

Lithuanian Residential Real Estate

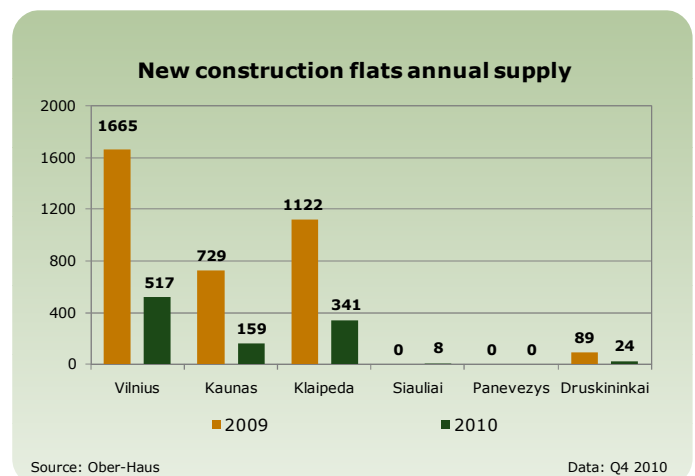
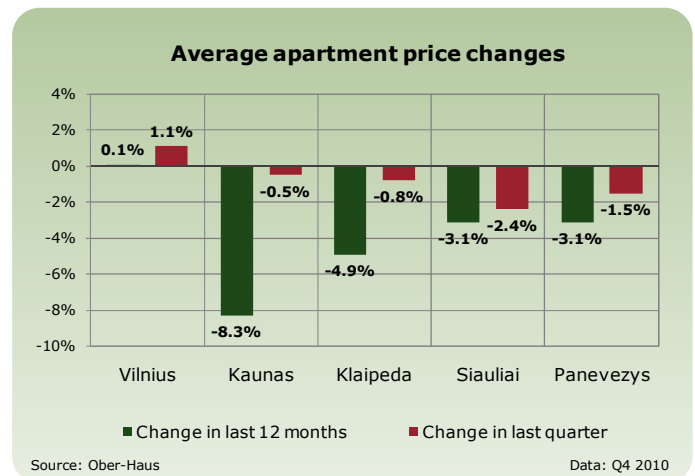
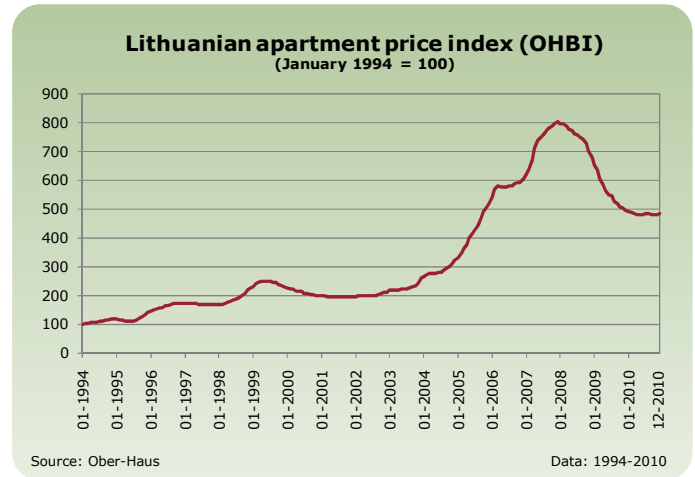
Q4 2010

MARKET COMMENTARY

In the history of the Lithuanian residential property market, 2010 will be recorded with a negative price changes. In 2010, the total price level of apartments in the main cities of Lithuania—Vilnius, Kaunas, Klaipėda, Šiauliai, and Panevėžys—dropped another **3.0%**. However, given the price change in the prices of apartments in 2008 and 2009 (15.2% and 26.8% respectively), the change in 2010 was insignificant. Last year could be defined as the year of searching for the bottom because the drop in residential prices in the main cities of Lithuania stabilised considerably and from mid 2010, the first price changes in the positive were recorded in Vilnius.

Data recorded by Ober-Haus show that in 2010 the prices for residential property in the main cities of Lithuania experienced different trends. Beginning June 2010 in the capital city, the first positive apartment price changes were recorded. Although they were not significant, they remained until the end of the year. Vilnius is the only city in Lithuania where a symbolic positive residential property price change of **0.1%** was recorded in 2010. In the capital city, the price change in apartments also experienced different trends in different segments. A positive price change was recorded only in the least expensive segment, i.e. old or new apartments located in residential districts. A more significant price change was observed in the new apartment market, because shrinking supply and new and more attractive projects allowed the developers raise the price in individual cases by as much as 10–15%. Total price growth in this segment, however, was only 5% in 2010. A slight price rise was also observed in the prices of old apartments located in residential districts since they attracted potential buyers due to having the lowest prices in the market. A slight drop of 3–6% was noted in the segment of more expensive residential property (new and old apartments in prestigious areas or the centre of the city) in 2010.

