

Lithuanian Residential Real Estate

Q3 2013

MARKET COMMENTARY



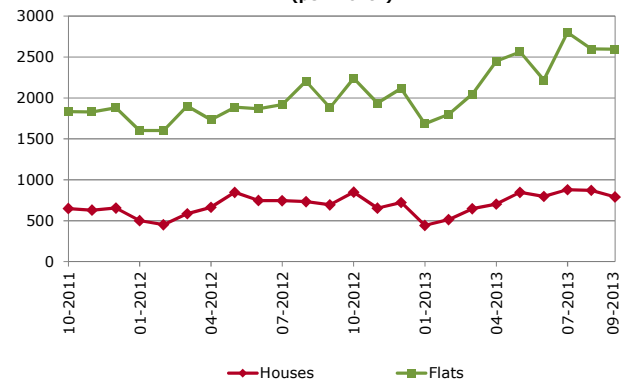
The housing market in Lithuania's major cities has continued to grow: the supply of residential property and the number of transactions are on the rise; housing prices remain stable or even show a positive trend. The number of transactions involving residential property in Q3 2013 was increasing rapidly, which significantly improved the results for the first nine months of 2013. According to the State Enterprise Centre of Registers, over the nine-month period, **9% more** purchase and sale transactions were concluded for detached houses and as many as **25% more** transactions for apartments in Lithuania compared to the same period in 2012. Whereas between January and September 2012, there were on average 665 transactions for detached houses and 1,845 transactions for apartments per month, in 2013, the figures increased to 725 transactions for detached houses and 2,300 transactions for apartments. Growth in the number of transactions for detached houses was approximately 10–30% and for apartments – 20–40% in the major cities in Lithuania.

Completed construction projects for new apartment buildings are determined by rapidly growing sales in the primary market, although second hand homes are still the most dominant. According to Ober-Haus, during Q3 2013, over **800** apartments in newly built buildings or buildings under construction were purchased or reserved directly from developers in five **major cities in Lithuania**. This is **26% more** than over the same period in 2012 and **21% more** than was sold in Q2 2013. The number of unsold new apartments in newly built apartment buildings in Q3 2013 in **major cities in Lithuania** remained unchanged and amounted to approximately **2,440**.

During Q3 2013, the capital city saw the completion of six apartment buildings with a total of 350 apartments. According Ober-Haus a total of over 680 new apartments have been built in Vilnius in 2013. The large number of construction projects and the demand for new housing determined that in Q3 the biggest number of newly built apartments was sold in Vilnius since 2008. In July, August and September, nearly **680** new apartments were sold in **Vilnius**, 21% more than in Q2 2013 or 49% more than a year ago. Growing consumer confidence in the real estate market, favourable lending conditions and greater choice of residential property encourage developers to start new projects and buyers to buy.

No great breakthrough in the new housing market has been observed in other cities of Lithuania. The choice of apartments in Kaunas and Klaipėda is still not very large while the volume of sales does not indicate faster growth. Compared with Vilnius, the number of apartments sold in Kaunas and Klaipėda was ten times less – around 60 in Kaunas and nearly 70 in Klaipėda. If we compare quarterly results, in Q3 2013 compared to Q2 2013, **33% more** apartments were sold in **Kaunas** and **6% more** in **Klaipėda**. Property market activity in 2013 in Kaunas and Klaipėda remains very similar to that of last year – 65–75 new apartments are sold on average per quarter.

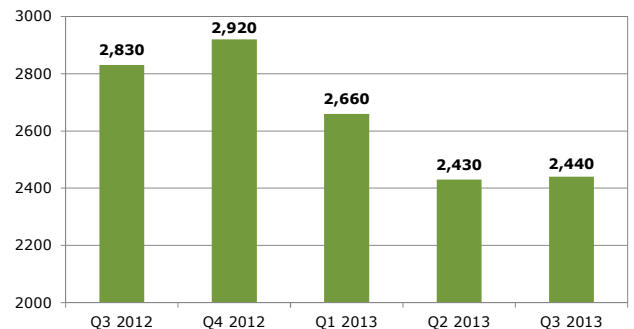
Number of transactions in Lithuania (per month)



