

# Lithuanian Residential Real Estate

**Q3 2014**

# MARKET COMMENTARY



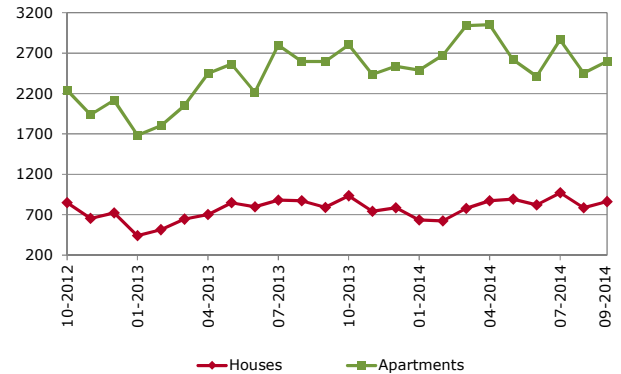
Following the rapid recovery of the residential property market in Lithuania in the first half of 2014, the situation in Q3 is seen to be more moderate and in fact some slightly negative indicators have been observed. The diminishing activity in the market and, after a longer period, the recorded decrease in the prices of apartments in Lithuania's major cities has slightly dampened the mood of market participants. The optimism of the first half of the year has now been replaced with more cautious expectations. On the other hand, the indicators for Q3 are not so bad as to consider that there are negative trends in the residential property market.

Looking at the official statistics we can see that March and April 2014 were exceptional in the residential property market. During these months 3,000 apartment purchase transactions were recorded in Lithuania per month, i.e. almost as many transactions as there were at the very peak of the housing market in 2005 and 2007 (3,140 transactions in 2005 and 3,000 transactions in 2007 per month). Given the fact that the current pace of construction of new apartments is at least half what it was in 2005–2007, it is likely that such a statistical surge could be determined by simultaneous registration of transactions (usually purchase and sale transactions of new construction projects are registered at the same time) and the growth in demand of relatively old apartments. It is the relatively old apartments, which have become the market driving force in the major Lithuanian cities. If newly developed projects in Vilnius account for part of the total number of transactions concluded in Vilnius (the share of apartments sold in the primary market in the total number of transactions in 2011 was 20% and in 2014 it rose to 30%), so in the remaining cities it is transactions for the purchase of relatively old apartments that dominate.

According to the data of the State Enterprise Centre of Registers, **1% more** transactions for the purchase and sale of private houses was recorded in Q3 2014 **in Lithuania** compared to the same period in 2013. Meanwhile, there were **2% fewer** transactions for the purchase and sale of apartments than a year ago. Despite a drop in the number of transactions for apartments in Q3, the indicators for nine months are not disappointing – 16% more transactions of apartments was recorded in Lithuania than during the same period in 2013.

Since early 2013, only positive trends in the prices for apartments have been observed in Vilnius, with the exception of September this year, when a slight decrease (0.2%) in prices was recorded; this decrease signals the stabilisation of the market in the most active

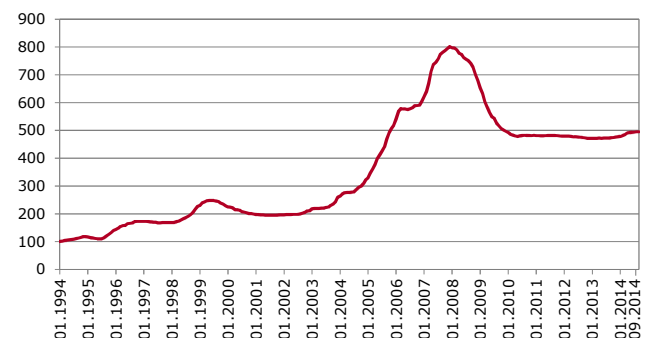
**Number of transactions in Lithuania (per month)**



