

Lithuanian Residential Real Estate

Q4 2013

MARKET COMMENTARY



The year 2013 brought quite a few positive changes to the Lithuanian housing market. The main news is that the number of transactions involving residential property rapidly increased across Lithuania, and steady growth in property prices was recorded in individual regions of Lithuania. It is obvious that positive local and international news has led to market players having greater market expectations, and these expectations are likely to remain in 2014.

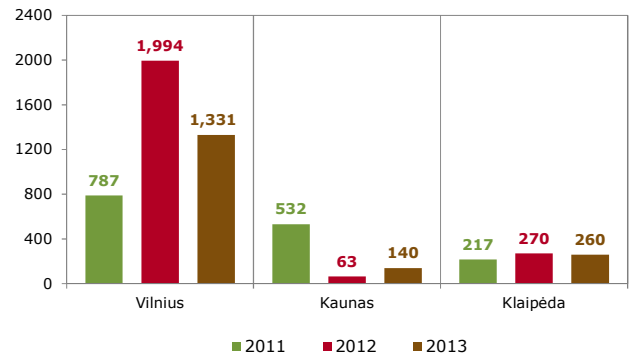
In recent years there have been numerous discussions about the construction of residential properties resuming, and Vilnius has become the sole leader in this in Lithuania. Indeed, developers of new multi-apartment buildings in the capital city do not plan on slowing down and regularly offer new projects to the market. According to Ober-Haus, in **Vilnius** developers offered 22 new projects with a total of just over **1,300** apartments in 2013. This is one-third less compared with 2012, but the decline in supply is temporary because some projects were not completed in 2013 and the completion of construction was carried forward to 2014.

The residential districts with apartment buildings in Vilnius have traditionally been the most interesting to developers, and the apartments built in these areas accounted for 68% of the total supply in 2013. The most active development continues in fast growing districts such as Pašilaičiai and Pilaitė. Since completion of construction of some projects was carried forward to 2014, it is estimated that more than 2,200 new apartments in 26 different projects should be offered in 2014 to the market in Vilnius. According to Ober-Haus, this will be the largest supply of new apartments over the past 6 years, but still 2–3 times smaller than that in 2006–2008, when the largest construction volumes of new apartments recorded in Vilnius amounted to 5,000–6,000 apartments annually.

Ober-Haus estimates that in **Kaunas** in 2013, construction of **140 apartments** was completed, more than twice as many as in 2012. Meanwhile, in **Klaipėda**, construction volumes remained very similar to those in 2010–2012. Three new multi-apartment buildings were built in the port city, offering a total of **260 apartments**. The construction volumes of new residential projects in the major cities in Lithuania directly depended on the demand in the market. It is hardly possible to expect radical changes in supply in Kaunas, Klaipėda, Šiauliai and Panevėžys, because the sales volumes of new apartments rather clearly demonstrate the potential of the development of these cities.

While sales of newly built apartments in the five major cities of Lithuania grew by one-third in 2012, growth reached 41% in 2013. Nearly **2,900** new apartments in newly built multi-apartment buildings or in buildings being constructed have been purchased or reserved directly from developers in the five major Lithuanian cities.

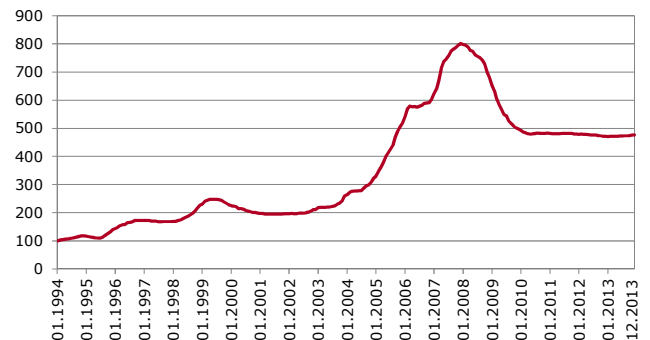
New construction flats annual supply



Source: Ober-Haus

Data: 2011 - 2013

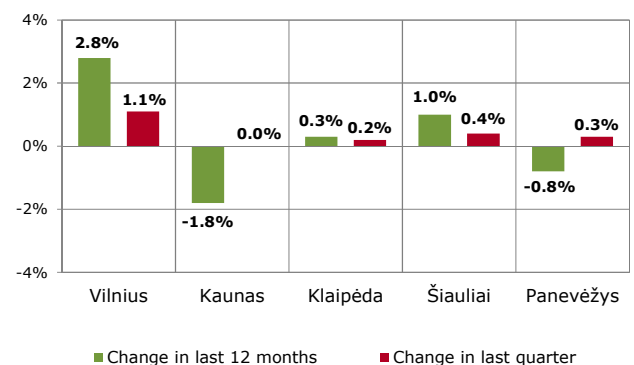
Lithuanian apartment price index (OHBI)
(January 1994 = 100)



