

# MARKET COMMENTARY



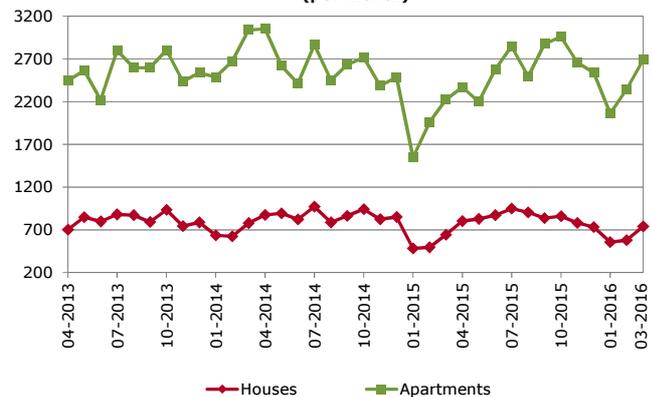
After a more moderate performance in 2015, at the beginning of 2016 the Lithuanian residential property market gained the momentum. Rising activity in the residential property market, rising sale and rent prices and increasing borrowing volumes can be observed in all regions of the country.

According to the data of the State Enterprise Centre of Registers, in Q1 2016, **15% more** house purchase and sale transactions were concluded than in the same period last year. At the same time, there were nearly **24% more** apartments purchase and sale transactions registered than last year. In Q1 2016, on average 624 transactions for houses and 2,360 transactions for apartments were concluded in Lithuania per month. Although the numbers remain lower than those in 2014, the overall activity this year is notably higher than the first quarter average in the period between 2013 and 2015. In Q1 2016, an increase in the number of residential property transactions was recorded in all biggest regions. The biggest change was recorded in the number of transactions of apartments in Kaunas (a 28% increase compared to Q1 2015) and the least changes in the numbers were recorded in Vilnius (a 13% increase). At the same time, the biggest change was recorded in the number of house transitions in the city and district of Šiauliai (a 41% increase compared to Q1 2015) and the smallest in the city and district of Kaunas (an 8% increase).

This year, an even greater leap in sales can be seen in the segment of newly built apartments. According to Ober-Haus, in Q1 2016 in five **major cities of Lithuania, 1,336** newly built apartments were purchased directly from developers in apartment buildings under construction or completed buildings. It is over 21% more than in Q4 2015 and as many as 61% more than in Q1 2015. At the beginning of 2015, after the introduction of the euro in the country, the sales of newly built apartments fell or were briefly stagnant, hence such considerable change in the number of transactions in Q1 2016 was recorded.

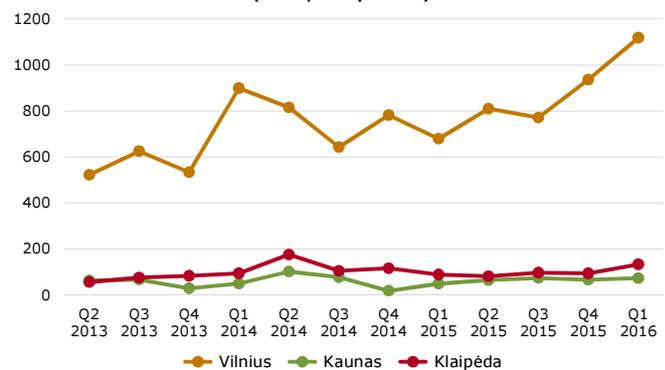
It was the capital city where the sales figures for new apartments reached new heights. In **Vilnius**, as many as **1,118** newly built apartments were sold or reserved in apartment buildings under construction or completed buildings in Q1 2016. The effect of the supply of new projects in the country's capital continues to be felt. The growing construction volumes of multi-apartment buildings increase the share of new apartments in the total transaction volume (in 2015, the sale of newly built apartments accounted for 33% of the total number of transactions and in Q1 2016 the share increased to 49%). If Q4 2015 saw the best sales performance in the new apartment segment over the past 7 years, so the indicators of

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



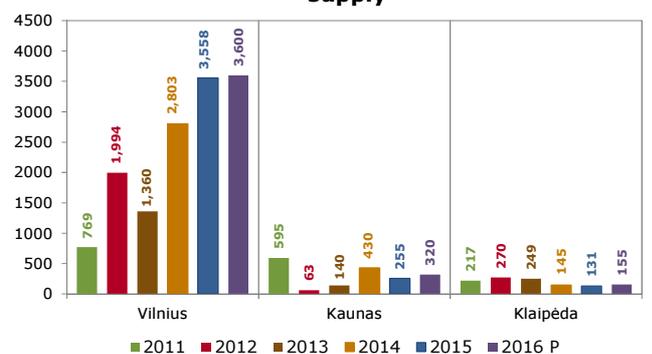
Source: SE Center of Registers Data: 2013 – 2016