Meanwhile in other main cities of Lithuania, the total price level of apartments last year experienced another drop. The largest annual drop, **8.3%**, was recorded in Kaunas. Compared to other major cities in Lithuania, however, the total fall in prices in this city is the smallest. This was influenced by the slower rise in the prices of residential property and lower price level in the past than was the case in Vilnius or Klaipėda for instance. In 2010 the prices of apartments dropped **4.9%** in Klaipėda and **3.1%** in both Šiauliai and Panevėžys.

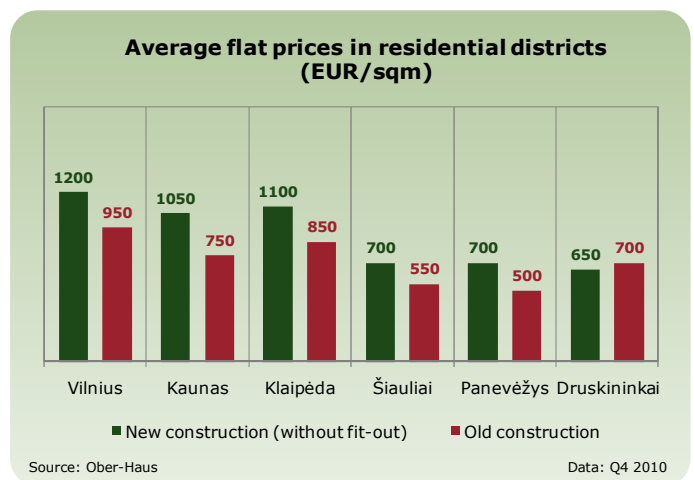
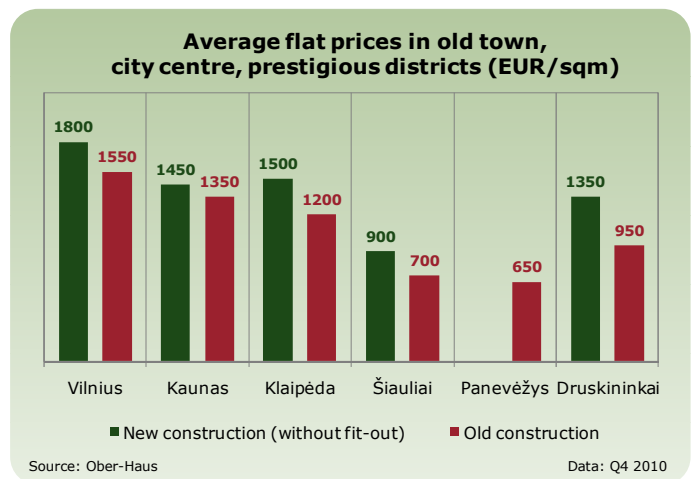
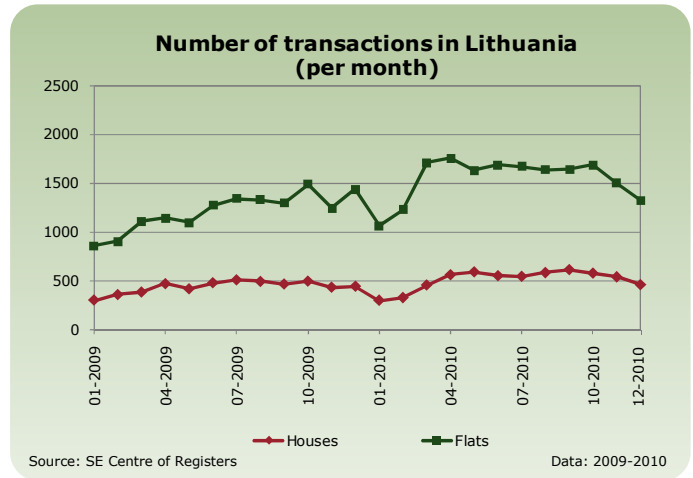


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Despite various price changes, the number of residential property transactions in all the main cities of Lithuania experienced a rise in 2010. According to data of the State Enterprise Centre of Registers, the number of sale/purchase transactions in Lithuania concluded in 2010 was over **27%** higher than it was in 2009. The growth in the number of detached house sale/purchase transactions in 2010 was smaller—over **16%**. It is evident that significantly lower residential property prices and improving financing conditions in 2010 increased the number of potential buyers. Even though market activities have notably become more dynamic, in comparison with the years 2004–2007, the most active period in the real estate market of Lithuania, shows that the situation in the market is still fairly sluggish. The indicators of 2010 were half what they were between 2004 and 2007, when the average monthly number of residential property transactions in Lithuania was around 4,000.

As had been forecast, the supply of new residential properties last year was very sparse. In 2010, over **500 new apartments** were completed in **Vilnius**, i.e. 3 times fewer than in 2009 and 11–12 times (!) fewer than in 2007 and 2008. Last year the scope of construction of new apartments was not satisfactory in Klaipėda or Kaunas either. In the port city of Klaipėda, nearly **350 apartments** were built and in Kaunas only **160 apartments** were constructed (3 and 5.5 times fewer than were built each year between 2008 and 2009). Such a drop in supply was expected because developers remaining in the market tried to complete only few projects that had been started earlier. In 2009 hardly any residential construction projects were started, but the year 2010 was more hopeful. Last year there was increasingly more mention of renewed building work and some companies did indeed start or renewed construction works. In light of the current market situation and the rate of new construction, a moderate growth in supply could be forecast in 2011.

