

## HOUSING MARKET OVERVIEW

June 2012

### New projects

In June, domestic buyers seeking to purchase brand-new apartments in neighbourhoods of Riga demonstrated higher activity compared to what it was in the segment of Riga new developments.

Buyers look for bank-repossessed brand-new apartments provided that the price is adequate to quality thereof and corresponds to the market situation. On the whole, this demand is not that strong to trigger price boom for bank-repossessed and other brand-new apartments.

Since there is less supply of apartments meeting demands of foreign buyers, prices of brand-new apartments climb up faster in Riga centre.

The average price of brand-new apartments was EUR 1,170 per sq m in Riga neighbourhoods in the 2nd quarter this year. The price has added 0.9% as compared to the 1st quarter this year. As opposed to the 2nd quarter of the last year, the average price of brand-new apartments has increased 1.8% in Riga neighbourhoods, while it was 15.4% higher against the 2nd quarter of 2010.

The average price of brand-new apartments (including thoroughly renovated buildings) was EUR 2,150 per sq m in Riga centre, in the 2nd quarter of 2012, i.e., 6.2% above the price as of the first three months this year; 17% and 19.3% above the price as of the 2nd quarter of 2011 and 2010, respectively.

In the Old Town and its surroundings, the average price of brand-new apartments (including thoroughly renovated buildings) was EUR 3,690 per sq m in the 2nd quarter this year. The price made 4.6% above the price of the first three months this year, and 23.5% and 50.5% above the average price of the 2nd quarter of 2011 and 2010, respectively.

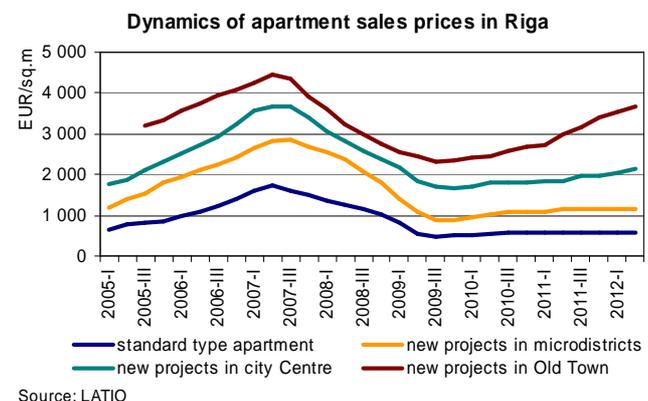
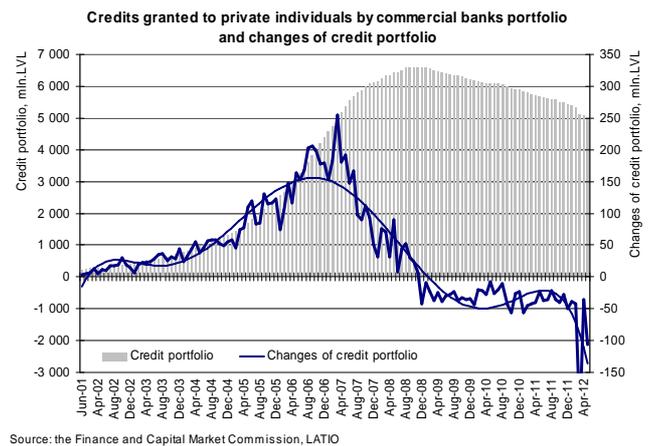
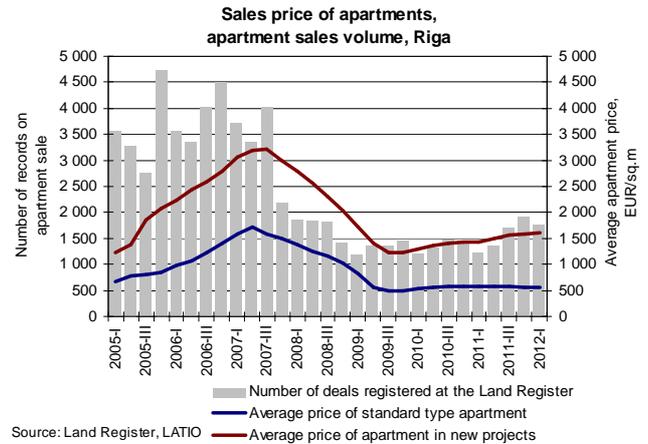
There is a wide price range at which transactions are closed, and it depends on location of a new development, degree of interior decoration of apartments, etc. factors. In June, prices of brand-new apartments ranged between EUR 700–850 per sq m in the vicinity of Riga, EUR 900–1,400 per sq m in Riga neighbourhoods, EUR 1,100–1,900 per sq m in Riga centre, while the price could reach up to EUR 2,500–5,000 per sq m for the new developments situated in a prime location of the centre.

