

MARKET COMMENTARY



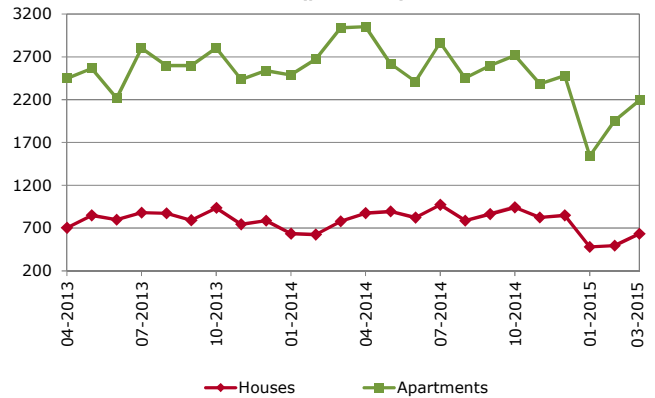
Despite a decline in the activity of the housing market in Lithuania in 2015, current indicators are not yet disappointing. According to the State Enterprise Centre of Registers, **21% fewer** purchase and sales transactions for private homes were concluded in Q1 2015 than were concluded in the same period in 2014 in Lithuania and almost **31% fewer** purchase and sales transactions for apartments were recorded in the same period than a year ago. In Q1 2015, on average 535 transactions for houses and 1,900 transactions for apartments were concluded per month. Although the number of transactions for housing property is significantly smaller than the indicators of 2014, at the same time the indicators of 2015 exceeded those recorded in 2013. Therefore, it is our opinion that no significant conclusions should be made from the comparison of the statistical data of 2015 and 2014, because the optimistic trends that appeared in the first half of 2014 quite undeservedly raised market activity indicators to heights not seen for a long time.

Some of the transactions concluded in 2014 were most likely promoted by expectations related to the approaching introduction of the new currency and less so by optimistic moods regarding the rapid economic development of the country and positive price changes in the housing market. This led to a considerable number of transactions being concluded in a hurry in an effort to buy residential property before the onset of 2015. Therefore, in order to evaluate the viability and prospects of the current housing market, we should take into account the trends and indicators of 2013. In view of this, the number of transactions concluded in Q1 2015 exceeds the statistics of 2013: in Q1 2013, 7,100 housing transactions were concluded compared to almost 7,300 in Q1 2015. It can be said that in 2015 the market has not experienced an unexpected recession and is maintaining sufficient viability, allowing one to expect further moderate development in the housing sector in the near future.

The sales volumes of newly constructed apartments in Q1 2015 echoed the overall trends in the activities of the apartment market in Lithuania. According to Ober-Haus, during this period **822** apartments in multi-apartment buildings that have been completed or are being constructed were purchased or reserved directly from builders in the five **major cities in Lithuania**. This is by 1/4 less than in Q1 2014, but 15% more than in Q1 2013.

The capital city continues to record quite good indicators of the sale of newly constructed apartments. During the first three months of this year, **656** apartments in buildings that have been completed or are being constructed were sold in **Vilnius**. This is 29% fewer than last year, but 24% more than the number sold in Q1 2013. The rates of apartment sales this year have remained at the level of the second half of 2014, i.e. the

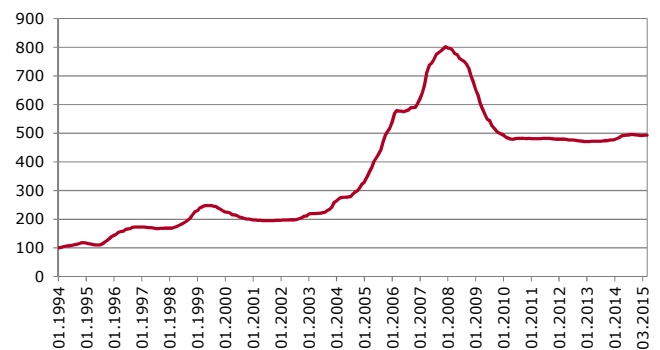
Number of transactions in Lithuania (per month)



Source: SE Center of Registers

Data: 2013 – 2015

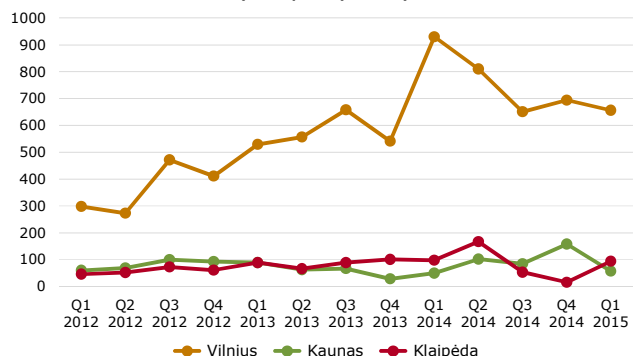
Lithuanian apartment price index (OHBI) (January 1994 = 100)



Source: Ober-Haus

Data: 1994 – 2015

Sales of new apartments (in the primary market)



