

# RESIDENTIAL REAL ESTATE MARKET COMMENTARY

## LITHUANIA / Q1 2020

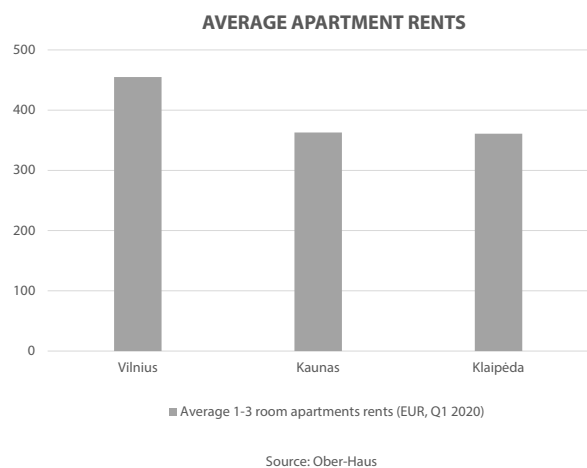
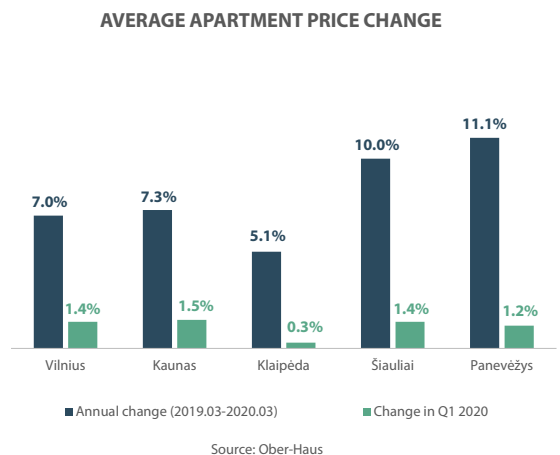
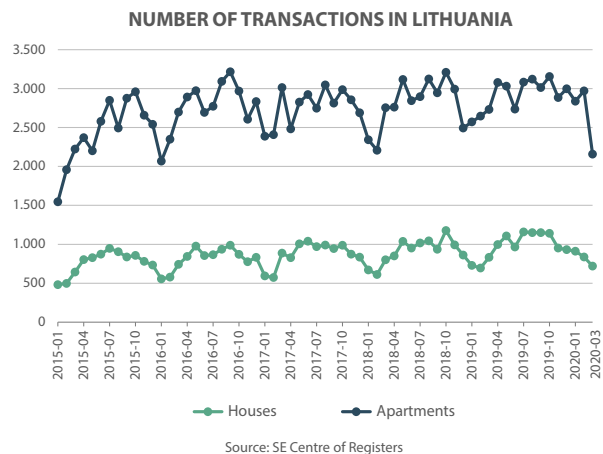
The year 2019 and the beginning of 2020 was an extremely active period in the Lithuanian housing market. The 2019 indicators stood out with record expenditure for the purchase of residential property, the overall housing market activity and changes in sales prices and rents of apartments. Q1 2020 promised another successful year for the housing market in Lithuania, however due to the global COVID-19 pandemic and the quarantine imposed in Lithuania in mid-March, the situation has changed dramatically in the entire real estate market.

According to the State Enterprise Centre of Registers, 2019 saw the record amount of money spent on housing (apartments and houses) in Lithuania totalling **EUR 2.35 billion** or 14.2% more than in 2018. In 2019, the cash increase in the housing market was generally observed across the country, i.e. compared to 2018, growth was recorded in 49 out of 60 municipalities in Lithuania. Meanwhile, the overall market activity in the country in 2019 was at 12-year high. According to the Centre of Registers, **4% more** transactions for sale and purchase of apartments and almost **8% more** transactions for houses were concluded in Lithuania in 2019 compared to 2018. The increase in the number of transactions for both apartments (in Vilnius – 8%, in Kaunas – 3%, in Klaipėda – 6%, in Šiauliai – 9% and Panevėžys – 7%) and houses (in Vilnius – 15%, in Kaunas – 7%, in Klaipėda – 9%, in Šiauliai – 4% and Panevėžys – 0%) was recorded in 2019.

