

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q3 2017

Q3 2017 in the Lithuanian housing market did not bring any major surprises. The housing market indicators and the prevailing mood remain essentially high as a result of the excellent performance in 2016–2017. Several indicators however signal the first stability signs in the housing market. Compared to 2016, the number of transactions for apartments in 2017 was smaller, similarly an increase in house purchase loans was not rising so rapidly.

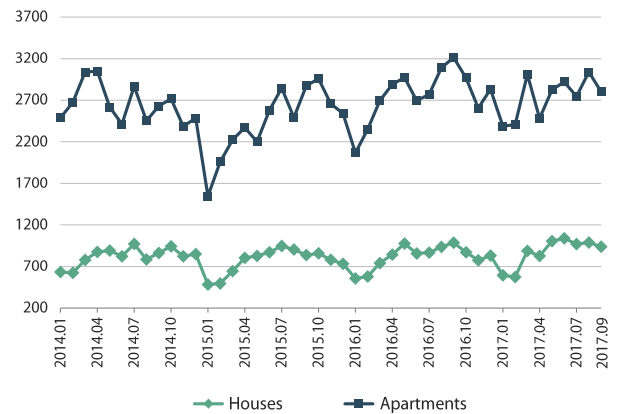
According to the data of the State Enterprise Centre of Registers, in Q3 2017, the number of transactions of apartments was **5% smaller** and the number of transactions of houses was **4% higher in Lithuania** compared with Q3 2016. In Q3 2017, on average 967 transactions for houses and 2,868 transactions for apartments were concluded in Lithuania. The volume of new mortgages in Lithuania also stabilised. According to the data of the Bank of Lithuania, new mortgage loans (including revolving loans) totalled **EUR 325 million** in Q3 2017, which is **12% less** than in Q2 2017, but almost **2% more** than in the same period in 2016.

Q3 2017 saw a further moderate price increase. According to the information available to Ober-Haus, the total apartment price increase in this quarter in five major cities in the country was 1.2%. In July, August and September 2017, the fastest increase in apartment prices by an average of **1.4%** was recorded in **Kaunas**, apartment prices in Klaipėda increased by **1.3%**, in Vilnius – **1.2%**, in Šiauliai – **0.7%**, and in Panevėžys the prices remained the same. Over a period of one year (September 2017 compared to September 2016), apartment prices in Vilnius and Kaunas increased by 4.5%, in Šiauliai – 3.3%, in Klaipėda – 3.2% and in Panevėžys – 2.5%.

In the meantime, the sales volumes of new apartments in five major cities of the country decreased for a second successive quarter. The overall poorer results were determined by the situation in the capital city where, it seems, the ceiling for both the demand and supply had been reached. According Ober-Haus, in Q3 2017, **1,028** new apartments in completed apartment buildings and apartment buildings in progress were sold or reserved directly from developers in the five major Lithuanian cities. This is 16% less than those realised in Q2 2017 and 20% less than those realised in Q3 2016. However, the assessment of the activities in the new apartment market and its prospects in different cities of the country clearly shows a different situation and trends.

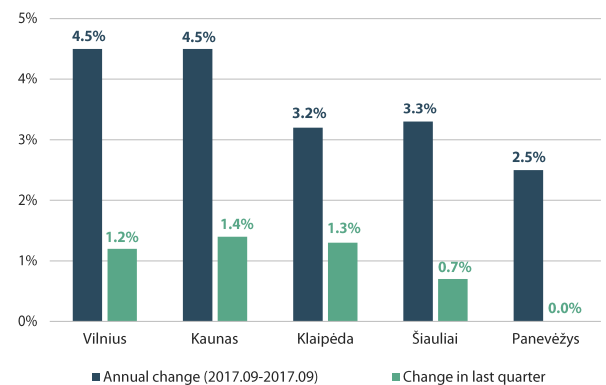
In Vilnius, **805** new apartments were sold or reserved in Q3 2017 in completed apartment buildings and apartment buildings in progress. That is nearly 19% less than those realised in Q2 2017 and 21% less than in the same period last year. This was the second consecutive quarter the decreasing sales volumes were recorded. It must be noted that the major part of these sales will reflect in the official statistics of the Centre of Registers later, because 80% of the sales concluded in Q3 involved apartments in the buildings in progress. Since sales were concluded on the basis of the preliminary contracts, the officially registered data still show a somewhat different situation – a quarterly growth in the number of transactions for new apartments in Vilnius.