Brand-new apartments account for about 10% out of total number of transactions in Riga, monthly. The largest share among the brand-new apartment transactions in Riga centre is formed by foreign buyers, while domestic buyers prevail in neighbourhoods.

### Apartments in the centre of Riga

In June, activity of buyers and prices of apartments remained the same as of the previous month in the segment of Riga centre apartments.

Foreign buyers wishing to purchase an apartment in Riga centre with a view of obtaining a temporary residence



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permit focus on the real estate so as not to exceed EUR 160,000–170,000 most often. Some owners of apartments put up their prices thus homes meeting demands of such foreign buyers approach the price of EUR 200,000. Two-bedroom apartments measuring up to 80 sq m are in the strongest foreign demand. Still there is a limited supply of quality real estate in this class of apartments. Foreign buyers take more time to make a decision on an appropriate property.

Due to the limited availability, some foreigners purchase real estate in decent buildings in the remote area of the centre or in new developments outside the centre.

In June, the same activity as before was shown by domestic buyers interested to purchase apartments not only in the remote centre but also in other areas of the city centre. Domestic buyers seek to acquire homes priced below EUR 50,000 in the remote centre, and at a price around EUR 80,000–100,000 in other parts of the centre.

In June, the price range per sq m depending on space of apartments was as follows in different apartment classes of Riga centre:

In non-renovated brick-wall buildings: EUR 1,900 – 2,100 in the Old Town; EUR 1,900 – 2,000 in the tranquil centre; EUR 1,500 - 1,800 in the near centre; EUR 600 – 700 in the remote centre; In partially renovated brick-wall buildings: EUR 2,200 – 2,500 in the Old Town; EUR 2,200 – 2,500 in the tranquil centre; EUR 2,000 – 2,300 in the near centre; EUR 1,000 – 1,200 in the remote centre; In thoroughly renovated buildings and the new developments: EUR 3,400 – 3,500 in the Old Town; EUR 3,100 – 3,300 in the tranquil centre; EUR 2,800 – 3,100 in the near centre; EUR 1,800 – 2,200 in the remote centre. Prices of luxury apartments in renovated buildings may reach up to EUR 5,000 per sq m and higher.

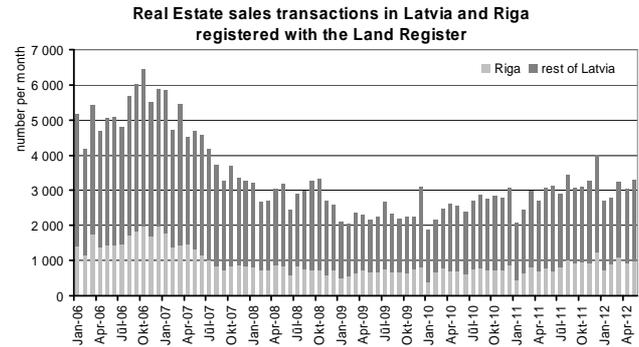
### Precast apartments

In June, the average price per square metre for Riga precast concrete panel apartments has decreased 3 EUR compared to this May so it was 583 EUR. During the first six months of 2012, the average precast apartment price per square metre has added 1.4%. In comparison with June 2011, prices of precast apartments went 0.9% up this June.

