

Lithuanian Residential Real Estate

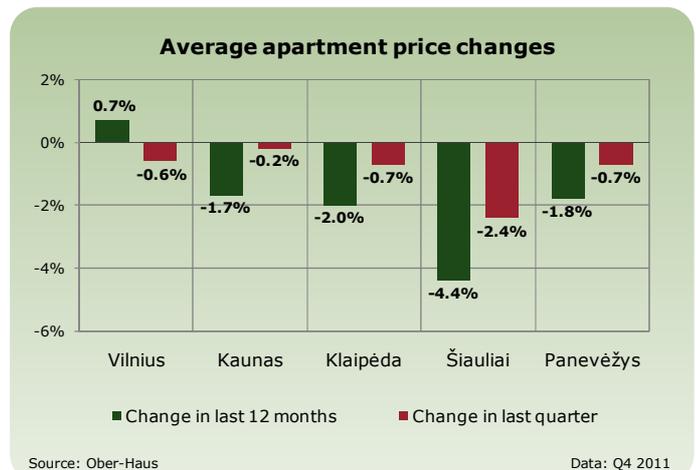
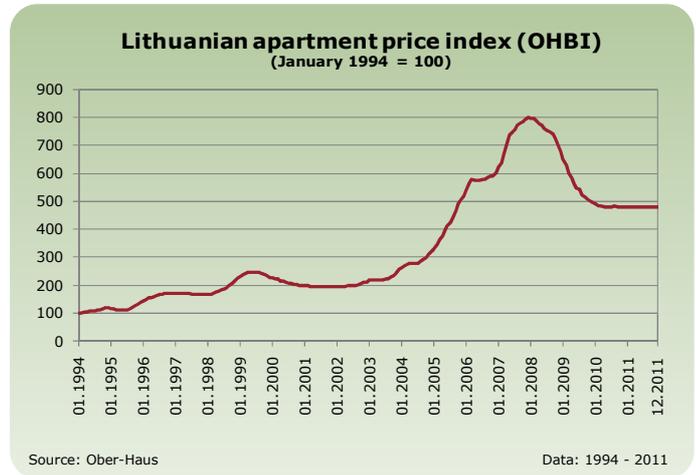
Q4 2011

MARKET COMMENTARY

The first half of 2011 saw a positive mood in the Lithuanian housing market. The growing number of sales concluded, an increase in construction, and stable housing prices fuelled this optimism. It is worth noting that there were minor positive changes in prices in Vilnius in early 2011. The second half of the year however, was characterised by more cautious moods and a minor drop in prices. These changes were mostly impacted by the continuing flow of bad news from abroad, the somewhat pessimistic Lithuanian economic development forecasts, and the more stringent mortgage loan policies initiated by the Bank of Lithuania.

According to data from Ober-Haus in 2011 apartment prices in the five main Lithuanian cities dropped **0.6%**. Compared to 2008, 2009, and 2010, when negative changes were 15.2%, 26.8%, and 3.0% respectively, the drop in prices observed last year was of little significance. In 2011, apartment prices grew in Vilnius only — by **0.7%**. Apartment prices in the other main Lithuanian cities continued to fall: **by 1.7% in Kaunas, 2.0% in Klaipėda, 4.4% in Šiauliai, and 1.8% in Panevėžys**. Negative changes in prices were recorded in all segments, as both old and new apartments in residential and central districts of the cities dropped. Vilnius, however, recorded a growth in apartment prices both in the economic and average class segments, i.e. new and old apartments in residential and prestigious quarters (Naujamiestis, Antakalnis, and Žvėrynas). Residential prices at the upper end of the market (city centre and the Old Town) remained unchanged in 2011.

While changes in apartment prices were only minor, the number of sales in Lithuania continued to increase. According to data from the State Enterprise Centre of Registers, the number of apartment sales in 2011 grew **10%** compared to 2010. An even greater increase—**15%**—was observed last year in the number of sales of detached houses. On average, there were approximately 615 sales of detached houses per month and 1,760 apartment sales per month in Lithuania in 2011 (in 2010, these numbers were 535 and 1,600 respectively). Kaunas saw the biggest increase in sales (apartments and detached houses)—with a rise of almost 12%. In Vilnius, the increase was over 5%; this rate was nearly 4% in Šiauliai and 3% in Klaipėda. A minor decrease in the number of sales was recorded in 2011 in Panevėžys—with a figure of 4%. If we consider the relative growth in apartment sales, the greatest increase was seen in Lithuania's resort towns: in **Neringa**, the number of apartment sales last year showed an increase of **58%** over 2010. This figure was **43%** for **Palanga** and **42%** for **Druskininkai**. Compared to 2009, the total number of apartment sales in these towns almost doubled.



