

RESIDENTIAL REAL ESTATE MARKET COMMENTARY

LITHUANIA / Q4 2018

Looking back at 2018 it can be said that the housing market of Lithuania is going through its second golden age. The level of housing market activity and financial indicators shot up and it looks like they are to going to surpass their all-time high.

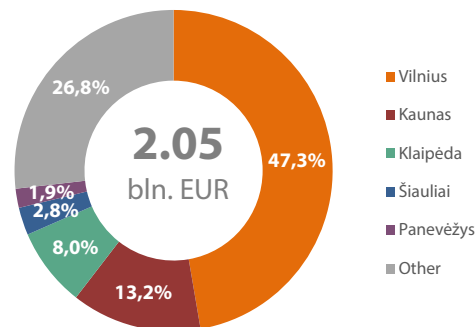
According to the State Enterprise Center of Registers, nearly **EUR 2.05 billion** was spent on buying residential property (apartments and houses) in Lithuania in 2018 or 9.2% more than in 2017. Looking at historical data, an even larger amount of money for buying homes in Lithuania was spent only in 2007 and totaled EUR 2.22 billion. In 2018, the increase in the amount of money in the housing market was observed essentially in the entire country, i.e. compared with 2017, growth was recorded in as many as 44 out of 60 municipalities in Lithuania. If in some municipalities positive change was only symbolic, in other municipalities the amounts spent on buying homes increased by a third.

Vilnius and Kaunas particularly stood out in 2018. In the country's capital city over EUR 970 million was spent on buying homes, which is all-time high, or 9% more than in 2017 and 2% more than in record 2007. The most rapid growth in Vilnius was recorded in the house segment, which over the past 5 years has seen new annual all-time records in the level of activity, volume of construction or spending. In the meantime, the biggest change among major cities in 2018 was recorded in Kaunas, where over EUR 271 million was spent on buying homes, almost 16% more than in 2017. In 2018, over 4% growth (nearly EUR 164 million) was recorded in Klaipėda, 4% (over EUR 57 million) in Šiauliai, and over 6% (nearly EUR 40 million) in Panevėžys for purchasing homes compared to 2017.

In terms of investment in homes per capita, the leaders have not changed. In 2018, the residents of Vilnius spent the largest sum on apartments and houses – 1,766 EUR/capita on average. Klaipėda came second with 1,105 EUR/capita. Kaunas with 944 EUR/capita came third. During the same period, the residents of Šiauliai spent 569 EUR/capita and those in Panevėžys – 449 EUR/capita on average. In the rest of Lithuania (except for the municipalities of the five major cities of the country) the figure was 338 EUR/capita.

In 2018, the housing loan market in Lithuania was very active despite further moderate growth of mortgage interest rates. According to the Bank of Lithuania, the average mortgage interest rate in 2018 was **2.26%** (in 2017 – 2.04%, in 2016 – 1.96%). At the same time new mortgage loans and the overall housing loan portfolio figures in Lithuania reached new heights. According to the Bank of Lithuania, in 2018 the amount of outstanding housing loans in Lithuania grew by 8.2% to nearly **EUR 7.8 billion** reaching a historical point at the end of the year. In 2018, new

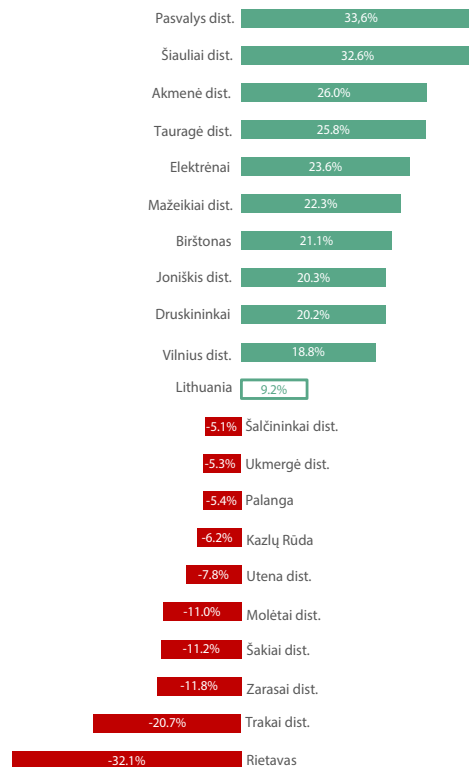
SPENDINGS DISTRIBUTION ON HOUSING PURCHASE BY CITY (2018)



