

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / H1 2018

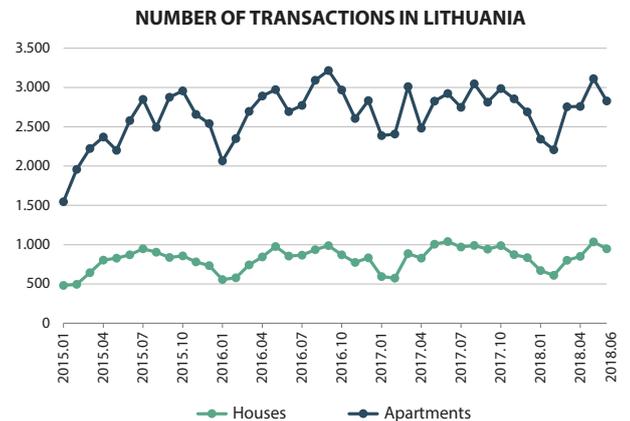
The first half of 2018 in the Lithuanian housing market was one of the most active over the past decade and was comparable to those of 2016–2017 both in the apartment and private house sectors. Despite slightly pessimistic moods prevailing early in the year in the housing market of the major cities of Lithuania (in February, a record low activity in the apartment sector of the country's capital and, for the first time after a longer period of time, a symbolic fall in sales prices were recorded), in the first six months of the year sales and prices shot up yet again. Of course, very different trends can be observed in different regions or cities of the country – from decreasing to rising indicators in the market activity and diverse price changes.

According to the State Enterprise Centre of Registers, **0.2% fewer** purchase and sales transactions for apartments and **0.3% fewer** transactions for private homes were concluded in the first half of 2018 than were concluded in the same period in 2017. In the first half of this year, on average 2,668 transactions for apartments and 820 transactions for houses were concluded per month. May saw the largest number of housing transactions totaling 4,148. This is the second best performance in the month in the Lithuanian housing transaction market since 2007. A larger figure was recorded in September 2016 (4,205).

If in the period of 2010–2017 the highest housing market activity (by the number of purchase transactions) was in the most densely populated municipalities (Vilnius, Kaunas, Panevėžys and Alytus city municipalities), the western part of the country and resort towns (Klaipėda district, Palanga city, Kretinga district, Druskininkai and Trakai district), so in 2018 more positive changes have been recorded in less densely populated municipalities of the country. Comparing the first half of 2018 and that of 2017 the fastest (up to 10%) rise in the overall number of transactions for apartments and houses was recorded in Neringa (39.3%), Pasvalys district (26.2%), Vilkaviškis district (26.0%), Švenčionys district (25.5%), Kretinga district (22.9%), Jurbarkas district (16.8%), Varėna district (14.4%), Lazdijai district (11.8%) and Kalvarija (10.3%).

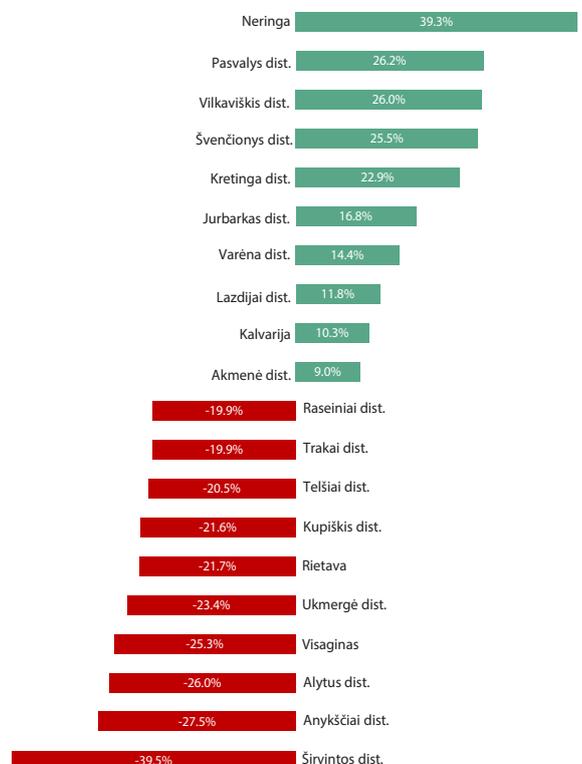
Of course, the rate of recovery of the housing market and its volumes in the country remain diverse – in some municipalities a faster growth is recorded, whereas the opposite situation can be observed in other municipalities. In the first half of the year, compared to the same period in 2017, a fall by a fifth in the number of the transactions for apartments and houses was recorded in ten municipal areas: Širvintos district (39.5%), Anykščiai district (27.5%), Alytus district (26.0%), Visaginas (25.3%), Ukmergė district (23.4%), Rietavas (21.7%), Kupiškis district (21.6%), Telšiai district (20.5%), Trakai and Raseiniai district (19.9%).