Source: SE Centre of Registers

Data: 2011 – Q3 2013

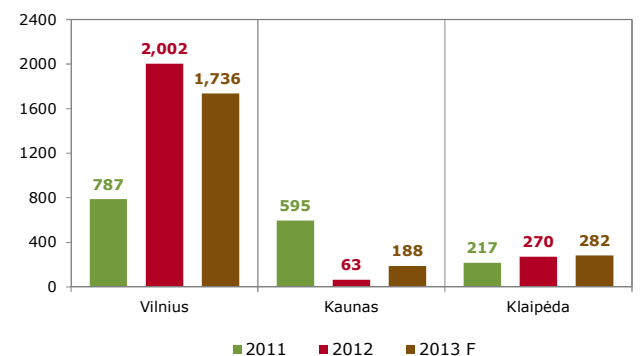
Unsold newly built apartments (primary market)



Source: Ober-Haus

Data: Q3 2012 – Q3 2013

New construction flats annual supply



Source: Ober-Haus

Data: 2010 – 2013 F

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Obviously, not only an improvement in the housing market and rising customer expectations are needed to boost demand, but also a continuing supply.

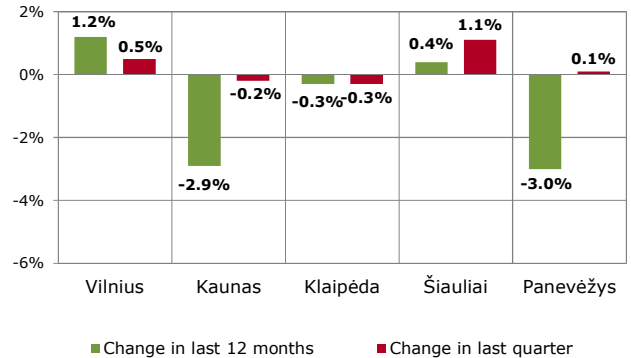
Ober-Haus has recorded positive price changes in Q3 in three major cities of Lithuania. Over the past eight months, apartment prices in **Vilnius** continued to increase giving a **1.6%** rise over the year, while the average price of an apartment at the end of Q3 rose to 1,204 EUR/sqm. In **Šiauliai** and **Panevėžys**, where prices are the lowest of all the major cities of Lithuania, Q3 was positive for the apartment market. During the same period, prices increased by **1.1%** in **Šiauliai** amounting to 550 EUR/sqm and by **0.1%** in **Panevėžys** amounting to an average of 515 EUR/sqm. Meanwhile, in **Kaunas** and **Klaipėda**, prices in July, August and September decreased by **0.2%** and **0.3%** (to 931 and 960 EUR/sqm) respectively. This year's price changes in major cities in Lithuania can be characterised by a certain stability – in the most active Vilnius region market and the regions with the lowest prices (Šiauliai and Panevėžys) prices are no longer falling and more stable or positive price changes have been recorded.

Over the past 15 years, housing prices and people's income have been changing rapidly in Lithuania, while the possibilities to purchase real estate have been different in different periods. Real borrowing opportunities for housing appeared in 2001 giving a tremendous boost to the whole market. Improving loan accessibility gave people the opportunity to own property. However, it is difficult to compare people's possibilities to acquire housing in the long term, especially since the conditions have been changing rapidly: within a relatively short time, the maximum term for loans has increased from 10 to 40 years; interest on loans within a relatively short period can change 2-3 times; requirements for own funds have also changed, etc.

Therefore, in order to evaluate the real possibilities of people (rather than the affordability based on borrowed funds) to purchase their desired property simply and comprehensively and the condition of the housing market, a few fundamental indicators can be used: real disposable income and the price of property at a given time. The housing price to income ratio has changed considerably in Lithuania.