Source: SE Center of Registers

Data: 2012 - 2014

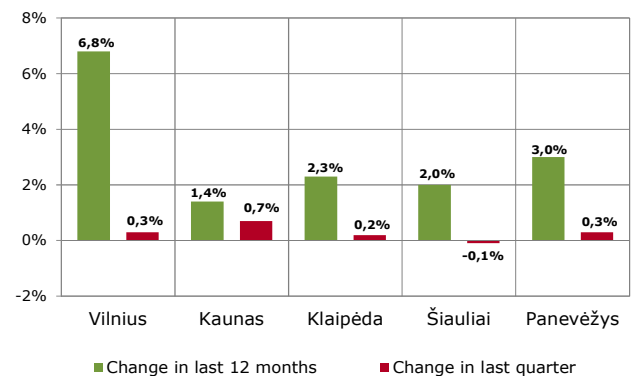
**Lithuanian apartment price index (OHBI) (January 1994 = 100)**



Source: Ober-Haus

Data: 1994 - 2014

**Average apartment price changes**



Source: Ober-Haus

Data: Q3 2014

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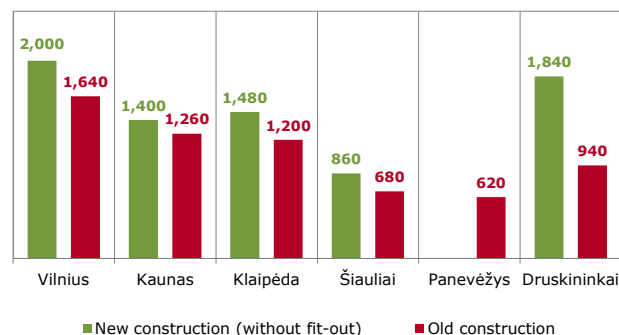
region of the country. However, overall price change indicators this year remain positive. During the first nine months of the year, prices for apartments in Vilnius increased by **5.6%**: prices for old apartments increased by 8.3% and those for newly constructed apartments – by 3.2%. The average price of an apartment at the end of Q3 was 1,286 EUR/sqm. Like in Vilnius, the first nine months of this year showed positive price change results in the other major cities of the country: Panevėžys – 2.6%, Klaipėda – 2.1%, Šiauliai – 1.6% and Kaunas – 1.4%.

With the approach of autumn, there is a noticeable slow down in the market, but there are no clear and justifiable reasons for a major decline in prices. January 2013 saw the lowest prices for apartments in the five major cities of Lithuania. Since then, they have increased by an average of 5.1%. The lowest prices for apartments in Vilnius were last recorded in May 2010 and prices for apartments have since increased by 11.4%. The current economic and real estate market situation in the country is much stronger than during the crisis, when the lowest prices were recorded. It is most unlikely that we will see a sharp drop of 5-10% in residential property prices to bring us back to the level of the crisis period. If we will see some negative corrections of prices in short term, these adjustments should not exceed one or few per cent. And it may be determined by the decrease in buyer's expectations and, speaking about Vilnius, increasing competition among developers of new residential property projects.

In 2014, construction started or continued on 40 new different apartment building projects in Vilnius, as a result of which a total of 3,000 new apartments will be built. This is a significant number of new apartments, leading to speculation by market participants about potential supply surplus and consequent drops in prices. Looking at the sales volumes of new apartments, Q3 was not particularly active in this segment of the market. According to the Ober-Haus data, **773** newly constructed apartments in existing or newly built apartment buildings were purchased directly from builders or reserved over the said period **in five major cities of Lithuania**. This is almost a third less than in Q1 or Q2 2014 and **5%** less than in Q3 2013. With the decrease in demand for new apartments in Q3, demand is keeping pace with construction.

A total of 2,794 new apartments is scheduled for completion this year, and according to the beginning of construction projects and their expected scope (usually larger projects are developed over a number of years) – another 2,900 new apartments in 2015. This means that next year should not be any different and developers' plans are very similar to those in 2014, unless new projects are announced at the end of this year. When examining the volume prospects in the market, the volume of demand should be taken into account. If we consider the period since 2009, the demand in Vilnius

