Lithuanian Residential Real Estate Q2 2009

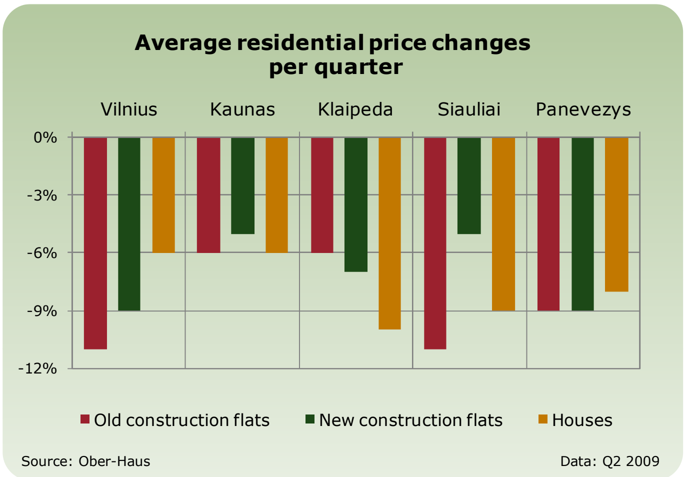
MARKET COMMENTARY

In the second quarter of 2009, decline in sales prices and rents for residential properties in all largest cities of Lithuania persisted. Number of apartment and house transactions which increased insignificantly during the first months of this year stabilized all over Lithuania in the second quarter and lingered at a similar level. However, the existing situation is not particularly favorable to developers of new projects, seeing as the current activeness of the market does not enable realization of their property at expected pace and for prices, acceptable to them.

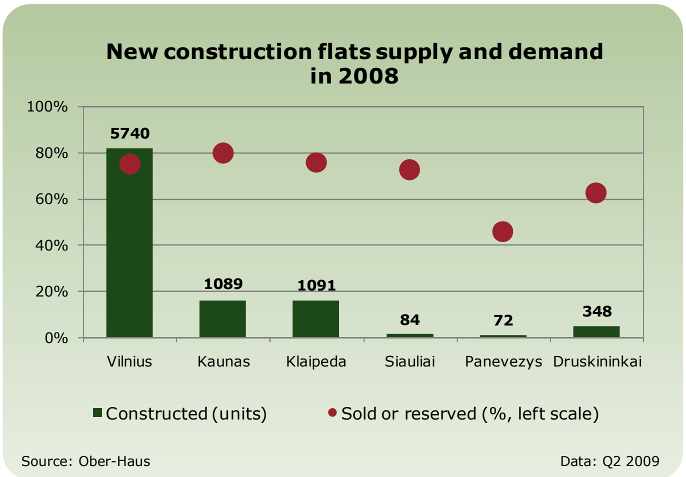
In the second quarter of 2009, apartment sales prices in the largest cities of Lithuania decreased by **9%** on the average: ***in Vilnius – by 10%, in Kaunas - by 5%, in Klaipėda – by 9%, in Šiauliai – by 7%, in Panevėžys – by 12%*** and ***in Druskininkai – by 14%***. The largest decline in prices in comparison with the peak period (end of 2007) was recorded in ***Klaipėda,*** where prices of apartments have already decreased by as much as ***40%***, the lowest - in ***Kaunas – by 20%***. More substantial decline in prices in Klaipėda compared to other cities was determined by several reasons: particularly rapid growth of prices and large supply. At the end of 2007, prices of apartments in Klaipėda were lower than those in Vilnius by approximately ***10%*** only, while the number of new apartments built in 2008 in ***Klaipėda*** was the same as in ***Kaunas***, although the latter has almost twice more residents than Klaipėda.