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



Source: Ober-Haus Data: 2013 - 2016

**New construction apartments annual supply**



Source: Ober-Haus Data: 2011 – 2016

Q1 2016 increased by almost 20%. Such indicators should not come as a surprise, because the supply volumes have reached the peak. Compared to 2014, in 2015 27% more apartments (3,558) were built in Vilnius and completion of around 3,600 new apartments is planned in 2016. As a result, in recent years buyers have a broad choice among the projects in progress and already completed projects. So further sales volumes will depend on how quickly developers will implement their future projects. If in 2017 developers supply at least the same number of new apartments as in 2015–2016 and equally the demand remains at the same level, we will continue to record the same sales volumes.

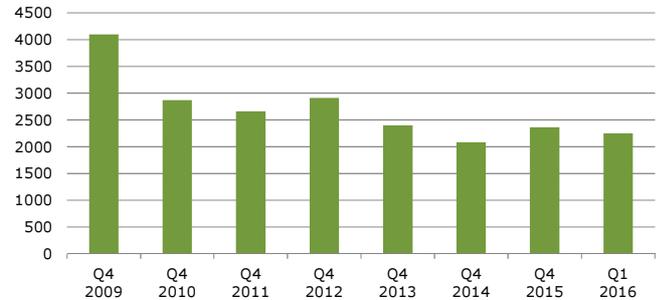
Similar trends can be observed in Kaunas, where more and more new multi-apartment buildings are being built. In Q1 2016, **133** apartments were sold/reserved **in Kaunas**, i.e. 41% more than in Q4 2015. It is likely that good sales results of newly built apartments will be recorded in 2016, because developers in Kaunas are taking an opportunity of offering new projects to the market. In terms of the volume of construction in progress, up to 30% more apartments should be completed in Kaunas in 2016 compared to 2015.

Since the supply of new apartments in Klaipėda is still lower than that in Kaunas, sales volumes in this city are maintained at the expense of the sales of previously constructed apartments. In Klaipėda, **73** apartments were sold/reserved in Q1 2016, i. e. 11% more than in Q4 2015. With quite a large stock of unsold apartments, developers in Klaipėda are in no hurry and pursue moderate investment policies by focusing on the small project development. If all projects for the construction of multi-apartment buildings were implemented in Klaipėda, over 150 new apartments would be built in 2016 or almost 20% more than in 2015.

Good performance indicators for the sales of new apartments determined that in Q1 2016 the total number of unsold apartments in the major cities of the country decreased. At the end of the quarter, the total number of unsold new apartments in completed buildings **in the major cities** was nearly **2,250** or 8% less than at the end of 2015. The number of unsold apartments **in Vilnius** is **1,350**, in **Kaunas** – nearly **300**, in **Klaipėda** - nearly **570**, and in **Šiauliai and Panevėžys** together – over **30** new apartments.

Positive economic developments in the country and growing expectations of people continue to increase residential property prices in the cities. In Q1 2016, prices for apartments in Vilnius increased by 1.3%, in Kaunas – by 0.7%, in Klaipėda – by 0.4%, in Šiauliai – by 1.2% and in Panevėžys – by 1.1%. If there is a demand for residential property for permanent living in the major cities, which motivates acquisition of property and increase in prices, so in other

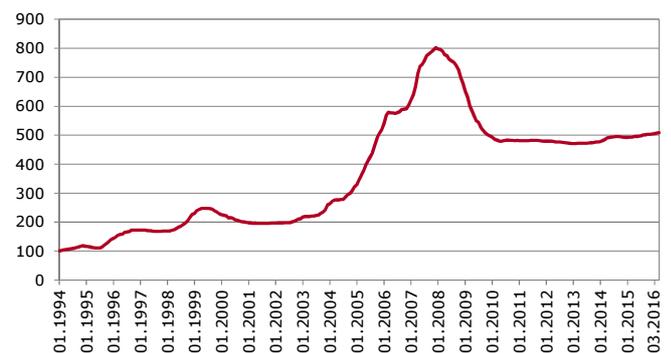
**Unsold new apartments in major cities**  
(in already finished projects)



Source: Ober-Haus

Data: Q1 2016

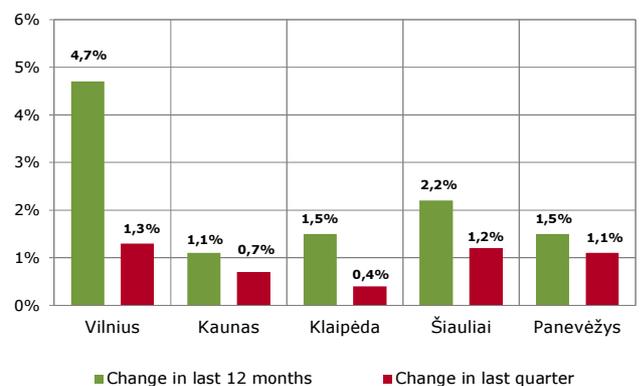
**Lithuanian apartment price index (OHBI)**  
(January 1994 = 100)



