

HOUSING MARKET OVERVIEW

October 2013

New projects

The activity of buyers in the new apartment segment did not significantly change in October. The expected decision on restrictions on the issue of temporary residence permits kept both potential foreign buyers and housing project developers cautious. Limitation of the number of temporary residence permits issued to purchasers of real estate will negatively impact the demand prospects of high class residential projects, in addition to significantly lengthening the selling time of such apartments.

The demand of local and foreign buyers differs. Foreign citizens are mainly seeking new apartments at a price of 150,000–180,000 euros. These buyers wish to purchase a property as close as possible to the center of Riga. For most foreigners, the profitability of renting out the purchased property is a significant factor, so the project's location and quality is of great importance; the apartment must have full interior finishing and built-in kitchen appliances.

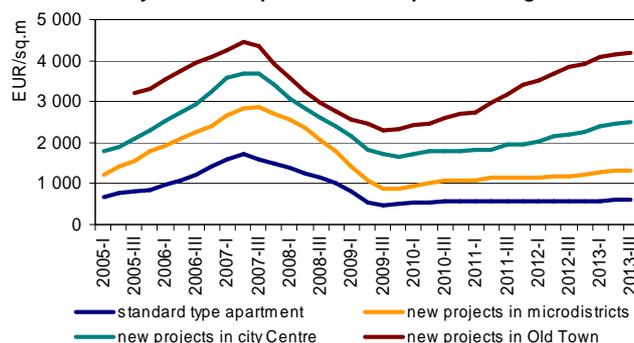
Local buyers also wish to purchase fully completed new apartments with interior finishing, however their demand is mainly focused on new project apartments of the economical class. In contrast to previous years, the demand of local buyers for large, three-room and four-room apartments has increased recently. Larger apartments are purchased by families wishing to establish a stable place of residence, while one-room and two-room apartments are more suitable to young people or new families, and such housing is frequently rented rather than purchased. Like in the standard apartment segment, buyers are very cautious in regard to purchasing apartments in new buildings located on leased land.

The prices of new apartments have not significantly changed in October. In Q3 2013, the average price of new apartments (including fully renovated buildings) in the center of Riga is up 2% from the second quarter, reaching 2,500 euros per square meter – an increase of 13.4% from Q3 2012. The average price of new project apartments (also including fully renovated buildings) in Old Riga and its vicinity in Q3 2013 reached 4,200 euros per square meter, constituting a 1.2% increase from the second quarter and a 9.3% increase year-on-year. The average price of new apartments in the residential districts of Riga in July–September was 1,330 euros per square meter, exceeding the average price of the second quarter by 0.8% and the average price of Q3 2012 by 13.3%.

The price range in which transactions are taking place is quite wide and depends on the location, the apartment finishing type and other factors. The average price of new project apartments near Riga in October was 700–900 euros per square meter; in the residential districts of Riga – 900–1,500 euros; in downtown Riga (including also the outer areas of the center) – 1,500–3,500 euros. The price of high-quality, renovated project apartments in good locations in the city center can be as high as 5,000–6,000 euros per square meter.

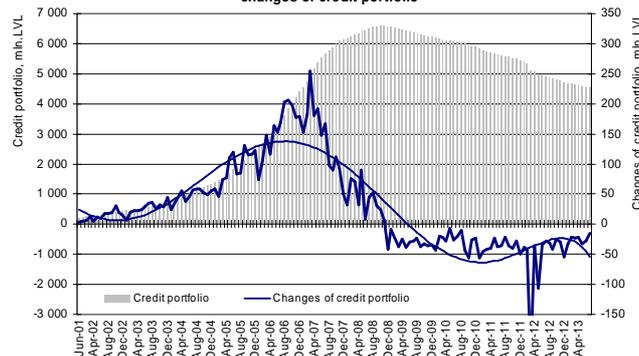
Purchase transactions involving new apartments in Riga each month this year comprise approximately 10–15% of all apartment transactions.