In 2018, a faster increase in apartment sales prices has been recorded in smaller cities of the country. According to Ober-Haus, in the first half of 2018, apartment prices in **Panevėžys** increased on average by **4.8%**, in **Šiauliai** – by **3.5%**, in **Klaipėda** – by **1.9%**, and in **Kaunas** – by **1.7%**, while the country's **capital** saw the smallest increase in the apartment prices – by **0.7%**. If the



Source: SE Centre of Registers

CHANGES IN HOUSING TRANSACTIONS IN LITHUANIA
(20 Lithuania's municipalities (out of 60), where the biggest changes were recorded in H1 2018, in comparison with H1 2017)



Source: SE Centre of Registers, Ober-Haus calculations

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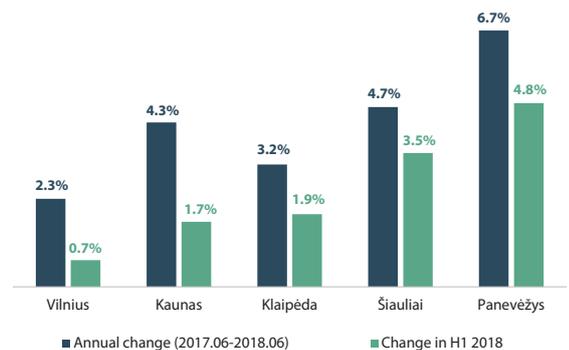
increase in sales prices in the country's capital over the past six months is the lowest of all the major cities, so apartment sales prices in other major cities grew at a faster rate. In recent years, rapid development trends of the residential and commercial property have been recorded in the city of Kaunas in conjunction with positive expectations related to economic prospects of the city. Positive changes in the real estate market in the larger cities partly spills over to smaller cities. This can be observed in Šiauliai, Panevėžys and Klaipėda, which, after the last recession, showed poor indicators both in the increase in prices and new housing construction volumes. Recently, however, these cities have finally seen faster relative price increase for apartments and a slight increase in the activities of the development of new housing. The sellers of older housing in these towns essentially do not experience competition from the builders of new housing and the general economic situation (even despite the negative demographic changes) remains conducive to those who wish to sell their property at a higher price.

Due to the rising number of mortgage loans and at the same time increasing number of risky bank clients, interest rates for new mortgage loans in Lithuania continue a slight, but steady increase. According to the Bank of Lithuania, the average annual interest rate for new home loans in January–May 2018 was **2.19%** (in the first half of 2017 it was 2.02% and in the first half of 2016 – 1.94%). At the same time the mortgage volumes have reached new heights since 2008. According to the Bank of Lithuania, during the first five months of 2018, new mortgage loans in the amount of **EUR 494 million** were issued, which is almost **8% more** than over the same period in 2017.

Currently, sustainability of new housing developments in the capital city has been most debated, as since Q3 2017 the realization curve for newly constructed apartments (first-time sold and reserved new apartments in multi-apartment buildings that have been completed or are being constructed) has moved downward and over the past four quarters has remained stable with an average of 800–900 apartments per quarter. According to Ober-Haus, in the first half of 2018, **1,789** new apartments in multi-apartment buildings that have been completed or are being constructed were purchased or reserved in Vilnius directly from developers. This is 5% more than in the second half of 2017, but 17% less than in the first half of 2017.