Looking at the past 15-year history of the major Lithuanian cities (which reflects the history of Lithuania), it can be seen that the worst apartment price to salary ratio was between 2006 and 2007, when apartment prices reached record heights. At that time, an inhabitant of Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys could purchase 2.9 sqm to 5.1 sqm in a medium-class apartment for his average (net) annual salary. For example, a standard resident of Vilnius could afford to buy the smallest number of square metres in 2006. At that time, the average price of a square metre of an apartment EUR 1,539, while the average net monthly salary was about EUR 377. So a standard resident of Vilnius could buy 2.9 sqm in a medium-class apartment for his average (net) annual salary.

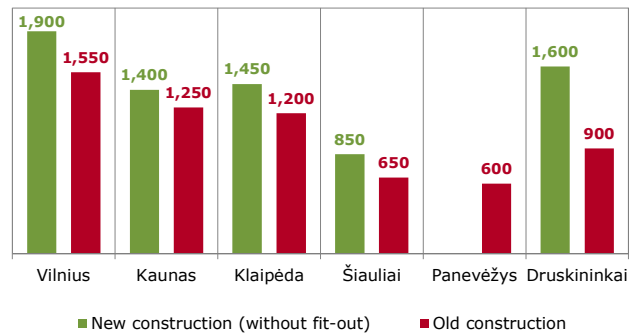
### Average apartment price changes



Source: Ober-Haus

Data: Q3 2013

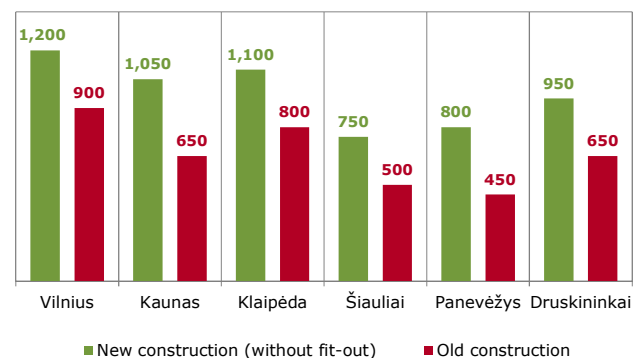
### Average flat prices in old town, city centre, prestigious districts (EUR/sqm)



Source: Ober-Haus

Data: Q3 2013

### Average flat prices in residential districts (EUR/sqm)



Source: Ober-Haus

Data: Q3 2013

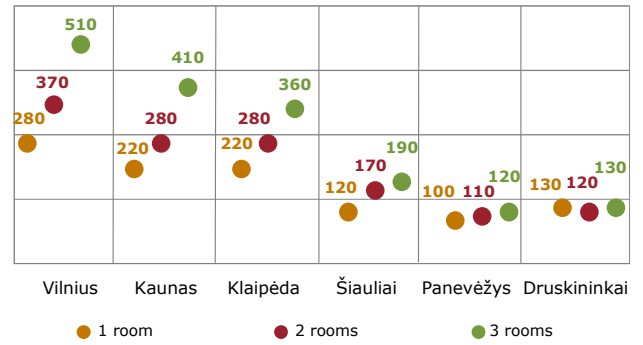
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In Klaipėda the same indicator was recorded in 2007. That year, a standard resident of Kaunas could buy 3.4 sqm for his annual salary, while residents of Šiauliai and Panevėžys – 5.1 sqm and 5.0 sqm respectively. The analysis of the period between 1999 and 2003 shows that the apartment price to salary ratio was the best in 2001–2003, when, due to the Russian and Lithuanian economic crisis, prices were at their lowest and could not recover after the difficulties that Lithuania had faced. In 2002, a resident of Kaunas could buy 7.8 sqm and a resident of Panevėžys – 17.6 sqm for his average (net) annual salary. Meanwhile, the apartment price to salary ratio in Šiauliai in 2003 was the best – a resident of Šiauliai could buy 15.3 sqm for his average (net) annual salary. Vilnius and Klaipėda in that period stood out by their higher apartment prices, so the average annual salary of the population of these cities was equal to about 5–6 sqm in a medium-class apartment.