Dynamics of apartment sales prices in Riga



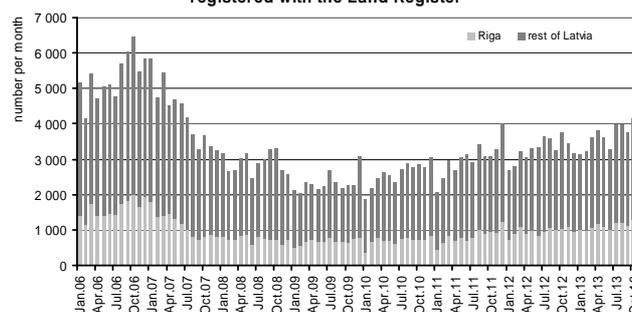
Source: LATIO

Credits granted to private individuals by commercial banks portfolio and changes of credit portfolio



Source: the Finance and Capital Market Commission, LATIO

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



Source: Land Register, LATIO

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Apartments in downtown Riga

The activity of buyers in the downtown apartment segment in Riga remained at the previous months' level. Significant changes of the apartment price level also have not taken place in October.

Demand for downtown apartments is generated by both foreign and local buyers. Local residents mainly purchase apartments priced up to 1,000 euros per square meters. The buyers are interested in both small two-room apartments and larger three- and four-room apartments.

The demand of foreign residents is focused on high-quality apartments in buildings in very good condition in Old Riga, the "quiet center" and the "inner center". Apartments at a price up to 180,000–200,000 euros are in the highest demand. The offer of apartments meeting the foreign buyers' requirements has not significantly expanded, so properties are being sought also farther away from the city center.

The October price range in various apartment segments in the center of Riga, depending on the size of the apartment – non-renovated brick buildings in Old Riga: 1,600–2,100 euros per square meter; in the "quiet center": 1,000–2,000 euros; in the "inner center": 1,300–1,500 euros; in the "outer center": 850–1,000 euros; in partially renovated brick buildings in Old Riga: 2,000–2,750 euros; in the "quiet center": 2,300–2,500 euros; in the "inner center": 2,200–2,300 euros; in the "outer center": 1,225–1,500 euros; in majorly renovated buildings and new projects in Old Riga: 3,000–3,500 euros; in the "quiet center": 3,000–3,500 euros; in the "inner center": 2,600–2,800 euros; in the "outer center": 2,000–2,200 euros. The price of renovated apartments with a good layout and high-class finishing in good locations in Old Riga, the "inner center" and the "outer center" can reach 5,000–6,000 euros per square meter.

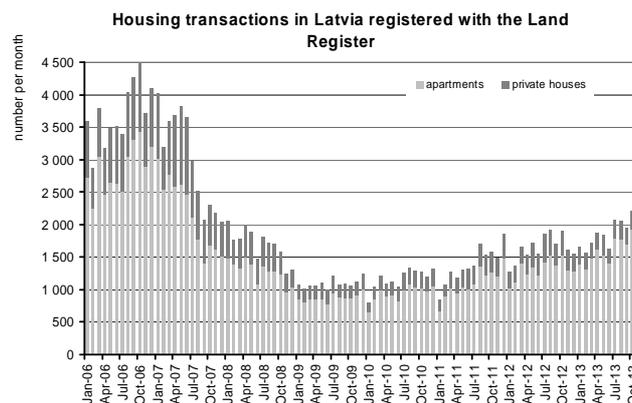
Precast apartments

The average price of precast concrete panel apartments in Riga in October declined from the previous month for the first time this year, falling to 599 euros per square meter – a decline of 0.5% compared to September, when the average price was 602 euros. The average price per square meter is 3.8% higher than in October 2012, having increased by 2.4% during 2013.

