



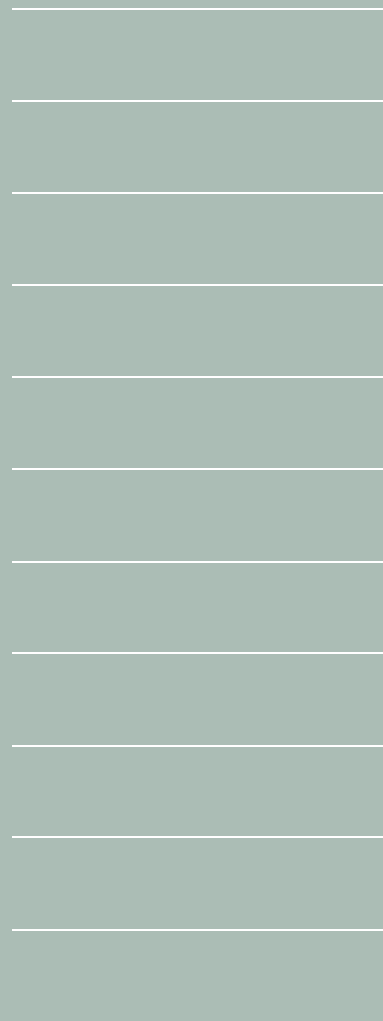
LIETUVOS BANKAS
EURO SISTEMA

REVIEW

OF THE SURVEY OF THE REAL ESTATE MARKET PARTICIPANTS

2017

2



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AIMS, METHODS AND PRINCIPLES OF THE SURVEY

The real estate (RE) market and its sustainable development are crucial to maintaining stability of the domestic financial system. In June 2017, loans for house purchase accounted for 40.2 per cent of the total portfolio of loans granted by credit institutions. The Bank of Lithuania monitors the situation in the RE market and assesses its latest trends on a regular basis.

The Survey of the Real Estate Market Participants is an additional RE market monitoring tool, which reflects the market participants' opinion on RE prices, indicates segments that record most considerable RE price changes, as well as reveals potential reasons behind price dynamics and the expectations of the RE market participants regarding future developments in prices, supply and demand. The present survey allows monitoring the RE market changes from the perspective of entities operating in a specific market.

The survey is conducted on a quarterly basis, and its review is published bi-annually. During each survey, respondents are asked to answer questions regarding standard new construction immovable property (apartments and office spaces) in three major cities in Lithuania – Vilnius, Kaunas and Klaipėda. They are provided with a description of the standard property (see Table 1) that remains basically unchanged over time, hence respondents assess the same properties, allowing to compare the survey results of different time periods. The survey involves representatives of RE development and management companies, RE appraisers, agents, representatives from credit institutions, etc. (see Table 2). The present survey was carried out in August 2017.

Since the Survey of the Real Estate Market Participants is relatively new (it was first conducted at the end of 2015), the number and structure of respondents have not yet been firmly set. The aim is to reach as many RE market participants as possible to regularly answer the survey questions and represent entities engaged in various activities (RE development, sales, appraisal, etc.). Therefore, some results of the survey are still fluctuating and are considered to be of a more informative nature.

In the survey, the net percentage is defined as the difference between the percentage of respondents reporting that, for example, housing supply will increase, and the percentage of respondents reporting that it will decrease. A positive net percentage indicates that a larger share of the surveyed expect an increase in supply, negative (–) – a decrease.

REVIEW OF THE SURVEY RESULTS

In Q2 2017, there were more market participants that expected apartment rent in major cities to rise in the next 12 months. Expectations of the surveyed regarding apartment rent in residential areas of Vilnius posted most significant changes: compared to the results of the survey conducted at the beginning of the year, the share of those believing that apartment rental rates will rise increased from 15 to 24 per cent, while the share of those expecting a drop in rental prices decreased from 28 to 11 per cent. Similar shifts were observed in terms of newly-built apartment prices in downtown Vilnius and Kaunas as well as the residential areas of Klaipėda. In terms of these housing market segments, the share of respondents anticipating a rise in newly-built apartment rental rates increased (24, 46 and 45% respectively), while the share of those indicating a potential fall in newly-built apartment rental prices decreased.

