

Ober-Haus Lithuanian apartment price index - OHBI

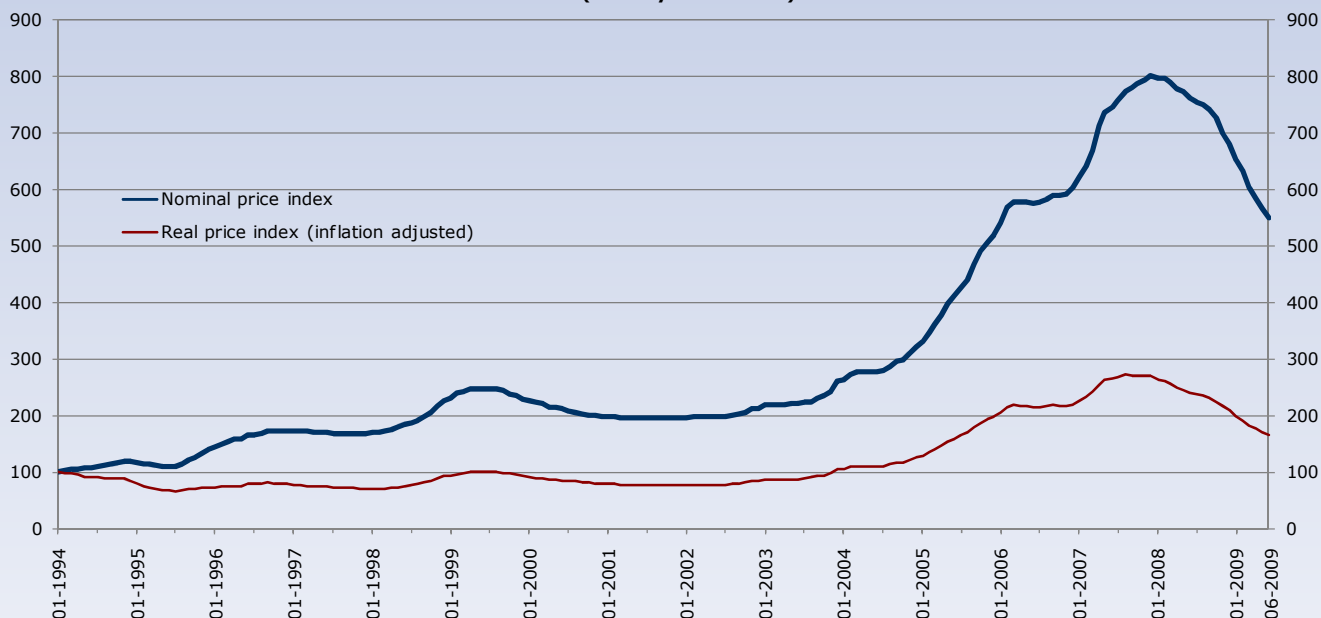
June 2009

Ober-Haus 15 Year Lithuanian apartment price index

Celebrating 15 years of business activities of the Ober-Haus Group in Central and Eastern Europe, Ober-Haus Real Estate Advisors is presenting the Lithuanian apartment price index (**OHBI**) supported by the data about prices for apartments and change in these prices collected by the company in the course of the company's long lasted business activities. The **OHBI** shows summarized changes in prices for apartments in the five largest Lithuanian cities (Vilnius, Kaunas, Klaipėda, Šiauliai, and Panevėžys).

Since July of this year, Ober-Haus Real Estate Advisors is going to present changes in the **OHBI** on the monthly basis. All the information associated with OHBI is presented at company's website: <http://www.ober-haus.lt/>. The baseline period for the **OHBI** is January, 1994; the baseline value of the **OHBI** is 100. Data available for the being time enables to analyze changes in prices for apartments for the period over **15 years (186 months)**.

Ober-Haus Lithuanian apartment price index (OHBI)
(January 1994 = 100)



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For the period since the beginning of estimating the **OHBI** (in January, 1994) to December, 2007, when the highest price level for apartments was fixed, prices for apartments in the five largest Lithuanian cities increased **8 times**. 15 years ago, the average price per square meter was about EUR 200, whereas, as of the moment of top prices, the average price per square meter amounted to EUR 1650. When analyzing the data of the same period assuming that the inflation effect is negligible, it can be estimated that prices increased about **3 times**, which means that, since the beginning of 1994 to the end of 2007, prices for apartments on the average increased 3 times compared to increase in prices for other consumer goods and services.