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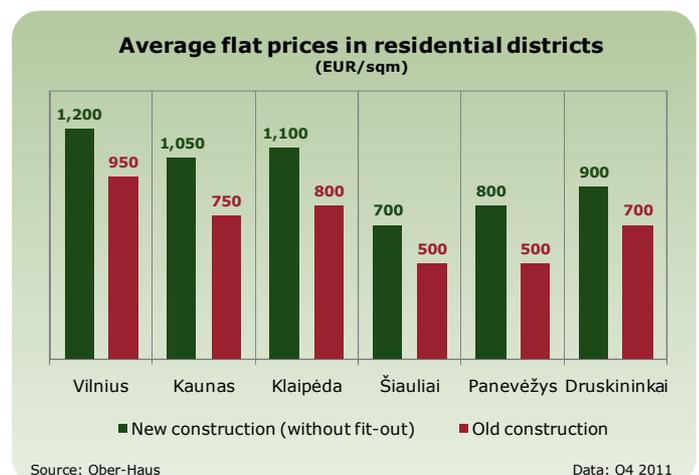
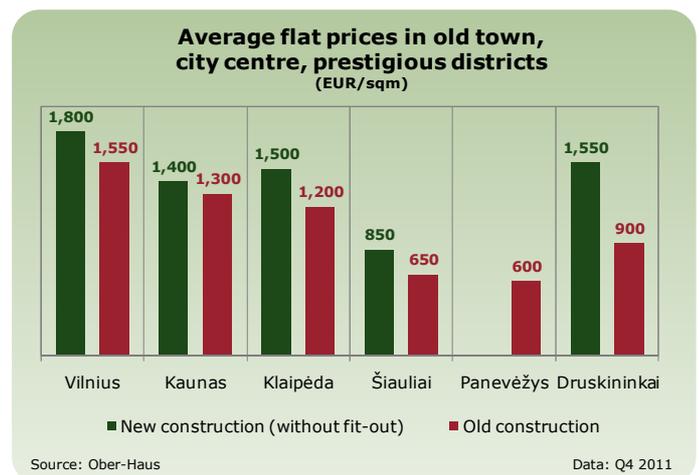
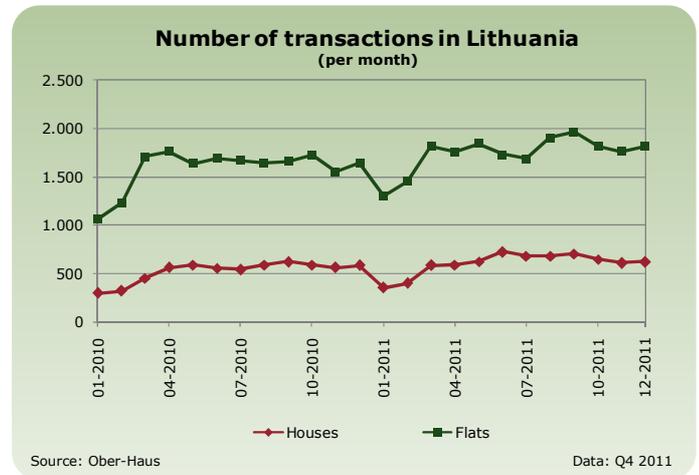
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The increasing number of sales completed over the last few years has led to a decrease in the number of unsold new apartments on the primary market, and this is the reason behind the increase in new constructions. According to data from Ober-Haus, **737 apartments** were constructed in **Vilnius** last year, a third more than 2010. The construction of **380** apartments in **Kaunas** over the same period was three times more than in 2010. On the other hand, the construction of apartment buildings in **Klaipėda** was considerably slower. Considering the supply of new housing (Klaipėda leads in terms of the number of unsold apartments per 1,000 residents), project implementers built only one third the number built in 2010, i.e. only 3 apartment houses with **103 apartments**.

Last year, project developers offered apartments with record small areas: in **Vilnius**, the average area of new apartments was **55 sqm**; this number was **56 sqm** in Kaunas and **54 sqm** in Klaipėda. This decrease in apartment size is significant when we consider that in the 2003–2010 period the average area of new apartments was 60–65 sqm². This reduction in size was determined by developers offering the market more affordable products, as smaller apartments automatically mean a lower sales price.

As regards other Lithuanian towns (with the exclusion of resort towns), constructors are still reluctant to begin building apartment buildings due to the very low demand for new housing. This account is for the fact that the main investment flows are directed towards regions of the country that demonstrate better demand. It is quite natural that Vilnius is leading: as of the beginning of 2012, over 2,100 new apartments in 22 different projects are under construction here. Plans are that the construction of almost **1,400** new apartments will be completed by the end of this year.

According to data from Ober-Haus, the number of unsold new apartments on the market decreased last year. The number of unsold new apartments in completed apartment buildings in the main Lithuanian cities was 2,850 by the end of 2010, while this number was only **2,650** by the end of 2011, i.e. the actual supply shrank 7%. Statistical data shows a fairly slow decrease in the number of free apartments on offer, but we must also keep in mind that the number of apartments built last year has increased.