Source: Ober-Haus

Data: 2012 – 2015

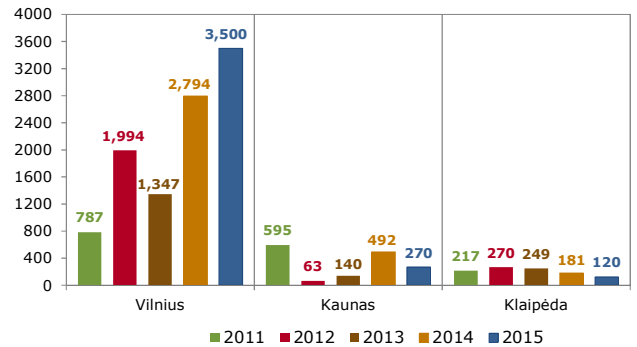
decrease in sales volumes that started in Q3 2014 has stabilised. Sales volumes have not reached those recorded in early 2014, but they are not declining. The supply factor remains important, because the growing choice of new housing allows customers to find an acceptable option in various districts of Vilnius (from new projects in the outlying areas of the city to expensive property in the central part of the city). From an assessment of the projects currently in progress, it is possible to state that the construction of about 3,500 apartments will be completed in Vilnius by the end of 2015, and this will be 20% more than the amount built in 2014. A noticeable increase in new housing projects and active demand should maintain similar sales volumes in 2015 (we forecast the sale of at least 200–240 apartments/month).

In Q1 2015, **94** new apartments in multi-apartment buildings that have been completed or are being constructed were purchased or reserved in **Kaunas**, i.e. 4% fewer than in the same period 2014, but 6% more than in Q1 2013. It should be noted that last year housing developers in Kaunas were more courageous and offered more new housing projects to the market. In 2014 alone, almost 500 new apartments were built in multi-apartment buildings in Kaunas (3.5 times more than in 2013), so customers had more options to choose from. Further prospects and sales volumes in the new apartment sector will depend on developers' plans. In view of the current situation, developers in Lithuania's second largest city do not have a clear strategy or great confidence in the region's prospects. The plan is to build about 250–280 new apartments this year (almost two times fewer than in 2014), so we can hardly expect growth in the sales volumes of new apartments this year.

Sales volumes in **Klaipėda** this year retained last year's level. In Q1 2015, **57** apartments were sold or reserved, i.e. 14% more than the same period in 2014, but 36% less than Q1 2013. Only about 180 new apartments were built in Klaipėda in 2014, and this indicator may decrease to 120–150 this year. Small projects with 15–40 apartments continue to dominate the market. Over the first three months of this year, **15** newly constructed apartments were sold in **Šiauliai** and **Panevėžys**. Due to limited demand, these cities have not seen any large projects for a long time, and the housing market is livened up only by small, non-traditional projects (reconstruction of multi-apartment buildings or construction of small, terraced apartment buildings).

Q1 2015 was marked by a growing number of unsold apartments in newly finished buildings. At the end of Q1 2015, the total number of unsold apartments in newly constructed multi-apartment buildings in **major Lithuanian cities** amounted to **2,220** or 14% more than at the end of 2014 and 3% more than a year ago. There are **1,085** such unsold apartments in **Vilnius**, **420** in **Kaunas**, almost **680** in **Klaipėda**, and about **35** in **Šiauliai** and **Panevėžys** combined. Rapidly completed residential property projects in 2014 (particularly in Vilnius and Kaunas)

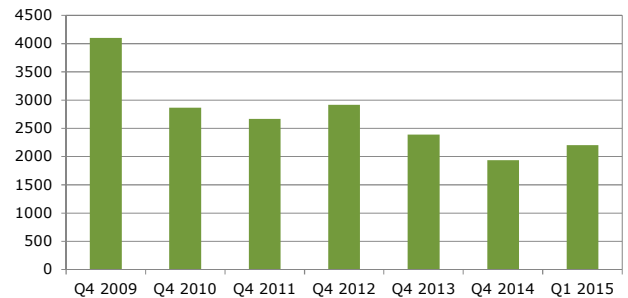
New construction apartments annual supply



Source: Ober-Haus

Data: 2011 – 2015

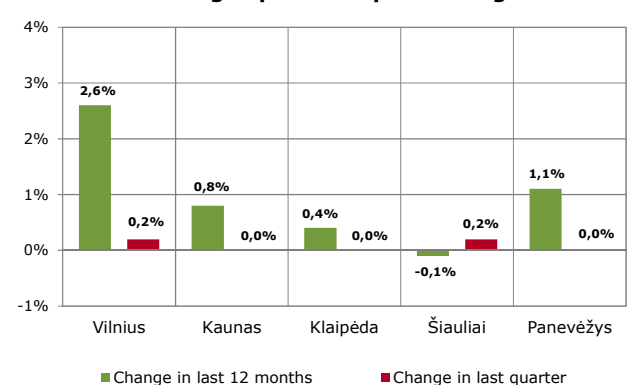
Unsold new apartments in major cities (in already finished projects)