Source: Ober-Haus

Data: 1994 – 2016

**Average apartment price changes**



Source: Ober-Haus

Data: Q1 2016

# Lithuanian Residential Real Estate MARKET COMMENTARY

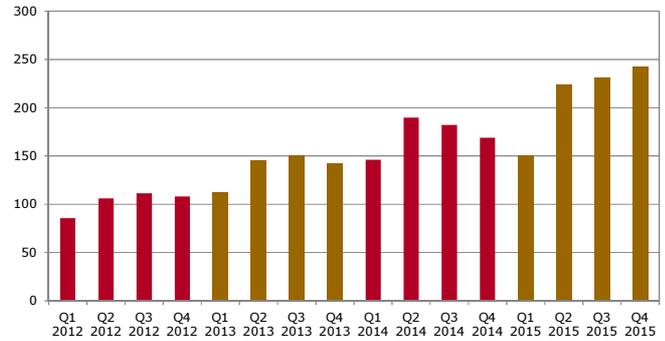
Q1 2016

regions of the country or health resort towns other factors are at play. For example, the situation in Druskininkai is changing much faster and not necessarily only for the best. If in 2013–2014, the residential property market was stimulated by the buyers from the East, so lately the number of such buyers has decreased. This has affected both the number of transactions and prices for residential property in Druskininkai. In 2015–2016 compared to 2013–2014, the number of such transactions in Druskininkai decreased by 15% and the prices for apartments fell by about 2%.

The role of credit institutions in the residential property market is growing. The decreasing interest rates over the past 5–6 years and diminishing loan burden (irrespective of the price increase) attracts an increasing number of those who wish to take advantage of these favourable conditions. According to the data of the Association of Lithuanian Banks, Q4 2015 was one of the best for credit institutions since Q3 2008. In Q4 2015, the main Lithuanian credit institutions issued new mortgage loans in the amount of EUR 242 million, i.e. **5% more** than in Q3 2015 and **43% more** than in the same period in 2014.

Whereas the market for the lease of residential property directly depends on the numbers of working people and changes in their income, with the rise in salaries over the past five years, residential rents in all three major cities of Lithuania have been on the rise. According to the official statistics, over the past five years the average salary in the country increased by over 20%, while the unemployment rate decreased by eight percentage points (twice as much). It should also be noted that the market of the lease of residential property in Lithuania is not particularly transparent, therefore, the influence of the shadow economy in this sector can also be significant. It is only natural that such situation would be reflected in rents. For example, over the last five years the rent of the most popular two-room apartments in Vilnius, Kaunas and Klaipėda increased by a third on average. In the meantime, apartment sales prices during the same period saw both falls and rises on a different scale in different cities. If in mid-2010, sales prices in Vilnius were record low, so in other cities they continued to decrease reaching the lowest level only in 2012–2013. Therefore much more rapid increase of rents (compared with the value of the property) increased the average yield indicators in the major cities. This is particularly visible in Kaunas and Klaipėda, as rents and sales prices in Vilnius during this period, although at different rates, moved in one direction. In Q1 2016, the average gross rental yield in Vilnius (the ratio between the annual rent and the acquisition price) amounted to **5.6%** and was one percentage point higher than in 2010. At the same time in Kaunas and Klaipėda, higher yield

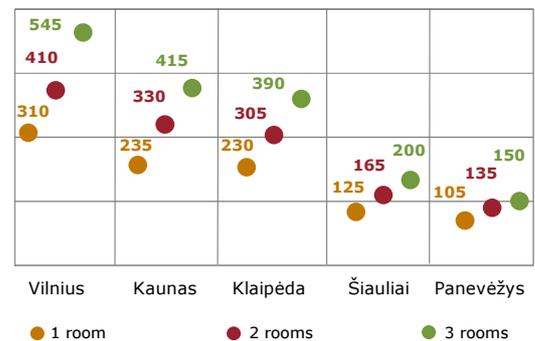
**New housing loans for private persons**  
(million EUR)



