the price may be transferred in order to secure the preliminary agreement or on the day of notarisation of the sale-purchase agreement, with the remainder paid after certain conditions are fulfilled, such as release from mortgage, vacation of property. Title to real estate may be transferred before or after payment of the full purchase price.

Restrictions

Restrictions on Acquisition of Real Estate

Buildings and other constructions may be acquired by Lithuanian or foreign natural or legal persons without restriction.

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest unrestrictedly except for acquisition of agricultural land in which case the total area of agricultural land possessed by either a natural or a legal person and persons related to them is limited to 500 ha. For the purpose of this restriction related persons means: (i) spouses, parents together with their children; (ii) persons who directly or indirectly (via an entity in which a person has not less than 25% of votes) have more than 25% of the votes in an entity; (iii) legal persons in which the same person has more than 25% of the votes. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply, eg, 3 years’ experience in agriculture, declaration of agricultural land and crops.

Investments in land (including agricultural, forestry and inland waters) for foreign citizens or legal persons, if the European and Transatlantic Integration criteria, stipulated in Constitutional Law, are met, are not more restricted than for Lithuanian citizens or legal persons. Foreign legal entities are deemed to comply with European and Transatlantic criteria if they are established in:

- Member States of the European Union (EU) or states parties to the European Treaty with the European Communities and their Member States; or
- Member Countries of the Organisation for Economic Cooperation and Development (OECD), states parties to the North Atlantic Treaty Organisation (NATO) or the European Economic Area Agreement (EEA).

Foreign natural persons are deemed to comply with European and Transatlantic criteria if they are:

- citizens or permanent residents of any of the states specified above; or
- permanent residents of Lithuania although not holding Lithuanian citizenship.

If these criteria are not met, foreign entities are not entitled to acquire land, inland waters and forest as owners; they are entitled to use and possess such real estate on some other basis, eg, rent.

Merger Control

Acquisition or possession (eg, lease) of real estate may require prior approval by the Lithuanian competition authorities.

An intended concentration must be notified to the Lithuanian Competition Council, whose permission is required where the combined aggregate income of the undertakings concerned is more than EUR 14.5 million for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned is more than EUR 1.45 million for the financial year preceding concentration. Note: if a Lithuanian undertaking participates in a concentration, its worldwide income will be taken into account. This does not apply when determining the aggregate turnover of a foreign undertaking (i.e. not incorporated in Lithuania) participating in a concentration, where only income received from sales in Lithuanian product markets is taken into account.

Encumbrances

Real estate may be encumbered with servitudes (easements), rights of first refusal, lease rights registered with the Real Estate Register, mortgages, and other encumbrances that limit its use or disposal. These encumbrances should be taken into consideration when using or constructing real estate.
Mortgage

A mortgage is a security aimed at securing fulfilment of contractual obligations. A mortgage is created by executing a mortgage contract signed by the debtor, the creditor, the owner of the mortgaged real estate, and notarised. A mortgage contract comes into effect at the moment of signing, unless otherwise specified in the mortgage contract.

A secured creditor enjoys priority against third parties to redeem the debt from the mortgaged property. A mortgage survives transfer of title to real estate.

A mortgage can also be executed over a legal entity, ie, its property (pool of assets), the composition of which may change in the normal course of business of the mortgaged entity.

Property Management

Management and maintenance of commercial real estate is usually carried out by the owner or a professional property management company. In the latter case the parties may agree on the scope of owner’s rights and obligations to be delegated to the property management company by concluding a property management agreement.

Lease Agreements

General

The main regulatory framework of lease agreements is laid down in the Lithuanian Civil Code. Parties to lease agreements, however, may freely agree on most aspects and lease terms. The lease agreement survives transfer of title to the leased real estate object, provided the lease agreement is registered with the Real Estate Register.

Duration and Expiry of Lease Agreement

A lease agreement may be concluded for either an indefinite or fixed term, but in all cases the term may not exceed 100 years. If a term has not been set, the lease agreement is deemed to be concluded for an indefinite term. A fixed-term lease agreement becomes indefinite if the tenant uses leased property for more than ten days after its expiry and the landlord does not object. Tenants who have properly discharged their obligations under lease agreements enjoy a right of first refusal against third parties to renew the lease.

Lease Payment and Other Expenses (Utilities)

Terms and conditions for payment of rent and other expenses are subject to agreement between the parties. Rent is usually paid monthly. It is common to agree on annual indexation of rent on the basis of local or EU harmonised consumer price indices. As a rule, payments for maintenance of leased real estate and other utility costs (eg, water, heating, gas, electricity) are made on top of rent. The landlord may also require a deposit, guarantee, surety or other similar instrument securing payment obligations by the tenant. Triple net leases have become as a standard for “A” class offices.
Tax Summary

Corporate Income Tax (CIT)

Taxable profit is subject to a standard flat rate of 15%. Taxable profits are arrived at by deducting exempt income as well as allowable and partly allowable expenses from taxable income.

Tax-exempt Income

Exempt income includes the receipt of penalties and fines, revaluation of fixed assets and liabilities (except for derivative financial instruments), insurance compensations, amongst others. Dividends received from EEA companies (subject to corporate income tax (CIT) or equivalent tax) are tax exempt. Dividends received from other foreign companies (subject to corporate income tax or equivalent tax) are tax exempt if they qualify for participation exemption (where not less than 10% of voting shares have been held continuously for at least 12 months), except for the dividends received from tax havens.

Allowable Deductions

Deductions allowed are all expenses actually incurred in the ordinary course of business that are necessary for the earning of income or in order to receive economic benefit.

