

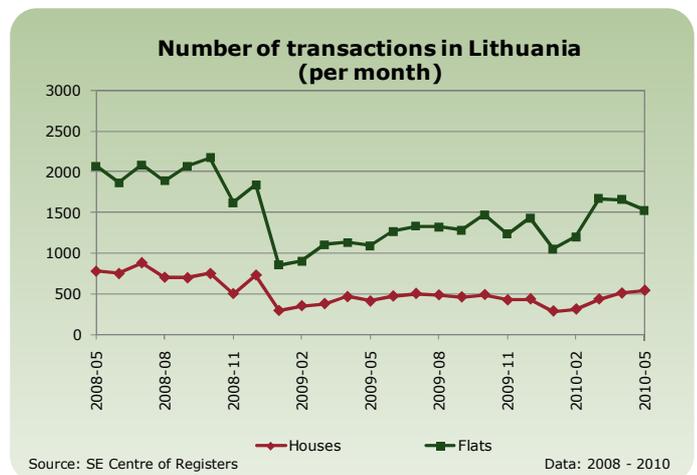
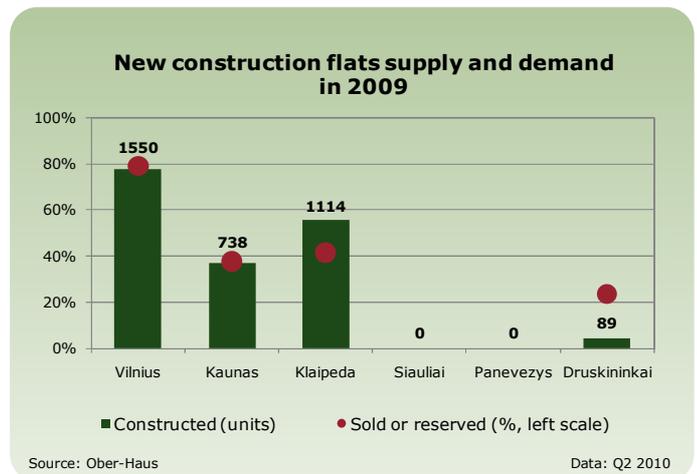
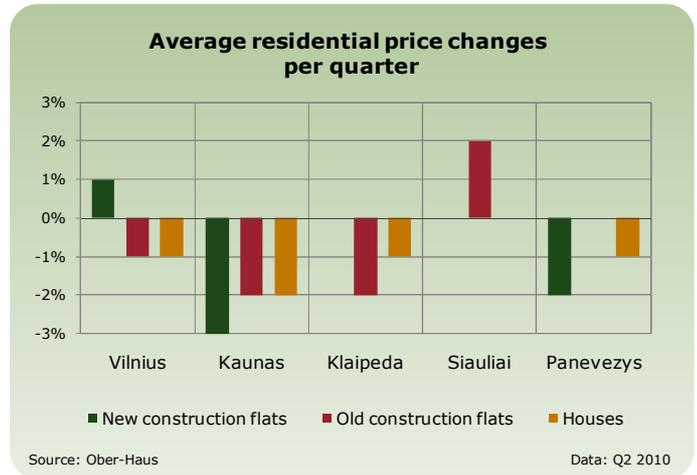
MARKET COMMENTARY

A review of the last half-year results shows that the housing market in Lithuania is not only more stable, but is showing the first signs of recovery. During the second quarter of 2010 the biggest Lithuanian cities recorded the lowest decrease in apartment prices of only **0.5%** since the beginning of the decline. In the first six months of the year apartment prices fell **3.3%**. By comparison, in the period Q3 2008 - Q3 2009, prices of apartments in Lithuanian cities declined by 6-11% every quarter; current price changes (although still negative) are hopeful signs for property owners.