Source: Ober-Haus

Data: 2009 – 2015

Average apartment price changes



Source: Ober-Haus

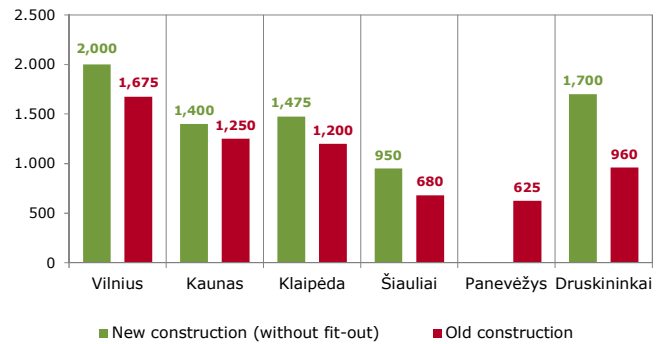
Data: Q1 2015

caused an increase in unsold apartments, but it is still too early to talk about a surplus of supply. This total number of unsold apartments should not be a burden for a sufficiently active market and in the worst case scenario may deter some developers from taking on new projects, i.e. from increasing the supply of newly constructed properties in 2015–2016.

After the negative developments in the prices of apartments in the last quarter of 2014, a stabilisation in prices or slightly positive price changes has been recorded in 2015 in the major cities in Lithuania. A rise in prices amounting to **0.2%** was recorded in Q1 2015 in **Vilnius and Šiauliai**. The average apartment price in Vilnius increased to 1,283 EUR/sq.m and to 559 EUR/sq.m in Šiauliai. At the same time no price change has been recorded in Kaunas, Klaipėda or Panevėžys, and average prices here amount to 940 EUR/sq.m, 975 EUR/sq.m and 529 EUR/ sq.m respectively. No significant changes in prices have been recorded in the apartment lease segment either. The average apartment rent is 340 EUR/month in Vilnius, 275 EUR/month in Kaunas, 265 EUR/month in Klaipėda, 145 EUR/month in Šiauliai and 95 EUR/month in Panevėžys.

In view of the current changes in the housing market and the viability of this market, it can be said that the development of this sector is sufficiently well balanced and the main positive and negative factors influencing further development of this sector offset one another and create preconditions for the further sustainable operation of this sector. Even the planned tightening of the conditions for housing loans in the near future will most likely have only a short-term impact. The growth of the real income of the population and the record low price of housing loans will continue to remain the key factors in the housing sector. To sum up the results of Q1 2015, it can be said that the situation at the beginning of this year came as no surprise. The market, as expected from the example of neighbouring countries (Latvia, Estonia), was much less active than it was at the beginning of 2014. Since the end of 2014 and the beginning of 2015 were marked by a difficult geopolitical situation, the drop in the number of transactions at the beginning of 2015 could have been even more pronounced. We therefore believe that as the population gets adjusted to the new currency and there is growth both in the country's economy and the income of the population over time, the market should gradually become active and at the end of 2015 we should see a much more dynamic market than it was early this year.

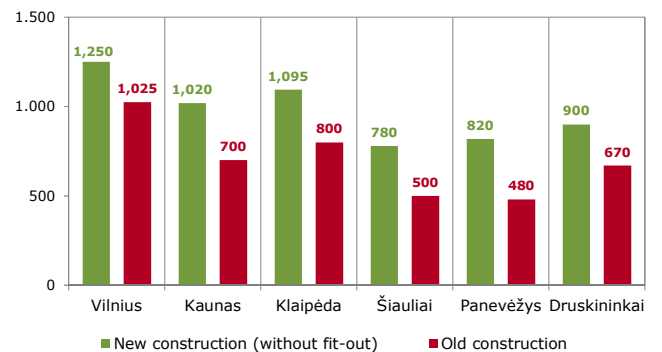
Average apartment prices in Old Town, city centre, prestigious districts (EUR/sqm)



Source: Ober-Haus

Data: Q1 2015

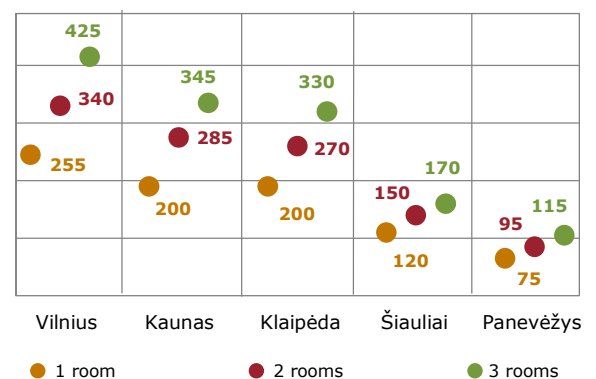
Average apartment prices in residential districts (EUR/sqm)



Source: Ober-Haus

Data: Q1 2015

Average apartments rents (EUR/month)



Source: Ober-Haus

Data: Q1 2015

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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