NUMBER OF TRANSACTIONS IN LITHUANIA



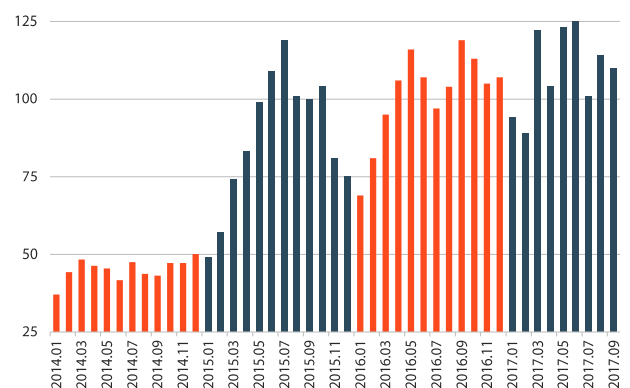
Source: SE Centre of Registers / 2014 - 2017

AVERAGE APARTMENT PRICE CHANGES



Source: Ober-Haus / Q3 2017

NEW HOUSING LOANS IN LITHUANIA
(including revolving loans, million EUR)



Source: The Bank of Lithuania, ECB / 2014 - 2017

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q3 2017

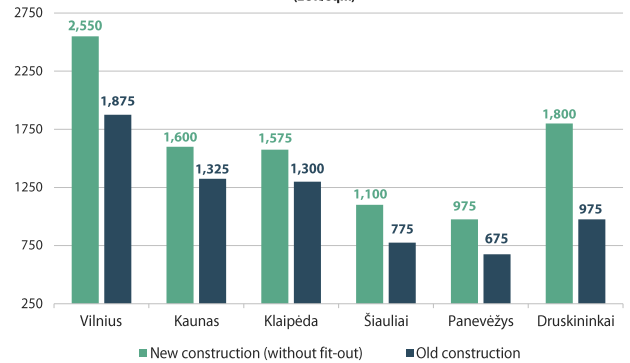
As a result, according to the data of the State Enterprise Centre of Registers, 1,039 transactions for new apartments were recorded in Vilnius which is the best quarter this year (based on the methodology of the Centre of Registers, new housing includes the buildings constructed in the previous year and the current year, and also transactions for unfinished housing).

In the past five years, a particularly fast increase of the portion of new apartments in the overall statistics for the apartment sale transactions in Vilnius has been recorded. According to the data of the State Enterprise Centre of Registers, in 2011 the share of new apartments accounted only for 11% of the overall registered apartment sales transactions. The share continued to increase each year totalling 34% in 2016, the largest share since 2011. The increase was determined by both rapidly increasing construction volumes of new apartments and the wishes and capabilities of customers to acquire property after the economic recession had passed. For example, according to Ober-Haus, only 769 apartments were built in the apartment buildings in Vilnius in 2011, while in 2016 the figure increased almost five times to 3,709 apartments. According to Ober-Haus estimates, construction of up to 4,300–4,500 new apartments should be completed in 2017 or 15–20% more than in 2016. Looking at the share of new and older apartments in the overall statistics of registered transactions in 2017, the portion of transactions for new apartments has stopped growing and has remained at the same level as in 2016. Over 2,600 transactions for new apartments were recorded in Vilnius in the first nine months of 2017, 34% of the total number of sold apartments. Given that a record supply of new apartments since 2008 has been planned in Vilnius this year and a similar number (but probably not more) of apartments (about 4,000–4,200) should be built in 2018, it is likely that the official statistics will show the rise in the sale of new apartments (both nominal and relative) in the nearest future.

Similar trends to those in Vilnius were recorded in Kaunas, although the increase of the portion of new apartments in the overall statistics has been recorded here only this year. This is the result of the increase of investment in new housing in Kaunas in recent years. According to the information available to Ober-Haus, 600–700 new apartments in apartment buildings should be completed in Kaunas this year, twice as higher as in 2016. A total of 122 new apartments in newly built apartment buildings or in buildings in progress were sold or reserved in Q3 2017. Although this is 26% less than those realised in Q2 2017, but the total figure for the first nine months of the year is 14% higher than that in the same period in 2016. Unlike in Vilnius, where the total apartment sales results both in Q3 and over a period of the first nine months are poorer than in previous periods, Kaunas has retained a growth trend.