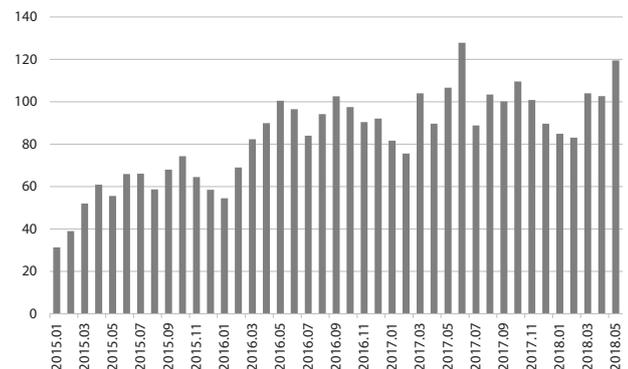
The Ober-Haus estimates reflect the transactions which are immediately officially registered (on the purchase of the property in a completed building) and the transactions based on the preliminary contracts, which will be registered with the State Enterprise Centre of Registers in the future, after the completion of the multi-apartment buildings. Meanwhile the State Enterprise Centre of Registers in its statistics for apartment purchase and sale transactions records only final transactions, which shows the opposite situation – the increasing number of transactions for new apartments reaching record heights in Q2 2018 when the acquisition of 1,268 new apartments was recorded in the city of Vilnius (best quarterly result since 2007). Based on the

AVERAGE APARTMENT PRICE CHANGES



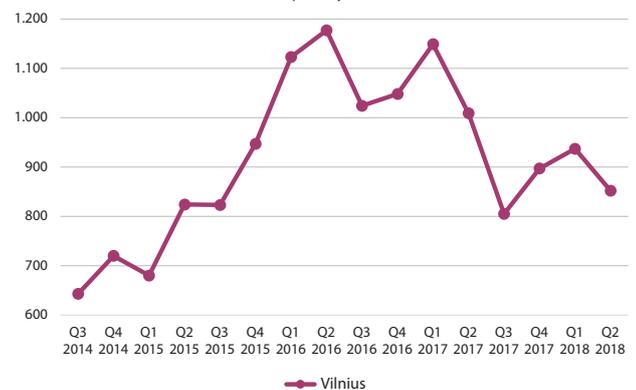
Source: Ober-Haus

NEW HOUSING LOANS FOR PRIVATE PERSONS
(Lithuania, million EUR)



Source: The Bank of Lithuania

NUMBER OF SOLD/RESERVED NEW APARTMENTS
(in the primary market)



Source: Ober-Haus

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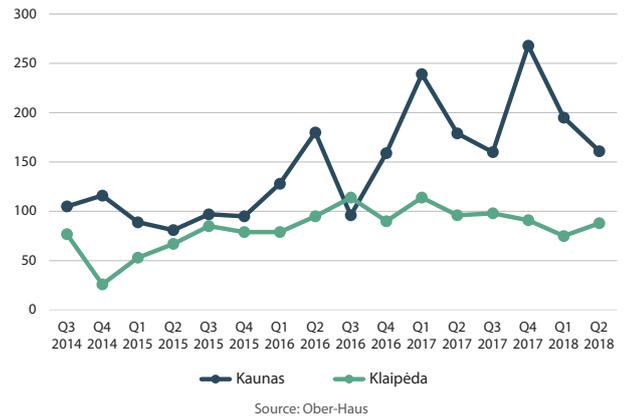
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data of the State Enterprise Centre of Registers, the result of the first half of 2018 is also the best since 2007–2008. This shows that currently finalized and recorded transactions for new apartments were recorded and figured in the Ober-Haus estimates back in 2016–2017, i.e. at the time when the preliminary purchase and sale contracts for these apartments were concluded. Thus the housing market is currently absorbing almost a record amount of borrowed or own cash spent on housing purchase over the past decade.

