

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q2 2017

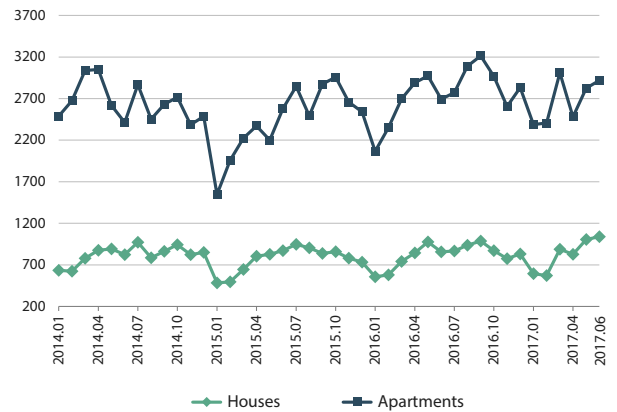
The activity in the residential property market in Q2 2017 remained essentially high. Although the number of transactions for apartments compared to last year slightly decreased, the overall performance of the quarter was one of the best in the past 10 years (compared to Q2 in previous years). In the meantime, the house market indicators soared. According to data from the State Enterprise Centre of Registers, the number of purchase and sale transactions for apartments in Q2 2017 in Lithuania was **4% lower** and the number of transactions for houses was almost **7% higher** than in the same period in 2016. In Q2 2017, on average 957 transactions for houses and 2,741 transactions for apartments were concluded per month in Lithuania. In the first half of 2017, the largest number of transactions for houses was recorded in June; this was also the highest indicator since 2007.

Q2 2017 saw a moderate residential property price increase in major cities of the country. The fastest price rise in April, May and June was **recorded in Kaunas**, where apartment prices increased on average by **1.2%**. Over the same period, apartment prices in **Vilnius** grew **0.7%**, in **Šiauliai** - **0.6%**, in **Panevėžys** - **0.5%** and in **Klaipėda** - **0.4%**.

A steady rise in housing sale prices also increases the volumes of borrowing, which has reached new heights. According to the data of the Bank of Lithuania, in Q2 2017 new housing loans were granted in the amount of **EUR 369 million**, which is **21% more** than in Q1 2017 and **12% more** than in Q2 2016. This is the highest quarterly indicator since late 2008. Rising housing prices and stability in the housing finance sector determine the growing role of the housing loan market. Despite further decrease in the interbank offered rates (e.g. EURIBOR, LIBOR EUR), the total price of the mortgage loan for new borrowers has essentially stabilised and has recently even showed a small increase. In the first half of 2017 the average annual interest rate on new housing loans in the euro was 2.0% (1.94% - in the first half of 2016 and 1.97% - in the second half of 2016). Despite the slightly increased price of mortgage loans (which is likely due to a little higher margins on mortgage loans offered by credit institutions recently), it remains highly attractive to potential buyers who are making use of the favourable opportunity.

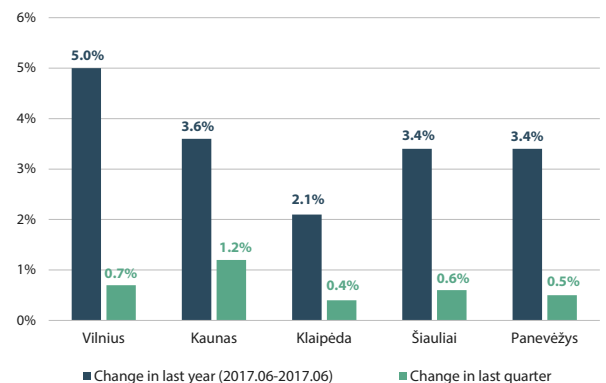
Looking at the new housing segment which has been growing rapidly in recent years, total sales volumes of new apartments in Q2 2017 in the country's major cities were the lowest since late 2015. According to data from Ober-Haus, **1,224** new apartments in completed buildings or buildings in progress were purchased or reserved directly from developers **in the five major cities of Lithuania** in Q2 2017. This is 16% less than those realized in Q1 2017 and 14% less than those realized in Q2 2016.

