

HOUSING MARKET OVERVIEW

December 2012

New projects

In December, demand for new project apartments in Riga remained at the previous months' level. Foreign buyers mostly wish to purchase apartments in new and renovated buildings in the city center, while local buyers are purchasing new apartments in the residential neighborhoods. As suitable offer in downtown Riga is limited, foreign buyers also consider offers outside the city center.

It is expected that the offer of new apartments in the city center suiting the requirements of foreign buyers will gradually increase in 2013, as development of several new projects has been commenced, in addition to renovation of existing buildings.

The demand of local buyers in residential neighborhoods is mostly focused on completed new apartments at a price of up to 1 200 euros per square meter. This price level corresponds to the purchasing capacity of most potential buyers of new apartments and allows for the use of a bank loan to purchase the property.

The price range of transactions is rather wide and depends on the apartment's location, type of finishing, and other factors. The prices of new apartments near Riga in December ranged from 700 to 850 euros per square meter; in the residential neighborhoods of Riga – 900–1,400 euros; in downtown Riga (also including the outer areas of the city center) – 1,500–2,500 euros. The prices of high-quality apartments in good locations in renovated buildings in downtown Riga tend to exceed 2,500 euros and occasionally reach 5,000–6,000 euros per square meter.

Purchase transactions involving new apartments in Riga constitute about 10% of all apartment transactions each month.

Apartments in downtown Riga

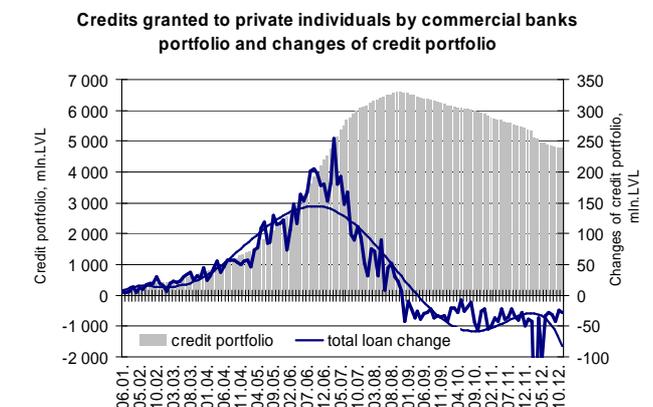
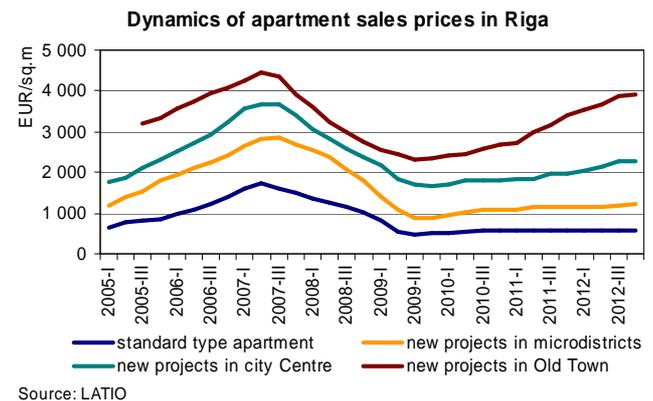
The greatest demand for good apartments in downtown Riga in December was generated by foreign buyers, who, like in previous months, showed interest in purchasing properties mostly in Old Riga, in the "quiet center" and "inner center". The majority of foreign buyers wish to purchase apartments in the price range of 160–180 thousand euros. Such demand is explained by the buyers' desire to obtain a temporary residence permit after purchasing property.

Foreign buyers remain interested also in purchasing more expensive downtown apartments in good locations and fully renovated buildings.

The most in-demand apartments in downtown Riga on the part of foreign buyers are high-quality two-bedroom apartments with area up to 80 square meters.

Local buyers in the capital city's center are interested in apartments at prices not exceeding 100 thousand euros, and prefer renovated apartments.