The positive economic development and highly active housing market further drove apartment prices up in the major cities of the country. According to Ober-Haus, the overall **increase of 7.2%** in the price of apartments in the country's **major cities** was recorded in 2019, the largest positive annual price change since 2007. In **Vilnius, Kaunas, Klaipėda, Šiauliai** and **Panevėžys**, the annual increase in apartment prices was recorded at **6.9%, 7.0%, 5.7%, 11.4%** and **13.1%** respectively. Meanwhile rents for apartments in the three major cities in the country in 2019 increased even faster than the sales prices. In a year, rents **increased by 8.6% in Vilnius, 9.4% – in Kaunas** and **8.4% – in Klaipėda** on average.

Although in 2019, the volume of construction of new multi-apartment buildings in Vilnius, Kaunas and Klaipėda slightly decreased compared to 2018, based on the indicators of the past decade it still remained at a very high level. Meanwhile, the development of the private house segment continued at an all-time high. According to Ober-Haus, **4,322 apartments** were built in **Vilnius** in 2019 or 1% less than in 2018. If the construction of multi-apartment buildings remained broadly stable in Vilnius in 2019, so the development of detached and semi-detached houses was record high. In 2019, the developers built 817 new houses in the city of Vilnius and its environs or 4% more than in 2018 and 39% more than in 2017.

Following the extremely intensive construction of multi-apartment



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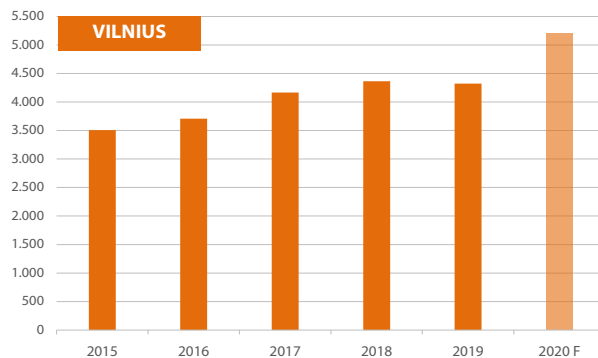
buildings in **Kaunas** in 2018, slightly more modest construction volumes were recorded in 2019. According to Ober-Haus, a total of **836 apartments** were built in a year in Kaunas or 16% less than in 2018. Despite the declining construction volumes, the result of 2019 is historically one of the best (more apartments were built only in 2006, 2008 and 2018). Similar trends in the development of multi-apartment buildings can also be observed in **Klaipėda**. In 2019, **421 apartments** were built in Klaipėda or 2% less than in 2018. Although the construction volumes of multi-apartment buildings in Klaipėda remained at 10-year high in 2018–2019, unlike in Vilnius and Kaunas, they were still far behind the expansion recorded in this seaport in 2006–2009.

The sales volumes of new apartments in the primary market saw new records in 2019. The rapid surge in the sale of newly built apartments was driven not only by the rapidly growing economy and buyer-friendly purchase conditions, but also by the best supply of new housing in 2018–2019 over the past decade. According to Ober-Haus, **5,744** new apartments were sold and reserved in the capital city in 2019, which is as high as **37% more** than in 2018. In 2019, **1,004** newly built apartments were purchased directly from developers in **Kaunas** (**35% more** than in 2018) and in **Klaipėda** – **472** apartments (nearly **22% more** than in 2018).

The price to income ratio of apartments continued to improve rapidly in 2019 to the benefit of buyers in all major cities of the country. According to Statistics Lithuania, the average net wages in Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys increased by 12-15% in 2019 compared to 2018. Since the prices of apartments in these cities increased by a smaller percentage than wages, statistically residents of all major cities were able to purchase more housing than a year ago. According to Ober-Haus, a statistical resident of **Vilnius** could purchase **7.2 sqm** (in 2018 – 6.6 sqm) of a medium class apartment for his average annual net salary in 2019, a resident of **Kaunas** – **9.2 sqm** (in 2018 – 8.4 sqm), a resident of **Klaipėda** – **9,2 sqm** (in 2018 – 8.6 sqm), a resident of **Šiauliai** – **12.3 sqm** (in 2018 – 12.1 sqm), and a resident of **Panevėžys** – **13.5 sqm** (in 2018 – 13.4 sqm).