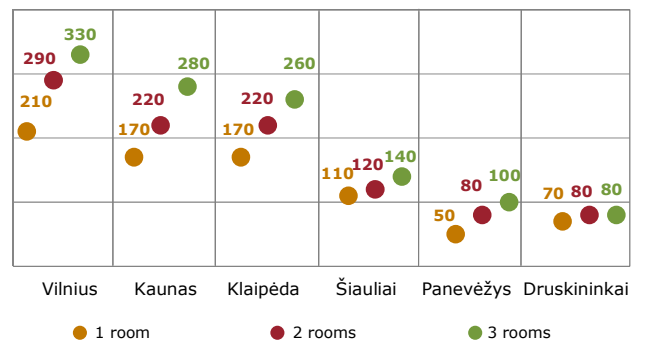
Since 2007–2008, apartment prices in the major Lithuanian cities fell on average by almost 40%, while the nominal average salary over the past 6 years, depending on the region, increased by 25–30%. Therefore, statistically, urban residents are now able to purchase 2 times more space than during the housing property price peak that occurred between 2007 and 2008. Having evaluated housing prices over the past nine months of 2013 and salaries in specific cities in Q1 and Q2 2013, the ratio under discussion is distributed as follows: Vilnius – 5.8 sqm (the lowest ratio was in 2006 – 2.9 sqm), Kaunas – 6.3 sqm (2007 – 3.4 sqm), Klaipėda – 6.7 sqm (2007 – 2.9 sqm), Šiauliai – 9.8 sqm (2007 – 5.1 sqm) and Panevėžys – 10.9 sqm (2007 – 5.1 sqm). Vilnius and Kaunas indicators should be noted as they are currently the highest in the past 15 years.

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



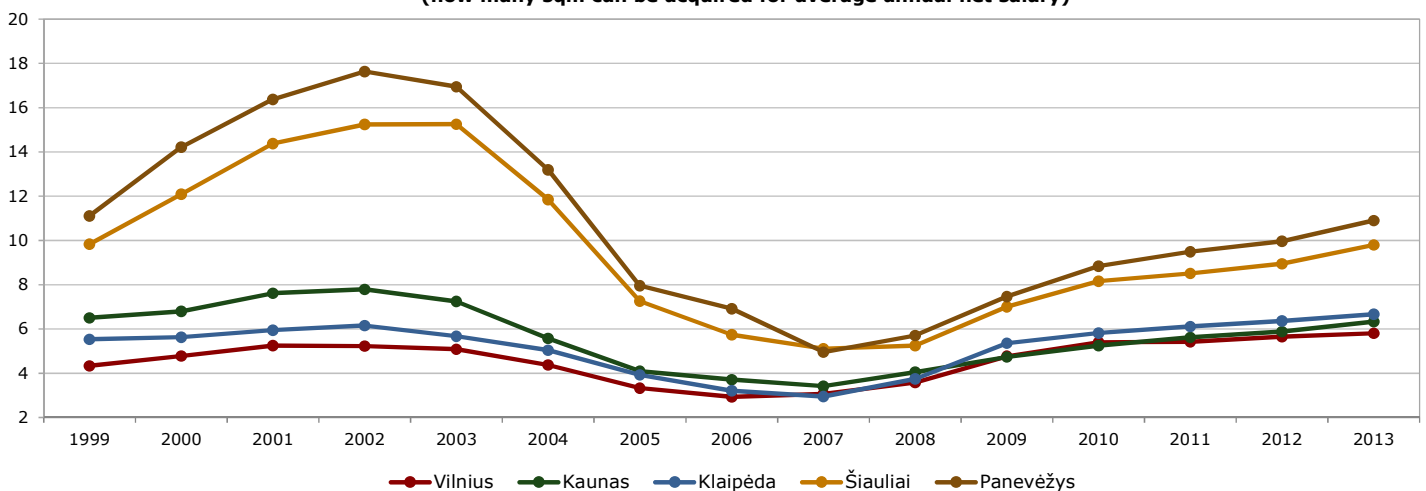
Source: Ober-Haus Data: Q3 2013

**Average flat rents in residential districts (EUR/month)**



Source: Ober-Haus Data: Q3 2013

**Apartment affordability (how many sqm can be acquired for average annual net salary)**



Source: Ober-Haus, Statistics Lithuania

Data: 1999 - 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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