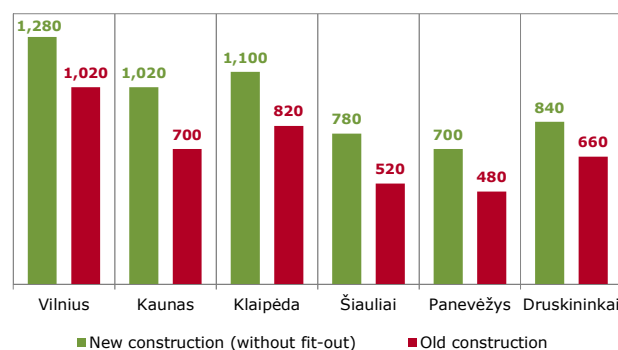
**Average apartment prices in old town, city centre, prestigious districts (EUR/sqm)**



Source: Ober-Haus

Data: Q3 2014

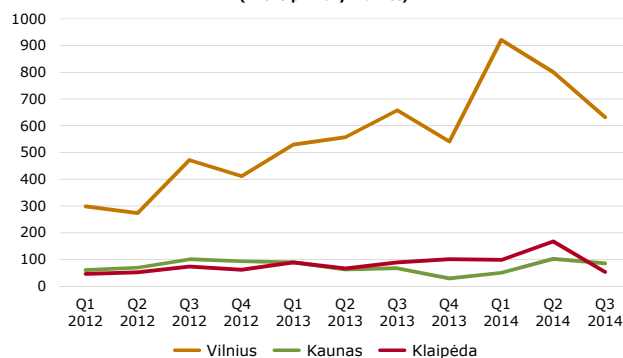
**Average apartment prices in residential districts (EUR/sqm)**



Source: Ober-Haus

Data: Q3 2014

**Sales of new apartments (in the primary market)**



Source: Ober-Haus

Data: 2012 – 2014

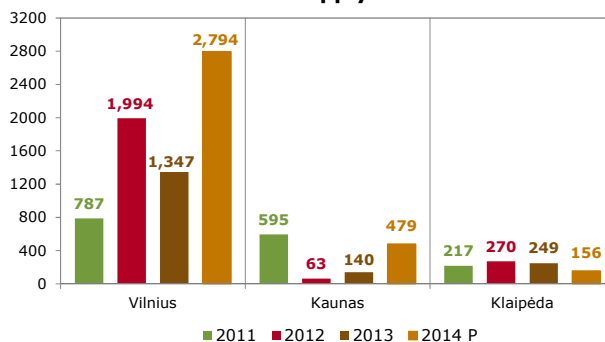
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this year is the highest. During the first three quarters of the year, over 2,360 new apartments were sold in the primary market and this almost coincides with this year's development volumes in the capital. Even if Q4, compared to Q3, is more modest, the number of purchased apartments will not be less than the total supply for this year. Therefore, if demand remains more or less the same in 2015 (around 250 new apartments per month), most of the new projects will be successfully realised next year too.

One of the key indicators that could signal a supply surplus in the residential property market is the number of unsold apartments in fully completed buildings. Therefore, the growing number of vacant apartments in freshly completed projects may be of concern to both developers and the market; however the figures for Q3, do not indicate this. At the end of Q3 2014, the total number of unsold apartments in newly constructed apartment buildings in **Lithuanian major cities** was a little over **1,900** or 21% less than a year ago. The number of unsold newly constructed apartments in **Vilnius** is almost **1,000** (12% less than a year ago), **250 – in Kaunas, 633 – in Klaipėda**, and **32 – in Šiauliai and Panevėžys** combined. This leads us to believe that developers will be able to successfully complete projects already started, whereas the future of new, not yet started projects will depend on the demand for newly build residential property in 2015.

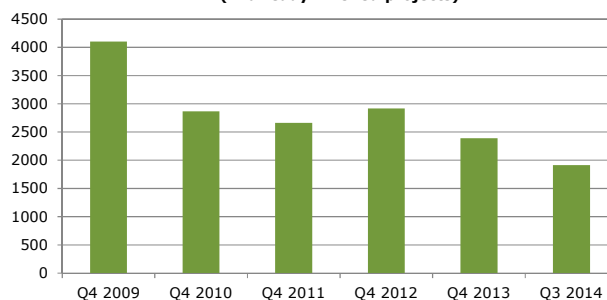
**New construction apartments annual supply**



Source: Ober-Haus

Data: Q3 2014

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



Source: Ober-Haus

Data: 2009 - 2014



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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