Source: SE Centre of Registers, Ober-Haus calculations

RESIDENTIAL PROPERTY TRANSACTIONS VOLUME CHANGE

(20 Lithuania's municipalities (out of 60), where the biggest changes were recorded in 2018, in comparison with 2017)



Source: SE Centre of Registers, Ober-Haus calculations

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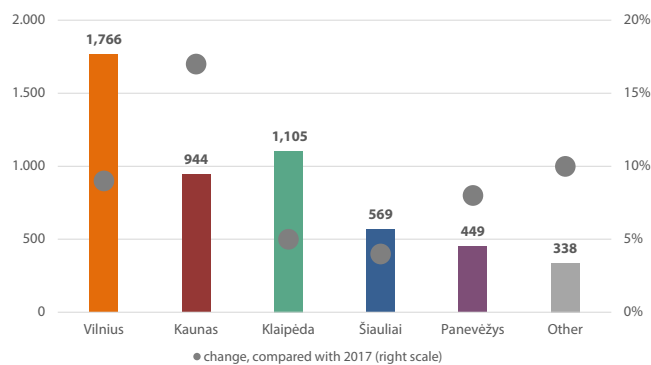
mortgage loans in the amount of **EUR 1,297 million** were issued in Lithuania and this is **10% more** than in 2017.

The overall housing market activity indicators in Lithuania in 2018 have reached record heights since 2007. According to the State Enterprise Center of Registers, in 2018 **2% more** transactions for apartments and **4% more** transactions for houses were concluded in Lithuania compared with 2017. Still, different dynamics was recorded in the major cities in Lithuania. The biggest positive change in the housing market activity was recorded in Vilnius and Kaunas. In Vilnius 7% more apartments and 17% more houses were purchased in 2018 compared with 2017. During the same period, in Kaunas 4% more apartments and 13% more houses were purchased. In Klaipėda a decrease of 3% in the transactions for apartments was recorded, while house sales increased by a staggering 97% in 2018. In Šiauliai a decrease of 6% in apartment sales and 3% in house sales was recorded. In Panevėžys the number of transactions for apartments was the same as in 2017, while sales of houses decreased by 7%.

Positive economic outlook of the country and continuing high activity in the housing market promoted further growth of sales prices in the major cities in 2018. The fastest relative price change, however, was recorded in smaller cities, where the level of prices is much lower and there is room for faster percentage growth of sales prices. According to Ober-Haus, in 2018 in **Panevėžys** and **Šiauliai** an increase of **11.6%** and **8.9%** respectively was recorded in prices of apartments. In **Kaunas**, **Klaipėda** and **Vilnius** the apartment prices increased by **4.2%**, **3.7%** and **3.0%** respectively. The fastest increase in the prices of **houses** in 2018 was recorded in the cities of **Klaipėda** and **Šiauliai and their environs**, totaling **6%** on average. The prices of houses in **Panevėžys and its environs** increased by **4%** on average, and in **Vilnius** and **Kaunas** by a mere **1%** in 2018.

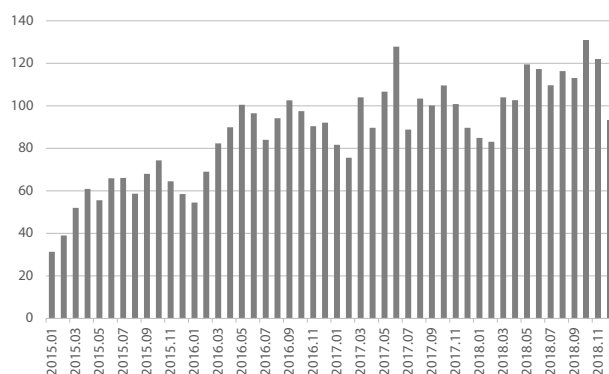
In the three major cities in the country apartments rents in 2018 increased at a similar rate as sales prices. In **Vilnius** rents over a year **increased by 4%**, in **Kaunas** – by **5%** and in **Klaipėda** – by **6%**. This shows that the activity in the apartment rental market continues to remain high. Even in the country's capital where more and more apartments are built every year and a large portion of them is purchased for both short-term and long-term lease, the market is able to absorb apartments for rental offered to the market. The growing number of citizens and their income and also limited possibilities of some people to buy their own home supported the rental sector activity. In 2018, the average rent of a 1-3 room apartment in **Vilnius** was **398 EUR/month**, in **Kaunas** – **EUR 308/month**, in **Klaipėda** – **EUR 308/month**, in **Šiauliai** – **201 EUR/month** and in **Panevėžys** – **EUR 194/month**.

