

Housing and Property Market in Lithuania

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Key words: real property, housing market, housing loans, credit market, Lithuania.

SUMMARY

The real property market in Lithuania is based on principles of private ownership and ownership immunity, prudence, fairness, justice and protection of the rights of those legitimately acquiring real property.

The last decade residential property market underwent one of the largest booms as well as one of the hardest falls among other property markets in Lithuania. Influenced by a strong growth of the economy and even stronger future growth forecasts, fuelled by loosely controlled bank credit market and inexpensive lending as well as high future income expectations, the residential property market suffered from quick yet low-quality supply of new residential projects, bankruptcies of many of property developers and failures of many of the inhabitants who took mortgages, to repay or keep with the payment schedule.

After economic boom at the end of 2007 the real property market started showing signs of stagnation: the housing price growth subsided and the number of real property transactions decreased. Due to increased uncertainty and banks tightening credit availability, lending for house purchase and to the housing market-related enterprises declined significantly since the end of 2007. The Lithuanian housing market in 2011 retained the stability of the year. Even though residential property prices in the major cities of Lithuania remained fairly stable, further growth in the number of transactions was recorded.

To improve business environment, encourage market development and simplify administrative procedures the legislation is being improved. Changes to the Law on Construction in effect from the end of 2010 changed quite a few construction-related processes: simplified the procedures for finishing of constructions, approved procedures for the validation of illegal construction, etc. New wording of the Law on Territorial Planning, being discussed now, aims at shortening territorial planning process, reduces the number of documents and envisages validating other provision to create better business framework and prevent corruption.

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INTRODUCTION

For most of last decade Lithuania enjoyed economic boom: in the period from 2000 to 2007 GDP grew on average by almost 8%. Domestically oriented sectors such as agriculture, construction, internal trade and transport, communications and storage were the most important drivers behind economic expansion. At the end of 2007, the fast-growing Lithuanian economy started showing signs of acceleration and in the second half of 2008 economic activity virtually stalled resulting in 3% growth for the full year.

In 4Q 2008 actually GDP growth in Lithuania was falling steeply and the economy was entering a recession. The economic situation in country was worsening rapidly. GDP growth in 2008 was down to 2.86% with positive growth expected in 2010 when GDP growth amounted to 1.3%. The new coalition government has presented an “anti-crisis plan” and new budget for 2009. The plan has proposed fiscal austerity measures, also tax reforms such as an increase in VAT from 18 % to 19 % (since 1 January 2009) and 21 % actually (since 1 September 2009).

In 2011 the GDP increased by 5.8% as compared to the previous year. A positive change in the gross value added was observed in all groups of economic activities. The largest growth in the gross value added was observed in construction (by 15%) and trade, transport and communication services (7.3 %). In the fourth quarter of 2011, real GDP growth slowed down to 4.3% mainly due to deteriorating situation in global economy, which had a negative effect on external demand and expectations in Lithuania.

According to the Bank of Lithuania it is forecasted that the real GDP of Lithuania will increase by 2.2 % in 2012 and by 3.3 % in 2013.

LEGAL ENVIRONMENT AND ITS IMPROVEMENT

Ownership of real property is acquired upon completion of construction or on the basis of different transactions, such as sale-purchase, grant, exchange, etc. Lithuania has an established and country-tailored legislation regulating the processes related to construction, property formation and registration, ownership acquisition and conveyance, market operation and similar processes. To improve housing and real property market, business environment and services, legal environment is under constant revision.

Due to development of the housing and real property market, accelerating sale and rent of private and state land, urban development and construction, the coherence and clarity of the legislation regulating all these processes is becoming more and more important.

Given the fact that the planning and construction document preparation, coordination and

decision-making processes have become long, complicated and confusing, and the number of involved institutions had significantly increased, the Lithuanian Government set a task for legal reform in the formation of real property objects.

From 1 October 2010 a new version of the Law on Construction entered into force in Lithuania, which brought in some improvements, such as:

- removed the possibility to derogate from mandatory requirements, and all deviations and compensatory measures should be agreed with the bodies establishing the requirements;
- streamlined the procedures for completion of construction. Construction is completed when it is approved by an act or a declaration on completion of construction;
- established the regulatory procedure for legalization of illegal construction, e.g. when a construction has been started without a building permit documentation, but basically the construction in this area is permitted under the existing planning documents. From 1 January 2013, payments will be charged for illegal construction, varying from LTL 300 to 500 000;
- simplified considerably the procedure for construction of small houses.