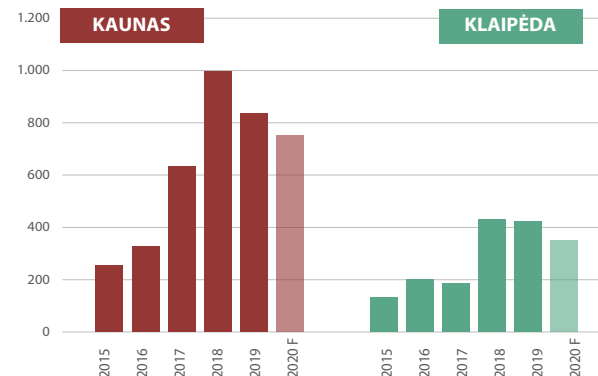
While the overall main indicators of the Lithuanian housing market in Q1 2020 were very optimistic, the first quarter should be divided into two periods – before imposing the quarantine (16 March 2020) and the second half of March. The second half of March was the opposite of what had been recorded in the Lithuanian housing market in 2019 or in January-February 2020. In the second half of March, due to the suspension or restriction of the activities of notary offices, a decline in housing transactions was recorded. According to the Centre of Registers, in January-February 2020, **12% more** purchase and sale transactions for apartments and almost **23% more** transactions for houses were

**COMPLETED APARTMENTS**  
(in newly developed multi-apartment projects)



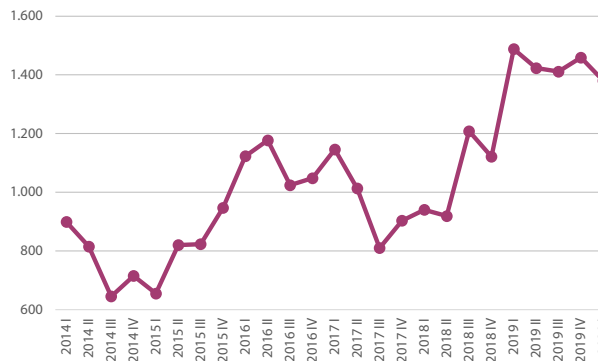
Source: Ober-Haus

**COMPLETED APARTMENTS**  
(in multi-apartment projects for sale)



Source: Ober-Haus

**NUMBER OF SOLD/RESERVED NEW APARTMENTS**  
(in the primary market)



Source: Ober-Haus

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concluded in **Lithuania** compared to the same period in 2019. In **March 2020**, a **decrease of 26%** in transactions for apartments and **27%** in transactions for houses was recorded compared to the monthly average in 2019. In March 2020, a fall in the number of transactions (apartments and houses) was recorded in all major cities of the country (compared to the monthly average in 2019): in Vilnius – 17%, in Kaunas – 32%, in Klaipėda – 40%, in Šiauliai – 24% and in Panevėžys – 30%.