THE MONEY AMOUNT DEDICATED TO HOUSING PURCHASE PER CAPITA
(2018, EUR)



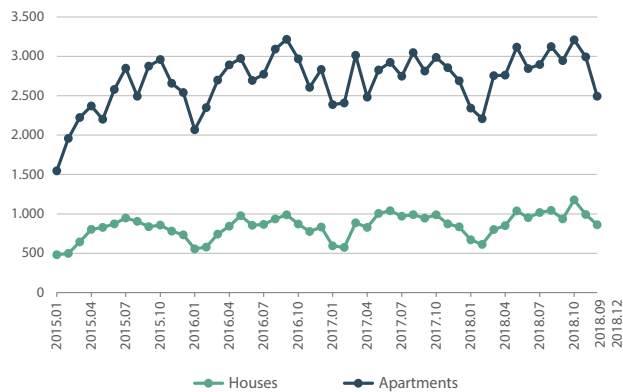
Source: Statistics of Lithuania, SE Center of Registers, Ober-Haus calculations

NEW HOUSING LOANS FOR PRIVATE PERSONS
(Lithuania, million EUR)



Source: The Bank of Lithuania

NUMBER OF TRANSACTIONS IN LITHUANIA



Source: SE Centre of Registers

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In 2018, Vilnius, Kaunas and Klaipėda saw particularly huge volumes of construction of multi-apartment buildings. According to Ober-Haus, in **Vilnius** developers built **4,355 new apartments** or 5% more than in 2017. Although the volumes of apartment construction haven't reached the 2006–2008 level (during that period 4,800–5,800 apartments were built annually), in terms of the diversity of new projects in Vilnius the year 2018 was truly exceptional. If between 2003 and 2017, buyers could choose from not more than 50 different multi-apartment building projects, in 2018 they could choose from 58 different newly built projects.

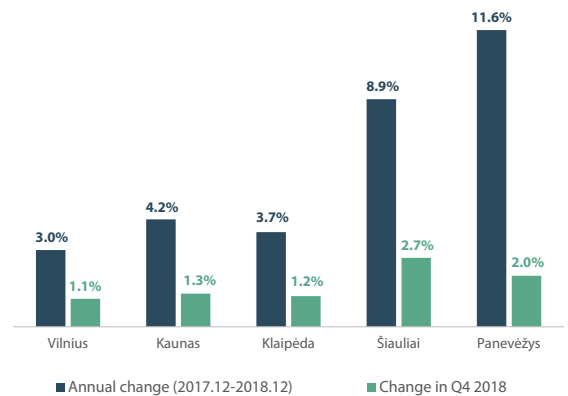
In 2018, the multi-apartment building projects in Vilnius were very diverse (in terms of quantity, quality and geography). Developers built new multi-apartment buildings in 15 out of 21 neighborhoods of Vilnius. Traditionally, the most popular and most rapidly developing areas of the city were most attractive to developers. Over 70% of all new apartments were built in seven urban neighborhoods: Pašilaičiai (15.3%), Pilaitė (13.9%), Šnipiškės (13.5%), Verkių (7.9%), Naujamiestis (7.8%), Žirmūnai (6.5%) and Lazdynai (6.5%).

In 2018, the fastest growth was recorded in the construction of economy class apartments in Vilnius. Ober-Haus estimates that the share of the economy class apartments (the price level of up to 1,500 EUR/sqm without final fit-out), increased from 30% to 45% compared with 2017. In the meantime, the share of the medium class apartments (the price level from 1,500 EUR/sqm to 2,000 EUR/sqm) decreased in a year from 52% to 36%. The most stable situation remained in the projects involving higher class apartments (the price level in excess of 2,000 EUR/sqm) – their share grew from 18% to 19% in 2018.