Amendments to the law aim at improving business environment, encouraging market development and streamlining administrative procedures.

Another important law is the Law on Territorial Planning which requires improvements. Currently, the Seimas of the Republic Lithuania discusses the amendments to the Law on Territorial Planning with the following main objectives:

- to streamline the planning process;
- to reduce the number of bureaucratic procedures, and
- to facilitate real property management and development.

The draft law provides for the following major regulatory changes:

- Two types of territorial planning levels (depending on the approving authority, planned size and solutions level), causing uncertainty about the primacy of territorial planning documents, will be replaced by a clear type of territorial planning level: state and municipal. The draft law clearly establishes the supremacy of the territorial planning documents and distinguishes the competence of national and municipal authorities.
- Three types of the territorial planning documents: general, special and detailed planning documents will be replaced by two types of planning documents: comprehensive territorial planning documents and special planning documents.
- The number of detailed plans currently prepared will be reduced. It is provided that the building-up plans (current detailed plans) will be developed only in the urban areas and those subject to urbanization, and parcel plans will be replaced by the plans for larger areas. Refusal of planning documentation will save resources, improve the business environment and prevent corruption.
- Possibility to shorten the territorial planning process. Time limits for coordination, checking and approval of territorial planning documents will be set forth. It is estimated that the amount of currently developed detailed plans will reduce ~ 80 %. Currently, the preparation of detailed plans varies from 9 months to 3 years; while after the new law comes into effect the time would be less than 3 months.

REAL PROPERTY MANAGEMENT AND FORMATION

Real property objects in Lithuania are land parcels and constructions. Formation of real property object is regulated by the following laws:

- land parcels in urban areas - the Law on Territorial Planning;
- land parcels in non-urban areas - the Law on Land;
- constructions (houses, flats, premises) - the Law on Construction.

Real property object is considered to be formed when its cadastral data are identified and decision on its formation is made by a public administration entity in the manner prescribed by laws. All legally formed real property objects are subject to registration in the Real Property Cadastre and Register. Only registered property objects may be subject to any transaction. Lithuania has an integrated, modern, nation-wide and multi-purpose real property cadastre and register system, where all information related to real property and its ownership is stored in one database.

Statistics of the State Enterprise Centre of Registers indicate that on 1 January 2012 the Real Property Register database contained over 6 million units of registered real properties: 2,076,598 land parcels, 2,414,801 buildings, 1,056,893 premises (including flats), and 534,504 engineering constructions.

One of the prerequisites for sustainable housing and property market is an efficient real property cadastre and register system as well as efficient services. Improvement of public services, use of modern technologies, expansion of e-services and use of e-signature is the main focus in creating better business environment and customer service.

One of the last improvements in enhancing real property conveyance is an implemented public electronic service for real property transactions – e-conveyance service. It means that all actions related to acquisition of real property and registration of rights thereto are performed at the notary bureau without applying directly to the real property registering institution – the Centre of Registers. Real property transactions are concluded using modern electronic means, through direct electronic access to the central database of the Real Property Register. Notaries verify transaction and ownership registration documents using electronic authentication and qualified e-signature. The new system allows providing services in a more efficient way and of better quality; real property transactions have become much safer. The e-conveyance system has prevented from illegal manipulation of real property and document falsification.

HOUSING

Construction sectors kept growth tendencies during the last decade. Gross average value for the construction sector in 2000 year was LTL 2 439,021 million, for comparison, in 2007

increased to LTL 8,992,264 million. Such growth can be explained due to foreign investments, favourable banking conditions, and great demand for housing and better income. One of real property market growth determinants – employment in construction sector: in 2000 amounted to 83,100 and in 2008 was 169,200 people.

Real property and construction sector in the national economy at the peak of the boom (2007 - 2008) amounted 21% of GDP. According to the Statistics of Lithuania the number of constructed residential houses in the year 2000 amounted to 1991 buildings and reached 4027 units in 2008. Thereafter it started decreasing and in 2011 a rise was recorded again. The most drastic changes are noticed in the construction of multi-flat houses where in 2008 the number of constructed apartment buildings reached 169 while in 2010 it dropped to 19 apartment buildings. Dynamics of permits for construction and housing constructed are shown in Figure 1.

