

Lithuanian Residential Real Estate

Q4 2014

MARKET COMMENTARY



The year 2014 was erratic indeed for the Lithuanian housing market. The first half of the year saw extraordinarily high activity and rapidly growing residential prices in the largest cities of the country, while the second half of the year recorded more moderate trends which determined more modest indicators of market activity and, in principle, slowed down the growth in prices. Nevertheless, assessment of 2014 as a whole, leads to the conclusion that this was the most active year in the housing market since 2008.

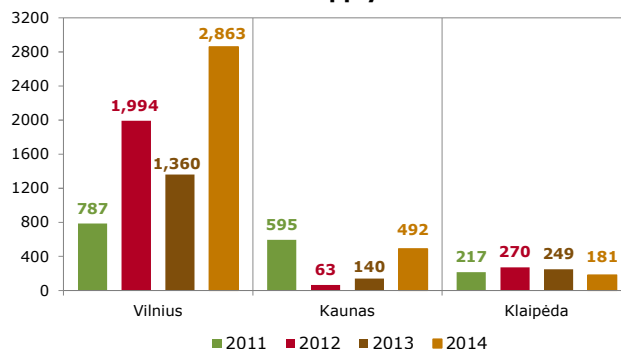
In 2014, investments in Lithuanian residential premises continued to grow. According to the data provided by the Lithuanian Department of Statistics, 12% of all construction works in residential premises were made over 2014, which amounts to EUR 299 million or is 50% more than in 2013. This growth is not surprising given the amount of new construction which accelerated afresh, at least in the country's capital.

According to Ober-Haus data, in 2014, **2,863 apartments** or twice as many as in 2013 were built in **Vilnius**. In total, 37 different residential projects were implemented in the capital. As usual, the majority of new apartments were built in residential districts where new apartments constitute as much as 75% of the total supply in 2014. The portion of newly constructed apartments in the central part of the city (Naujamiestis (New Town), Senamiestis (Old Town) and Užupis) accounted for about 13%, and in prestigious areas (Antakalnis and Žvėrynas) – 12%.

There was also considerable growth in Kaunas in the number of blocks of apartments being constructed. The comparatively low number of unsold newly constructed apartments in the primary market and the increased demand for good-quality property prompted developers to take advantage of the potential of Kaunas and to implement new small-scale projects. Ober-Haus records show that there were almost **500 apartments** built in **Kaunas** over 2014, which is 3.5 times more than in 2013. Meanwhile, developers in **Klaipėda** remained cautious – 2014 saw only **180** new apartments built in the city (27% less than in 2013).

Buyers did not seem to be indifferent to the upswing of residential construction either. According to Ober-Haus data, they purchased or reserved over **3,800** newly built apartments in completed or still being constructed blocks of apartments directly from builders in the five largest Lithuanian cities over 2014. This represents an increase of one third over the number of apartments sold in 2013. The most dramatic positive changes in this type of demand were recorded in Vilnius and Kaunas, which once more proved the rule that increasing supply prompts

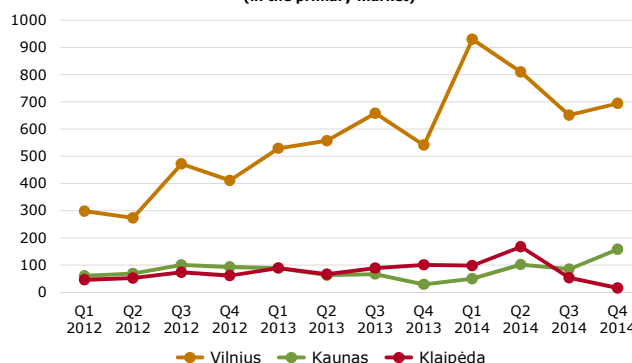
New construction apartments annual supply



Source: Ober-Haus

Data: 2011 - 2014

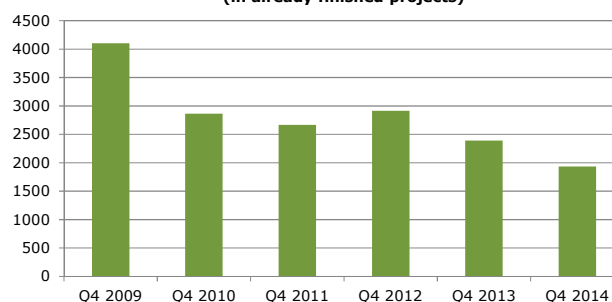
Sales of new apartments (in the primary market)



Source: Ober-Haus

Data: Q1 2012 – Q4 2014

Unsold new apartments in major cities (in already finished projects)



