

Focus on LITHUANIA

# Lithuania

## A Baltic gem

By Marc Da-Silva

There may yet be room for further capital growth in Vilnius

**Close to one million Britons now own a residential property overseas. Some are second homeowners, while others are investors looking to benefit from high rental returns and strong levels of capital growth.**

Although countries such as Spain, Portugal and Australia will always remain popular destinations in which to buy property, many Britons are forever looking for new emerging property markets to invest in.

One property market worth considering for investment is the Lithuanian capital of Vilnius, where property prices are currently growing at a rapid pace.

Located south of Latvia, along the Baltic Sea, Lithuania has only been independent from Soviet rule since 1991. The country is the largest of the three Baltic States and has a population of approximately 3.5 million, including around 800,000 people living in Vilnius.

A member of the EU and NATO since 2004, Lithuania is currently experiencing political stability and strong economic growth. FDI levels now stand at around 7.2%, GDP is up to approximately 7.4%, inflation is roughly 4%, while average net

wages increased by an impressive 19.5% in 2006. In fact, of all the recent EU entrants, Lithuania is considered the easiest place to do business, according to the World Bank.

Average residential property prices in Vilnius appreciated by 31% between 2004 and 2006. Yet despite this impressive rate of capital growth, average property prices have grown less in comparison to neighbouring Baltic States Latvia and Estonia, and therefore remain around 20% cheaper. During the same period, average property prices in the Latvian and Estonian capitals of Riga and Tallinn rose by 140% and 40% respectively, according to Knight Frank.

Knight Frank forecasts that average property prices in Vilnius will increase in value by a further 20% by the end of 2007, a greater percentage rise than any other country in Europe.

The Lithuanian property market has been boosted in part by more favourable lending conditions. Foreigners can now obtain up to 85% loan-to-value mortgages, at a borrowing rate of 1-1.5% above the Eurobor for 30 years, while an interest-only option is available for the first 18 months, as part of a

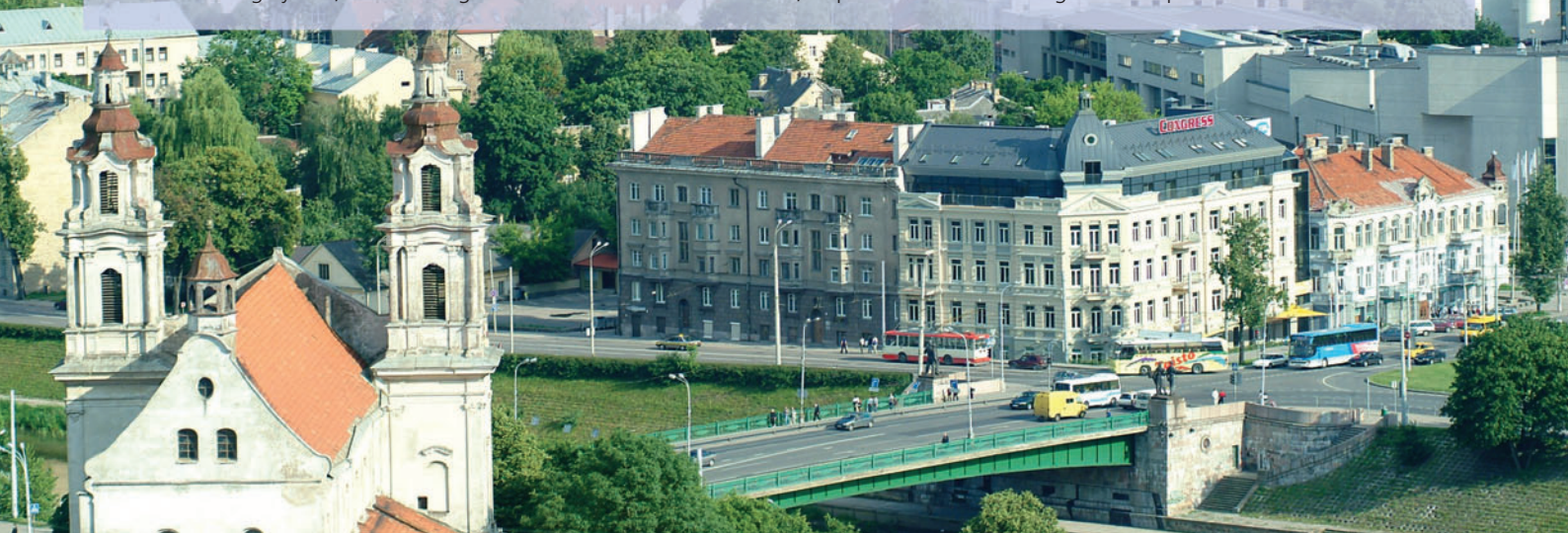
standard variable mortgage rate.

