

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / H1 2019

The Lithuanian residential property market, growing for the ninth year in a row, is showing no surprises this year – the general market indicators demonstrate as always that the housing market has been experiencing its heyday over the last decade. The first six months of 2019 were especially productive – compared to the same period in previous years, the number of purchased housing (apartments and houses) was the highest the country had seen since 2007. Positive trends were recorded in all of the five major cities: the number of purchased apartments and houses was bigger than in the first half-year of 2018, and the total amount spent on such properties was also greater than a year ago.

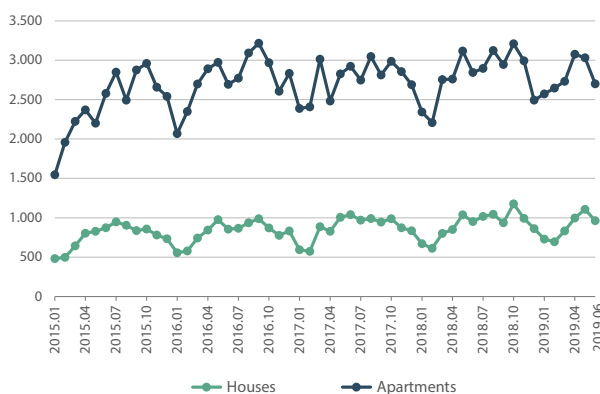
According to the data of the State Enterprise Centre of Registers, the number of purchase and sale transactions of apartments in the first half of 2019 in Lithuania was **4.6% higher**, and houses **8.1% higher**, compared to the same period in 2018. Over the first six months of this year, 2,793 apartment purchase transactions and 887 house purchase transactions were concluded per month on average. To compare the first half-year of 2019 with the same period in 2018, the fastest (over 20%) general relative **growth** in the number of apartment and house transactions was recorded in Birštonas municipality (81.3%), Širvintos district municipality (65.4%), Alytus district municipality (54.5%), Panevėžys district municipality (49.6%), Kupiškis district municipality (32.9%), Zarasai district municipality (31.8%), Ignalina district municipality (29.7%), Ukmergė district municipality (23.5%), Anykščiai district municipality (23.4%), and Vilnius district municipality (23.3%).

Meanwhile, the number of purchased housing was **reducing** the fastest during the same period in the following municipalities of Lithuania: Neringa municipality (33.3%), Švenčionys district municipality (18.1%), Mažeikiai district municipality (15.1%), Druskininkai municipality (14.5%), Kelmė district municipality (14.3%), Molėtai district municipality (13.0%), Kretinga district municipality (12.1%), and Rietavas municipality (11.1%). The greatest changes in housing market activity were most often recorded in the municipalities of smaller towns (e.g., Neringa, Birštonas), which are characteristic of a small housing fund and a modest number of transactions concluded, accordingly. For this reason, due to the small sample size of the transactions in such municipalities, the biggest statistical deviations from the average for the country are regularly being recorded.

The total amount of money being spent on housing purchase across the country continues to increase. According to the data of the SE Centre of Registers, over **EUR 1.07 billion** was spent on housing (flats and houses) in Lithuania during the first half-year of 2019, or **10.2% more** than the same period last year. In 2019, an increase in the amount of money in the housing market was observed, in principle, on the scale of the entire country, i.e. compared to the same period in 2018, growth was recorded in 51 out of Lithuania's 60 municipalities.

