

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q3 2019

Q3 2019 was particularly successful for the entire Lithuanian housing market. Compared to the same period of previous years, the number of apartments and houses purchased in Q3 2019 was the largest since 2007. High level of activity in Q3 improved the results of the first three quarters of 2019 both in the country and in the major cities of the country. According to the State Enterprise Center of Registers, within nine months of the year, **4% more** apartment and almost **11% more** house purchase and sale transactions were concluded **in Lithuania** compared to the same period in 2018. The increase in the number of transactions within nine months of 2019 in Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys was recorded both in the apartment segment (in Vilnius – 6%, Kaunas – 3%, Klaipėda – 9%, Šiauliai – 14% and in Panevėžys – 13%) and the house segment (in Vilnius – 9%, Kaunas – 7%, Klaipėda – 18%, Šiauliai – 19% and Panevėžys – 5%).

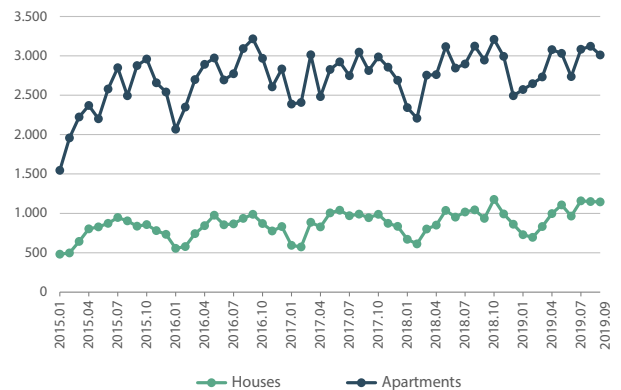
The total amount of money spent for homes purchased in the country this year has continued to increase. According to the State Enterprise Center of Registers, within nine months of the year, almost **EUR 1.7 billion** was spent in Lithuania for home purchase (apartments and houses) or **13% more** than during the same period last year. The amounts spent on purchasing apartments increased by 11%, and the amounts spent on purchasing houses increased by nearly 22%.

The housing market activity continued to soar resulting in a slight increase in the new mortgage volumes in Lithuania. According to the Bank of Lithuania, during the first nine months of 2019, new mortgages in the amount of **EUR 969 million** were issued in Lithuania or almost **2% more** than in the same period of 2018. Interest rates for newly issued housing loans continued a slight, but steady increase. The average annual interest rate for new housing loans in January-September 2019 was **2.4%** on average or 0.16 percentage points higher than a year ago.

The unabated housing market activity pace further increased sales prices in the major cities. According to Ober-Haus, the fastest apartment price increase in July, August and September was recorded **in Šiauliai** and stood at **2.4%**. Within the same period, the apartment prices increased **in Panevėžys** by **2.2%**, **in Kaunas** – **2.1%**, **in Vilnius** – **1.9%** and **Klaipėda** – **1.6%**. In a year's time (September 2019 compared to September 2018), apartment prices increased in Šiauliai by 11.2%, in Panevėžys – 11.5%, in Kaunas – 6.5%, in Vilnius – 5.9% and in Klaipėda – 4.9%.

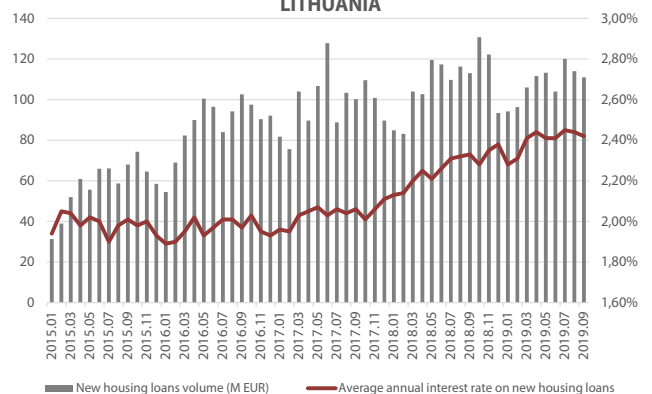
The private rental sector in the major cities of Lithuania also remained very active and rents increased on average even faster than the apartment sales prices. In January-September 2019, compared to the same period of 2018, apartment rents **increased on average by 7% in Vilnius, in**