NUMBER OF TRANSACTIONS IN LITHUANIA



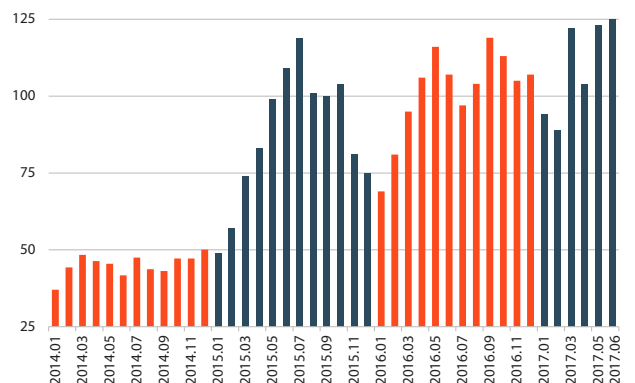
Source: SE Centre of Registers / 2014 - 2017

AVERAGE APARTMENT PRICE CHANGES



Source: Ober-Haus / Q2 2017

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



Source: The Bank of Lithuania, ECB / 2014 - 2017

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The indicators of the capital city, which has been in the lead of the new residential property market and where the lowest volume of sales in this market over the past five quarters was recorded, had a major effect on the overall performance in this segment in Q2 2017. In this period, a total of **991** new apartments in completed apartment buildings or projects in progress were sold or reserved in **Vilnius**. This is 13% less than in Q1 2017 and 16% less than in Q2 2016. Despite the fall in the sales volumes in the capital city, the overall performance is not disappointing. Record sales of new apartments in Vilnius in 2016 were related with rapidly growing supply where most of the projects were scheduled for completion in 2017. Ober-Haus estimates that up to 4,300-4,500 new apartments should be completed in Vilnius this year or 15-20% more than in 2016. Since last year buyers showed very active interest in housing and purchased apartments from this year's supply (i.e. the projects to be completed in 2017), there is considerable lower choice of apartments in completed buildings or buildings in progress at the moment; however, customers have a much wider choice of the projects to be completed in 2018. It is too early to quantify the total new supply in Vilnius in 2018, but based on the planned and already started projects, it seems that new supply won't be higher than in 2017.

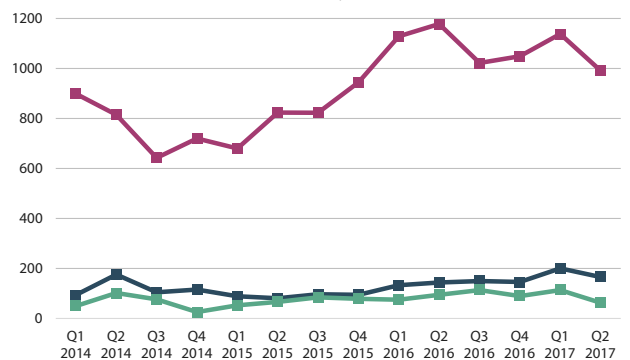
In the meantime, the sales volumes of new apartments in Kaunas, compared with those last year, have increased. Developers feel more confident about the overall situation of the city and plan to build 800 new apartments this year. This would be the biggest supply since 2008, which will also boost sales figures. In Q2 2017, **166** apartments were sold or reserved in the primary market in **Kaunas** or 15% more than in the same period last year. In **Klaipėda**, **63** new apartments were sold or reserved, i.e. 34% less than in the same period last year. Smaller sales volumes in Klaipėda are determined by smaller construction volumes – over 300 new apartments are scheduled for completion this year. Although this would be about 50% more than the number of apartments built in 2016, the figures for completed projects in Klaipėda over the past seven years (on average 200 apartments were built each year between 2010 and 2016) show a rather reserved attitude of developers to the housing market in this seaport city (particularly within the context of the 2006–2009 period where on average 900 apartments were built each year). The 2010–2016 figure for Kaunas was 280 newly constructed apartments on average per year and 2,100 newly constructed apartments per year in Vilnius.

AVERAGE ANNUAL INTEREST RATE ON NEW HOUSING LOANS (EUR) IN LITHUANIA



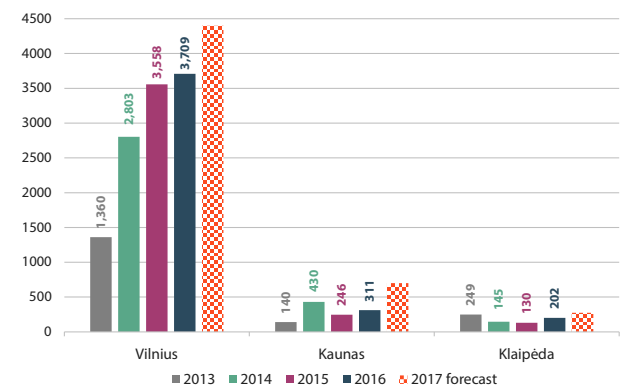
Source: The Bank of Lithuania / 2014 - 2017