Source: Ober-Haus

Data: 1994 - 2013

Average apartment price changes



Source: Ober-Haus

Data: Q4 2013

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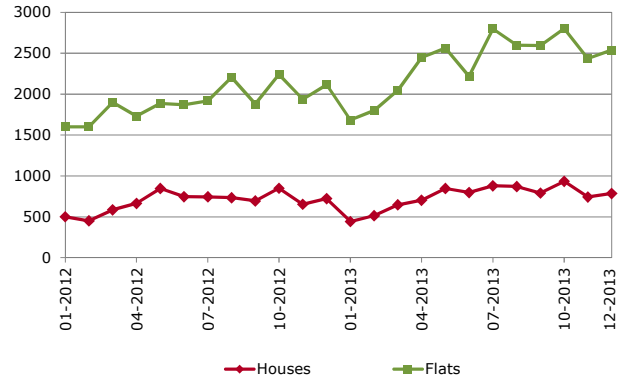
Although the total sales of new apartments are growing, the situation is different in each individual city. For several years Vilnius has been topping the statistical indicators because the rapid growth of new housing supply and demand has been recorded only in this city. According to Ober-Haus, nearly 2,300 new apartments were sold or reserved in the capital city in 2013, 57% more than in 2012. In Kaunas, sales over the same period increased by 46% (around 340 new apartments were sold) and in Klaipėda a 23% decline in sales was recorded (about 250 new apartments were sold). Lower sales in the port city can be attributed to very good sales in 2012, which could not be maintained in 2013. To compare sales volumes per urban resident rather than absolute sales in the major cities, there were 1.6 new apartments sold per 1,000 inhabitants in Klaipėda, 1.1 apartments in Kaunas, and 4.3 apartments in Vilnius.

At the end of 2013, the total number of unsold new apartments in the newly built multi-apartment buildings of **Lithuanian major cities** was around **2,400** or 18% less than the year before. At the end of 2013, **1,160** apartments were being offered for sale in the multi-apartment buildings built in 2007–2013 in **Vilnius**, **380** apartments in **Kaunas**, nearly **800** apartments in **Klaipėda**, and **55** new apartments in **Šiauliai and Panevėžys** together.

The rapid recovery of the market is affecting the stagnated prices of residential property. According to Ober-Haus, apartment prices in **Vilnius** increased by an average of **2.8%** in 2013, the highest positive annual change since 2008. Positive changes in prices were recorded both in old and new building segments. The increased interest in newly constructed apartments led a 3.2% increase in prices, while the prices of apartments in old buildings increased by 2.6%. The largest price increase in 2013 (7%) was recorded in the type of apartment most in demand: two-room apartments in residential districts of the city with apartment buildings. This is not surprising, because apartments of this size and in these locations always seem to be best sellers. Rising sales prices provided an impetus for further changes in rental prices. Apartment rents increased by an average of 8% in Vilnius in 2012, and the rate increased by a further 4% in 2013.

In **Šiauliai** and **Klaipėda**, 1.0% and 0.3% growth respectively in apartment prices was recorded in 2013. Meanwhile, in **Kaunas** and **Panevėžys**, negative changes in prices were recorded, **1.8%** and **0.8%** respectively. No sustainable market recovery or hopes for faster positive changes in the near future are visible in any of the country's major cities, with the exception of Vilnius. Both the declining population and the lack of growth in investment in new projects have a decisive influence. But growing number of housing transactions is however a signal of the still available internal resources in these cities.

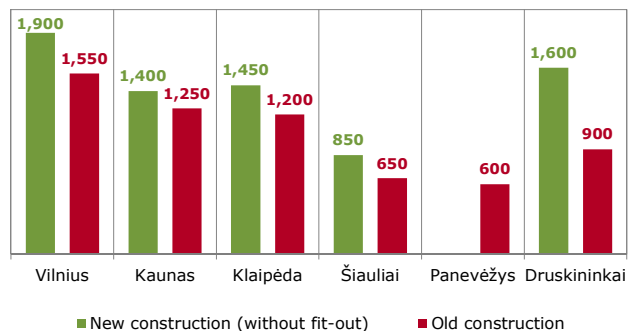
Number of transactions in Lithuania
(per month)



Source: SE Center of Registers

Data: 2012 - 2013

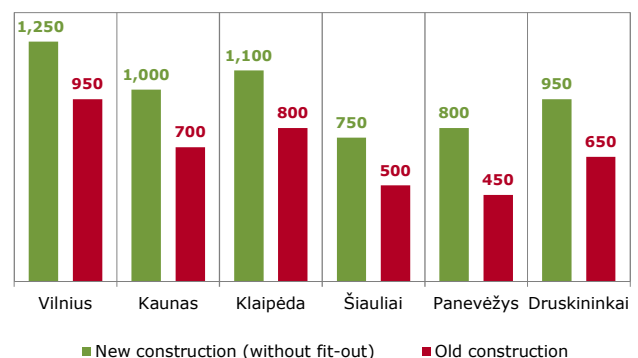
Average flat prices in old town, city centre, prestigious districts
(EUR/sqm)



Source: Ober-Haus

Data: Q4 2013

Average flat prices in residential districts
(EUR/sqm)