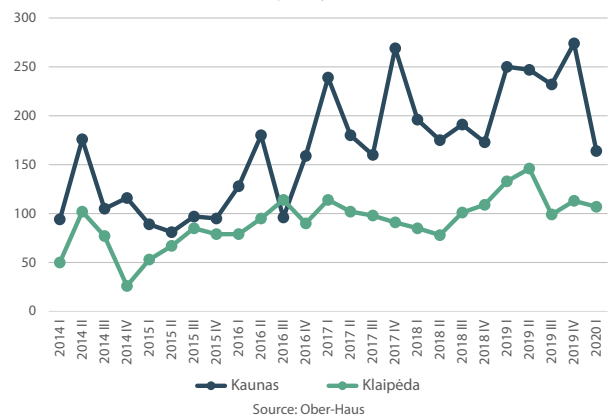
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In contrast to the housing sale segment, minor negative price developments were already recorded in the apartment rental market in Vilnius in March. Vilnius has the largest amount of rental property of all major cities in the country, and in the second half of March experienced the biggest drop in the customer traffic in the short-term rental segment. Some property owners realized that the closure of national borders and the sudden disappearance of the tourist traffic (which is the main drive for the short-term rental segment) as a result of the pandemic could cause short-term and even long-term problems in the entire accommodation sector. Some property owners applied significant discounts on the short-term rent of apartments, while other owners decided to offer them to local residents for a longer period of time. This resulted in additional volumes of long-term rental apartments on the market, which slightly adjusted the overall price level in the market. In March 2020, rents for 1–2 room apartments **in Vilnius decreased** by an average of **1–2 %**. Rents of apartments remained stable in Kaunas and Klaipėda in March.

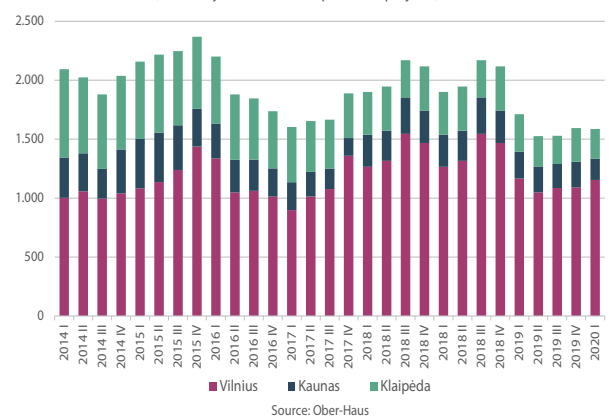
Looking at the realization of newly built apartments it is also clear that March 2020 had a negative impact on the overall result of the first quarter. According to Ober-Haus, in Q1 2020, **1,380** newly built apartments were sold and reserved directly from developers **in Vilnius, in Kaunas – 164** apartments and **in Klaipėda – 107** apartments. Comparing Q1 2020 with the average of the four quarters of 2019, the sales volumes in the primary market decreased by 4% in Vilnius, in Kaunas – by 35%, and in Klaipėda – by 9%.

In Kaunas and Klaipėda, compared to Vilnius, a noticeable decline in the realization of newly built apartments is also linked to the recent decline in construction volumes, not only to the pandemic. For

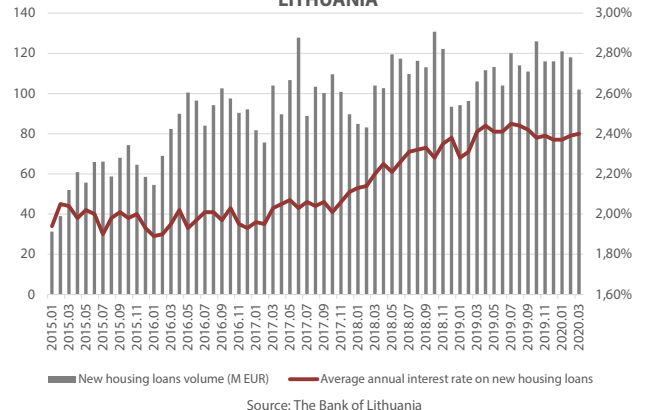
**NUMBER OF SOLD/RESERVED NEW APARTMENTS**  
(in the primary market)