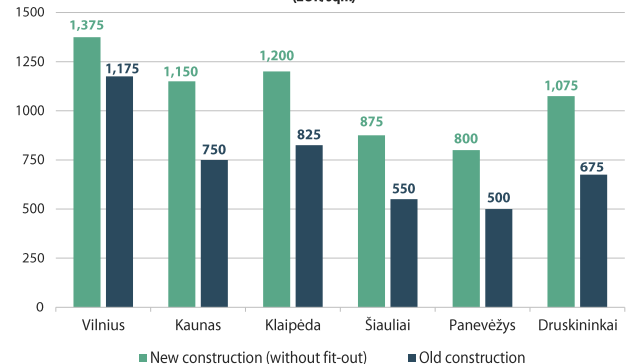
The data on the transactions for new apartments recorded at the Centre of Registers show a sufficiently rapid increase in the portion of new housing in Kaunas, which at its lowest in 2010 and 2012 accounted for only 4% and 5% of the total apartment transactions concluded in Kaunas. Over a period of 2013–2016, the figure increased to 11% (2016) and in 2017 – to 17% (first nine months of 2017).

AVERAGE APARTMENT PRICES IN OLD TOWN, CITY CENTRE, PRESTIGIOUS DISTRICTS (EUR/sqm)



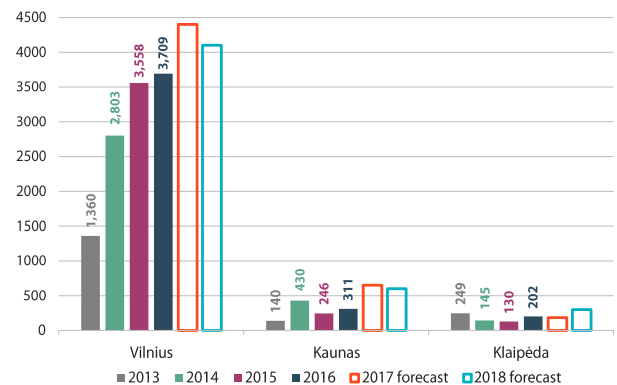
Source: Ober-Haus / Q3 2017

AVERAGE APARTMENT PRICES IN RESIDENTIAL DISTRICTS (EUR/sqm)



Source: Ober-Haus / Q3 2017

COMPLETED APARTMENTS



Source: Ober-Haus / 2013 - 2018 F

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

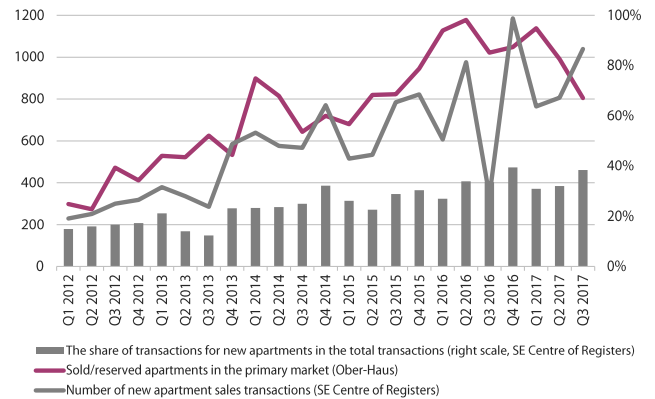
LITHUANIA / Q3 2017

If the intensity of development of new apartments in apartment buildings remains at current levels, we will see further increase both in the number of apartments sold or reserved in the projects in progress and in the number officially recorded transactions in 2018.