Source: Ober-Haus

Data: 2009 - 2014

Lithuanian Residential Real Estate MARKET COMMENTARY

Q4 2014

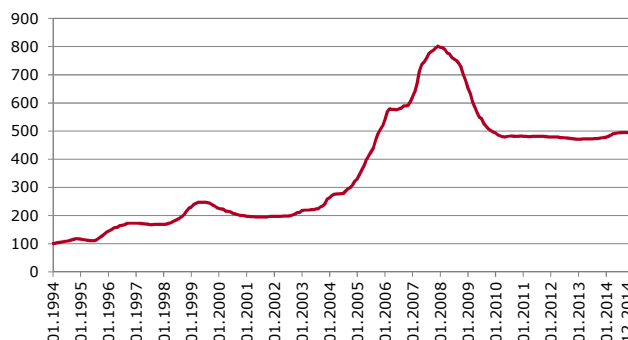
purchasers to buy new apartments and improves the indicators at the same time. In 2014, almost 3,085 new apartments were sold or reserved in Vilnius; this is 35% more than 2013. In Kaunas, the sales figures over the same period of time grew by 48% – over 500 new apartments were sold; Klaipėda recorded a decrease of 11%, with about 220 new apartments sold. To compare relative sales capacities in terms of the number of city residents rather than absolute quantities of sales over the last year, 5.7 newly built apartments were sold per 1,000 residents in Vilnius, 1.7 – in Kaunas and 1.4 – in Klaipėda. The sales figures could probably be better in Kaunas and Klaipėda; however, the choice of new apartments in these cities is not yet as high as in the capital. However, if we consider the total number of transactions per 1,000 residents, Klaipėda is the most active city in Lithuania, with 19.8 apartment sale transactions concluded per 1,000 residents over 2014. Meanwhile, in Vilnius the corresponding number was 18.1 transactions per 1,000 residents, and in Kaunas it was 14.6.

At the end of 2014, the total number of unsold new apartments in completed blocks of apartments in the **Lithuanian cities** was **1,940** or 19% less than a year ago. At the end of 2014, the number of apartments for sale in the blocks of apartments built in 2007–2014 was **1,040** in **Vilnius**, **240** – in **Kaunas**, almost **625** – in **Klaipėda**, and over **30** new apartments in **Šiauliai and Panevėžys** together.

Despite the stagnation in apartment prices during the second half of 2014, the highest positive annual price shift was recorded in all Lithuanian cities since 2007. According to Ober-Haus data, in 2014, prices of apartments in **Vilnius** grew by **5.1%** on average. The biggest positive changes in prices were recorded in the old construction apartments in residential and prestigious districts of Vilnius (8.3%). The prices for newly built apartments in Vilnius increased by 3.0% in 2014. **Panevėžys, Klaipėda, Šiauliai and Kaunas** saw an increase of **2.3%, 1.4%, 1.1% and 1.0% respectively** in prices over 2014. Similar trends were seen in the house market. In 2014, prices of **houses** in Lithuanian cities and suburbs increased by **2-6%** on average. The year 2014 saw housing prices settling down and this was the first year that prices increased throughout the country over the last seven years.

The sales market of apartments was not the only one to have seen an increase in 2014, there was a considerable increase in the apartment rental market also. Rental prices in the largest cities, namely, **Vilnius, Kaunas and Klaipėda** grew by **4-6%** on average in the year. Despite the increase in the investment for rent sector and simultaneously growing competition, the activity of tenants warmed the cockles of property owners' hearts. The fast growth in rental prices (in comparison to property value) also increased average yield rates in the main cities of Lithuania. On average, the residential yields of apartments in 2014 in Vilnius increased by 0.4 percentage point, increased by 0.7 percentage point – in

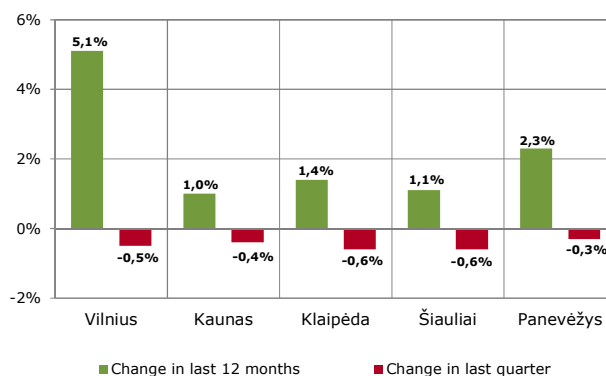
Lithuanian apartment price index (OHBI)
(January 1994 = 100)



Source: Ober-Haus

Data: 1994 - 2014

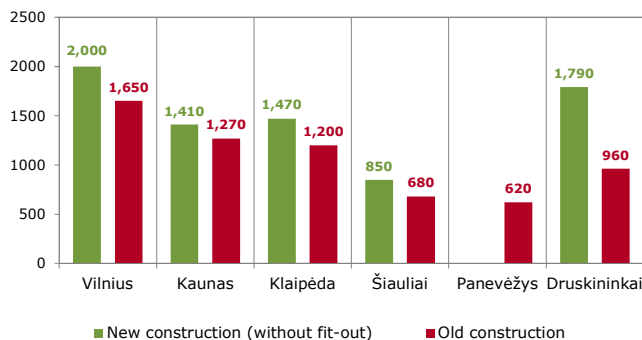
Average apartment price changes



Source: Ober-Haus

Data: 2014

Average apartment prices in Old Town, city centre, prestigious districts
(EUR/sqm)