Most experienced developers on the market contributed most to the supply of new apartments in 2018, although their share decreased over a year. According to Ober-Haus, experienced real estate development companies with at least 4 different residential projects in their portfolio built 44% of apartments in the capital city in 2018 (in 2017 this indicator was 66%). Developers with less experience (2-3 completed projects) built 43% of all apartments and their share increased fastest within a year (in 2017 year this indicator was 24%). The share of the companies without longer history of housing development (not more than one implemented project) or the newcomers of the market increased from 10% to 13% in 2018.

The construction of apartments in multi-apartment buildings in Vilnius has not yet reached record levels, but the construction of detached and semi-detached supply of houses for sale in 2018 was the highest annual supply indicator houses reached all-time record. **In 2018**, developers built nearly

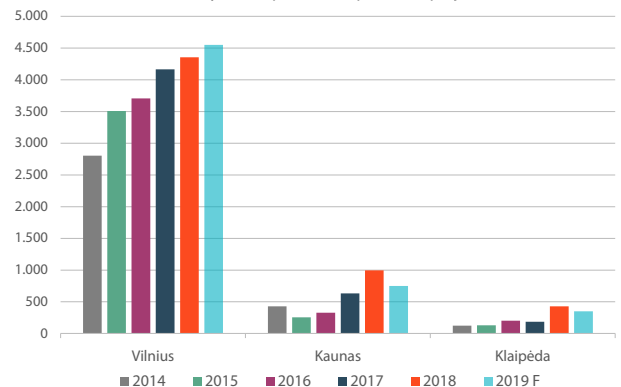
AVERAGE APARTMENT PRICE CHANGE



Source: Ober-Haus

COMPLETED APARTMENTS

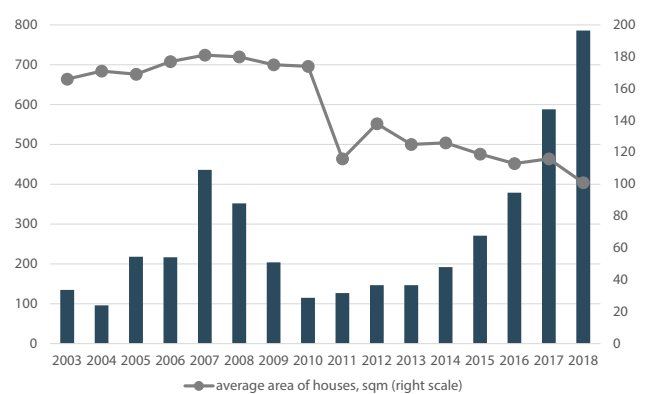
(in newly developed multi-apartment projects)



Source: Ober-Haus

COMPLETED HOUSES AND AREA IN VILNIUS

(in newly developed house quarters for sale)



Source: Ober-Haus

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790 new houses in the city of Vilnius and its environs or an impressive 34% more than in 2017 and more than twice as many as in 2016. The throughout the entire real estate market history in Lithuania. With the increasing competition in the segment of multi-apartment buildings, some developers and individual investors in recent years decided to offer an affordable housing option to customers. Currently, row houses with small floor area dominate in the house development market. Despite that over the last decade, the floor area of houses for sale decreased by an average of 30% (2000–2010 compared to 2011–2018), a detached or semi-detached house remains perhaps the only alternative for those looking for a larger newly built home. Although in 2018, the average floor area of houses for sale offered by developers was record small – 101 sqm, it is still twice as large as the floor area of an average apartment in newly constructed buildings (the average floor area of apartments in newly constructed multi-apartment buildings in 2018 was 50.2 sqm).