Over the second quarter of this year, apartment rents in the largest cities of Lithuania went down by another ***10%*** on average, and from the beginning of the year - by as many as ***20-25%***. Rents for bigger apartments (3-4 rooms) dropped the most, because such apartments remain less in demand due to higher rent as well as higher utility costs. Nonetheless, decline in apartment rents of lower area was also recorded for old as well as newly built apartment houses. Whereas at the end of 2008 rents for old ***2-room*** apartments in Vilnius living districts started from ***€230 - €260 per month***, and of newly built apartments - from ***€320 - €350 per month***, at present, rent charged for such apartments is respectively from ***€150 - €170 per month*** for old and from ***€230 - €260 per month*** for fitted out newly-built apartments. At the end of summer activeness of those willing to rent traditionally increasing, that allows expect the livening of rent market in the third quarter of this year; however, it is not much likely that charged rents will achieve the level of the beginning of the year.

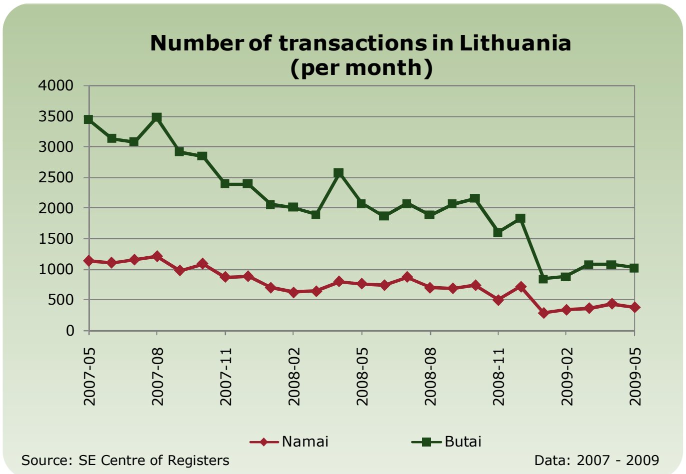
At the end of June 2009, the following numbers of newly built apartments offered to the primary market in 2008 had already been sold or reserved: ***in Vilnius – 75% (+1% in comparison to the last quarter), in Kaunas – 80% (+3%), in Klaipėda – 76% (+1%), in Šiauliai – 73% (+9%), in Panevėžys – 46% (0%) and in Druskininkai – 63% (+5%).*** The best primary market sales indicators of the second quarter of this year were recorded in Kaunas; however, when compared to other cities, the number of apartments built in this city in 2008 per 1,000 residents was ***twice*** lesser than that in Klaipėda and more than ***3 times*** lesser than in Vilnius.



Source: Ober-Haus Data: Q2 2009



Source: Ober-Haus Data: Q2 2009



Source: SE Centre of Registers Data: 2007 - 2009

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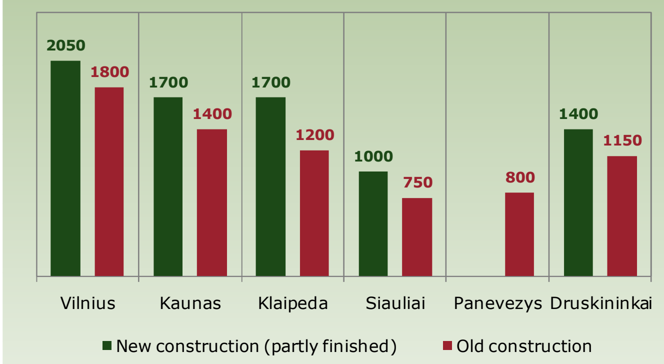
From apartments offered in 2007-2009 (when calculating projects developed during these years), currently in Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys and Druskininkai there are still about ***3,500*** apartments unsold, from which ***2,100*** are from 2008 supply.

When analyzing the sales results of apartments in the primary market in the second quarter of 2009, it is obvious that they are significantly worse in comparison with previous quarters. Although based on the data of *State Enterprise Center of Registers* the number of residential property transactions throughout Lithuania went up insubstantially in the second quarter, when analyzing the new development projects in the largest cities of Lithuania it becomes evident that this growth occurs on the account of old residential properties. According to the information of Ober-Haus, the number of residential properties offered in some of the new development projects did not decrease, but increased, seeing as a portion of the buyers surrendered the earlier-reserved property.