Source: Association of Lithuanian Banks

Data: Q1 2012 – Q4 2015

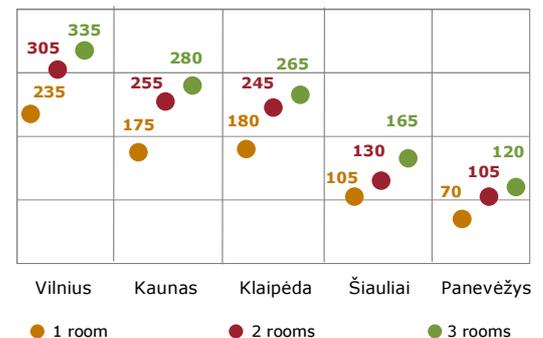
**Average apartments rents in old town, city centre, prestigious districts**  
(EUR/month)



Source: Ober-Haus

Data: Q1 2016

**Average apartments rents in residential districts**  
(EUR/month)



Source: Ober-Haus

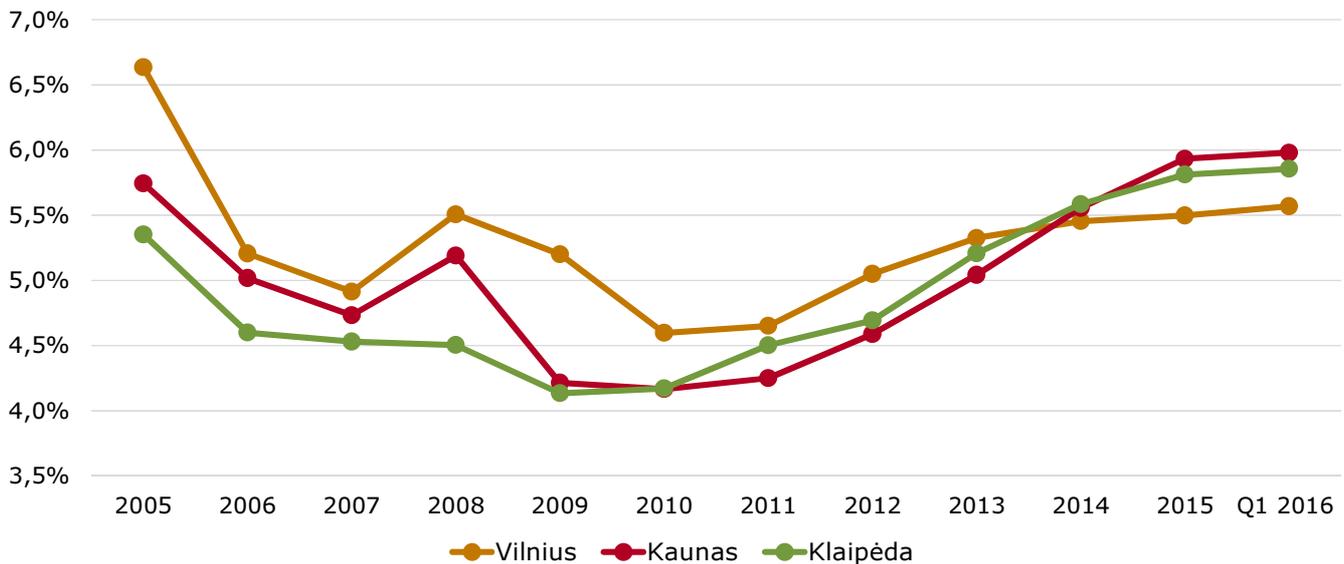
Data: Q1 2016

indicators and their faster changes were recorded. In Kaunas, the gross rental yield was **6.0%** and was 1.8 percentage points higher than in 2010; the indicator in Klaipėda was **5.9%** (1.7 percentage points higher than in 2010).

Different yield indicators in these major cities of Lithuania were determined by erratic changes in property prices and investor expectations. Over the past few years investors in Vilnius could observe stable and visible changes in sales prices and therefore were prepared to come to terms with lower earnings from rent than investors in Kaunas or Klaipėda. Higher liquidity of the property and higher growth rate in the value of the property allows to expect higher return on assets over a longer period. In the meantime, in Kaunas and Klaipėda private investors did not have greater expectations regarding the increase in prices and tried not to overpay for the purchased property; they saw return on investment based on

earnings from rent, but did not expect to earn significantly on increase of sales prices. However, it is likely that with the growing number of investors, the difference between rents and sales prices should decrease, which will determine a decrease of return on investment from lease. This is particularly likely in Kaunas and Klaipėda, as relatively lower sales prices of residential property (compared with rents) in the current economic environment have a higher growth potential than, for example, in the country's capital. At the same time in Vilnius, return on investment may decline, because in recent years there has been a great interest from private investors in the residential property market in Vilnius, which increased the supply of apartments for rent. On the other hand, some existing lessees are leaving (or will leave) this market by becoming owners of residential property. It is therefore very unlikely that the rental yield will increase in the future.

**Average gross rental yields**  
(2-room, 50 sqm apartment)



Source: Ober-Haus

Data: 2005 - 2016

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.

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