NUMBER OF TRANSACTIONS IN LITHUANIA



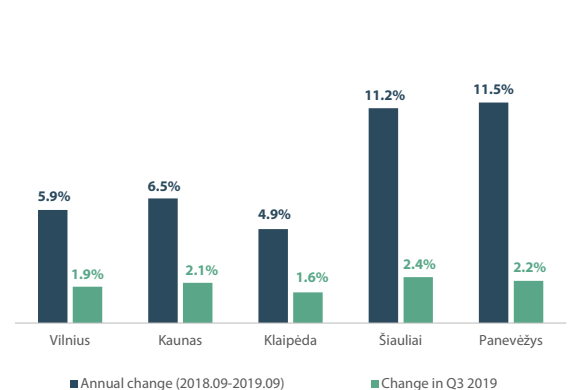
Source: SE Centre of Registers

NEW HOUSING LOANS FOR PRIVATE PERSONS IN LITHUANIA



Source: The Bank of Lithuania

AVERAGE APARTMENT PRICE CHANGE



Source: Ober-Haus

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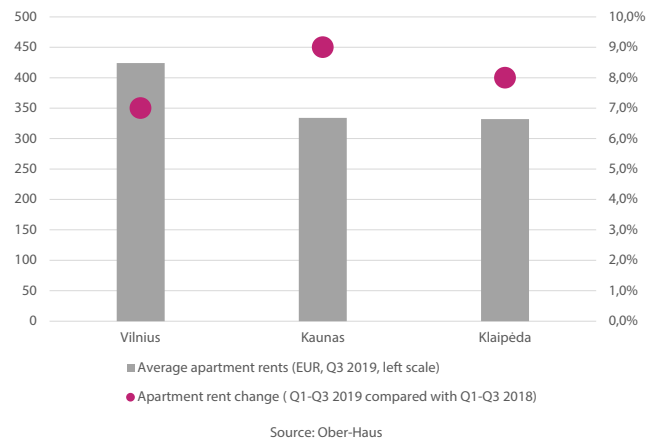
Kaunas – 9% and in **Klaipėda – 8%**. The increasing population in the major cities of the country increases the demand of the residential property both for sale and for rent. It is obvious that in the environment of the growing housing sales prices some people are forced to rent homes thus maintaining activity in the apartment rental market.

Although in Q3 2019 in the three major cities of the country the sales indicators of new apartments in the primary market were high, they were slightly lower than those in Q2 and Q3 2019. According to Ober-Haus, in Q3 2019, a total of **1,411** newly constructed apartments in completed multi-apartment buildings or buildings under construction were purchased or reserved in Vilnius directly from developers. This is 1% less than in Q2 2019, but 17% more than in Q3 2018. The results of the first three quarters of this year are still more than impressive. Compared to the same period last year, 41% more apartments were realized in the primary market. In the first three quarters of 2019, more apartments were realized in the primary market than in the whole of 2017 or 2018. The main reasons for the high pace of activity remain the same as in the previous years – continuing construction of new apartments and high demand for new housing. The number of unsold apartments in the primary market in 2019 remains very stable. According to Ober-Haus, at the end of Q1 2019, the total number of unsold newly constructed apartments in completed multi-apartment buildings in Vilnius stood at 1,166, at the end of Q2 2019 – 1,048 apartments and the end of the Q3 2019 – **1,085** apartments. However, if we compare Q3 2019 and Q3 2018, the number of unsold apartments **has decreased by 30%**.