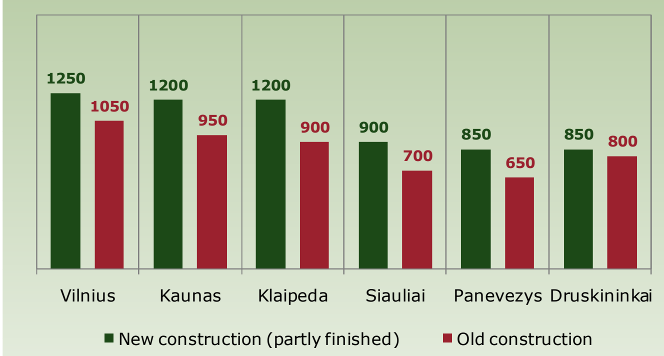
Under current market conditions, it is particularly difficult to find tenants or buyers; even substantially cut rental or sales prices do not always help. While having quite many choices, buyers do not hurry when searching for residential property that meets their needs, and consequently the supply now diminishes only on the account of the most attractive apartments. Furthermore, the number of newly-built residential properties offered to the market continues decreasing rapidly. According to the estimates of *Ober-Haus,* ***in Vilnius*** during 2009 development of not more than ***1,000-1,200*** new apartments should be completed (although the forecasts at the end of 2008 promised about ***2,000-3,000*** new apartments). In view of this, during this year in the capital city of Lithuania there will be built even ***5-6 times*** less apartments than in 2007 or 2008, when on average about ***6,000*** new apartments were built per year. It is forecasted that the supply of new apartments in Kaunas and Klaipėda in 2009 (compared to 2008) will go down by ***2-3 times***, i.e., from ***1,000*** to ***300-500*** apartments.

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



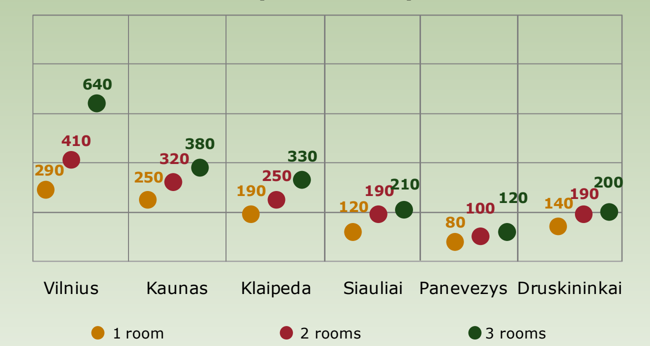
Source: Ober-Haus Data: Q2 2009

Average flat prices in residential districts (EUR/sqm)



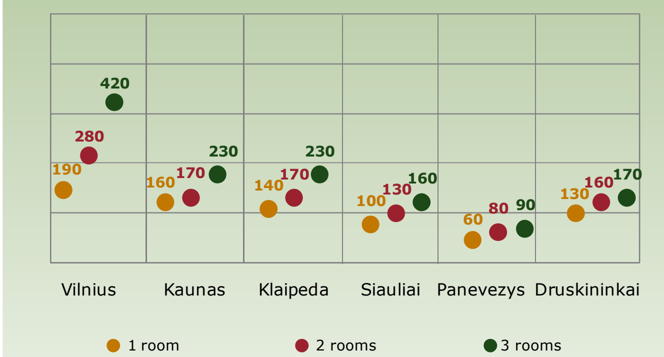
Source: Ober-Haus Data: Q2 2009

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



Source: Ober-Haus Data: Q2 2009

Average flat rents in residential districts (EUR/month)



Source: Ober-Haus Data: Q2 2009

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 UAB Ober-Haus real estate market analysts.

Saulius Vagonis, Valuation and Market Research Group Manager
Tel.: +370 5 210 97 17, e-mail saulius.vagonis@ober-haus.lt