Source: Ober-Haus

Data: Q4 2014

Lithuanian Residential Real Estate MARKET COMMENTARY

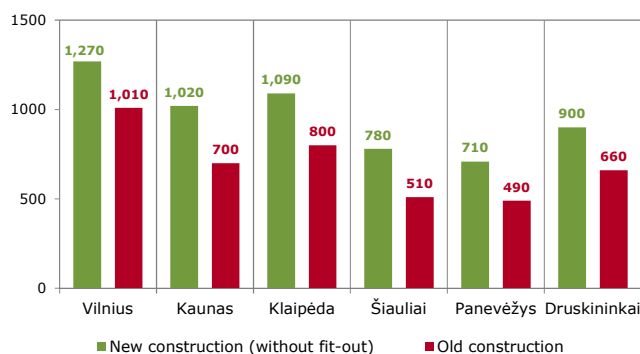
Q4 2014

Kaunas and increased by 0.4 percentage point in Klaipėda. The gross yields of rental property in **Vilnius** subject to the location of the property was approximately **4.8-6.2%**, **5.6-6.8%** – in **Kaunas** and **5.2-5.8%** in **Klaipėda**. However, it seems, likely that any further growth in yields may be curbed by the growing number of unprofessional investors in the market as this investment alternative is accessible and comprehensible to a wide range of people who want to make their savings work. And a growing number of investors in the market often means a decreasing return on investment.

Although it is impossible to say exactly what proportion of acquired property will be used for rental purposes, the fast-growing general number of transactions leads to the conclusion that the rental sector in Kaunas, Klaipėda and in a most active region in terms of rent – Vilnius – will keep developing. According to the data of the State Enterprise Centre of Registers, in 2014, the number of transactions on apartment sales was **9%** higher and the number of house sale transactions was even **37%** higher than in 2013 in **Vilnius**. The corresponding numbers in **Kaunas** over the same period of time increased by **22%** and **5%** respectively; meanwhile, in **Klaipėda** the number of apartment sales related transactions increased by **5%** only and the transactions on the sales of houses grew by **9%**. Credit institutions, which offered favourable loan conditions, also contributed to the fast growth in market activity in all cities of Lithuania. According to the data of the Association of Lithuanian Banks, in three quarters of 2014 the main credit institutions of the country granted loans worth almost EUR 518 million, which is **27%** more compared to the same period in 2013.

Without exception the all indicators for Lithuanian housing sector were positive in 2014. Taking into account the geopolitical and economic situation of the country and the indicators recorded in 2014, it would be quite daring to hope that in 2015 the market would see only positive changes. For example, the number of housing transactions in 2014 was only one tenth lower than the mean of the period from 2004 to 2007; hence, it would be naive to forecast that in 2015 the market would manage to make up for the previous drought in housing development. Consequently we tend to think that 2015 will be successful, if the number of transactions is the same or slightly lower than the residential sales of real estate in 2014.

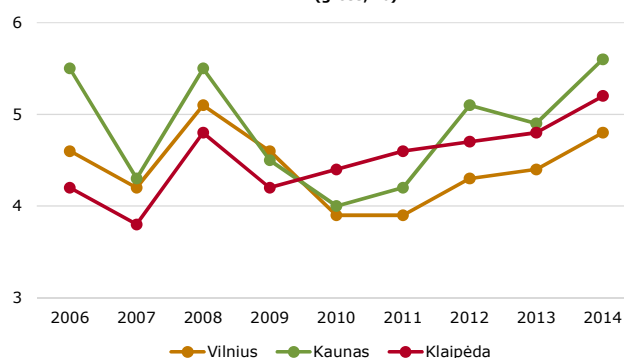
Average apartment prices in residential districts (EUR/sqm)



Source: Ober-Haus

Data: Q4 2014

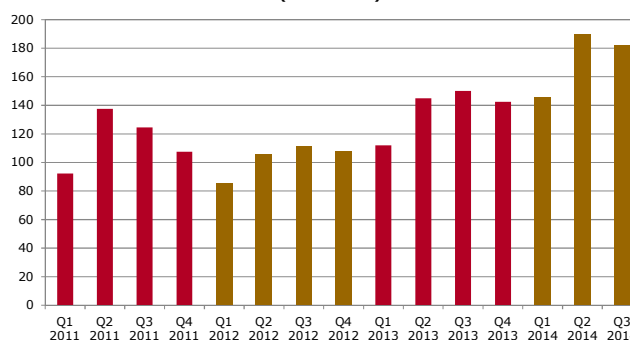
City center residential investment yield (gross, %)



Source: Ober-Haus

Data: 2006 - 2014

New housing loans for private persons (million EUR)



Source: Ober-Haus

Data: Q1 2011 – Q3 2014

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.

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