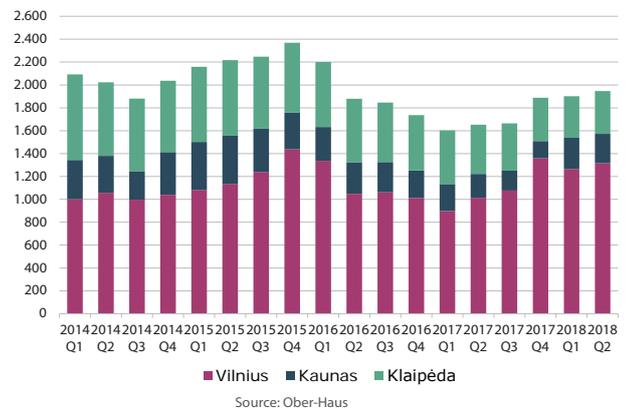
At the same time, slightly negative trends in the new apartment sales prices in Vilnius have been observed over the past six months. If the prices for old apartments in the capital city in the first half of 2018 increased by 1.6%, so the prices for new apartments fell by 0.3%. Although this is a slight decrease in apartment prices, such trend has been recorded for the first time over the past three years. Last time the price decrease trend (for both new and old apartments) was recorded in Vilnius in the second half of 2014, when the then geopolitical situation had a negative impact on both the country's business and people. Current slight downward move in the price curve of newly constructed properties can be linked to a really significant and sufficient supply of new housing, which prevents a considerable portion of developers from increasing their sales prices as easily as they did before and they even have to compete for more attractive prices with other competitors.

The supply of new housing in the country's capital and its suburbs has reached new heights. If over the past five years mainly new apartments have been constructed, so today record indicators of supply in the private house segment are recorded. The development of housing estates with detached and semi-detached houses, which started in 2015–2016, has not slackened its pace. According to Ober-Haus, **in 2017** developers in the city of Vilnius and its environs built and offered for sale nearly 590 new **houses** or as many as **55% more** than in 2016, but the plans of developers for this year are even more impressive. In 2018, they plan to build more detached and semi-detached houses of various sizes totaling up to 850. At the same time the indicators of the annual supply of private houses for sale in 2017 and 2018 have been highest in the entire period since the restoration of Lithuania's independence (e.g., about 440 private houses were built in the city of Vilnius and its environs for sale in 2007). Although the number of private houses built for sale in Vilnius region cannot match the apartment construction volumes, over the past 3–4 years the pace of development of private houses has been considerably faster and the share of private houses in the total supply of housing has been on the rise. If in 2014 the share of private houses built for sale in the total housing supply (apartments and houses) in the city of Vilnius and its environs accounted for only 6.4%, so in 2017 the figure increased to 12.4%. In 2018, it is planned to build about 4,500 apartments and about 850 houses in the city of Vilnius and its environs, so the share of private houses will be about 16% of all the housing supply. The following zones of the city of Vilnius have seen the fastest development of private houses for sale: the southeast (Pavilnys, Guriai, Kalnėnai) and the northwest (Pilaitė, Buivydiškės, Tarandė).

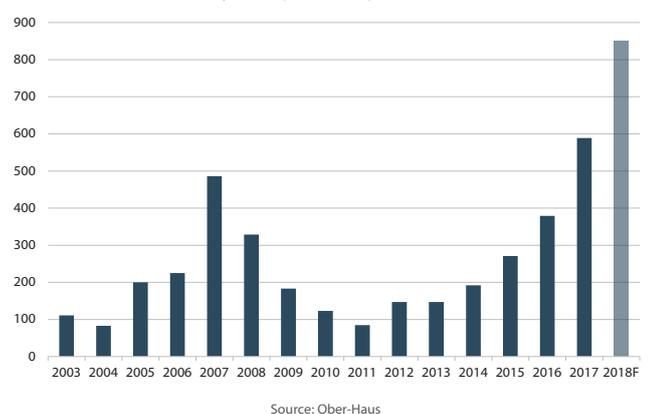
NUMBER OF SOLD/RESERVED NEW APARTMENTS
(in the primary market)



UNSOLD NEW APARTMENTS IN MAJOR CITIES
(in already finished multi-apartment projects)



COMPLETED HOUSES IN VILNIUS REGION
(in newly developed house quarters for sale)