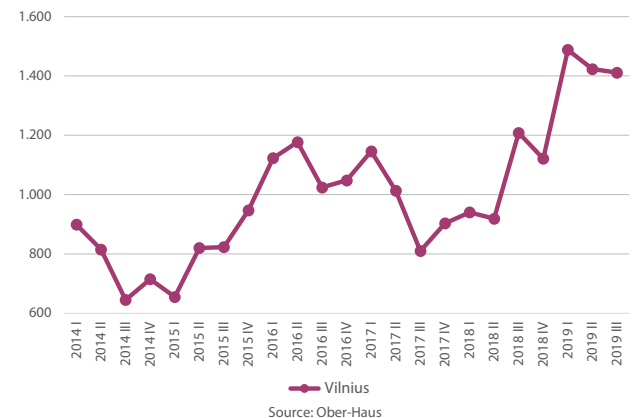
Over the past three years, active construction of multi-apartment buildings in Kaunas has improved the overall sales indicators in this city. In Q3 2019, **232** newly constructed apartments in completed multi-apartment buildings or buildings under construction were directly purchased or reserved from the developers in Kaunas. This is 6% less than in Q2 2019, but 21% more than in Q3 2018. During the first three quarters of 2019, compared to the same period last year, 30% more apartments were realized in Kaunas. The same as in the country's capital, the number of unsold apartments has been decreasing in Kaunas during the past 12 months. At the end of Q3 2019, the total number of unsold newly constructed apartments in completed multi-apartment buildings in Kaunas stood at **205** or 34% less than a year ago. The smallest number of unsold completed apartments has been recorded in Kaunas since the beginning of 2018.

In Q3 2019, **99** newly constructed apartments in completed multi-apartment buildings or buildings under construction were directly purchased or reserved from the builders in Klaipėda. This is 32% less than

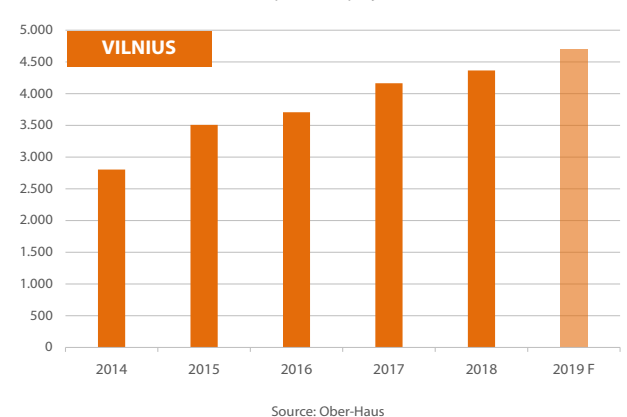
AVERAGE APARTMENT RENTS AND CHANGES



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



COMPLETED APARTMENTS (in multi-apartment projects for sale)



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in Q2 2019 and 2% less than in Q3 2018. However, during the first three quarters of 2019, compared with the same period last year, 43% more apartments were realized in Klaipėda. High indicators of the first three quarters of 2019 show that the demand for new housing in Klaipėda is sufficient and developers essentially do not have any major difficulties in realizing apartments for the market price. We can therefore continue to observe further increase in the volume of multi-apartment buildings, good realization indicators and the declining number of unsold apartments.

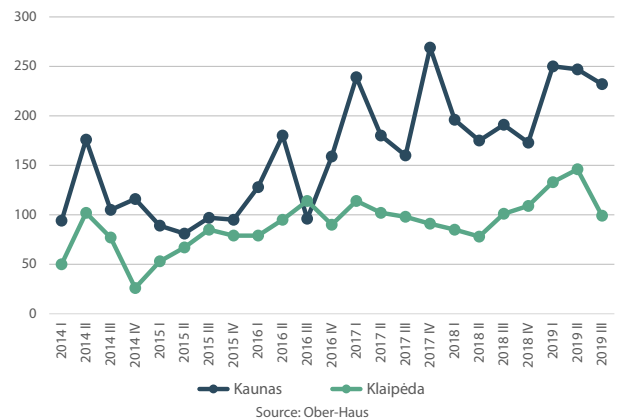
During the first three quarters of 2019, developers in Klaipėda built nearly 270 apartments in multi-apartment buildings and in total 450 apartments are scheduled for completion in 2019. In 2018, developers built and offered for sale 429 apartments in Klaipėda. At the end of Q3 2019, the total number of unsold newly constructed apartments in completed multi-apartment buildings in Klaipėda stood at **238** or 25% less than a year ago. This is also the smallest number of unsold apartments over the past decade and means there are very favorable investment opportunities for developers in this seaport city.