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



Source: Ober-Haus / 2014 - 2017

COMPLETED APARTMENTS



Source: Ober-Haus / 2013 - 2017 F

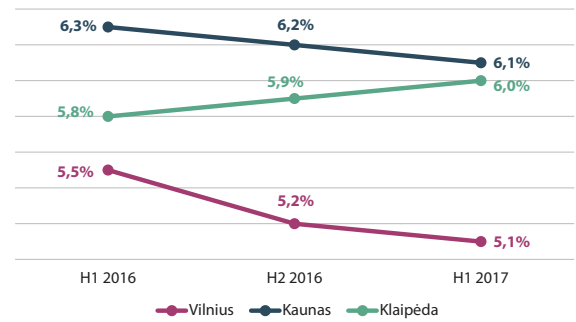
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The comparison of the sale and rent price of housing property in major cities has showed some new trends recently. For example, in 2011–2016, the rent for the most popular 2-room apartment in Vilnius, Kaunas and Klaipėda increased by a third on average. That is, a fast increase in rent was recorded, yet sales prices of apartments over the same period suffered falls and rises of different magnitude in these cities. Rapidly increasing apartment rents significantly increased returns on investment in such property, which indicates a downward trend this year. The most visible changes can be observed in the capital city. Rents for 2-room apartments (in the first half year of 2017 compared to the same period in 2016) remained stable in Vilnius, while the sales prices of such apartments increased by more than 8%. The gross annual rental yield (annual rent and acquisition price ratio, not taking into account the property management expenses and taxes) of such property in Vilnius totalled **5.1%**, which was 0.4 percentage points lower than that in the first half of 2016. The same trends were recorded in Kaunas. Sales prices of such apartments during the same period increased by more than 7%, while rents increased by more than 3%. Consequently, the gross annual rental yield decreased from 6.3% to **6.1%**. In the meantime, in Klaipėda rent growth outpaced sales price growth driving yields up from 5.8% to **6.0%**.

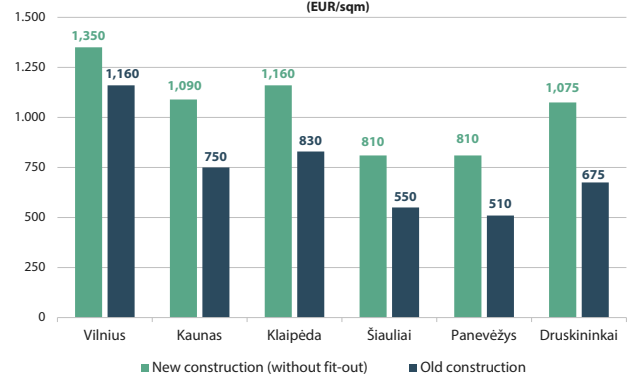
Since the markets in Vilnius and Kaunas are in the stage of faster growth of sales prices and the situation in the financial market is very attractive for buyers, it is likely that the return on investment in these cities will decrease in the nearest future (where property sales price growth outpaces rent growth). However, the decreasing returns on property lease will hardly deter those willing to invest in the housing rental segment. The decrease in rental return still remains attractive to potential investors interested not only in yearly income and return, but also in the increasing value of the property. Investors may be prepared to accept lower profitability rates solely because of the expectation that the value of their property will keep rising.

GROSS RENTAL YIELD
(2-room apartments, 50 sqm)



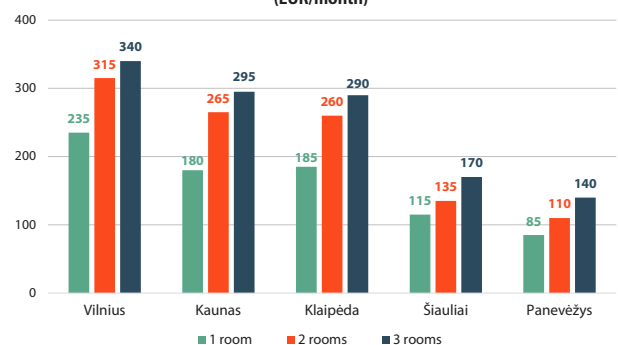
Source: Ober-Haus / 2016 - 2017

AVERAGE APARTMENT SALES PRICES
IN RESIDENTIAL DISTRICTS
(EUR/sqm)



Source: Ober-Haus / Q2 2017

AVERAGE APARTMENTS RENTS IN
RESIDENTIAL DISTRICTS
(EUR/month)



Source: Ober-Haus / Q2 2017

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.

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