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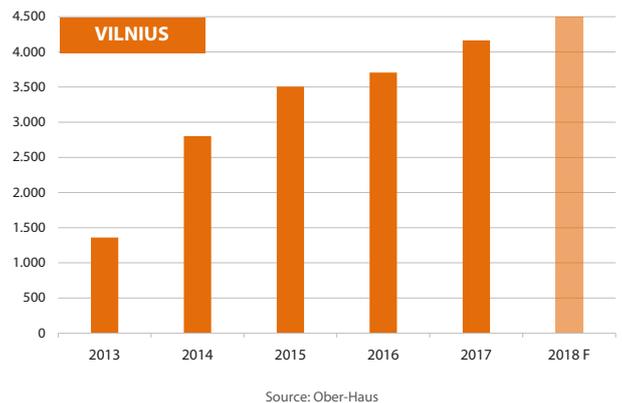
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What determined such rapid development of private houses? Of course, one of the main reasons is the increasing number of home buyers in recent years who can afford a larger or more expensive housing. Yet this is not the only reason which has determined development of this housing segment. With rapidly growing competition in the segment of apartments in the multi-apartment buildings, more developers and individual investors have decided to offer an affordable housing option to house buyers. I.e. currently small row houses dominate in the housing development market which offer essential attributes of a private house for an affordable price: a separate entrance to the property, some land, a parking space and a small number of neighbors. Of course, over the past 5-7 years, the mandatory dimensions of the houses have changed significantly: the house and the plot of land are relatively small and a parking space only for a single vehicle is provided. The change is particularly visible in the analysis of the total floor area of private houses over the past decade. According to Ober-Haus, the average floor area of the houses built in the housing estates in the suburbs of Vilnius in 2000–2010 was 160-180 sqm, but starting from 2011 a sudden reduction in the floor area has been recorded. For example, the average floor area of the houses built in the housing estates in the suburbs of Vilnius in 2015 was 119 sqm, in 2016 – 113 sqm, and in 2017 – 115 sqm. Comparing the period of 2000–2010 with that of 2011–2017, the average floor area of the houses decreased by 30%. The sizes of house projects also differ: from small 4–6 semi-detached house projects to large housing estates with 100 and more houses developed in stages (e.g., the newly introduced project Baltai in the vicinity of Lentvaris, where about 240 houses [floor area between 87 sqm and 129 sqm] will be built within the next 3–5 years).

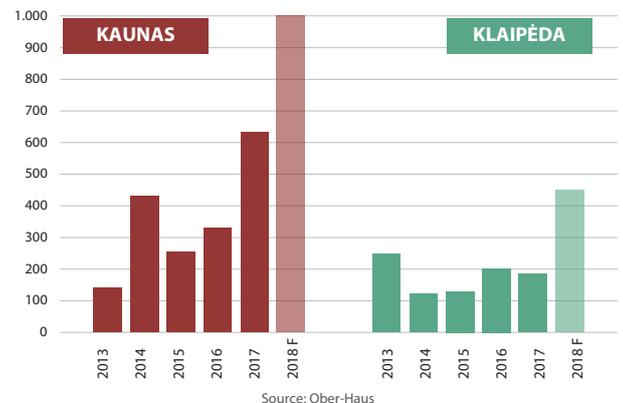
The development of new houses is also encouraged by their good sales indicators. According to Ober-Haus, **88% of houses** built in 2017 were sold and reserved by mid-2018. This is also reflected in the official statistics – according to the State Enterprise Centre of Registers, about 1,200–1,250 houses were purchased each year in Vilnius city and its district in 2015–2017, which is the greatest market activity indicator in history. The first half of 2018 was also most active in history (compared with the first half of 2017) when a total of 611 houses were sold. However, even with good sales indicators, large scale construction of new houses has essentially stalled sales prices of houses in Vilnius and its environs. In the first half of 2018 the prices remained unchanged and compared with the same period in 2017 only 1% increase in sales prices was recorded.

The developers have also gained speed in the second largest city in the country. This is in particular visible in the development of multi-apartment buildings over the past few years. According to Ober-Haus, a total of 633 apartments were built in 2017 in **Kaunas** or 92% more than in 2016. In 2018, developers in Kaunas plan to complete up to 1,100 new apartments and thus repeat record development indicators recorded a decade ago. This year alone, apartments in 30 different projects will be offered to buyers. For example, in

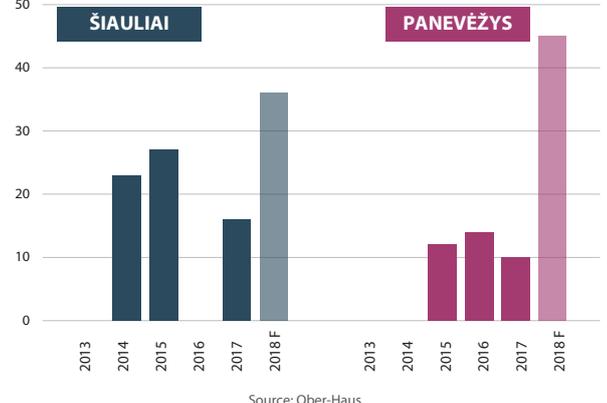
COMPLETED APARTMENTS
(in newly developed multi-apartment projects)



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2008, 1,070 apartments in 15 different multi-apartment building projects have been built for sale. This means that due to the abundance of different projects, customers this year will have even greater choice than 10 years ago.