Recovering market activity is also cause for optimism. According to provisional data of the SE Centre of Registers, **22%** more sale-purchase transactions were completed in the first half of this year in Lithuania than a year ago. Although the percentage growth is big, it is important not to forget that current market activity continues to be two times lower than that recorded in 2004-2008. In light of the current growth in transactions in the residential market it is too early to conclude what the future character of the market will be; however, looking at this figure together with the more stable housing prices, it can be argued that after two and a half years of a freefall in housing prices, the housing market is becoming firmer.

The current level of house prices, the more stable economic situation in the country, quite attractive borrowing conditions, and a gradually decreasing supply has resulted in a positive evolution of prices in certain housing segments. As could be expected there is most interest in cheaper more affordable housing. Therefore, at the end of the second quarter of this year, for the first time since 2007, the prices of 1-2 room apartments located in residential areas of Vilnius increased. Although the growth was only a few percent (approximately EUR 600 - 900), but this fact alone confirms the growing number of potential buyers in this segment. It is important to note that prices increased for both old and newly built houses. While financing is less attractive for the old construction houses than for the new ones, their lower prices offset the lack of financing. For instance, in a residential area of Vilnius a 1 bedroom apartment currently costs from **EUR 30,000 to 40,000** and a 2 bedroom apartment from **EUR 35,000 to 45,000**. Newly built apartments of the same size, but unfinished, are approximately 20% more expensive, yet favourable lending terms and conditions offered by credit institutions to acquire such apartments also increase the number of potential buyers in this segment.

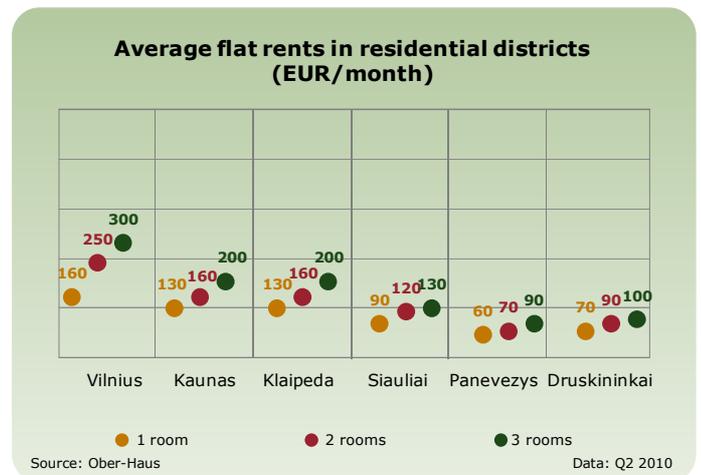
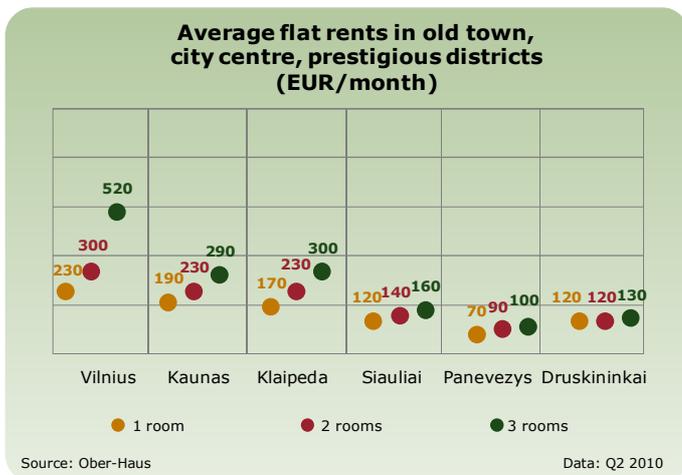
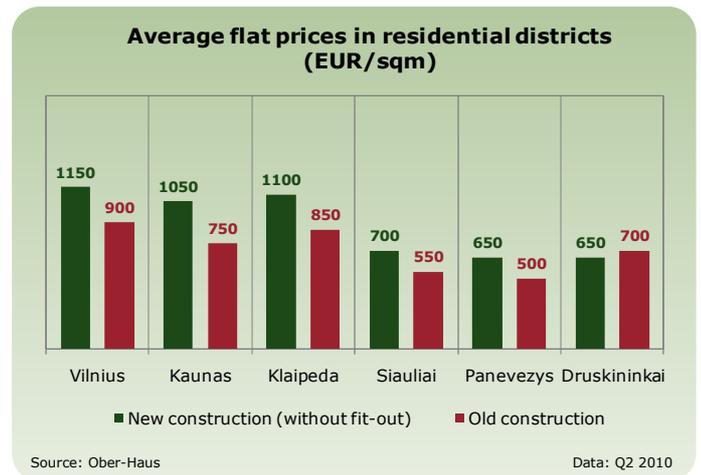
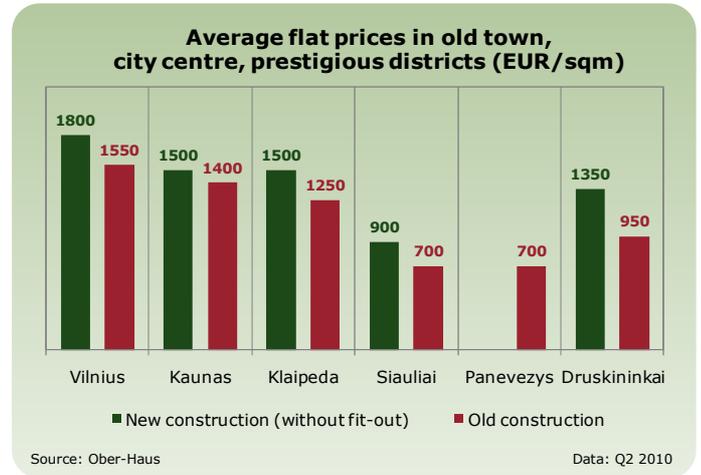
As the summer progresses, the rental housing market is also regaining stability. After a significant decrease in rents over the past few years (**40-45%**), rents did not fluctuate substantially in the second quarter of this year. By the end of the summer and early autumn it is traditionally expected that this segment will become more active in Vilnius, Kaunas, and Klaipeda where with the increase in demand, property owners will augment the prices of the most demanded rental properties by a few tens of Euros. However, further prospects in this segment will depend on the overall mood of the country's economy and real estate market.