Capital Gains

Capital gains are non-taxable if they are derived from the transfer of shares of an entity that is registered in Lithuania or another EEA country, or in a country with which Lithuania has a double tax treaty and is subject to corporate income tax or equivalent tax (participation requirement: more than 25% of shares held continuously for at least two years). If the transfer of shares takes place in the course of a corporate reorganization, the minimum holding period is three years. Capital gains derived by non-residents from the sale of shares in Lithuanian companies are not taxable in Lithuania. Non-residents are taxed on capital gains arising from the disposal of real estate located in Lithuania. For resident companies, capital gains are included in the taxable income for CIT purposes from the sale of asset.

Tax Depreciation

Depreciation of fixed assets is usually calculated from cost on a straight-line basis or using a double declining balance method over periods as outlined in the Lithuanian Law on CIT. The tax depreciation period for new buildings (except residential buildings) used in a company’s economic activity for tax purposes may not be less than eight years.

Real Estate of Non-residents

Non-resident companies are subject to a 15% withholding tax rate on income from the sale, transfer or rental of real estate situated in Lithuania. Non-resident companies may apply to the tax authorities to recalculate the tax withheld in order to be taxed on the net capital gains instead of the whole proceeds of the sale of the real estate.

Withholding tax may be reduced under applicable tax treaties.

Real Estate Tax

Real estate located in Lithuania is subject to real estate tax. Land is not subject to real estate tax, but is subject to specific land tax. The annual tax rate for legal entities ranges from 0.3% to 3% of the taxable value of real estate. Municipalities are entitled to establish a precise rate by 1 June of each year to govern transactions in the following year. The taxable value is the average market value of the real estate established by applying the mass valuation method or the rebuilding value method depending on the purpose of the real estate. Owners of real estate may request an individual valuation. Commercial property owned by individuals (for purposes other than those subject to the below taxation) is taxed in the same way as real estate owned by legal entities. The annual tax return for commercial property has to be filed with the tax authorities and real estate tax must be paid by 15 February of the following year. In addition, advance real estate tax (applicable only for legal entities) for the first nine months of the current tax period also has to be declared by 15 February of the current calendar year. Advance real estate tax amounts have to be paid by 15 March, 15 June and 15 September if the annual amount of tax payable exceeds EUR 500. Individuals paying 0.5% real estate tax must file the annual tax return and pay tax by 15 December of the current year.

Lithuanian and foreign individuals owning real estate in Lithuania have to pay 0.5% real estate tax on the total taxable value exceeding EUR 220,000 (an individual non-taxable value of EUR 220,000 should be applied for each family member who owns immovable property as well as for spouses who own property under joint ownership rights). Qualifying property includes residential premises, gardens, garages, homesteads, science facilities, places of worship. The non-taxable real estate value is increased by 30% for families raising 3 or more children and families raising disabled children.

Land Tax

Land tax is paid by the owners of private land. The land tax rates range from 0.01% to 4% of the taxable value. The rates are established by local municipalities by 1 June to cover the following year (or they are set by 1 December in specific years). Land tax does not apply to roads of common usage, land owned by embassies, land in protected areas and also other specific land. Land tax is paid annually for the whole calendar year according to the taxable value of the land owned on 30 June of the current year. The taxable value is established based on the mass valuation method which is intended to reflect the market price of the land. Legal entities and individuals leasing state or municipality owned land must pay land lease tax, which is not less than 0.1% and not higher than 4% of the land value. A precise tariff and payment dates for land lease tax is established by the local municipality in each individual case. The land value, on which the land lease tax is estimated according to special rules, is stated in the land lease agreement.
Value Added Tax (VAT)

In general, the Lithuanian Law on VAT provides that the sale of buildings, land and other real estate is VAT non-taxable, except for new buildings and building land which are both subject to the standard 21% VAT rate. A new building or structure or a finished building or structure (within the first 24 months following its completion or following its material improvement) is considered as an unfinished building or structure. If real estate is sold without VAT, but the taxpayer has deducted input VAT, they shall be obliged to adjust the VAT deduction (for real estate a 10-year term is applicable).

Rent of real estate is VAT non-taxable unless the real estate is categorised among certain exceptions. Exceptions are made for hotels, motels, camping sites, and similar accommodation services as well as short-term rentals within residential areas. The renting of garages, parking lots and similar real estate properties as well as equipment treated as real estate are subject to a standard VAT rate of 21%.

A taxpayer can choose to sell or rent real estate to another VAT payer applying the standard VAT rate of 21%. Such choices have to be declared to the tax authorities and must remain unchanged for at least 24 months from commencement.

Services related to a real estate unit which is, or will be located in Lithuania are considered to be provided in Lithuania. Therefore, such services have to be subject to the standard Lithuanian VAT rate of 21%. In such cases, foreign taxable persons rendering services related to real estate in Lithuania have an obligation to register for VAT in Lithuania. Services related to real estate include construction, projecting, relevant research, engineering, architectural works, valuation, supervision and maintenance of real estate, and other real estate related services. Since 1 July 2015, construction works are subject to the local VAT reverse charge mechanism, under which VAT for construction works is calculated and paid to the state budget by the customer, i.e. not the contractor (the construction company).

State and Notary Fees

The real estate sale-purchase agreement has to be notarized and duly registered in the public register.

The fee for notarisation of a real estate sale-purchase agreement is 0.45% of the value of the asset (i.e. sales price), but not less than EUR 28.96 and not more than EUR 5,792.40. The stamp duty for registration of the ownership rights in the Real Estate Register depends on the value of real estate and may range from EUR 2,90 to EUR 1448,10.

No specific real estate transfer tax is applicable in Lithuania.

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