**UNSOLD NEW APARTMENTS**  
(in already finished multi-apartment projects)



**NEW HOUSING LOANS FOR PRIVATE PERSONS IN LITHUANIA**



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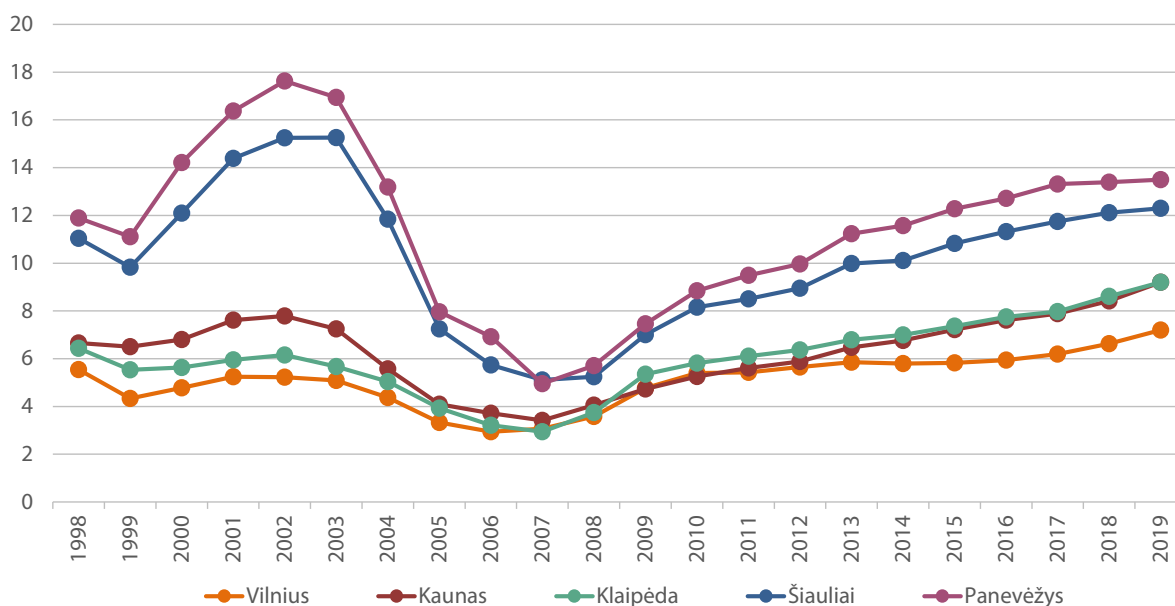
example, the largest number of apartments since 2008 was built in Kaunas in 2018 (997 apartments), while in 2019 and 2020 a slowing down in apartment construction was recorded (836 apartments in 2019 and 750 apartments planned in 2020). Therefore, in 2017–2019, a significant surge in the realization of apartments in the primary market was recorded in Kaunas. The high realization indicator also cannot be repeated today due to the shrinking supply factor. In the meantime, it is the opposite in Vilnius, where we can see an increasing construction of apartments, which in 2020 should peak since 2008 (according to the estimates of February 2020, about 5,200 apartments are planned to be built in Vilnius). So buyers in the capital city have a very broad choice of new housing, which is reflected in the sales statistics. In Klaipėda, like in Kaunas, construction volumes are decreasing: if in 2019, 421 apartments were built for sale, so in 2020 it is planned to complete 350 apartments.

While the amount of mortgage loans increased in Q1 2020 compared to the same period a year ago, in March loans shrunk (the volume of new mortgage loans in March was lower than the

monthly average in 2019). According to the Bank of Lithuania, in Q1 2020 new mortgage loans in the amount of **EUR 340 million** were granted in Lithuania or **14.4% more** than at the same period of 2019. Interest rates for newly issued mortgage loans remained stable in Lithuania. The average annual interest rate for new mortgage loans in January to March 2020 was **2.39%** or 0.04 percentage point higher than a year ago.

Looking at the prospects of Q2 2020 in Lithuania's housing market it is clear that we will record much poorer indicators than in Q1 2020. The prolonged period of quarantine, negative news flow about the overall economic situation in the country, more conservative funding for housing purchases and deteriorating expectations of the population may put the overall activity of the housing market in Q2 to long-unseen lows. At the same time, this may have a negative impact on the sales prices and rents of residential properties and call for adjustment in the plans for the development of new housing.

**APARTMENT INCOME-TO-PRICE RATIO**  
(how many sqm can be acquired for average annual net salary)



Source: Statistics of Lithuania, Ober-Haus

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.