Source: Ober-Haus

Data: Q4 2013

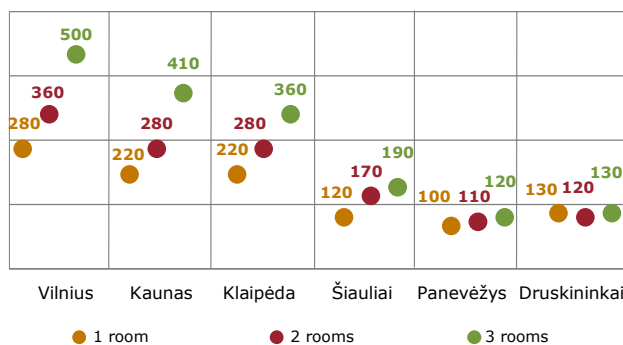
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In 2013, the overall activity in the residential property market surprised the market players. If the rapid growth in housing transactions in 2010–2011 could be associated with the particularly dramatic decline in the number of transactions in 2009, then the results of 2013 completely dispelled such assumptions. According to the Centre of Registers, compared with 2012, **25% more** purchase and sales transactions involving apartments and nearly **10% more** transactions involving houses were recorded in Lithuania in 2013. On average, nearly 2,400 transactions for apartments and 750 transactions for houses were concluded each month in Lithuania in 2013. Rapid growth in housing transactions was recorded in all major Lithuanian cities without exception.

Last year's borrowing results were in line with the overall growth trends in the market. According to the Association of Lithuanian Banks, in 2013 major national credit institutions issued new housing loans totalling nearly EUR 550 million, i.e. **34% more** compared with 2012. The growth in lending is not reducing the number of residential properties purchased without loans. Those in Lithuania who have savings try to avoid bank loans when purchasing their homes (especially in smaller towns where property is cheaper). On the other hand, those who wish to use the money they have available often do not have a lot of investment alternatives and therefore purchase homes in the hope of stable rental returns (gross residential yield in the major cities of Lithuania stands at 4–6%) and future growth in property prices. The return of private investors to the real estate market is influenced not only by the recovering market, but also by banks offering very low interest rates on deposits (reaching only 0–3%) or the unsuccessful activities of some banks (which used to offer higher interest rates than competitors).

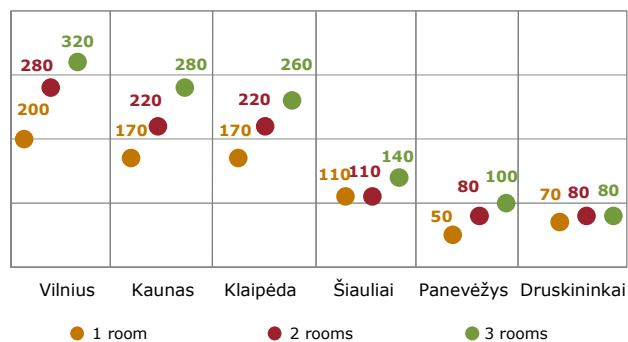
Average flat rents in old town, city centre, prestigious districts (EUR/month)



Source: Ober-Haus

Data: Q4 2013

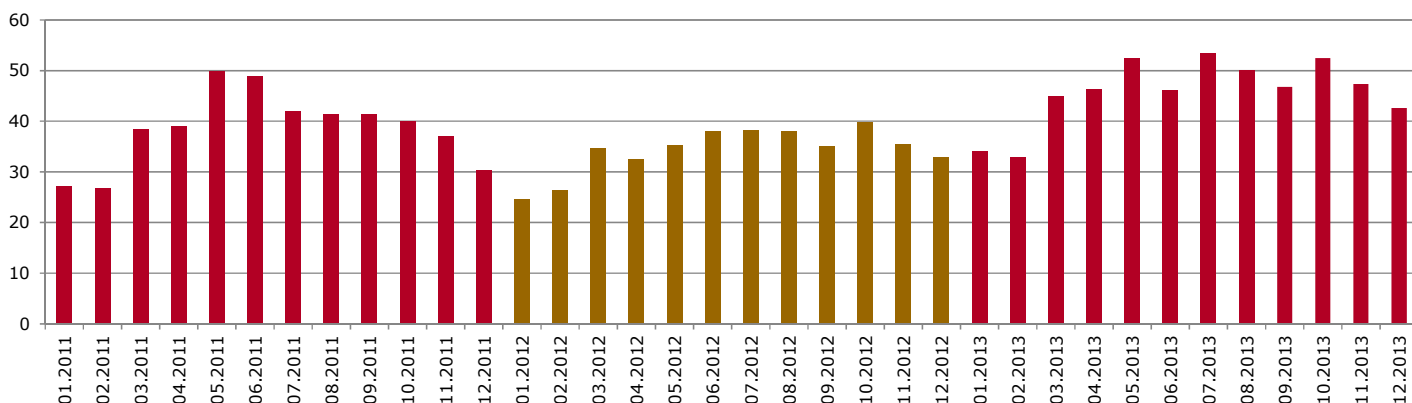
Average flat rents in residential districts (EUR/month)



Source: Ober-Haus

Data: Q4 2013

New housing loans for private persons (million EUR)



Source: Association of Lithuanian Banks

Data: 2011 - 2013

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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