In Vilnius, expectations regarding newly-built apartment prices remained basically unchanged – slightly more than half of the respondents anticipated an up to 5 per cent rise in apartment prices in the upcoming year. In Q2 2017, 55 per cent of the surveyed expected that newly-built apartments in downtown Vilnius will see an annual rise, reaching up to 5 per cent; another 34 per cent of the surveyed indicated that prices in this segment will remain unchanged. When asked about the residential areas in the capital city, the majority of the respondents (47%) believed that the prices of apartments in these areas will post no changes during the year. A similar share (45%) stated that the prices of newly-built apartments in this segment will increase by up to 5 per cent. No one expected a more than 5 per cent rise in apartment prices in the residential areas of Vilnius, yet one in ten respondents anticipated such a price increase with regard to downtown Vilnius. Evaluating newly-built apartment price dynamics in Vilnius over the last 12 months, slightly more than half of the respondents indicated that prices rose by up to 5 per cent.

There were more respondents believing that apartment prices in Kaunas and Klaipėda will pick up in the upcoming year. Compared to the results of the survey carried out in January 2017, the share of those anticipating a rise in newly-built apartment prices in downtown Kaunas and Klaipėda increased by 19 and 39 p.p. respectively. The majority of the surveyed (57 and 64% respectively) stated that newly-built apartment prices in this area will increase by up to 5 per cent, while 14 and 9 per cent of the surveyed assessing these segments expected a more rapid price growth. Nevertheless, the share of those expecting a rise in prices of newly-built apartments in the residential areas of these cities in the upcoming year reduced significantly (17 and 23 p.p. respectively).

Fastest growth in newly-built apartment supply in the next 12 months is expected in Kaunas. Compared to the results of the previous survey, there were significantly more of those believing that the number of newly-built apartments in Kaunas will be higher than it was in the last 12 months (86% of the respondents, half a year ago – 52%); a large share of RE market participants expected that the demand of newly-built apartments in this city will also rise (57%, half a year ago – 65%). As regards Vilnius, expectations regarding the supply and demand of newly-built apartments diverged. The majority of market participants (45%) foresaw a rise in supply year on year. Conversely the largest share of respondents (40%) indicated that the demand of newly-built apartments in Vilnius will contract in the next 12 months. Unlike in Vilnius, the majority of the surveyed assessing the Klaipėda market expected a moderate increase in the demand (45% of the respondents) and a slight fall in the supply (36% of the respondents) of newly-built apartments. When asked if they currently notice any imbalances in the market for selling newly-built apartments, respectively 38, 36 and 8 per cent of respondents assessing the Vilnius, Klaipėda and Kaunas market replied in the affirmative.

The majority of the RE market participants assessing the office market believed that office rental rates in business centres located in Vilnius, Kaunas and Klaipėda will remain unchanged in the next 12 months. This was the opinion of, respectively, 77, 57 and 100 per cent of the respondents assessing the prospects for the prices of offices in downtown Vilnius, Kaunas and Klaipėda and, respectively, 73, 71 and 100 per cent of the surveyed assessing the price dynamics of offices located in the residential areas of these cities.

Office vacancy rates, according to the surveyed, will increase in downtown Vilnius and Klaipėda as well as business centres in Kaunas. Respondents indicated that the office vacancy rate in downtown Vilnius and Klaipėda will

increase from 6 to 8 per cent and from 12 to 14 per cent respectively. The vacancy rate of modern offices in downtown and residential areas of Kaunas should rise from 5 to 7 and from 8 to 10 per cent respectively.