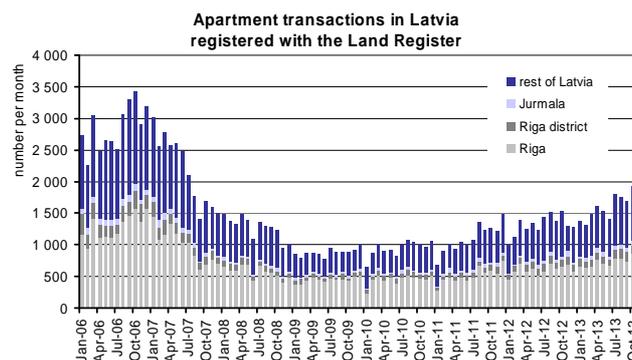
Apartment price changes differ in various neighborhoods and building series. The price of precast apartments in good condition in neighborhoods such as Purvciems, Pļavnieki, Zolitūde, Imanta and Ziepniekkalns in October was 23,000–30,000 euros for single-room apartments, 30,000–40,000 euros for two-room apartments; 37,000–47,000 euros for three-room apartments; 42,000–50,000 euros for four-room apartments.

Like in the previous periods, the offer of good standard apartments at prices corresponding to the purchasing capacity of buyers is insufficient. Buyers are generally willing to purchase standard apartments at a price of 25,000–30,000 euros.

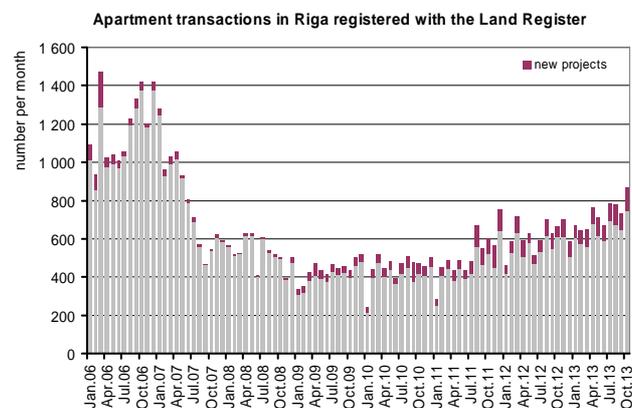
Apartments in poor condition are purchased if the price is low. Such apartments are renovated in order to then sell them or offer them for rent.



Source: Land Register, LATIŅ



Source: Land Register, LATIŅ



Source: Land Register, Cadaster Register, LATIŅ

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Transactions

Analysis of the Land Register data gathered by Latio reveals that the number of purchase transactions of all types of real estate in Latvia in the first ten months of 2013 has increased by 12% compared to the respective period last year; the number of housing transactions is up 12.7%, including a 20.6% increase in transactions involving apartments.

In Riga, the number of housing purchase transactions in the first ten months of the year has increased by 20.2% compared to January–October 2012. The number of apartment transactions is up 19.7%, the number of private house transactions – up 24.1%. There were 865 apartment purchase transactions in Riga in October, the highest number since the beginning of the real estate market decline in 2007. With the number of apartment transactions increasing, the proportion of new apartments does not change significantly – each month it is within 10–15% of all apartment transactions in the capital city.

The number of apartment transactions in Riga significantly exceeds the number of transactions involving private houses – more than 7,200 apartment transactions have taken place in ten months, comprising approximately 90% of all housing transactions in Riga.

In Jūrmala, in the first ten months of 2013, compared to the respective period last year, the number of housing purchase transactions has increased by 24.4%, including a 33.1% increase in apartment transactions and a 4.4% increase in private house transactions. A total of 827 housing transactions have taken place in ten months in Jūrmala; apartment transactions comprise three quarters of these.

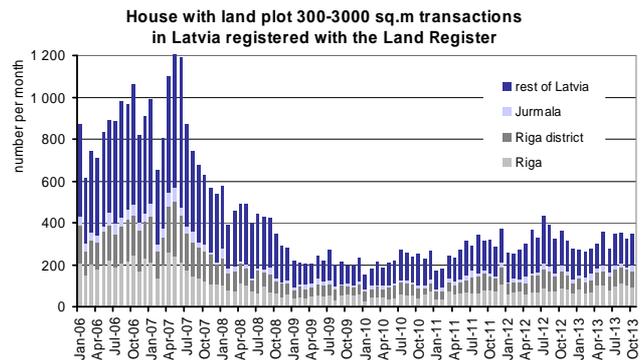
Housing rental market

In October, the housing rental market in Riga was affected by lower activity of students; however, the overall demand for rent of apartments and private houses remains high. Demand is generated by both local residents who have decided in favor of renting housing rather than buying, or who cannot afford to buy, for example, due to being refused a bank loan, and by foreigners working or studying in Riga.