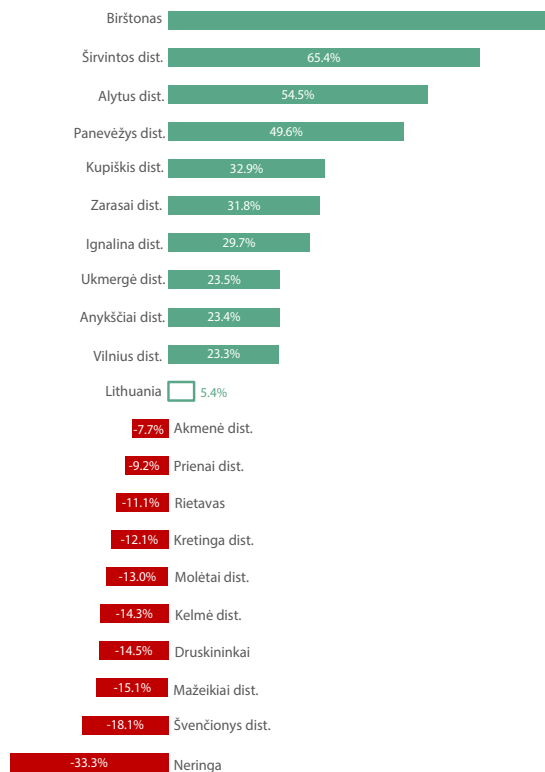
The fastest growth in the money being spent on housing in 2019 in terms of

NUMBER OF TRANSACTIONS IN LITHUANIA



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 2019, in comparison with H1 2018)



Source: SE Centre of Registers, Ober-Haus calculations

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the main cities in Lithuania was recorded in the smaller cities. The biggest change this year was recorded in Panevėžys. There, almost EUR 22 million was spent on acquiring housing in the first six months of the year, which is 24.6% more than the same period in 2018. Šiauliai recorded growth of 17.4% (amounting to almost EUR 32 million), Klaipėda 14.1% (almost EUR 88 million), and Kaunas 8.9% (over EUR 139 million), while in Vilnius 5.1% more was spent on housing than in 2018, totalling almost EUR 504 million.

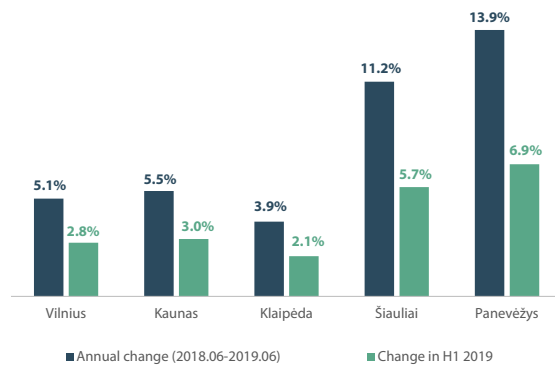
In 2019, trends of faster growth in the sales price of apartments were also observed in smaller cities across the country. According to the data of Ober-Haus, over the first half of 2019 prices of flats in **Panevėžys** increased by **6.9%** on average, in **Šiauliai 5.7%**, **Kaunas 3.0%**, and **Vilnius 2.8%**, while in **Klaipėda** flat prices increased the least, by **2.1%**. Whereas steady growth in the sales prices of apartments continued to be recorded in Lithuania's biggest cities, the segment of houses did not record any major changes. In the first six months of 2019, sales prices of houses in **Kaunas, Šiauliai and Panevėžys and their surroundings** increased by **1-2%** on average. No changes were recorded in **Vilnius and Klaipėda and their surroundings** over the same period.

Rents of apartments in Lithuania's three main cities grew in 2019 at a pace similar to their sales prices, a fact which demonstrates that the demand for the housing offered for rental remains on a very high level. Traditionally, potential tenants are mostly interested in the segment of cheaper housing, which is in greatest demand among residents who earn lower or average incomes and among people who arrive to work temporarily or to study. Rents in **Vilnius** (in the first half of 2019 compared to the first half of 2018) **increased by 5.5%** on average, in **Kaunas by 6.5%**, and in **Klaipėda by 5.3%**. In the middle of 2019, the average rent for 1-3 room apartments in **Vilnius** constituted **EUR 413/month**, in **Kaunas EUR 321/month**, in **Klaipėda EUR 320/month**, in **Šiauliai EUR 229/month**, and in **Panevėžys EUR 227/month**.