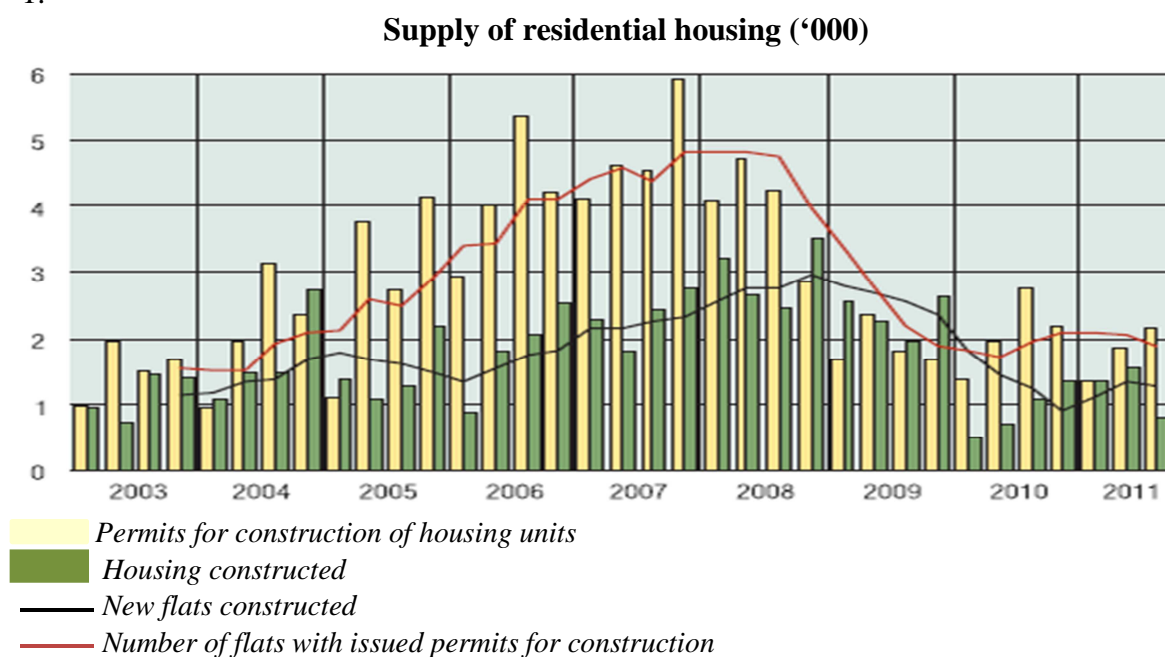


Fig. 1. Quarterly change in the supply of residential housing. *Source: Statistics Lithuania.*

In reaction to economic recession and especially tightened lending conditions the construction works stopped. At the end of June 2009 it has been estimated that in five largest cities there were about 3500 unsold newly built flats, from which 2100 are from projects developed in 2008. Under current market conditions, it is particularly difficult to find tenants or buyers; even substantially cut rental or sales prices do not always help. Under these circumstances the supply of new flats in largest Lithuanian cities in 2009 and 2010 (compared to 2008) went down by 2,5-3 times. Table below shows the changes in residential property rent levels, vacancies, property prices and volumes.

	2007	2008	2009	2010
Residential property				
Rent levels %	29,0	-10,0	-22,0	-18,5
Vacancies %	0,0	5,5	12,5	8,0
Property prices %	21,0	-20,0	-13,5	-15,5

Volumes	%	25,0	5,5	-9,0	-25,0
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Table 1. Lithuanian Residential Property Market Data

Sources: Real Estate Agencies (Re&solution, OH), the Bank of Lithuania, Centre of Registers, Lithuanian Statistics

Despite the growing number of construction, the residential housing stock in Lithuania is rather old. Transaction statistics below show that most of the houses sold or rented had been constructed before 1991.