Faster development of new multi-apartment buildings, which started in Kaunas in 2016 determined record new apartment realization indicators in 2017, when over 840 apartments were purchased or reserved directly from developers. I.e. buyers responded to the new supply with great interest and actively participated in purchasing completed apartments or apartments in progress. In the first half of 2018, **356** new apartments in multi-apartment buildings that have been completed or are being constructed were purchased or reserved in Kaunas directly from developers. This is 17% less than the number of apartments realized in the second half of 2017 and 15% less than the first half of 2017. Despite the more modest figure for the sale of new apartments in 2018, the overall housing market activity in the primary market is by a quarter higher than in 2016. Further new housing realization indicators will depend not only on the overall economic situation both in the country and in Kaunas region, but also on the scale of further development of new projects. So far housing developers are seen to have put their trust in Kaunas and do not plan to stop. Positive trends in the sales prices of new apartments were recorded over the past six months in Kaunas. In the first half of 2018, the prices of new apartments in Kaunas increased by 1.9%.

Although the scale of development of multi-apartment buildings in Klaipėda cannot be compared either to Vilnius or Kaunas, growth trends are visible here. On average only 200 apartments were built in Klaipėda annually in 2010–2017. Since the number of newly built, but unsold apartments from previous projects is rapidly decreasing, quite favorable (low) competitive environment remains in the city. While the overall activity in the housing market has showed good results, developers in Klaipėda started developing new housing projects more actively. As a result, in 2018 much greater changes in supply have been recorded. According to Ober-Haus, this year 450 new apartments in 12 different projects should be completed in Klaipėda. For example, this year will see the completion of one of the largest multi-apartment buildings in the past 3–4 years in Klaipėda. The multi-apartment building Ravelino Namai in the Old Town will offer over 130 new apartments. Apartments for sale are offered not only in newly completed projects, but also in non-standard projects: apartments are reconstructed for sale in the former student hostel on Taikos Avenue or in place of the former Saturnas shopping centre (Saturno Namai).

According to Ober-Haus, in the first half of 2018, **163** new apartments in multi-apartment buildings that have been completed or are being constructed were purchased or reserved in Klaipėda directly from developers. This is almost 14% less than in the second half of 2017 and 22% less than in the first half of 2017. The relatively poorer indicators this year were partly determined by very large sales volumes of newer apartments in 2017, when the buyers showed great interest in both the newly constructed projects and the apartments built much earlier, but not sold yet. By mid-2018, 63% of the apartments planned to be built this year were sold or reserved. In the first half of 2018, the prices for new apartments in Klaipėda increased by 2.7%.

In Šiauliai and Panevėžys the volumes of development of new housing still remain very modest, but housing developers offer new apartments in small-scale projects. In 2014–2017, 1–3 new apartment development projects (or stages thereof) were implemented in Šiauliai and Panevėžys each year and in the past four years only slightly more than 100 apartments were built for sale. In 2018, four new small projects are planned in Panevėžys, which will offer 45 new apartments. In Šiauliai, a multi-apartment building which will offer 36 apartments is being built on Daukanto Street; its completion is scheduled for the end of this year or the beginning of 2019. Recent growing supply of new apartments affects sales volumes of the new housing. According to Ober-Haus, in 2017, **35** new apartments in multi-apartment buildings that have been completed or are being constructed were purchased or reserved in Šiauliai and Panevėžys directly from developers. In the first six months alone, **32** of them were purchased or reserved. It is clear that the newly built apartments in these cities have found their buyers. Although these figures indicate a growth trend and more new apartments are sold, they still do not match the sales volumes which were a decade ago. The construction volumes of multi-apartment buildings in 2014–2017 in Šiauliai and Panevėžys were on average 8 times smaller than those in 2007–2008 when 430 apartments were built in these cities just over two years.

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 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.