Lithuanian Residential Real Estate **MARKET COMMENTARY** **Q2 2010**

Even though we see much news about renewing projects of residential construction in recent media reports, realistically this process is quite slow. The builders as well as funders of projects are still wary of new project developments and are looking forward to significant changes in the housing market. Therefore, 2010 will be among the poorest in the supply of new housing, since only about 2-6 new apartment buildings will be built in the country's every major cities (Vilnius, Kaunas, and Klaipeda). The quantity of apartments built on the primary market, is decreasing steadily. In the second quarter of 2010 the supply of apartments in newly constructed buildings in **Vilnius, Kaunas, Klaipėda, Šiauliai, and Panevėžys** decreased from **3,700** to **3,200** apartments. Currently, for apartment buildings constructed in 2007-2010 in **Vilnius** about **1,600** newly constructed apartments are for sale, in **Kaunas** - about **650**, in **Klaipėda** - about **850**, and in **Šiauliai** and **Panevėžys** together - about **100**.

Despite contradicting opinions about the prospects of the housing market, we can say that fundamental changes in this market are already in the past. We are unlikely to see any major negative or positive changes in this sector in the near future, because any prospects will depend, to a great extent, directly on the general economic situation in the country. Even though no rapid positive changes are forecast for the Lithuanian economy in the next few years, the first signs of recovery can already be seen. Therefore, the pulse of the housing market over the next few years will beat in rhythm with the general economic pulse of the country and its individual regions, which predicts a slow and long uphill climb with an occasional stumble.



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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