Over the past three years, great quantitative and qualitative changes have been taking place in the Lithuanian construction sector and the real estate market. On 1 November 2016, amendments to the Construction Technical Regulation came into force in Lithuania, whereby newly designed and built buildings had to comply with not less than A class energy performance requirements (except for reconstructed, renovated or repaired buildings or their parts, which are subject to other minimum requirements under certain conditions, or the buildings not subject to the minimum energy performance requirements). Since 1 January 2018, the energy performance requirement for the buildings has been not less than A+ class and from 2021 the energy performance requirement for new buildings will be not less than A++ class.

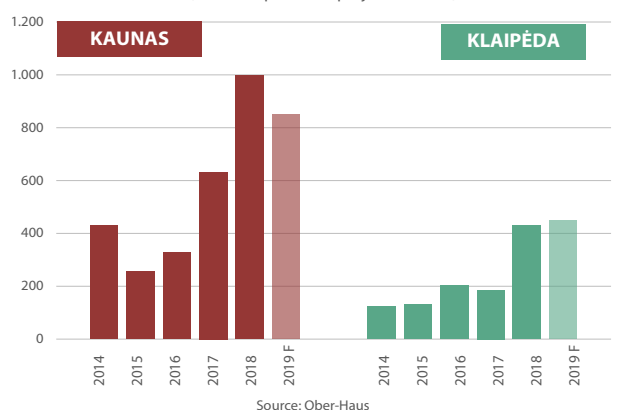
In order to assess the progress achieved in building energy efficient buildings, it is rational to speak about housing developers and more specifically about Vilnius, a clear leader in developing multi-apartment buildings and trying out innovations even before they enter into force. After all, back in 2012, a multi-apartment building built in Vilnius was first in Lithuania to be certified for A class energy efficiency (a multi-apartment building on Bajorų Road, developer – Hanner). At that time some developers began preparations for the upcoming changes in the construction sector and the real estate market and practically invested in designing and building more energy efficient and convenient buildings to residents.

It is obvious that in 2015 the share of A class energy performance

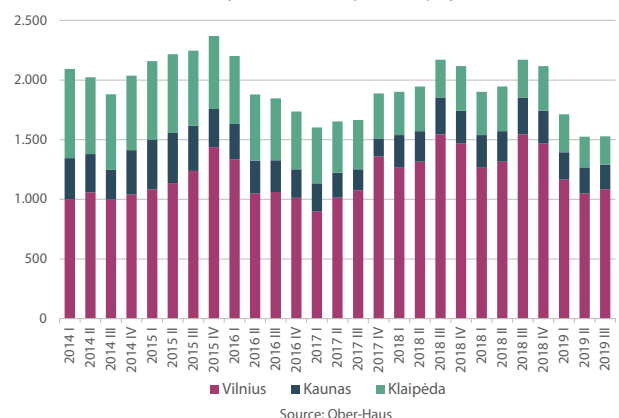
NUMBER OF SOLD/RESERVED NEW APARTMENTS
(in the primary market)



COMPLETED APARTMENTS
(in multi-apartment projects for sale)