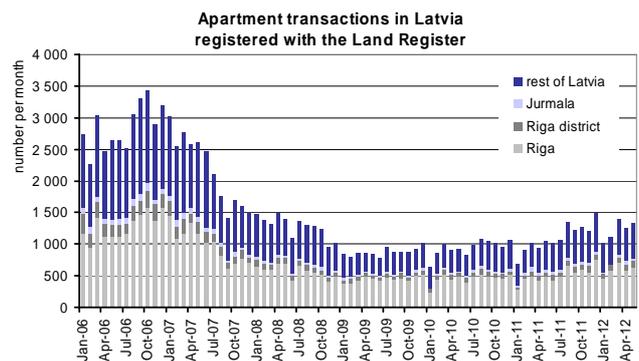
In June, prices of precast apartments in good technical condition ranged between EUR 22,000–29,000 for one-room apartments, EUR 29,000–38,000 for two-room apartments, EUR 34,000–45,000 for three-room apartments, EUR 40,000–54,000 for four-room apartments in the following parts of Riga: Purvciems, Plavnieki, Zolitude, Imanta, and Ziepniekkalns.

In June, just like before, buyers expressed their greatest interest in small-space apartments – one-room and two-room precast apartments in such a condition so as to move in without significant investments in renovation. However, there is little supply of appropriate real estate at adequate price for its quality.

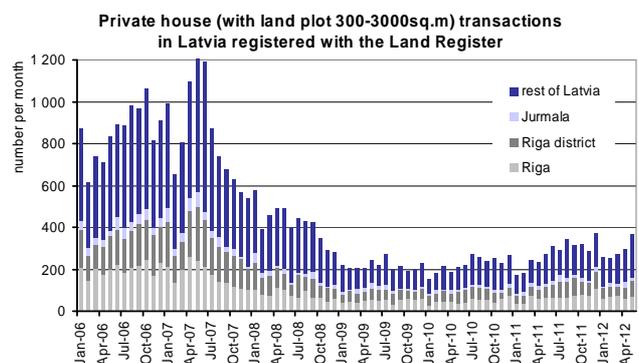
As the beginning of study year draws nearer, precast one-room apartments are acquired by people from other



Source: Land Register, LATIO



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cities and rural areas whose children will start their studies in Riga.

Apartments advertised by bank companies are demanded provided that the prices thereof are not high. Attractive loan conditions are offered by banks to buyers of such properties. Buyers become more confident and think of using a loan more often than before.

### Jūrmala

In Jūrmala, foreign interest to buy brand-new apartments and houses still remains though the buyers take more time than before to choose the appropriate real estate and consider many listings.

In the segment of private houses, buyers – foreigners predominantly – show interest in houses priced within the range of EUR 250,000 – 450,000. However, location or surrounding infrastructure do not meet expectations of the buyers often, for example, it is difficult to access a quality house by car.

In June, renewed buying interest was observed for residential development land in different parts of Jūrmala.

Some Russian people going to spend their holidays in Jūrmala yet not willing to invest much in property purchase or rent, buy apartments in precast concrete panel multi-residential buildings in Kauguri.

### Transactions

In May, amount of real estate transactions went growing. Land Registry data analysis conducted by Latio revealed that total number of real estate purchase transactions increased 13.7% in Latvia, number of transactions for housing added 32.8%, including 33.3% for apartments and 30.8% for detached houses, over 5 months of 2012 against the same period last year.