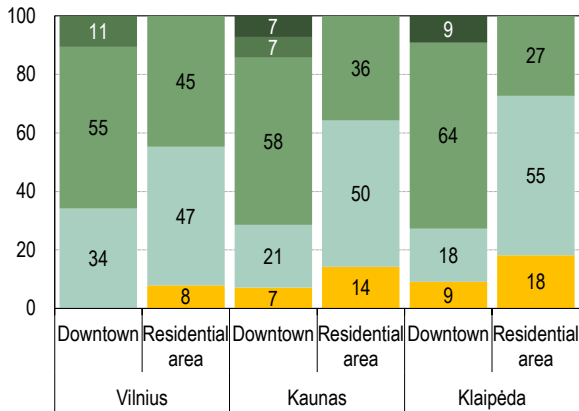
Residents buying newly-built apartments for letting purposes are most active in Vilnius, while the largest share of apartments bought by Lithuanian expatriates is recorded in Klaipėda. According to data for Q2 2017, residents of Vilnius, Kaunas and Klaipėda bought, respectively, 30, 15, and 20 per cent of total newly-built apartments for letting purposes. In both Vilnius and Kaunas, emigrants purchased a tenth of total newly-built apartments sold, in Klaipėda – 15 per cent.

CHARTS

Expectations of apartment price dynamics within the next 12 months

August 2017

Percentages



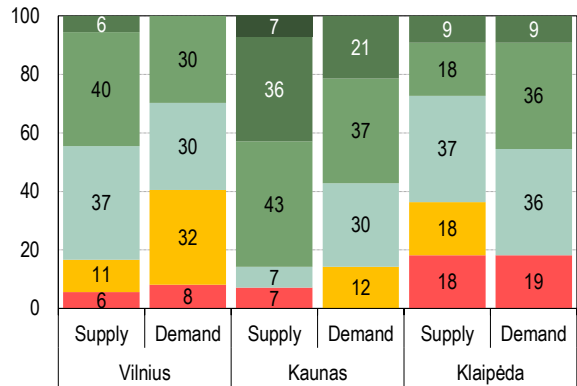
■ Will increase by more than 10% ■ Will increase by 5-10%
■ Will increase by up to 5% ■ Will remain unchanged
■ Will decrease by up to 5% ■ Will decrease by 5-10%
■ Will decrease by more than 10%

Source: Bank of Lithuania.

Expectations of apartment supply and demand developments within the next 12 months

August 2017

Percentages

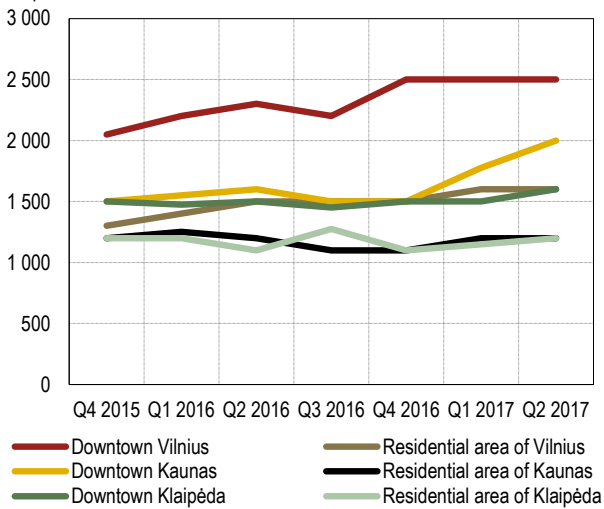


■ Will increase significantly ■ Will increase
■ Will increase somewhat ■ Will remain unchanged
■ Will decrease somewhat ■ Will decrease
■ Will decrease significantly

Source: Bank of Lithuania.

Apartment price: response median dynamics

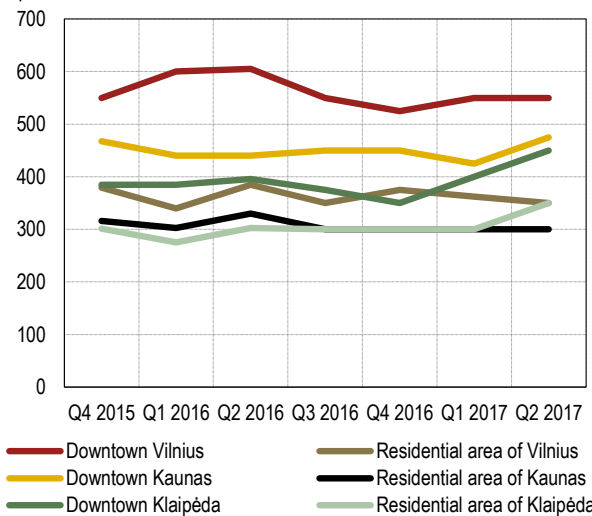
EUR per m²



Source: Bank of Lithuania.

