

MARKET COMMENTARY

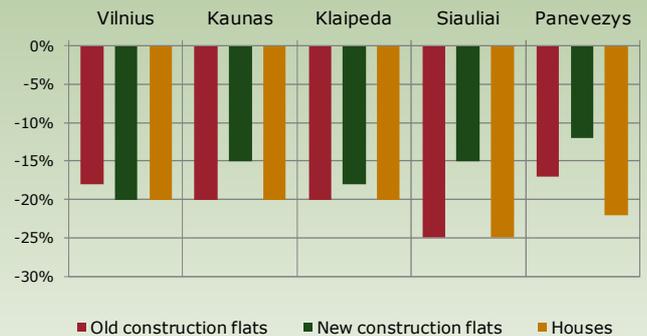
Since the very beginning of 2008, the players in the Lithuanian housing market have not cherished optimistic expectations regarding further market developments. In the course of the year, the expectations have diminished even further. The obvious recession of both global and Lithuanian economic indices, sudden changes in the conditions under which mortgage loans are issued and the construction sector is credited as well as the pessimistic forecasts for the future economic development resulted in a sudden downfall of sale prices and rent in the housing sector, including a significant decrease in the supply of newly built housing all over Lithuania. In 2008, prices were falling in all segments of residential real estate, i.e. economy and luxury class apartments and houses, leisure housing in resort areas and land plots.

In 2008, the prices of real estate in the largest cities of Lithuania decreased by **20%** on the average. At the beginning of last year, the sellers of real estate would offer only symbolic discounts or various additional service packages. In the middle of 2008, the buyers were offered much more generous discounts amounting to as much as **30%**, compared to the prices at the beginning of the year. In 2008, the biggest decrease in the prices of second-hand housing was recorded in **Šiauliai** and amounted to **25%**, while the smallest decrease was in **Vilnius** and **Panevėžys** and amounted to **18%** and **17%** respectively. The prices of newly built apartments fell most significantly in **Klaipėda** and in **Vilnius**, i.e. **18%** and **20%** respectively, while the slightest change in the prices was in **Panevėžys** and amounted to **12%**.

In 2008, the market of rented housing, although until then considered as stable and growing, faced significant changes too. During the first half of 2008, the rent charged for the housing in the largest cities of Lithuania was still on a slight increase, but in the second half, and particularly at the end of the year, the rent started falling quite rapidly and, compared to the situation at the beginning of 2008, it went down by approximately **10%**. In addition to the global economic changes, the fall of the rent charged for housing was affected by the decrease in the prices of housing and the worsening liquidity of real estate. Moreover, an especially big share of the real estate obtained for profit-making purposes was offered on the market of rented housing, which was known for harsh competition even before that. In addition, a fall in the rent charged for housing was also influenced by the growing costs of housing maintenance and a rapidly worsening financial situation of the inhabitants. Besides, it is necessary to consider the seasonality currently characteristic of the market. Usually in the winter time the market of rented housing tends to be more dormant than during other times of the year.

A significantly lower demand of housing and a rather tense situation on the financial market resulted in the situation where it becomes increasingly difficult for the construction sector to finish the projects in progress. Banks, on their turn, witnessing rather complicated sales of apartments in the buildings under construction, refuse to continue with the financing of the construction projects in progress.

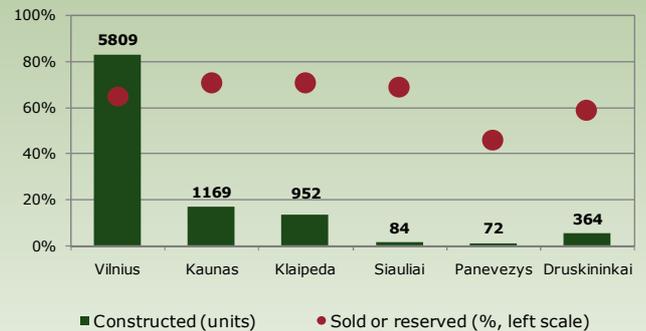
Average residential price changes in 2008 (percent)



Source: Ober-Haus

Data: 2008

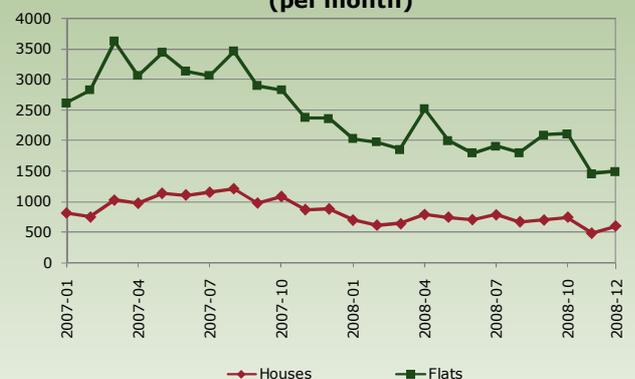
New construction flats supply and demand in 2008



Source: Ober-Haus

Data: Q4 2008

Number of transactions in Lithuania (per month)