The December price ranges (per square meter) in various downtown apartment segments, depending



HOUSING MARKET OVERVIEW

December 2012

on size: non-renovated brick buildings in Old Riga – 1,950–2,150 euros, the quiet center – 1,800–2,000 euros, the inner center – 1,200–1,250 euros, the outer center – 750–850 euros; partially-renovated brick buildings in Old Riga – 2,200–2,700 euros, the quiet center – 2,200–2,500 euros, the inner center – 1,950–2,000 euros, the outer center – 1,000–1,200 euros; majorly-renovated buildings and new projects in Old Riga – 3,400–3,500 euros, the quiet center – 3,050–3,400 euros, the inner center – 2,650–3,100 euros, the outer center – 1,650–2,100 euros. The prices of high-quality, renovated apartments with a good layout and exclusive finishing in Old Riga, the inner center and the quiet center go up to 5,000–6,000 euros per square meter.

The price difference between fully renovated and partially renovated buildings in good locations in downtown Riga shows that, considering the current demand of foreign buyers, complete renovation of a building is more profitable.

It is expected that the demand of foreign buyers for high-quality apartments in the center of Riga in 2013 will remain at last year's level. The opportunity to obtain a temporary residence permit in Latvia, which allows for unrestricted travel within the Schengen Area, will remain one of the most significant reasons for foreign buyers to purchase property in Latvia.

Precast apartments

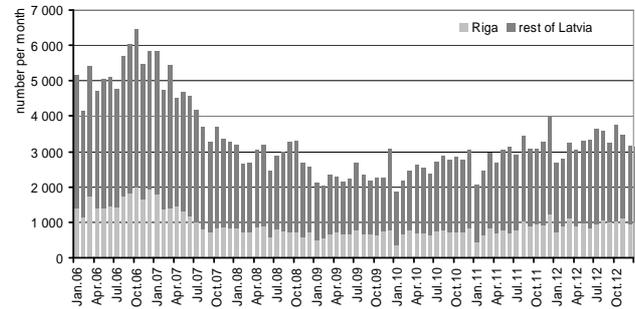
The average price of precast concrete panel apartments in Riga per square meter is up 0.5% or 3 euros from the previous month, reaching 583 euros. Compared to December 2011, the average price per square meter has increased by 1.4%, and compared to December 2010 – by 0.7%. The price level has largely remained the same for more than two years, with small increase or decrease each month.

The price changes of standard apartments differ among various neighborhoods and buildings of different projects. The price of precast concrete panel apartments in good condition in neighborhoods such as Purvciems, Pļavnieki, Zolitūde, Imanta and Ziepniekkalns in December for one-room apartments was 21–29 thousand euros, two-room apartments – 28–39 thousand euros, three-room apartments – 32–47 thousand euros, and four-room apartments – 39–49 thousand euros.

Demand in December was greatest for apartments in good condition, however the offer of apartments matching the buyers' requirements at a price adequate for the quality of the property and the market situation continued to fall. Realizing that the price levels of standard apartments are static for the time being, buyers are not in a big hurry to make the decision on purchasing property and are willing to spend a long time looking for an offer suiting their needs.

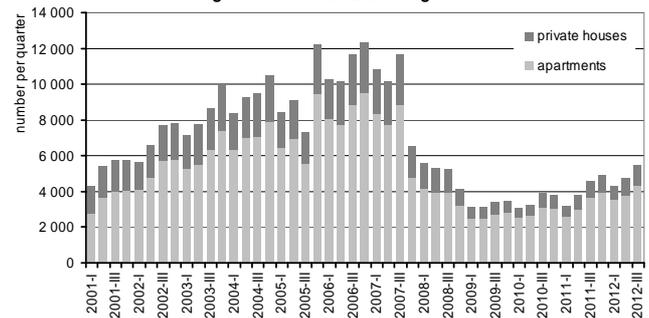
The trend of earlier months continued in the last month of the year – the prices of apartments in good condition, good location, with land included as part of the property and good building management, are slightly increasing or remaining at the current level, while prices of apartments in poor condition are declining.