Regardless of the continued growth in the home loan interest rate, the number of those who want to obtain a loan is not reducing. Over the last two years, the average interest rate of new home loans issued in Lithuania has increased by a third of a percentage point. According to the data of the Bank of Lithuania, the average annual interest rate for a residential mortgage loan in January-May 2019 amounted to **2.37%** (compared to 2.20% in the first half of 2018 and 2.02% in the first half of 2017); whereas the volumes of newly issued residential mortgage loans reached their record highs since 2008. Based on the data provided by the Bank of Lithuania, new residential mortgage loans to the amount of **EUR 521 million** were issued in Lithuania in the first five months of 2019, which is **5.5% more** than for the same period in 2018.

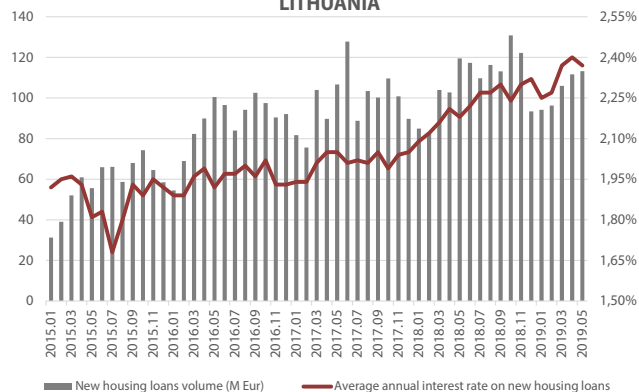
As the biggest scope for the construction of housing in 2018-2019 was recorded in Vilnius, Kaunas and Klaipėda in terms of the recent decade, and the general economic situation in the country as well as the financial situation

AVERAGE APARTMENT PRICE CHANGE



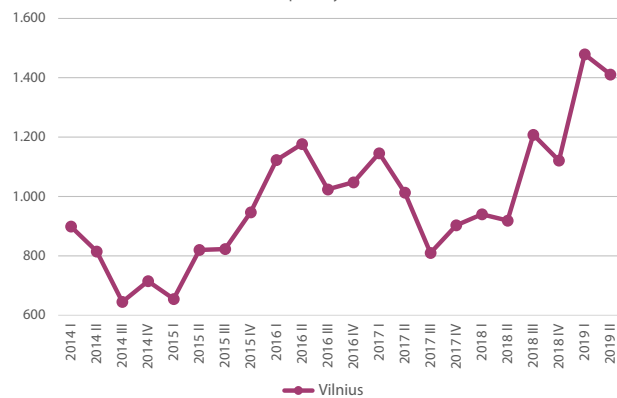
Source: Ober-Haus

NEW HOUSING LOANS FOR PRIVATE PERSONS IN LITHUANIA



Source: The Bank of Lithuania

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



Source: Ober-Haus

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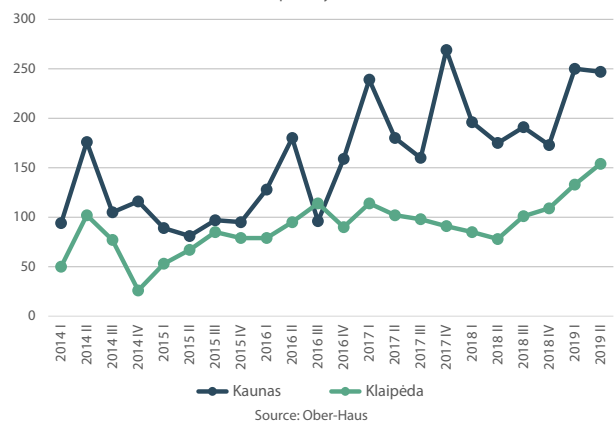
of purchasers continues to maintain the activity of the market, growth in the volumes of sales of not only already registered but also of pre-constructed apartments and houses is being recorded. The expanding opportunities in the choice of new housing encourage customers to buy new housing and increasingly encouraging results have been recorded in this segment.