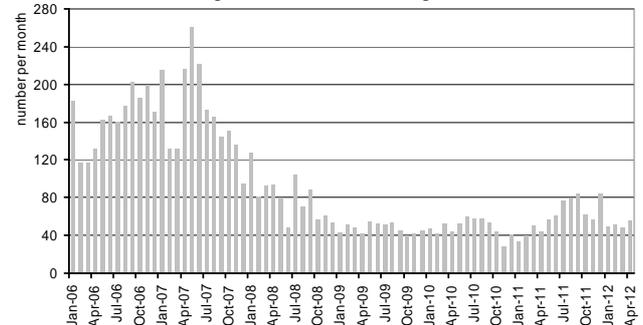
In Riga, amount of purchase transactions closed for apartments grew 38.5%, for detached houses – 23.3% in the first five months this year as opposed to January through May 2011. Apartment purchase transactions outnumbered transactions for houses in Riga – there were nearly 3,000 transactions closed for apartments in the five months so they account for 90% out of total number of housing transactions in Riga.

### Housing rental market

A slightly lower renting activity was observed in Riga housing market in June unlike previous month though it is most likely that housing rental demand will get stronger as autumn draws closer.

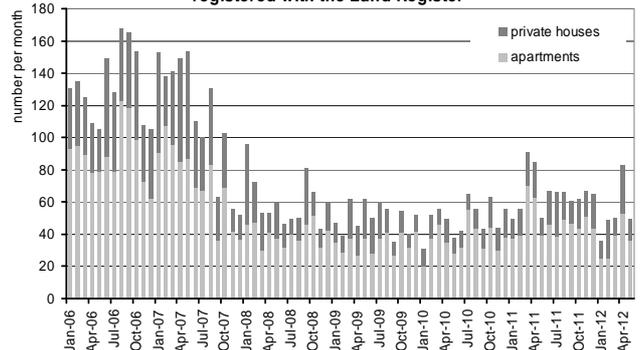
In the centre of the capital city, demand is formed by both foreign citizens and local people. In June, supply has not expanded much. Still there is shortage of quality apartments to accommodate the demand for rentals in Riga centre.

Private house (with land plot 300-3000sq.m) transactions in Riga district (except Riga and Jūrmala) registered with the Land Register



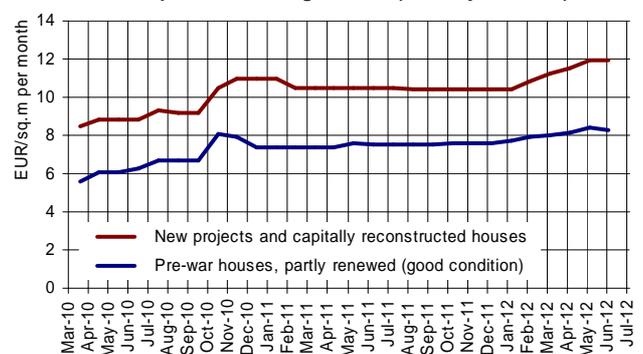
Source: Land Register, LATIO

Housing transactions in Jūrmala registered with the Land Register



Source: Land Register, LATIO

Rent of apartments in Riga centre (Old City included)



Source: LATIO

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In Riga centre, the strongest demand is observed for quality apartments, furnished, one-room, two-room, three-room apartments measuring up to 80 sq m at rent between EUR 350–600 a month plus charges for public services.

In June, the average monthly rent per sq m depending on apartment space was as follows:

In non-renovated brick-wall buildings: EUR 7–8 in the Old Town, EUR 6–8 in the tranquil centre, EUR 6–7 in the near centre, EUR 4–5 in the remote centre;

In partially renovated brick-wall buildings: EUR 8–10 in the Old Town and the tranquil centre, EUR 8–9 in the near centre, EUR 6–7 in the remote centre;

In thoroughly renovated buildings and the new developments: EUR 15–16 in the Old Town, EUR 12–13 in the tranquil and the near centre, EUR 7–8 in the remote centre.

In Riga neighbourhoods, the average rent dropped slightly for apartments in satisfactory condition in precast concrete panel buildings in June so it made EUR 3.6 per sq m a month.

Capitalization rate of rental apartments was retained high. It has exceeded 7% for precast concrete apartments. This trend indicates that – from the point of return on investment – buying to let is beneficial currently though one should weigh sustainability of yield and future increase prospects when closing such transactions.