Real Estate sales transactions in Latvia and Riga registered with the Land Register



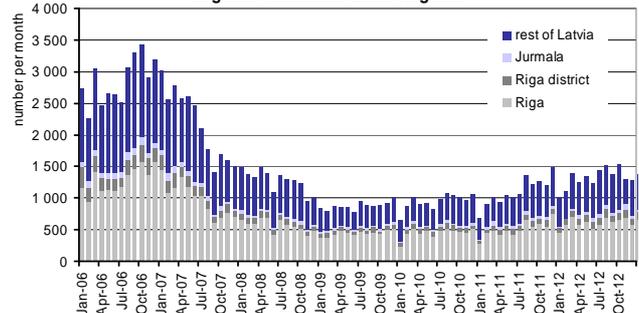
Source: Land Register, LATIO

Housing transactions in Latvia registered with the Land Register



Source: Land Register, LATIO

Apartment transactions in Latvia registered with the Land Register



Source: Land Register, LATIO

HOUSING MARKET OVERVIEW

December 2012

Jūrmala

In Jūrmala, foreign buyers retained interest in purchasing new apartments priced up to 200 thousand euros. This price corresponds to the level of investment necessary to apply for a temporary residence permit. Interest in pricier apartments is much lower; there is also little interest in purchasing private houses, as their price level is higher than what is required to apply for the permit.

In Kauguri, there is demand for standard one- and two-room apartments, with buyers intending to rent them out after purchase, as such housing is demanded on the rental market.

Several sellers of property in Jūrmala considered lowering prices at the end of the year. They were not willing to do so previously, even though the asking price was significantly higher than the market level. To attract the interest of buyers, the price of some properties in Jūrmala should be lowered by 10–20%.

Transactions

Analysis of Land Registry data gathered by Latio shows that in the first 11 months of 2012, compared to the same period in the previous year, the total number of all types of real estate purchase transactions in Latvia has grown by 12.3%, while the number of housing transactions is up 23.1%, including 23.7% for apartments and 21% for private houses.

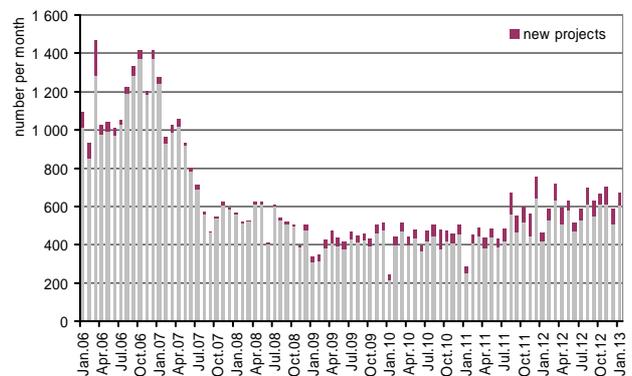
In Riga, the number of apartment purchase transactions in the first 11 months of 2012 compared to January–November 2011 has increased by 24.2%, private house transactions – by 15.5%. The number of transactions involving apartments in Riga is much higher than with houses – from January to November, there have been nearly seven thousand apartment transactions, comprising almost 90% of all housing transactions in Riga.

In Jūrmala, the number of housing purchase transactions in the first 11 months of 2012, compared to January–November 2011, has increased by 6.4%, including 4.6% for apartments and 11.3% for private houses. Apartment transactions in Jūrmala comprise nearly three quarters of all housing transactions. More rapid increase of demand in Jūrmala was observed in the second half of the year (July–November), when, compared with the relevant period in the previous year, the number of apartment transactions increased by 37%, and private house transactions were up 18.5%. There have been close to 800 housing transactions in Jūrmala in 11 months.

Housing rental market

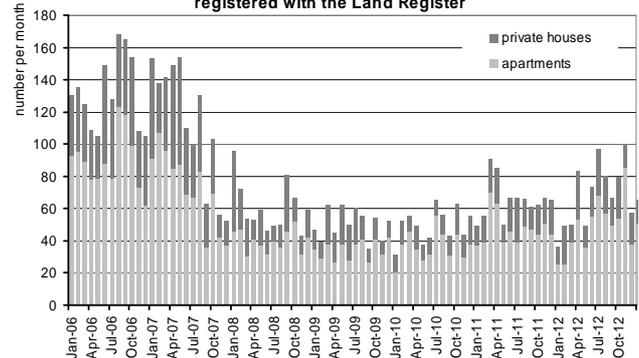
In the apartment rental market of Riga, demand in December remained stable for good apartments both in the central part of the city and in residential neighborhoods. With the end of the year approaching, demand for long-term rental slightly declined.