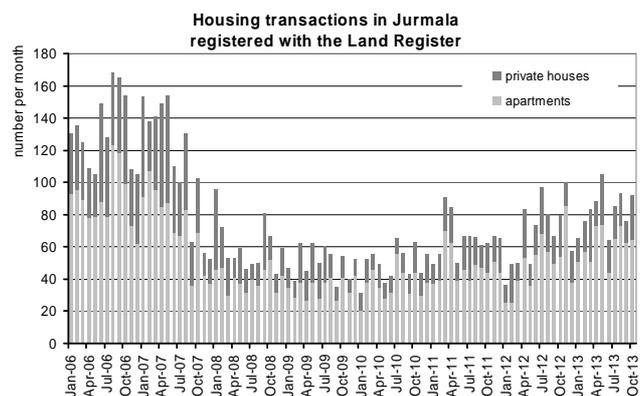
The offer of good rental apartments in the center of Riga remains insufficient. The biggest interest is shown in high-quality, furnished one-, two- and three-room apartments up to 80 square meters at a rent of 450–600 euros per month (ex. utilities). Such apartments are rented out quickly.

New project apartments in the residential districts are also demanded by renters. The reasons for the popularity of new project apartments compared to standard apartments include lower utilities, better condition of the building, higher level of comfort, and better environment. These advantages in the eyes of tenants compensate the higher rent of new apartments.

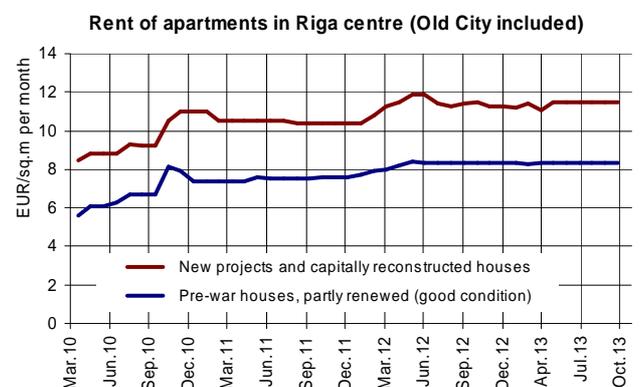
In spite of the high demand, the rent in October remained at the previous months' level. It is associated both with gradual increase of the offer and with the unwillingness



Source: Land Register, LATIŅ



Source: Land Register, LATIŅ



Source: LATIŅ

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of tenants to pay an inadequately high price; consequently, the apartments whose owners significantly increase the asking rent in response to the high demand remain vacant.

The average rent in October in non-renovated brick buildings in Old Riga, depending on the size of the apartment, was 6–7 euros per square meter; in the “quiet center”: 6–8 euros; in the “inner center”: 6–7 euros; in the “outer center”: 5 euros; in partially renovated brick buildings in Old Riga: 8–9 euros; in the “quiet center”: 8–10 euros; in the “inner center”: 8–9 euros; in the “outer center”: 7 euros; in majorly renovated buildings and new projects in Old Riga: 14–15 euros; in the “quiet center”: 11–13 euros; in the “inner center”: 11–12 euros; in the “outer center”: 7–8 euros.

The average rent of apartments in average condition in the residential districts of Riga in October remained at the previous months’ level of 4.3 euros per square meter (ex. utilities).

In the standard apartment rental segment of the residential districts of Riga, there is a shortage of apartments in good condition with modern furnishing. Such apartments, when offered at an adequate rent, find tenants quickly.

The average capitalization rate of standard apartments in October was around 8%. It means that from the viewpoint of capital return it is profitable to purchase an apartment and then rent it out; however, when conducting such transactions, it is necessary to carefully assess the stability and future growth prospects of the income.