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



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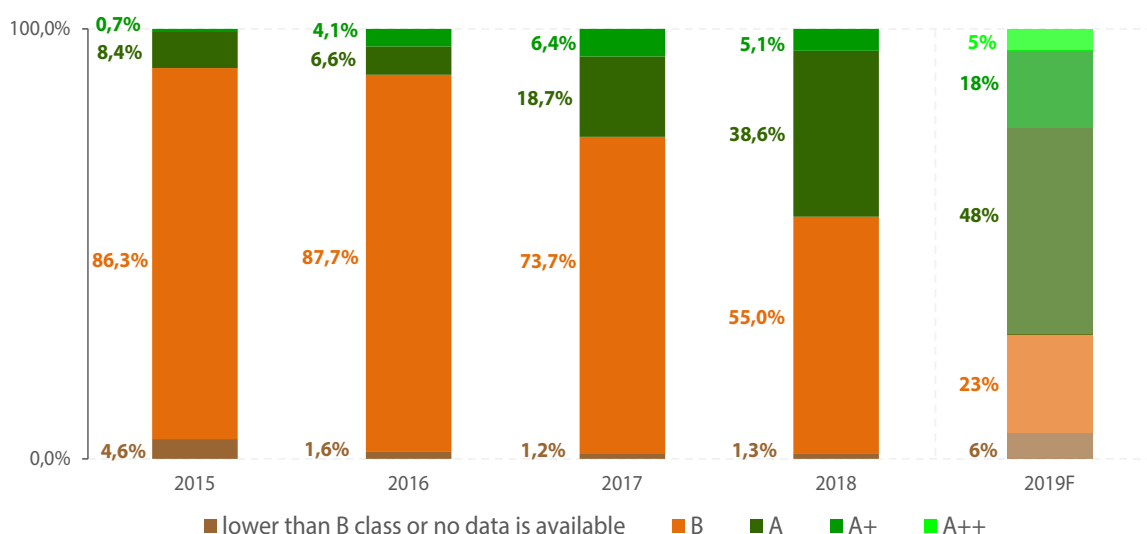
multi-apartment buildings) in the new construction market was very small and increased at a faster rate only in subsequent years. Ober-Haus has collected information about all multi-apartment buildings built in the city of Vilnius and its environs in 2015-2018 and, based on the information of the register for building certification available at the public institution Construction Product Certification Center, has calculated how many apartments are available in the buildings of different classes of energy performance (multi-apartment buildings).

The obtained data show that in 2015 apartments in A and A+ class multi-apartment buildings accounted for only slightly more than 9% of the apartments built in that year in Vilnius and its environs. The share of such apartments in 2016 was almost 11% and in 2017 it increased to 25%. In 2018, apartments in B class energy performance multi-apartment buildings dominated (55%), but a rapid growth in the number of apartments in higher energy efficient buildings was also observed. In 2018, the share of apartments in A and A+ class multi-apartment buildings accounted for almost 44% (A class – 39% and A+ class – 5%). The remaining part of the apartments (1%) were in lower than B class energy performance multi-apartment buildings or the data on the energy efficiency class of such buildings was not available (these are usually reconstructed buildings or parts thereof or actually completed, but not yet certified buildings).

As we can see, evident changes were taking place in 2015–2018 in the construction of new multi-apartment buildings. In 2019, we will see a further increase in more energy efficient buildings in the capital city – not only A or A+ class multi-apartment buildings, but also A++ class buildings, which are almost zero energy buildings and which are being settled already by their first residents. According to the public institution Construction Product Certification Center, this year the first A++ class energy performance multi-apartment buildings will be certified in Lithuania – all of them in Vilnius: a multi-apartment building on Peteliškių Street (developer – Peteliškių Parkas), three multi-apartment buildings in Šaltinių Namai | Attico project on Aguonu Street (developer – Pro Kapital) and a multi-apartment building on Tvankstos Street (developer – Eika).

According to preliminary data of Ober-Haus, apartments built in A++ class energy performance buildings in the country's capital city this year will account for about 5%, in A+ class buildings – 18%, in A class buildings – 48% and B class – 23% of all apartments built in 2019. No information is currently available about the energy efficiency parameters of the remaining newly built apartments (6%). Thus, the share of apartments in A class and

DISTRIBUTION OF THE NUMBER OF COMPLETED APARTMENTS IN VILNIUS BY ENERGY EFFICIENCY CLASS
(in multi-apartment buildings for sale)