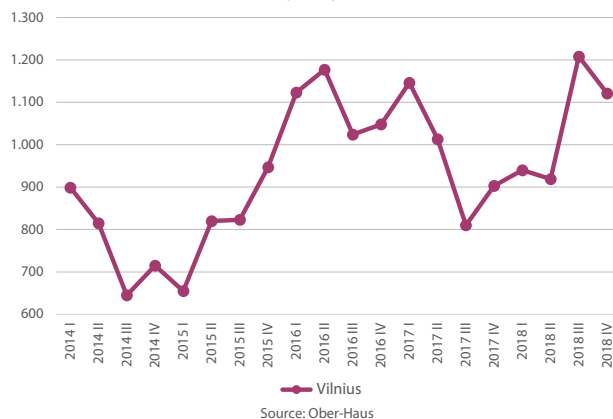
In 2018, **Kaunas** also entered a rapid housing development phase. According to Ober-Haus, a total of **997 apartments** were built in a year in this city or 57% more than in 2017 and three times as many as in 2016. More apartments were built in Kaunas only in 2008, when developers completed 1,070 apartments for sale in multi-apartment buildings. The year 2018 was marked not only by abundance of newly constructed apartments, but also by a wide choice of projects – customers could choose from 24 different projects. It is obvious that developers of both the residential and commercial projects started to trust the prospects of the city of Kaunas and decided to exploit the growth potential of this city.

After a longer break, **Klaipėda** could also boast of greater apartment development volumes in 2018. A total of 11 projects offering **429 apartments** were implemented in Klaipėda in 2018. This is 2.3 times as many as in 2017. In 2011–2017, only about 200 new apartments per year were built in Klaipėda on average.

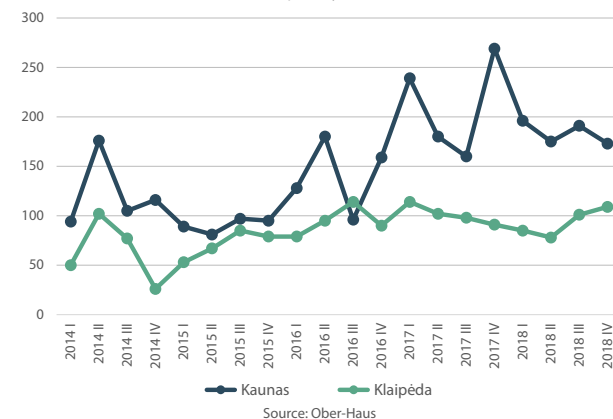
The current construction of residential projects in Vilnius, Kaunas and Klaipėda shows that further increase in the construction of apartments in 2019 will be recorded only in the country's capital. Ober-Haus forecasts that about 4,500–4,600 apartments should be built in the capital city in 2019 or about 5% more than in 2018; in Kaunas about 700–800 apartments (about 25% less than in 2018) and in Klaipėda about 300–350 apartments (about 25% less than in 2018) should be built in 2019.

In the primary market of apartment buildings in Vilnius increasing sales volumes were recorded in 2018 not only because of active buyers, but also because of further increase in the construction volumes of apartments, i.e. choice options. According to Ober-Haus, **4,188 new apartments were**

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

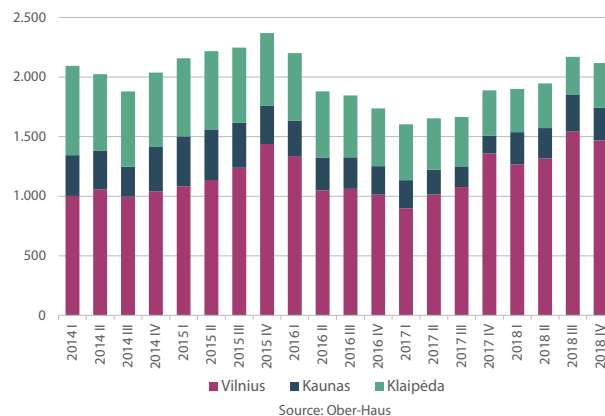


NUMBER OF SOLD/RESERVED NEW APARTMENTS
(in the primary market)



UNSOLD NEW APARTMENTS

(in already finished multi-apartment projects)



