

Lithuanian Residential Real Estate

Q1 2014

# MARKET COMMENTARY



The housing sale results of Q1 2014 in Lithuania exceeded the expectations of most market players. According to data from the Centre of Registers, in Q1 2014 the number of transactions involving houses in Lithuania was **27% higher** compared to the same period of 2013. The number of apartment transactions in the same period was **48% higher** than a year ago. In Q1 2014, an average of 680 transactions for houses and 2,735 transactions for apartments per month were finalised in Lithuania. Thus, the current apartment sale volumes in Lithuania rocketed to the levels recorded prior to the crisis: in the first quarters of 2004–2007, the average number of apartment transactions was similar – 2,750 per month.

The restored trust in the real estate market and the favourable economic environment encourage market participants to invest in housing. Two categories of buyers can be distinguished today: direct users of housing and buyers looking for long-term investment options. The extremely rapid growth in market activity may raise questions as to whether the market is properly balanced. However, unlike 2004–2007, the market, at least for the time being, does not show many investors looking for short-term returns, the so-called *speculators*, which caused the previous property bubble.

The overall trends of housing market activity are also reflected in the market for new apartments. According to data from Ober-Haus, in Q1 2014, **1,090** new apartments were sold or reserved in completed and non-completed apartment buildings directly from developers in the **five main Lithuanian cities**. This is a 53% increase compared to Q1 2013. It should be mentioned however that the situation in individual Lithuanian cities is not the same. For instance, the demand for new apartments in the capital city this year hit their highest level in 6 years. In Q1 2014, **930** new apartments were sold in **Vilnius**, which is a 76% increase compared to Q1 2013.

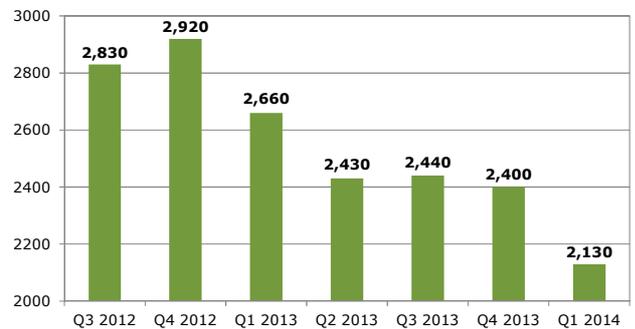
The moods in the other main Lithuanian cities are not as optimistic since the lack of supply of new apartments hinders any rapid growth in sales volumes. In Q1 2014, **98** apartments were either sold or reserved in **Kaunas**, which is 10% more than in Q1 2013. Sales and booking volumes in **Klaipėda** in Q1 2014 dropped by 44% to **50** apartments. In **Šiauliai** and **Panevėžys**, only **13** new apartments were sold in Q1 2014. Only a more rapid development of new projects in Kaunas and Klaipėda could offer any new attractive housing options to activate the frozen market that nevertheless does have great potential (which is demonstrated by the growth in the number of transactions involving old construction apartments).

Number of transactions in Lithuania (per month)



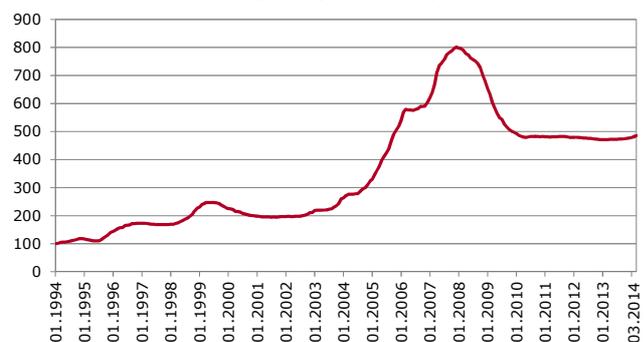
Source: SE Center of Registers Data: Q2 2012 - Q1 2014

Unsold newly built apartments (primary market)



Source: Ober-Haus Data: Q3 2012 - Q1 2014

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



Source: Ober-Haus Data: Q1 2014

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It is evident that Vilnius does not suffer any supply shortage problems since the market is regularly supplemented with new projects or with housing within previously started projects and the supply is expected to continue in 2014. In Q1 2014 alone, 12 new projects with 588 apartments were completed in Vilnius. An estimate of the current construction volumes allows to state that approximately 2,500 new apartments will be completed in Vilnius this year. Considering the sales indicators for 2013 and 2014 (an average of 215 apartments per month), this pace of construction does not give rise to any concern. Furthermore, one half of the apartments purchased in Q1 2014 are located in apartment buildings that are still being completed. This means that buyers who do not find suitable options in completed apartment buildings choose a project under construction that satisfies their needs.