According to the data of Ober-Haus, in the first half of 2019, **2,890** 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 almost **25% more** than the number of flats sold or reserved in the second half of 2018 and **55% more** than in the first half of 2018. At the same time, the results of this year's first six months are the best for a decade. With such a high demand for new and modern housing, developers have no wish to reduce their development plans in the capital city and, in fact, estimate that in 2019 the construction of 4,600 to 4,800 apartments in multi-apartment buildings will be completed. This would be 5-10% more than were built in 2018 and the highest number since 2008. The developers of private houses also plans a high output. In 2019, it is planned to build about 700 houses in the city of Vilnius and its surroundings. Although this would be about 10% less than in 2018, it would be one of the biggest annual indicators of supply in the entire history of the Lithuanian real estate market.

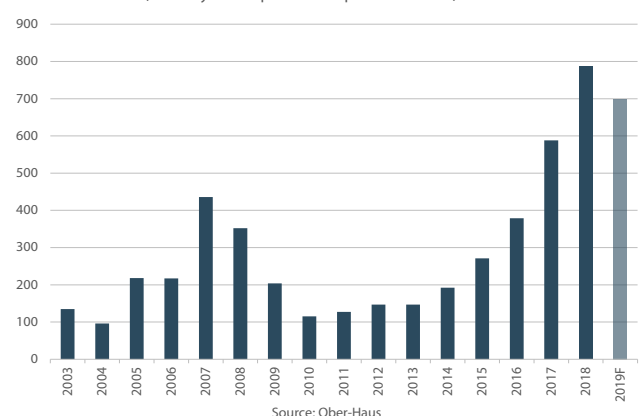
Regardless of the growing competition among apartment housing developers in Vilnius, where increasing numbers of apartments and houses are being built for sale, the number of unsold apartments in already constructed multi-apartment buildings has in principle remained stable and within the limits of 1,000 to 1,400 for eight years in a row. The number of such apartments in Vilnius in mid-2019 was about 1,050. The number of unsold flats and the change in this number in already completed projects is one of the most important indicators when assessing the balance between supply and demand in the primary market. Too high a number of unsold flats in a specific project might indicate that the wrong sales strategy was chosen (sale prices, marketing, and etc.), which prevented the implementation of targeted goals. Despite a high general sales results in Vilnius' primary apartment market, different developers' results vary. For instance, looking at individual projects, it can be seen that some projects can boast of all apartments sold or reserved even before the completion of construction, whereas in other projects the volume of sales does not make up one third of the apartments constructed. E.g., in the first half of 2019, 25 projects of multi-apartment buildings were implemented; at the end of construction, almost 72% of flats were sold or reserved in total. Projects in which less than 40% of apartments were sold accounted for 20% of all such projects (5). Projects, in which between 40% and 80% of apartments were sold, constituted 40% of all projects (10). The remaining 40% of projects (10) had over 80% of the apartments sold or reserved at the end of construction.

Numerous constructions of new multi-apartment buildings in Kaunas in 2017 -

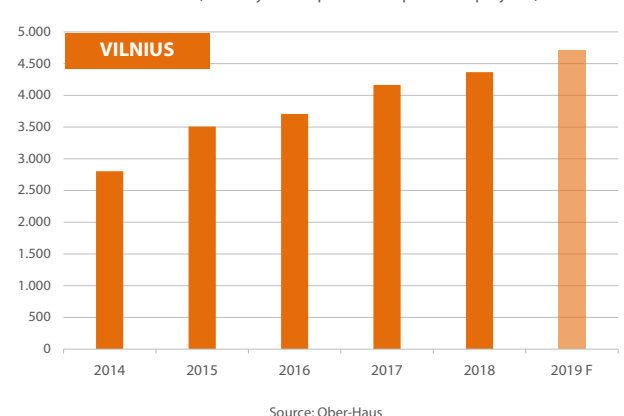
NUMBER OF SOLD/RESERVED NEW APARTMENTS
 (in the primary market)



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



COMPLETED APARTMENTS
 (in newly developed multi-apartment projects)



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2019 determined record numbers of sales of new apartments during the period. According to the data of Ober-Haus, in the first half of 2019, **497** 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 almost **37% more** than the number of apartments sold in the second half of 2018 and **34% more** than in the first half of 2018. Just like in the capital city, the result of this year's first six months is the best over the last decade. Whereas almost 1,000 apartments were built in multi-apartment buildings in Kaunas for sale in 2018, this year the number of apartments is not going to be much smaller (about 900). For this reason, Kaunas city dwellers can be delighted with the really wide choice of new housing in recent years, which is reflected in the statistical data of early and final transactions.