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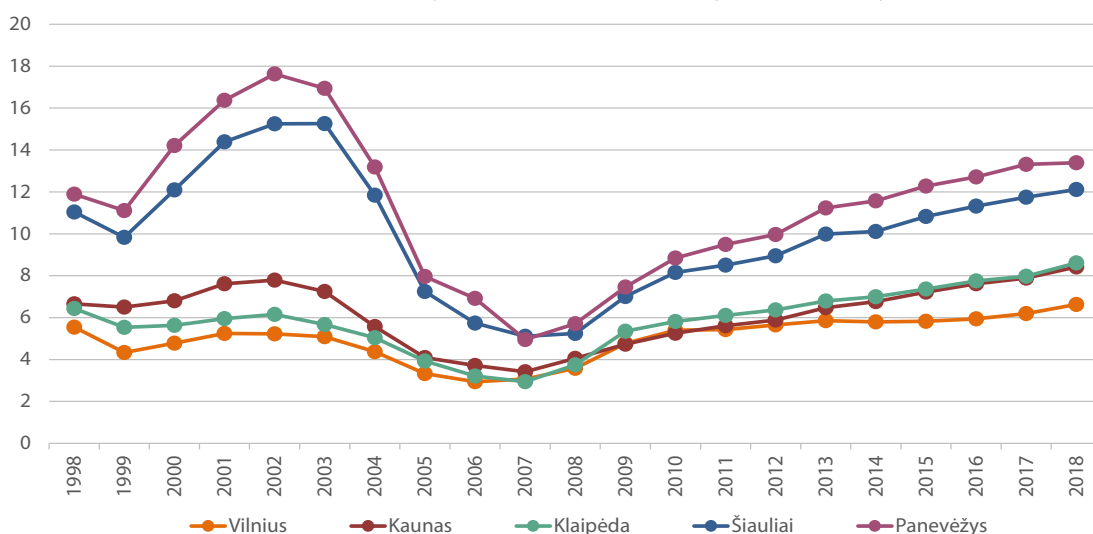
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sold and reserved in the capital city in 2018 or almost **6% more** compared with 2017. In the meantime, in Kaunas and Klaipėda decreasing sales volumes were recorded in the primary market of apartments. Unlike in Vilnius, a decrease in the construction volumes of multi-apartment buildings by a quarter is forecast in 2019 in these cities, which could have affected sales in 2018 (particularly pre-sales in the projects under construction). In 2018, **735** new apartments were purchased directly from developers in **Kaunas (10% less** than in 2017) and **373 apartments in Klaipėda (8% less** than in 2017).

Despite the high degree of market activity in the primary market of apartments, further increase in vacant apartments in completed buildings was recorded in Vilnius and Kaunas in 2018. At the end of 2018, **in the three major cities** the total number of unsold new apartments in completed projects was **2,117** or 12% more than a year ago. At the end of 2018, **1,467** apartments were on offer in the completed new multi-apartment buildings in **Vilnius (8% more** than at the end of 2017), in **Kaunas - 276** apartments (8% more than at the end of 2017), and in **Klaipėda - 374** apartments (1% less than at the end of 2017). It is only natural that every year with the noticeably growing supply of new housing (especially in Vilnius and Kaunas) we can see an increase in the number of unsold properties.

The ratio between the prices of apartments and wages in 2018 continued to improve for the benefit of buyers in almost all cities of the country. According to Statistics Lithuania, the net wages in the municipalities of the cities of Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys in 2018 increased by 7.2–9.8% on average compared with 2017. According to Ober-Haus, the average prices of apartments over the same period increased in these cities by 2.6–8.0% (the 2018 average compared with the 2017 average). Statistically, in 2018 the residents of Vilnius, Kaunas, Klaipėda and Šiauliai could purchase more residential property than those in Panevėžys (due to faster increase in the prices of apartments compared with wages). A statistical **resident of Vilnius** was able to purchase **6.6 sqm** of an average class apartment for his average net annual wages in 2018 (in 2017 – 6.2 sqm), the resident of **Kaunas – 8.4 sqm** (in 2017 – 8.0 sqm), the resident of **Klaipėda – 8.6 sqm** (in 2017 – 8.1 sqm), the resident of **Šiauliai – 12.1 sqm** (in 2017 – 11.9 sqm) and the resident of **Panevėžys – 13.4 sqm** (in 2017 – 13.5 sqm). Looking at these indicators, statistically the least affordable housing is in the cities of highest economic activity where the prices of homes are noticeably higher than those in smaller cities. And the gap is really considerable.

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.