Apartment transactions in Riga registered with the Land Register



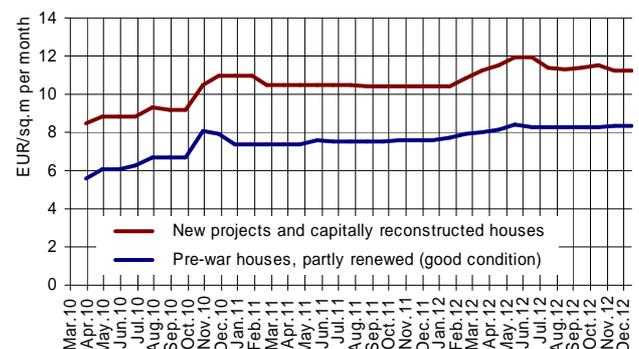
Source: Land Register, Cadaster Register, LATIO

Housing transactions in Jūrmala registered with the Land Register



Source: Land Register, LATIO

Rent of apartments in Riga centre (Old City included)



Source: LATIO

HOUSING MARKET OVERVIEW

December 2012

In the center of Riga, demand for rental apartments is maintained by both locals and foreigners. Demand is greatest for high-quality, furnished one-, two- and three-room apartments with area up to 80 square meters at a price of 450–600 euros per month, ex. utilities. Suitable offer remains insufficient, so such apartments are rented out quickly.

Some foreign buyers offer up the purchased properties for long-term rent – for 3 to 5 years. This differs significantly from most local renters, who are rarely willing to offer tenants an agreement exceeding one year. An increasing number of tenants in 2012 expressed a desire to conclude or extend their rent agreement for several years.

Demand also exists for new rental private houses. The demand is generated by tenants who do not wish to live in an apartment, but are unable or unwilling to purchase a new house, for example, due to being unable to obtain a loan for such property.

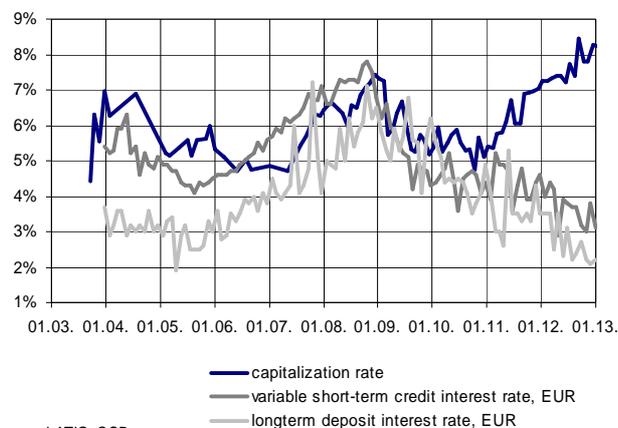
The average monthly rent in December (per square meter), depending on the apartment's size, was as follows: non-renovated brick buildings in Old Riga – 7–8 euros, the quiet center – 6–8 euros, the inner center – 6–7 euros, the outer center – 4–5 euros; partially-renovated brick buildings in Old Riga – 9–10 euros, the quiet center – 8–10 euros, the inner center – 8–9 euros, the outer center – 6–7 euros; majorly renovated buildings and new apartments in Old Riga – 14–15 euros, the quiet center – 11–13 euros, the inner center – 11 euros, the outer center – 7–8 euros.

In the standard rental apartment segment in the residential neighborhoods of Riga, there is a lack of apartments in good condition with modern furnishing. Such apartments, when offered at an adequate rent level, find tenants quickly, so the offer is limited.

In the residential neighborhoods of Riga, the average monthly rent of standard apartments in December was 4 euros per square meter (ex. utilities), slightly up from 3.8 euros in the previous month.

The capitalization rate of standard rental apartments slightly grew in December, and has exceeded 8%. Such a trend means that, from the viewpoint of capital growth, it is currently profitable to purchase an apartment and then rent it out; however, in conducting such transactions, it is important to carefully assess the income stability and future growth potential.

Capitalization rate and percentage rate



Source: LATIO, CSB