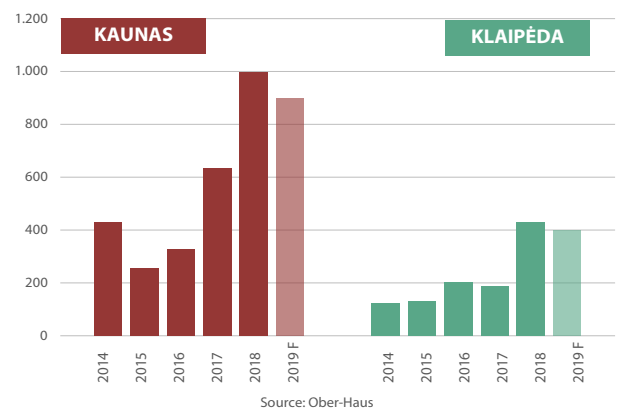
After a longer break, **Klaipėda** could also boast of greater apartment development volumes in 2018. A total of 11 projects offering **429 apartments** were implemented in Klaipėda in 2018. This is 2.3 times as many as in 2017. In 2011–2017, only about 200 new apartments per year were built in Klaipėda on average.

Following a longer break, some life is being breathed into the city of Klaipėda, where almost 430 apartments were built and offered for sale in 2018. This year, developers plan to complete 400 more new flats in multi-apartment buildings. After the implementation of these projects, 2018 and 2019 will have been twice as rapid in terms of the development of multi-apartment buildings in Klaipėda than in the period from 2011 to 2017, when only 200 or so new apartments were built there per year on average. The greater volumes of new housing developments are also being reflected in the statistical data of apartment sales. According to Ober-Haus, in the first half of 2019, **287** 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 **30% more** than the number of apartments sold in the second half of 2018 and **76% more** than in the first half of 2018.

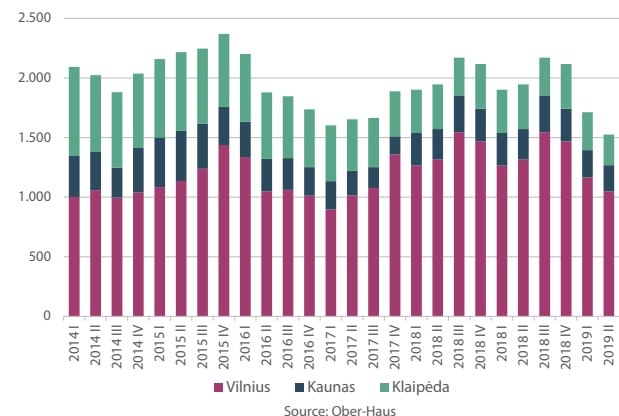
Differently from the situation in the capital city, where the number of unsold apartments in already built multi-apartment buildings has remained within a similar range for eight years in a row, trends in Kaunas and Klaipėda are different. Analysis over a longer period shows that the number of unsold units in already built multi-apartment buildings in Kaunas and Klaipėda is gradually reducing. Whereas in 2010–2012 the number of unsold apartments in Kaunas and Klaipėda ranged between 600 and 900, this number in 2017-2018 was about 200 to 250 in Kaunas and 350 to 400 in Klaipėda. In mid-2019, the number of such apartments in **Kaunas** was **220** and in **Klaipėda** almost **260**. In other words, differently from the capital city, the market in the

mentioned two cities has focused on the sale of previously built vacant units and not on the development of new projects. In the last two or three years, the scope of new housing construction recorded in Kaunas and Klaipėda should stabilise the declining number of unsold apartments in already built multi-apartment buildings and in this way retain a balance between supply and demand.

COMPLETED APARTMENTS
(in newly developed multi-apartment projects)



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



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.