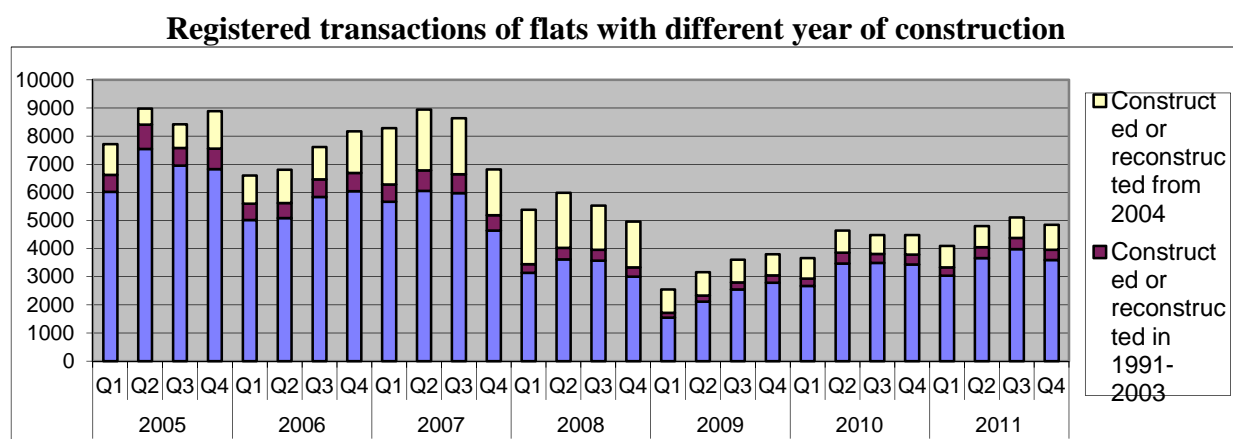


Fig. 2. Registered sales-purchase and rent transactions of flats in 2005-2011

Source: State Enterprise Centre of Registers

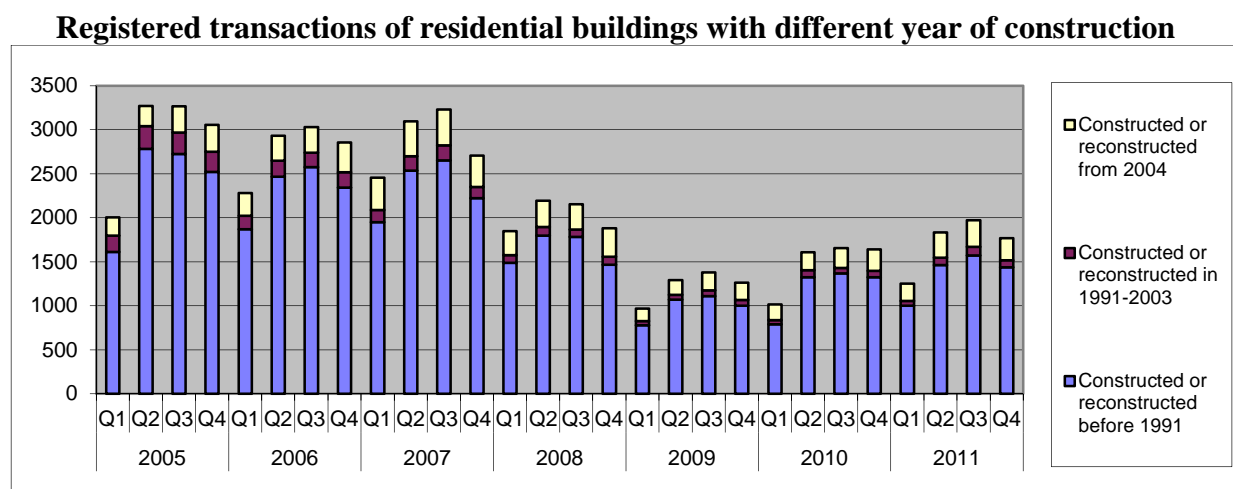


Fig. 3. Registered sales-purchase and rent transactions of residential buildings in 2005-2011.

Source: State Enterprise Centre of Registers

Recently, the construction volumes of residential buildings in Lithuania maintains the tendency of growing, and in comparison with the lowest point (1Q 2010) the area of residential buildings is constructed by 3 times more. However, in comparison with the results of economic growth, the construction volumes are almost 1.5 times less. The highest decrease in quantities of constructions occurs in Vilnius City – it differs by 4 times from the results of economic growth. However, the most active recovery of construction of residential buildings is observed in Vilnius.

REAL PROPERTY MARKET

The development of the real property market in Lithuania can be defined by several phases. In 1992-2002 the development of property market was related to a more active commercial real property market. The real property market was more focused on the construction of shopping centres, offices and multi-functional buildings, with less attention given to the residential property market. This was due to more profitable and more easily predictable conditions in commercial real property, a significant shortage in contemporary business facilities and the changed attitude of businesses towards customer service, work and business environment conditions.

Period from 2002 to 2005 is characterised by the growth in demand in residential real property. Real property market and bank analysts frequently identify this as the period when the real property market 'overheated' - the observed rise in costs was too rapid and often unjustifiable. It was the result of both objective macroeconomic factors (improved conditions for housing loans, growth in wages, the rate of economic growth, etc.) and subjective speculative factors.