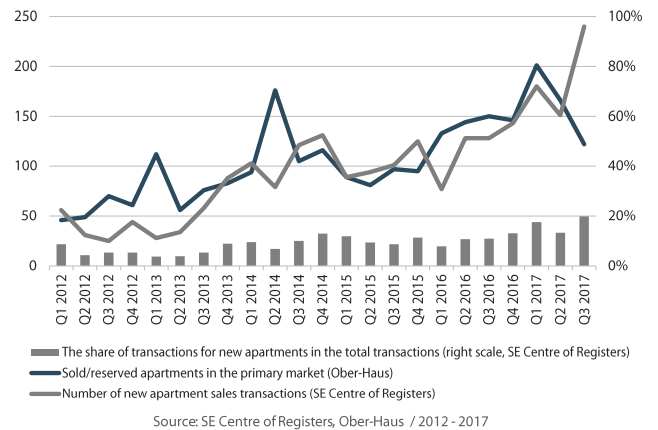
The situation in the new apartment market in Klaipėda is slightly different. Unlike in Vilnius and Kaunas, no major changes in this segment have been recorded in the third largest city in Lithuania. According to Ober-Haus data, **85** new apartments were sold or reserved in **Klaipėda** in Q3 2017. Although this is 35% more than in Q2 2017, the overall result shows a decrease of 9% compared to the same period in 2016. Due to small-scale, yet not increasing volumes of construction, the sales statistics in Klaipėda remains fluctuating without a clearer direction. This year, about 200 new apartments should be completed in Klaipėda, retaining the 2011–2016 annual average (200 apartments). A greater leap in supply can be expected in 2018 when over 300 apartments are planned to be built. The almost unchanged situation is confirmed by the data of the State Enterprise Centre of Registers – the share of transactions for new apartments in the total number of apartments transactions reached the lowest level in Klaipėda city in 2014 and accounted for only 4%. During 2015–2016, the situation has not changed substantially – the share of transactions for new apartments in that period increased only to 5% and in 2017 – to 6% (first nine months of 2017), significantly lower than in Vilnius and Kaunas. It should be noted that poor construction and sales results for new apartments in the official statistics do not mean that the overall activity and liquidity in the housing market in Klaipėda is low and unpromising. On the contrary, more than 2,300 purchase and sale transactions of apartments were recorded in Klaipėda in the first three quarters of 2017, 15.3 transactions per 1,000 residents of the city. At the same time, this indicator in Vilnius and Kaunas is lower – 14.1 and 11.6 transactions per 1,000 residents respectively. There was a large number of unsold new apartments in Klaipėda since previous years, which in the event of a sale were attributed to the sale of old apartments in the official statistics.

In summary, it can be said that the situation in the three major cities of Lithuania is very different. A decrease in the sale of new apartments and the stabilisation in the ratio of the new and old property sales have been recorded in Vilnius in 2017. In the meantime, in Kaunas the share of new apartments in the overall statistics has seen the highest increase as a result of more active steps by developers and increasing volumes of construction in the city. There are still minuscule signs of recovery of the new apartment market in Klaipėda, because developers lack trust in the capabilities of the market in this seaport city to absorb a greater supply of new housing than it was up to now. Thus, housing developers have a choice in Lithuania today: continue pushing each other at the most liquid point in Lithuania, join Kaunas on the ascending supply curve or try to restart the market locomotive in Klaipėda?

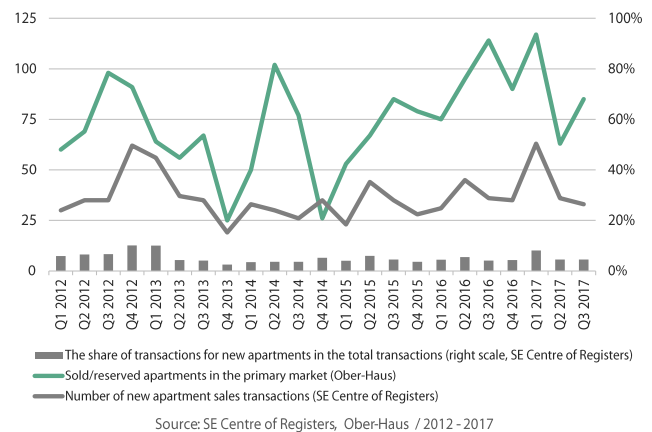
NEW APARTMENTS TRANSACTIONS IN VILNIUS



NEW APARTMENTS TRANSACTIONS IN KAUNAS



NEW APARTMENTS TRANSACTIONS IN KLAIPĖDA



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.