The rapidly growing market activity influences housing prices. Over Q1 2014, apartment prices in **Vilnius** grew by **2.7%**, and the average apartment price increased to EUR 1,251 per sqm. Although positive changes in apartment prices were recorded in all segments, the most rapid growth was established in residential districts – 4.9% for old construction apartments and 2.9% for new constructions apartments. The growth in apartment prices is not excessively quick yet to be able to acknowledge any shortage in supply or to forecast the return of speculators to the market.

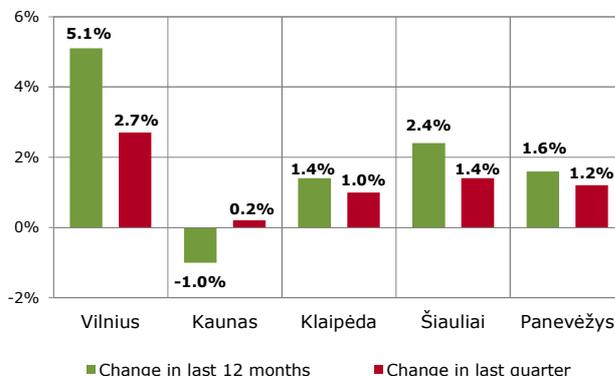
After a long break, some positive price changes were also recorded in the other main Lithuanian cities. In Q1 2014, prices in **Šiauliai**, **Panevėžys**, **Klaipėda** and **Kaunas** grew by **1.4%**, **1.2%**, **1.0%** and **0.2%** respectively. This was the first quarter since the end of the crisis when positive price changes were recorded in all the main cities of the country.

*Saulius Vagonis, Head of the Valuation and Market Research Department at Ober-Haus:*

"A number of market participants believe that this growth in the housing market was due to the expectations connected with the possible introduction of the euro in Lithuania in 2015. In my opinion, this belief lacks objectivity. Sure, we cannot deny that some people now invest in real estate in order to spend their savings before the euro is introduced, but the main reasons for the increased market activity are not directly related to the introduction of the euro. I believe that, if the introduction of the euro in Lithuania were not planned for 2015, the situation in the market would nevertheless be similar to the current situation, i.e. the real estate market in the country would be very active. The main reasons for this activity are as follows:

- The actually reviving national economy (many people, in particular those in the main cities, are earning higher salaries and worry less about losing their job);

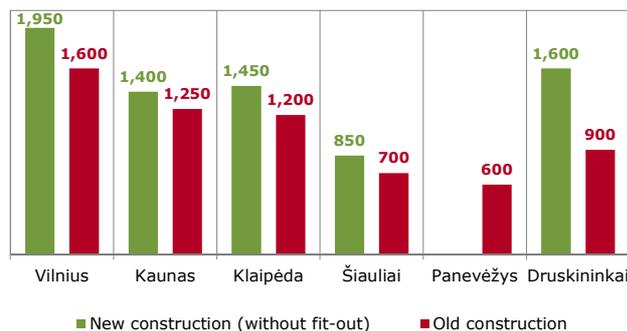
**Average apartment price changes**



Source: Ober-Haus

Data: Q1 2014

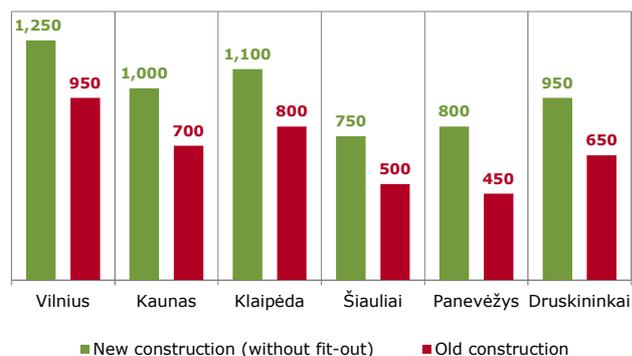
**Average flat prices in old town, city centre, prestigious districts (EUR/sqm)**