Alistair Day-Stirrat of Someplace Else comments: "Because foreigners are comfortably achieving up to 85% loan-to-value mortgages, they are only required to place a relatively small initial investment. Some off-plan residential developments only require a deposit of just 10% or in some cases even 5%, with the rest payable upon completion. Buying off-plan typically allows an investor the opportunity to benefit from potential capital growth during the one- to two-year build period, yet very little cash is required as a down payment."

While there is strong foreign interest in the Vilnius property market, demand is mainly being driven by locals, many of whom wish to move out of their poor-quality Soviet-era apartments.

Chris Davidson, of E-quity, says: "Despite strong demand for new-build homes, there is a visible lack of construction going on. Planning is difficult to get and as a result not many foreign developers have entered into the market."

Vilnius, which will be crowned European of Culture in 2009, will eventually benefit from major regeneration plans and infrastructure





## Farrell's facts

**Population:**

3,575,439 (July 07 est.)

GDP per capita: €7,247 (£4,915)

Interest rate: 4.75%

Inflation: 5.10%

Unemployment: 5.70%

Foreign Direct Investment in millions (€): 356 (2006)

**Tourist Trends:**

Tourist arrivals: 15.7 million (2006)

Tourist expenditure (€ million): 742 (2005)

**Taxation:**

Income tax: 15 - 27%

Corporation tax: 15%

Capital gains tax: 15%

Value added tax: 18%

**Currency:**

improvements. Around €7 billion in EU Structural Funds has been assigned for 2007–2013.

Amongst some of the various projects being earmarked for the city, Davidson reports that Vilnius International Airport is to be expanded at a cost of around €260m, a new €300m modern tram and parking system implemented, Vilnius railway station reconstructed, a €50m concert hall and €200m Vilnius Entertainment Park built, while an €800m waterfront and conference centre will be constructed along the River Neris right in the heart of Vilnius.

Davidson believes that property located along the River Neris will experience strong levels of capital growth over the next few years due to its central location in the city and easy access to and from many of Vilnius's business parks, located further down the river.

The most expensive properties are located mainly in the exclusive old town

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and city centre of Vilnius. Property prices on Gedimino Prospectus and Vokieciu Street, for example, can typically now cost up to €3,000/sqm, according to Nicolas Lane of Tucana Property.

Lane says: “Property located in parts of the city centre still remain affordable, while property in the main area of the old town has always been purchased by the wealthier locals and foreigners.”

However, Charles Rodger of Arc Property reports that there is potentially more room for capital growth in the districts immediately surrounding the city centre. Properties on the outskirts of Vilnius (approximately 15 minutes' drive from the old town) are much cheaper and are proving particularly popular with increasingly affluent locals.

Investors wishing to benefit from strong returns based on the basis of a low capital investment should reportedly consider buying property in areas such as Santariskes, Pasilaicia and Snipiskes. New-

build apartments currently start from €37,000, according to Day-Stirrat.

Despite the fact that property prices in Vilnius have risen significantly in recent years, Day-Stirrat expects further growth of 15–25% over the next few years. He also reports that a rental return of 3.5–6% is typically achievable at the moment. Although tourism levels are rising, buy-to-let investors are best advised to target the domestic market if they wish to benefit from a more stable rental income, particularly because the tourist market is seasonal and very specific to the centre of the old town.

Rodger says: “Although many people are buying property rather than renting, there is still rental demand from people moving to Vilnius from other parts of Lithuania as well as from non-nationals working in and around Vilnius city centre.”

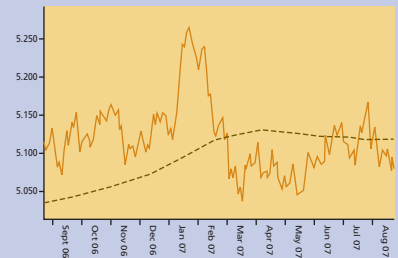
Although much of Lithuania's property market concentrates on Vilnius, there are now property investment opportunities emerging in some other smaller regions and towns.

Day-Stirrat comments: “Because investment returns in Vilnius have grown so much, many Lithuanian developers have now turned their attention towards towns such as Siauliai, Panevezys and Marijampole, where new-build residential developments are now being constructed for the first time in almost 15 years. The property market in Kaunas is also now emerging after years of slumber and underdevelopment. With a chronic shortage of new apartments and starter homes in the city, Kaunas is ideally suited for a medium-term investment of three to five years.”

Day-Stirrat concludes: “Lithuania is generally a safe place to invest. The property purchasing process has improved immensely after undergoing structural change several years ago. This has minimised any chance of bad practice, which was otherwise common during the 1990s.”

All the same, wherever you choose to invest in Lithuania, always ensure that you research the market, use a reputable estate agent as well as developer and obtain independent legal advice before parting with your money.

Daily Exchange Rates: Lithuanian Litas per British Pound



**Climate:**

Between maritime and continental wet, moderate winters and summers

Average annual temperature:

Average winter temperature: -4.9°C

Average summer temperature: 17°C

**Carriers:**

Direct Routes:

Vilnius: Air Baltic, Lithuanian Airlines

Kaunas: Ryanair