In 2004–2007 Lithuania experienced emerging of the housing market and price bubble growth period. This stage is related to the influence of the much-awaited Euro, the appreciation of construction work and work force shortages, favourable lending, a decrease in available land, etc. In 2005 the growth of real property market in Lithuania was very fast. Average increases in the costs of flats in the country's larger cities had grown 50%, and as high as 120% in certain segments in one year. Figure 4 illustrates price dynamics of flats and houses.

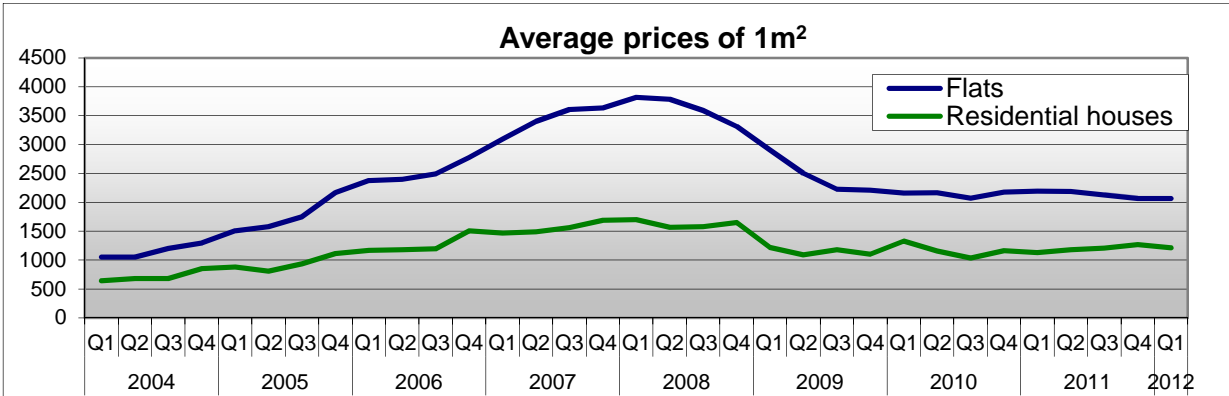


Fig. 4. Dynamics of flat and residential house prices in 2004-2012.

Source: State Enterprise Centre of Registers

At the end of 2007, housing prices (for flats and houses) reached their peak. After economic boom, in 2008 prices started to decrease almost all over Lithuania and real property market started showing signs of stagnation: the housing price growth subsided and the number of real property transactions decreased. The world financial crisis materially affected the Lithuanian economy, including the real property market.

In 2009 residential real property market experienced further significant price drops, the number of transactions plummeted and many of the developers of new residential real

properties faced bankruptcies due to severely cut banks' financing and accumulating stock of unsold newly built flats, whereas the banking sector experienced significant level of defaults of mortgages. Figure 5 illustrates the activity of the real property market and how economic situation as well as real property price ups and downs affected the number of transactions.

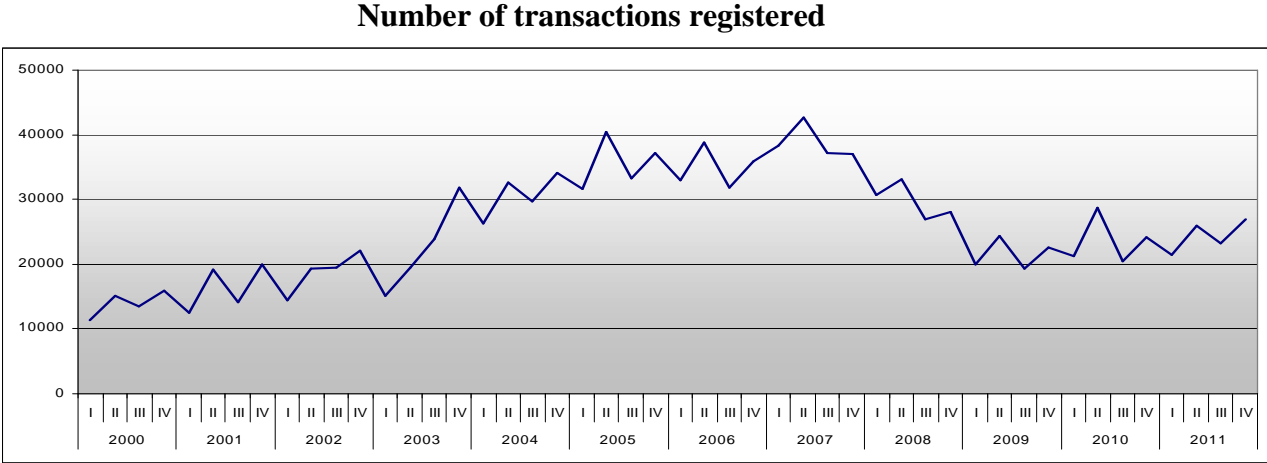


Fig. 5. Number of transactions registered in the transaction database.
Source: State Enterprise Centre of Registers

Starting from the beginning of 2010 the real property market stabilised with insignificant seasonal changes. The housing market in 2011 retained the stability of the year. Even though residential property prices in the major cities of Lithuania remained fairly stable, further growth in the number of transactions was recorded.