Source: Ober-Haus

Data: Q1 2014

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



Source: Ober-Haus

Data: Q1 2014

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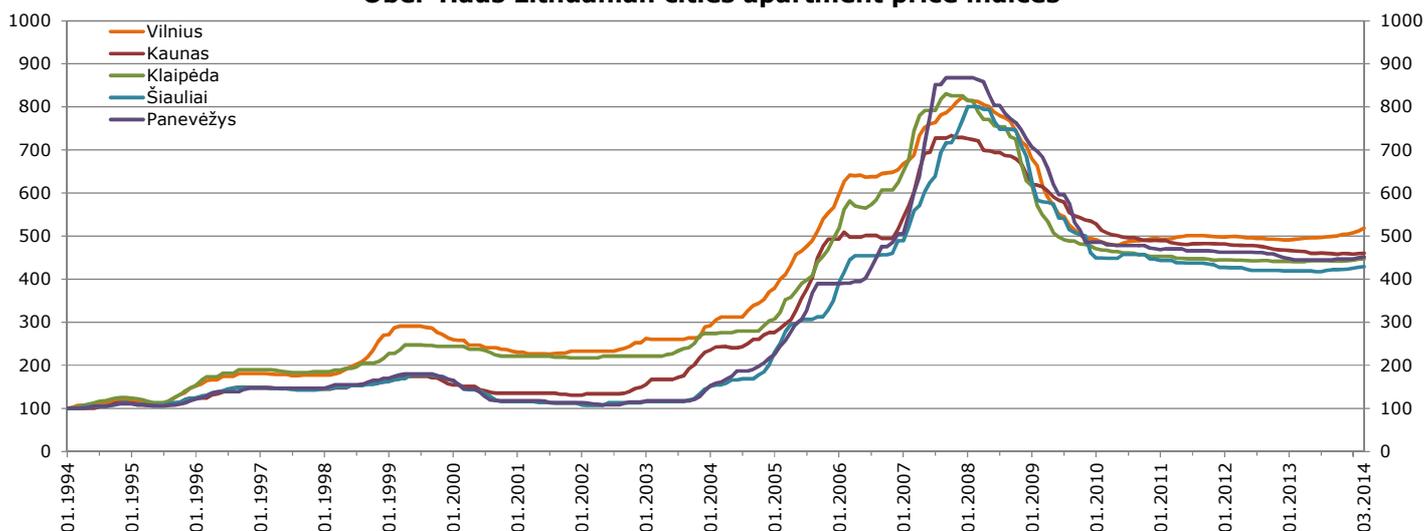
- People's expectations are also becoming more positive both with regard to the national economy and with regard to the situation in the real estate market (today, only a small number of people expect prices to drop or are pessimistic about the prospects of market recovery);

- Very low interest rates offered by banks both on deposits (they do not encourage people to keep money in banks) and on mortgage loans (at present, mortgage loan interest rates in Lithuania are at a record low).

Thus, it is not the approaching euro but rather the reviving national economy and the positive expectations of people that wake the market up after a five-year-long slowdown. By the way, this long "idle time" on the market is also one of the reasons for the hyperactivity on the market now. That is, many people who could and wanted to purchase housing during the crisis simply waited for a favourable time to do this (they were reluctant to invest in real estate when prices were going down as they feared devaluation). We can therefore forecast that the market will be active for the whole of 2014, because once the market begins to pick up it is difficult to stop it. It is important for the market not to overheat and for property prices not to exceed the economically justifiable limits of 5-10% however. If the actual price growth exceeds these limits, the market will overheat and the price growth rate may subsequently slow down or stop completely".



**Ober-Haus Lithuanian cities apartment price indices**



Source: Ober-Haus

Data: Q1 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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