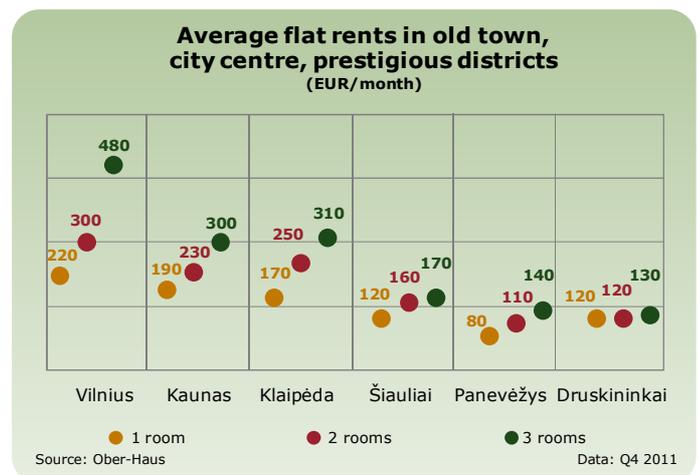
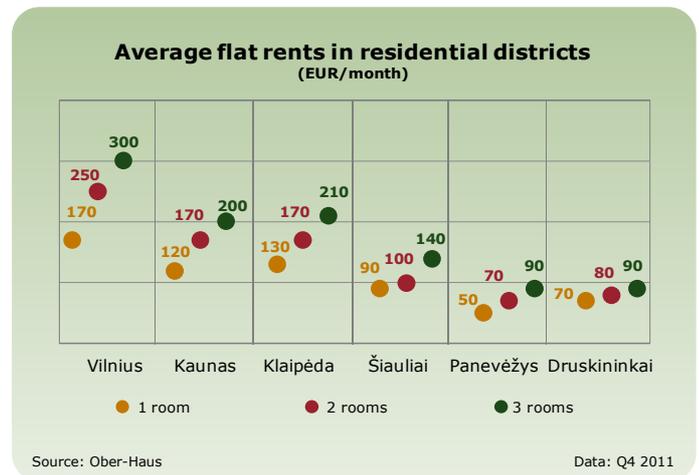
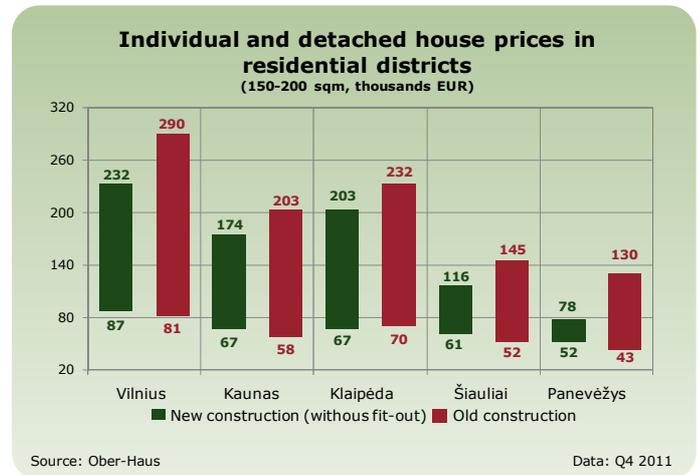
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At the beginning of this year, the numbers of apartments offered for sale in apartment buildings constructed in 2007–2011 were as follows: **1,120** in **Vilnius**, **590** in **Kaunas**, over **860** in **Klaipėda**, and approximately **90** in **Šiauliai** and **Panevėžys**. **Klaipėda** continues to lead by the number of unsold apartments per 1,000 residents. This number is **4.9** per 1,000 residents in Klaipėda, **2.0** per 1,000 residents in **Vilnius**, and **1.8** per 1,000 residents in **Kaunas**.

In 2011, activity intensified considerably in the detached houses market in the main Lithuanian cities. Persons with higher-than-average and stable incomes were more active not only in searching for plots of land for the construction of detached houses but also in buying completed houses. This was reflected not only by the number of sales finalised but also by changes in prices. After a break that lasted 3 years, a small positive change was recorded in this segment: last year, house prices in the surroundings of **Vilnius**, **Kaunas**, and **Klaipėda** grew on average by approximately **5%**. At the beginning of this year, detached houses with a total area of 150–200 sqm with plots of land of 6–10 ares and partial finish on the outskirts of **Vilnius** sold for **87,000–160,000 EUR**; the same types of houses on the outskirts of **Kaunas** and **Klaipėda** sold for **72,000–136,000 EUR**, and on the outskirts of **Šiauliai** and **Panevėžys** – for **58,000–87,000 EUR**.

Because of the optimistic economic forecasts and a more active housing market at the start of 2011, real estate developers were encouraged to resume the construction of apartment buildings in the main Lithuanian cities such as Vilnius, Kaunas, and Klaipėda. As construction gains impetus, we can forecast that 2012 should be attractive for house buyers, because they will have a greater choice of new housing than several years ago. Furthermore, with competition among project developers and funding institutions becoming more stringent, it is also very likely that the buyers will benefit from attractive housing purchase conditions.



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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