Apartment rental rates: response median dynamics

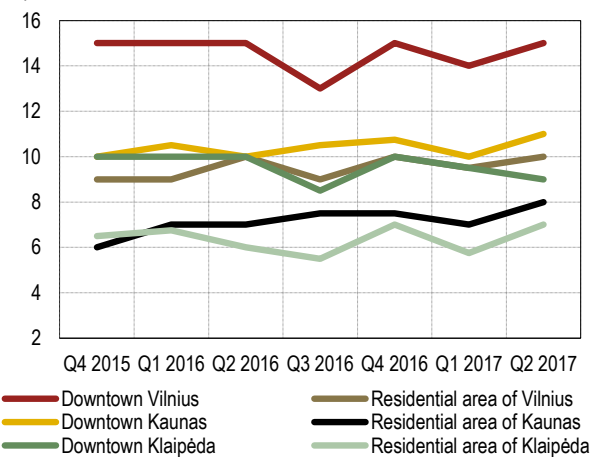
Eur per month



Source: Bank of Lithuania.

Office rental rates: response median

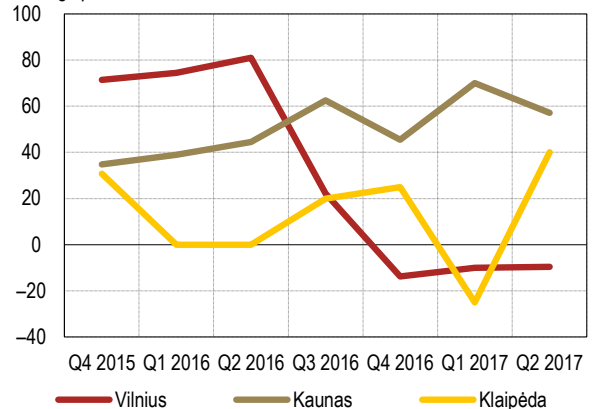
EUR per m²



Source: Bank of Lithuania.

Net percentage of those stating that in 12 months office space demand will increase and those stating that it will decrease

Percentage points



Source: Bank of Lithuania.

METHODOLOGICAL TABLES

Table 1. Description of properties assessed in the survey

Hypothetical area				Class	High	Type	Area	No of parking	No of rooms	Interior finish
Office space	Vilnius	Downtown area	Konstitucijos Ave	A	-	New construction (2000 onwards) or fully renovated	100 m ²	2	-	-
		Residential area	Intersection of Ukmergės St and Perkūnkiemio St	B	Ground					
	Kaunas	Downtown area	K. Donelaičio St near Vienybės square	A	-					
		Residential area	Intersection of Kovo 11-osios St and Savanorių Ave	B	Ground					
	Klaipėda	Downtown area	Intersection of Naujosios Uosto St and Gegužės St	A	-					
		Residential area	Intersection of Taikos Ave and Baltijos Ave	B	Ground					
Housing	Vilnius	Downtown area	Intersection of Basanavičiaus St and Algirdo St	-	Neither ground nor top	Newly built (no more than 5 years ago) or fully renovated	55 m ²	-	2	Fully renovated
		Residential area	Fabijoniškės district							
	Kaunas	Downtown area	Intersection of Maironio St and K. Donelaičio St							
		Residential area	Dainava district							
	Klaipėda	Downtown area	Intersection of H. Manto St and M. Mažvydo drive							
		Residential area	Dragūnai district							

Table 2. Distribution of survey respondents by activity

Respondents	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
RE appraiser	14	17	15	19	13
RE broker/agent	28	31	35	35	28
Credit institution	2	6	17	9	10
RE developer	7	3	4	5	7
RE manager	1	3	7	10	4
Other	3	1	1	1	-
Total	55	61	79	79	62