Source: Ober-Haus, Construction Product Certification Center

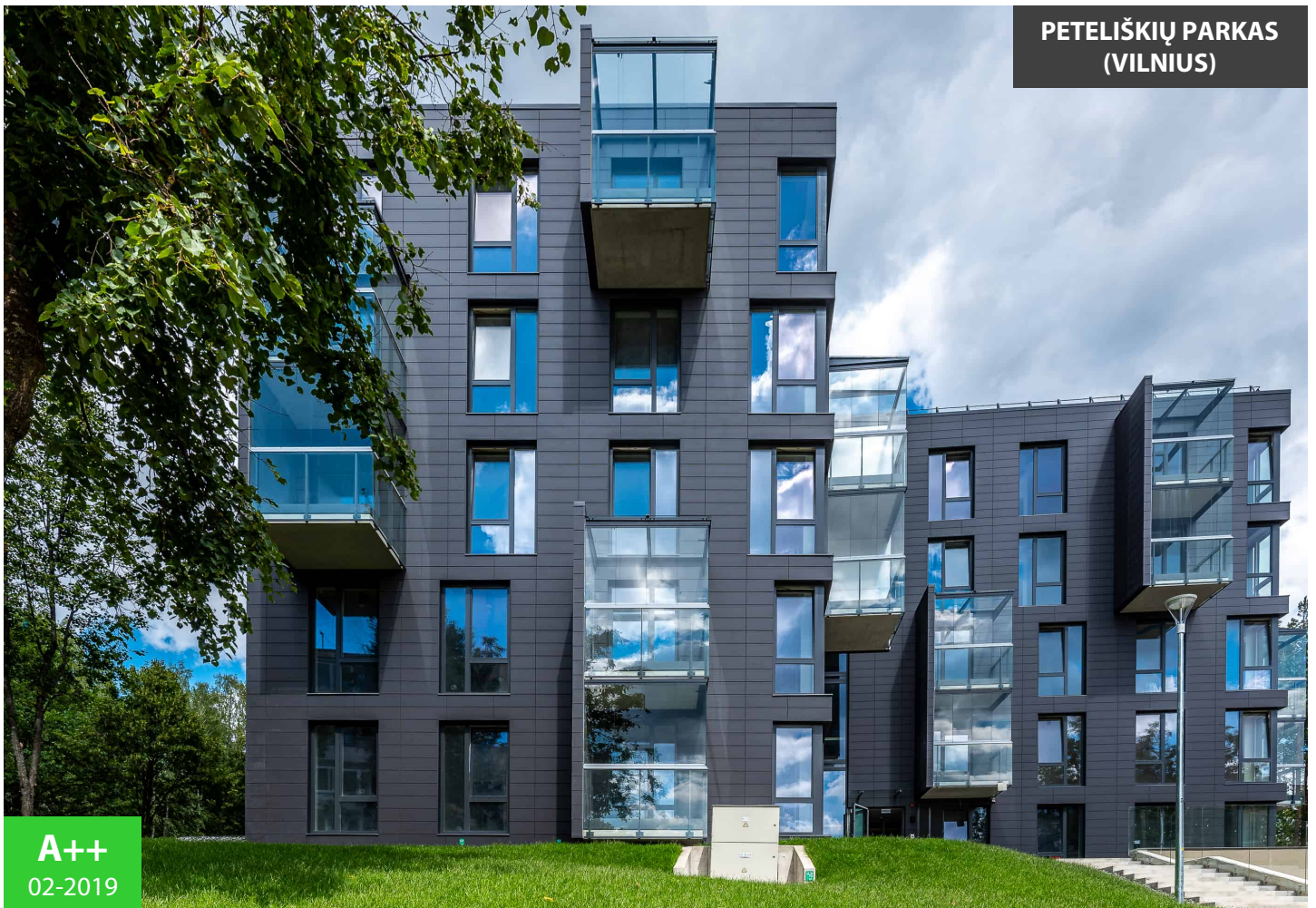
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higher energy efficiency buildings built in 2019 will be 70% (in 2015–2016 it was only 9–11%).

In view of the fast changes which have occurred in the past 4-5 years, real estate developers, designers and builders have managed to adapt to new construction technical requirements fairly quickly and some of them get ready for changes in advance. Buyers accept changes positively and understand the benefits of higher energy efficiency and more comfortable homes. However, buyers are not specifically looking for higher energy efficiency class and understand

that the higher the efficiency class the higher construction costs for the developer and the higher the purchase price, which the buyers have to pay at least partly. The future maintenance costs of additional equipment in the buildings, at least partly, will also have to be borne by buyers. Therefore, with further increase in the construction volumes of higher energy performance buildings, all market players will have to learn not only how to build, but also how to properly maintain the properties built.



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A++
02-2019

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.