As it is seen from the **OHBI** curves, for the latest 15 years, the Lithuanian real estate market was subjected to a large number of changes which influenced the real estate prices. The following important stages of development of the Lithuanian housing market for 1994 – 2009 should be mentioned:

1. For 1994 – 1999, stable increase in prices for housing with short-term decrease was noticed in the market. Since 1994 to the middle of 1999, the rapid privatization of real estate, very high inflation, and the default of banks caused increase in prices almost by 150% in large Lithuanian cities.
2. The financial crisis in Russia in 1998 materially affected both political and economic life of Lithuania. Since the middle of 1999, the real estate market has been subjected to the first material slump which lasted until the middle of 2001. For this period, prices for apartments in large Lithuanian cities decreased by 20% on the average, which means that prices returned to the price level available in the 3rd calendar quarter, 1998. Further decrease in prices for housing was stopped due to the increased number of financial institutions (providing the residents with residential mortgage loans), the governmental programs supporting residential mortgage loans, and a very low offer of new housing.
3. The period of 2002 – 2003 may be considered as the Renaissance in the housing market. The improving economic situation in Lithuania, more favourable terms of granting housing mortgage loans (lower interest rates, the extended periods for repaying loans, and etc.), mortgage loans on easier terms, the expected date of joining the European Union, and low offer of new housing caused increase in prices for apartments over 30%.
4. In 2004 – 2007, the Lithuanian housing market was under its "golden century". Rapidly developing economics, increasing incomes of residents, positive expectations, joining the European Union, increased demand for housing, and favourable mortgage terms encouraged increase in prices over 200% (3 times).

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In 2005, all-time high 60% increase in prices for housing was fixed in large Lithuanian cities. After such a sharp growth of prices, the housing market "froze", and even small decrease in prices was fixed in the middle of 2006. Consequently, for 2006, prices for housing increased only approximately by 16%. Deviations of the housing market also were related to the expected introduction of Euro currency in Lithuania. In 2005, the expected introduction of Euro encouraged forecasts that prices for real estate will further increase after the introduction of new currency. In 2006, when residents became aware that Euro will not be introduced in Lithuania in the nearest future – tension dropped and prices were stabilized for a while. However, in 2007, the curve of housing prices again started sharply growing.

5. At the end of 2007, housing prices (for apartments and houses) attained their top values, whereas, already in the beginning of 2008, housing prices started decreasing almost all over Lithuania. The world financial decline materially affected the economic life of Lithuania, including the real estate market. **OHBI** shows that, in five large Lithuanian cities, prices are decreasing for 18 months in a row. These prices decreased by **31.5%** since December, 2007, when prices reached the highest level, to June, 2009.

For June, 2009, prices for apartments in Lithuania decreased by **2.9%**. The **OHBI** fixed in June shows that prices for apartments decreased by **27.9%** during the latest 12 months.

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Method for the Estimation of the Lithuanian apartment price index and Major Definitions Applied by Ober-Haus Real Estate Advisors

The Lithuanian apartment price index (**OHBI**) applied by Ober-Haus Real Estate Advisors shows summarized changes in prices for apartments in the five largest Lithuanian cities (Vilnius, Kaunas, Klaipėda, Šiauliai, and Panevėžys). The baseline period for the **OHBI** is January, 1994; the baseline value of the **OHBI** is 100. All declared values and deviations of the **OHBI** are rounded with accuracy up to one figure after a point. The **OHBI** is estimated every month and declared since July, 2009. To ensure the accuracy and immediacy of the results obtained, different information and data sources are used for the estimation of the **OHBI**: the databases and information collected by Ober-Haus, the data of governmental institutions and private entities as well as other information and data sources that may affect the results obtained.

The estimation of the OHBI is made by the method developed by the Ober-Haus employees. This method applies the weight system which attributes appropriate weights to each group of reviewed real estate (apartments in different cities). These weights affect summarized prices and the deviations thereof. When developing the system of weights, the following parameters were taken into consideration: the number of available apartments and the number of deals made in individual geographic segments (in the districts of individual cities and in district groups), and quality characteristics of apartments (a floor space, age, and completeness). If material deviations arise in the real estate market or in the properties thereof, the system of weights may be corrected taking into consideration the magnitude of these deviations.

To make the information announced more transparent and easier comparable with other information sources both nominal and real values of the **OHBI** are estimated and published:

- **Nominal apartment price index** shows the deviations of nominal prices for apartments in time, compared to the OHBI baseline period (01-1994).
- **Real apartment price index** shows the deviations of real prices for apartments in time, compared to the OHBI baseline period (01-1994). The real OHBI is estimated by eliminating the effect made by inflation on the nominal values of the OHBI. The real OHBI shows the average change in prices for apartments compared to change in prices for other consumer goods and services. E.g., if the value of the real OHBI is 200, this means that, since the baseline period, prices for apartments on the average increased 2 times compared to increase in prices for other consumer goods and services. The real OHBI is estimated by applying the *Harmonized Index of Consumer Prices (HICP)* estimated and publicly announced by the Department of Statistics under the Government of Lithuania.

Ober-Haus Real Estate Advisors reserves the right to amend the method for the estimation of the OHBI and to postpone the announcement of the OHBI.

The OHBI is the ownership of Ober-Haus Real Estate Advisors. Any information related to the OHBI must be accompanied by reference to Ober-Haus Real Estate Advisors.

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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