

Vilnius Residential Update

Residential property supply does not overtake the demand

Economy

During the 4th quarter 2004 Lithuanian economy kept the rapid growth with a GDP increase 6.4% comparing with the 7.2% in the 1st half of 2004. One of the growing economy indicators is 9,4% increase of the construction works. Increasing investment supports economy growth too. According to labor market data unemployment rate was constantly declining. Due to entry to EU these indicators for remainder of the year are expected to keep the same direction.

Prices

The especially sharp increase in prices, which began in the second half of last year continued up to the middle of 2004. Beginning in the summer of 2003 prices of newly constructed apartments grew 15-30% on average, though currently they have stabilised and do not possess potential for high growth. New apartments located in the city centre and in the Old Town cost between 1,100 and 2,300 EUR/sqm. Prices of newly constructed apartments located in the prestigious districts of the city (Antakalnis, Zverynas) range between 870 and 1,300 EUR/sqm. Prices of new, partially decorated apartments outside the city centre range between 600 and 870 EUR/sqm. The average price of decorating one square metre is 150-200 EUR.

Demand

The demand for newly constructed apartments presently remains high and the existing supply still cannot meet the increased demand. On the other hand, there is not an apartment-buying boom like there was in late 2003 and early 2004. It should be acknowledged that elation over accession to the EU had a strong impact on the market and that buyer behaviour was less rational before May 1 than it is at the present time.

The highest demand is still for cheaper one or two room apartments with a starting price of 700-800 EUR/sqm before decorating. There is also high demand and price increase potential for apartments in low-rise residential buildings, as well as terraces in not too densely populated areas or in locations with natural scenery (vegetation, water) which are oriented not so much to maximum use of the area but to the buyers' quality of life.

Supply

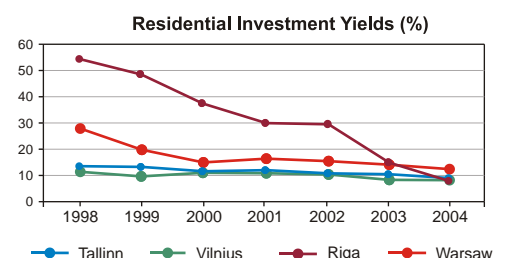
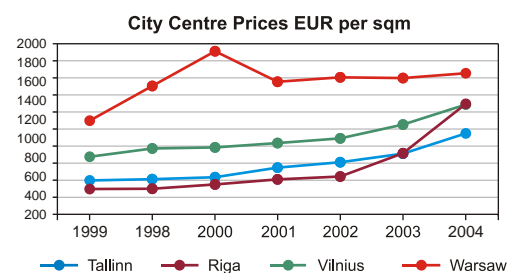
It is expected that at least 2,900 newly constructed apartments will appear on the market by the end of 2004, and about 95% of them have already been sold or reserved. The largest parts of the apartments (almost 60%) are being built in the so-called "dormitory districts": Zirmunai, Pasilaiciai, Fabijoniskes, Karoliniskes and others. Significantly less construction is taking place in the prestigious districts, and



In Real – presents a new residential complex **Nida** which will be terminated in 2006



90 % of flats reserved though the construction of **Alsva**, one of the two 16-storey apartment buildings, have just started.



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especially in Zverynas, where the number of apartments constructed this year will not exceed 100. Slightly more than 300 apartments will be built in Antakalnis by the end of the year. Plans are to build at least 3,000 apartments in 2005. The number of new apartments in 2005 could be greater; however, zoning rules for land were considerably tightened as new amendments to the Law on Territorial Planning came into effect on May 1. Because of this, the prices of land parcels with prepared detailed plans have substantially increased. The share of parcels for apartment houses soared from 30 to 50% in half a year.

The mortgage market

Mortgage loan rates varied from 3.7% depending on currency, term, and other conditions. The maximum term is 40 years. Clients can borrow up to 95% of a property's value using guarantees from the state home loan insurance company.

Liquidity is fuelled by growing mortgage loans. Still, outstanding mortgage loans in Lithuania total only 4% of annual GDP. Compared to the EU average of 38% of GDP, mortgage lending has a long way to grow, bringing more liquidity to the market.

Rents

In 2004 remained the same tendencies in the residential rents sector. The supply of properties, which exceed 290 EUR per month distinctly, overtakes demand. Therefore the rents of 2-3 room apartments have dropped 10 % in the Old Town and City Center. The biggest demand has been for the 1-2 room apartments which rents do not exceed 350 EUR per month located in the Center, Old Town and Zverynas. The rents of cottages and houses have remained unchanged since the demand does not exceed supply. The most popular districts remain the prestigious districts Zverynas and Antakalnis.

Property taxes

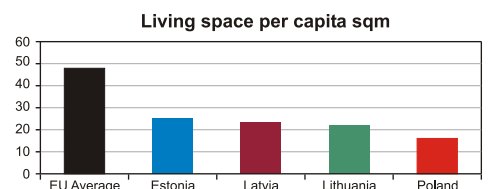
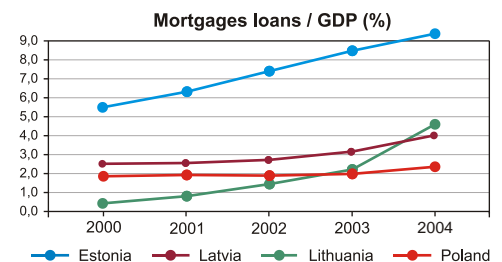
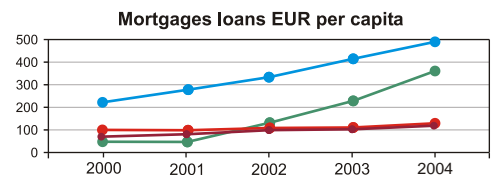
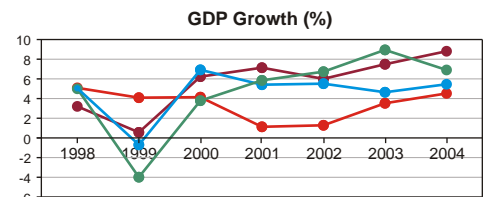
At present, property tax for private persons is calculated only for land and comprises 1.5 % of the nominal property value. According to the new property taxation rules, this tax will soon depend on the market value of the property, and therefore land tax in Vilnius will increase. It will likely be equal to the taxes paid by companies, i.e. 1 % of the property's market value. However, there will be various exemptions and a certain share of property will be non-taxable.

Foreigners can freely buy and sell residential property in Lithuania. A foreigner can also buy land but must get approval from the local municipality.

WINTER/SPRING 2005



Construction of prestigious 7-storey **Vingio** apartments on Ciurlionio st. was terminated in January 2005.



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