Source: SE Centre of Registers

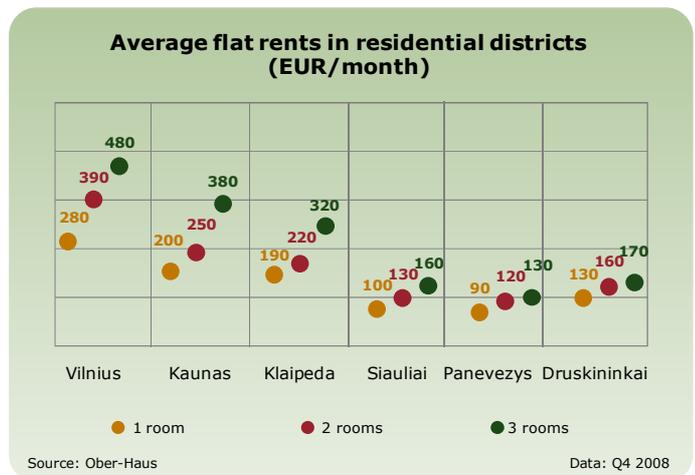
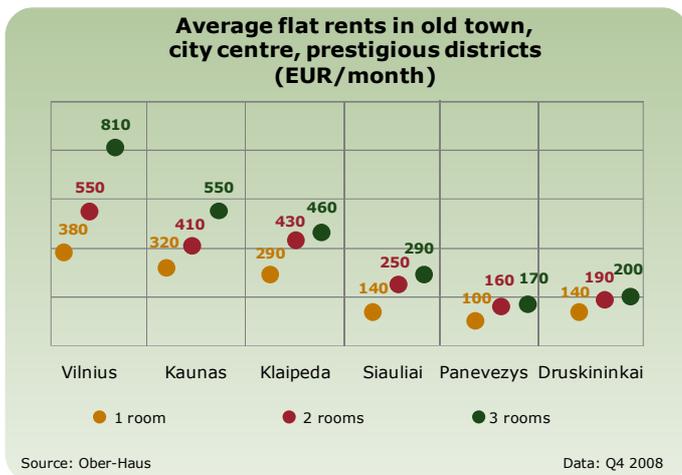
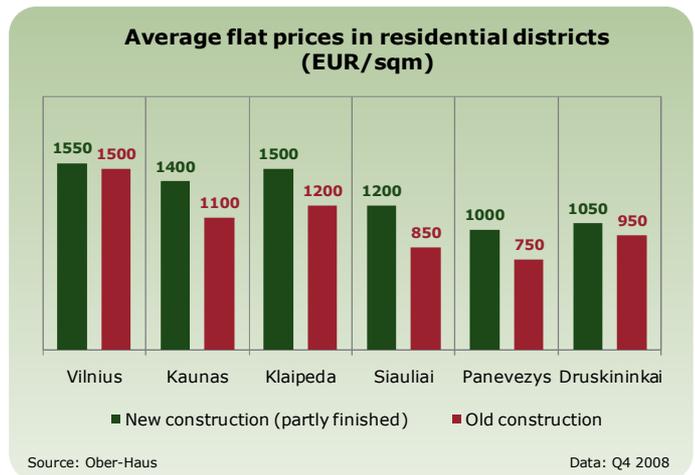
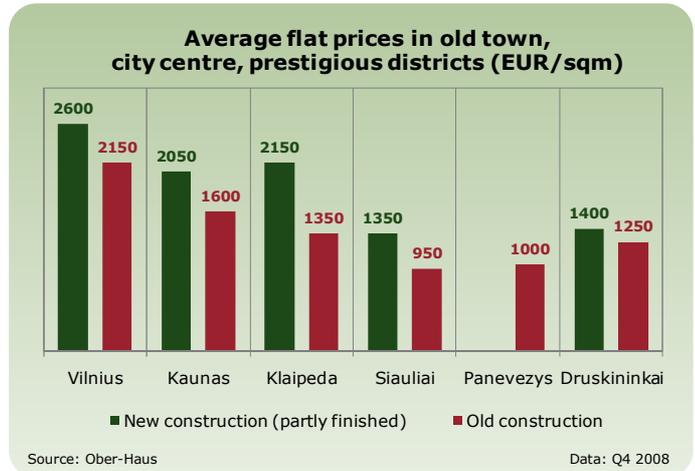
Data: 2007 - 2008

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Therefore, part of construction companies that have block buildings under construction found themselves in a difficult situation. Under present market conditions, buyers usually restrain from buying apartments in houses that are still under construction, and, in the absence of sufficient flows of buyers, banks refuse to continue financing such projects. As a result, at the end of 2008, at least 5 construction projects in progress were suspended in Vilnius. The future of these projects remains unclear.

What concerns the demand, the *Ober-Haus* experts have estimated that in 2008, **65%** of newly built apartments offered for sale in Vilnius were sold. In **Kaunas** and **Klaipėda** this share amounted to **71%**, in **Šiauliai** to **69%**, in **Panevėžys** to **46%** and in **Druskininkai** to **59%**. The data for 2005-2007 shows that during that period at least **85-95%** of newly built apartments would be sold within a year. The information provided by the *State Enterprise Centre of Registers* shows that the number of housing transactions in the primary and secondary markets has decreased by **50-60%** as compared to the situation at the beginning of 2007, when the number of such transactions was the highest.

The estimates of the future prospects of the housing market clearly show that in 2009 the supply of new housing will go down significantly. It may be presumed that in 2009 the scope of new construction in **Vilnius**, **Kaunas** and **Klaipėda** will go down by approximately **50-70%** as compared to the scope of construction in 2008. What concerns other cities, it is highly probable that the development of block buildings will be suspended. According to the forecasts of *Ober-Haus*, approximately **2,000-3,000** of new apartments will be built in Vilnius in 2009, which is almost half the amount built during the construction peak of 2007-2008. Moreover, it will be the lowest number over the recent 6 years and it is highly probable that this index will remain unchanged until the end of 2010.



If you wish to receive any additional information about development of the real estate market in Lithuania, Latvia, Estonia and Poland; or you would like to order a special report on the part of the market relevant to you or the market of the project in progress, please contact UAB Ober-Haus real estate market analysts.

Saulius Vagonis, Valuation and Market Research Group Manager
Tel.: +370 5 210 97 17, e-mail saulius.vagonis@ober-haus.lt