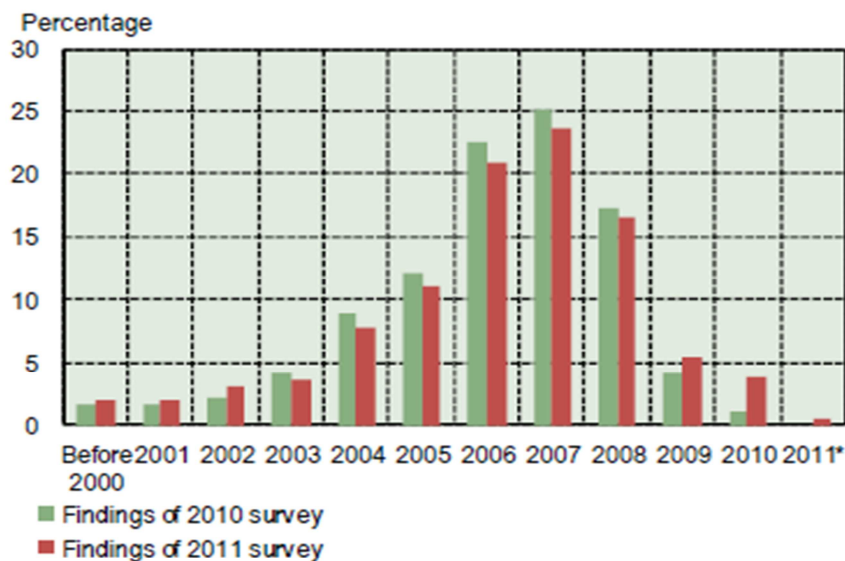
CREDIT MARKET

When analysing the trends of the last decade two interdependent processes should be considered: an economic and financial convergence process on one hand, and credit and housing boom on the other. Starting from relatively low levels, credit to the private sector grew on average by 51% annually in the period from 2003 to 2007, then showed signs of stagnation. Due to increased uncertainty and banks tightening credit availability, lending for house purchase and to the housing market-related enterprises declined significantly since the 4Q 2007. House prices more than tripled over the same period before market liquidity dried up in 2008.

As shown in Fig. 6 Housing Loans, around 61% of all the loans taken were loans for house purchase issued between 2006 and 2008. The number of loans issued during the first months of 2011 suggests less intensive borrowing activity in the market compared with the corresponding period a year ago.

Despite the decline in the portfolio of housing loans to natural entities, which started in early 2009, the share of households with housing loans compared with the findings in a similar survey in 2010 remained unchanged due to a decrease in the number of households.

Housing loans in a breakdown by year of issue (compared to total number of issued loans)



Source: The household survey commissioned by the Bank of Lithuania.
 * Loans issued to respondents by March 2011.

Fig. 6. Housing loans. Survey of households with loans for house purchase conducted in April 2011. Source: Spinter Tyrimai

According to Swedbank data, in 2007-2008 the mortgage portfolio in Lithuania doubled to 19.76 billion litas (5.723 billion euros) from 9.9 billion litas (2.867 billion euros), and since the beginning of 2009 stabilization in the market was noticed. According to the Bank of Lithuania, 11.3 % of households have taken housing loans in 2011.

The results of the survey of households with loans for house purchase show that no significant changes in the real property market are expected in the nearest future. It should be noted that there are no clear fundamental factors yet, which could contribute to a rapid increase in real property prices in the nearest future. Real property analysts and economists declare that the housing and real property market stabilised and gradual growth is predicted.

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BIOGRAPHICAL NOTES

Mr. Kestutis Sabaliauskas, Director General of the State Enterprise Centre of Registers from 1997 up to now. Takes the responsibility of the entire management of the enterprise, its strategy, planning and organisation of activity. Well familiar with the developments in the real property administration and land information systems, operation of real property cadastre and register system in many Western and Eastern European countries.

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