Even though in the last quarter of 2010 the number of new apartments (in completed apartment buildings) in the main cities of Lithuania went up slightly (some projects were completed), the annual drop in supply was significant. Although at the end of 2009, **4,100** newly built apartments were unsold in the apartment buildings of the main cities of Lithuania, in 2010 real supply decreased 30% to **2,850 apartments**. At present, the following numbers of apartments are offered in apartment buildings constructed in 2007–2010: **1,350** apartments in **Vilnius**, over **600** apartments in **Kaunas**, **800** apartments in **Klaipėda**, and a total of approximately **80** new apartments in **Šiauliai** and **Panevėžys**.



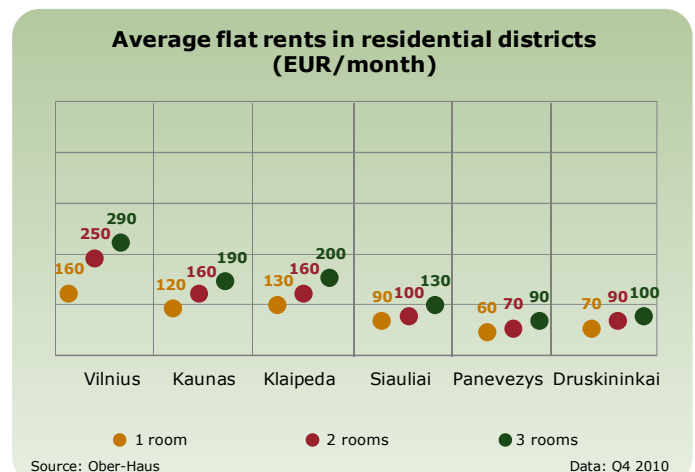
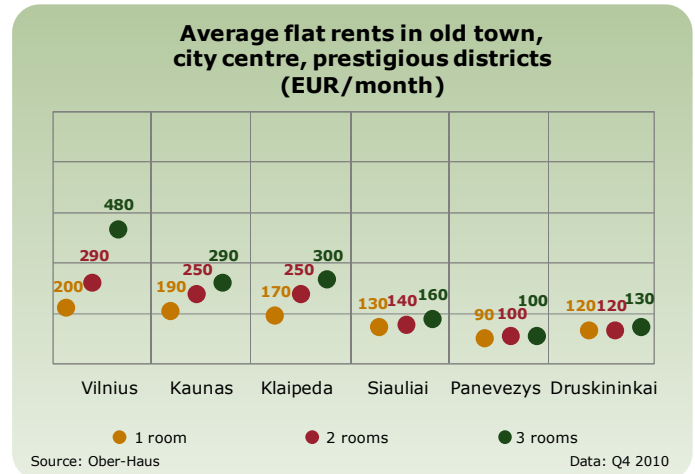
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If we calculate the number of apartments unsold in the primary market per number of inhabitants in each city, **Klaipėda** would be the evident leader with **4.4** apartments per 1,000 inhabitants followed by **Vilnius with 2.5** apartments and **Kaunas with 1.8** apartments.

Although at the end of summer and beginning of autumn a rise in the activities in the rental market in the main cities of Lithuania was observed, in the winter owners of apartments had to work harder to find tenants. In the final months of 2010, owners had to reduce rent prices by 30–60 EUR to attract new tenants and to keep existing tenants. This was particularly the case if the apartments were big or required high maintenance costs. Such apartments will most likely not offer a negotiating advantage at the beginning of this year either.

Even though the market for detached houses in the main cities of Lithuania was notably more active, the growth in the number of the transactions could not affect the price of houses, which on average dropped another **5–10%** in 2010. The considerable fall in land prices and construction costs between 2008 and 2009, as well as the existing supply of houses, may be said to have contributed to the house prices being record low in 2010. Last year buyers were mostly interested in new construction houses in the outskirts of the city. Such houses are usually attractive due to their lower price and fairly small distance to the city centre. Today 150–200 sqm detached houses with 6–10 ares of land and without final fit-out are usually sold for **90,000–145,000 EUR** in the outskirts of **Vilnius**, **70,000–130,000 EUR** in the suburbs of **Kaunas and Klaipėda**, and **55,000–90,000 EUR** in **Šiauliai and Panevėžys**.

In summary, it may be said that last year was slightly better than 2009 for both the buyers and the sellers of residential property. Sellers could enjoy the greater activity of the buyers and more stable prices, and buyers were interested in emerging new supply (particularly in the capital city), notably improved mortgage conditions, and the still attractive decreased prices of residential property.



The stabilised price level of residential property, the country's economy recording the first signs of recovery, and the greater mortgage activity of banks should mean that in 2011 the residential property market will be at least as active as it was in 2010, whereas the evidence of the price rise observed will likely be recorded not only in the capital city but also in other cities of Lithuania.

When using the survey data, a reference to Ober-Haus Real Estate Advisors is required.

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 Ober-Haus real estate market analysts.

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