

## HOUSING MARKET OVERVIEW

December 2013

### New developments

Buyers demonstrated strong activity on the brand-new apartment market in Riga in December – both local and foreign buyers were interested in housing purchase.

Like during previous periods, foreign buyers prefer brand-new apartments at a price between EUR 150,000–180,000. The strongest demand is observed for apartments in Riga centre, although there is limited supply of apartments that would meet buyers' requirements in this area of the city, therefore foreign buyers consider also new developments outside the centre more often.

Demand of local buyers is associated predominantly with economic class brand-new apartments. The buyers take their time in making their decision on property purchase. They assess carefully the strengths and weaknesses of new developments. Both local and foreign buyers consider a range of important criteria for choosing a property: the location of the development, its quality, fully finished interior decoration, built-in kitchen unit, energy efficiency of the property, and maintenance costs.

Supply of brand-new apartments enlarges gradually, so new developments appropriate for different buyer categories enter the market.

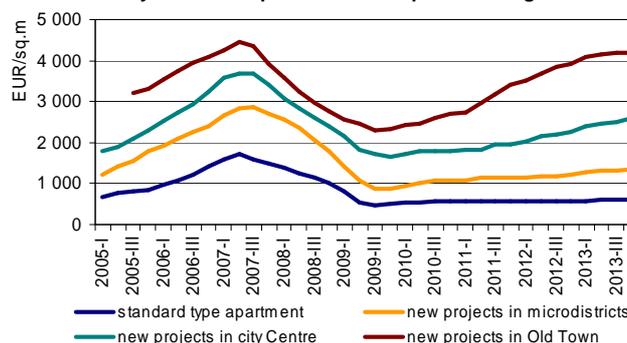
As the procedure of obtaining temporary residence permit (TRP) is likely to be changed in relation to the investors and developers intending to implement luxury class residential developments, this makes them take a wait-and-see position or revise their plans. In the event of limiting the TRP programme, one of the solutions considered inter alia is the possibility to remake the residential developments being on the stage of construction into tenement houses.

In the end of the year, the upward trend of the prices of brand-new apartments retained in Riga centre and the areas outside the centre while in the Old Town where the new housing prices approached the pre-crisis level, the increase has become moderate. In the fourth quarter of 2013, the average price of the brand-new apartments (and those in fully renovated buildings) was EUR 4,200 per square metre in the Old Town and the proximate surrounding area, and it has not changed since the third quarter, yet it has added 7.3% against the last quarter of 2012.

In the last quarter of 2013, the average price of brand-new apartments (and those in fully renovated buildings) reached EUR 2,600 in Riga centre, and it has increased 4% in comparison with the third quarter. The average price has grown by 14.2% as opposed to the fourth quarter of 2012. In October through December 2013, the average price of new apartments was EUR 1,350 in parts of Riga outside the centre thus it exceeded the average price of the third quarter by 1.5% and that of the last quarter 2012 by 9.5%.

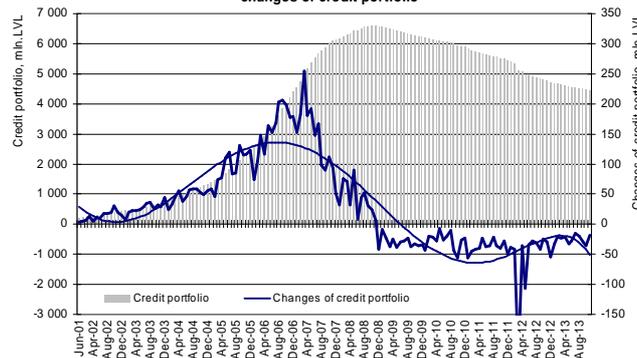
Transactions are completed at relatively wide price amplitude depending on location of the new development, the stage of interior decoration, and other factors. In December, the average prices of new apartments ranged between 700-900 euro per square metre in the close vicinity of Riga, 900–1,500 euro per

Dynamics of apartment sales prices in Riga



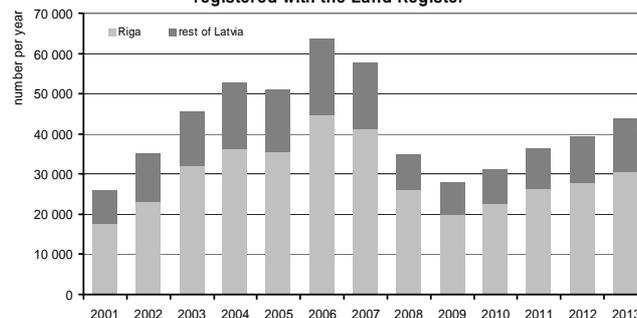
Source: LATIŅ

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



Source: the Finance and Capital Market Commission, LATIŅ

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



Source: Land Register, LATIŅ

## HOUSING MARKET OVERVIEW

December 2013

square metre in the areas outside Riga centre, 1,500–3,500 euro per square metre in Riga centre (including remote areas of the centre). Prices of apartments may achieve 4,000–6,000 euro per square metre in quality renovated buildings located in prestigious areas of the city centre.

Purchase transactions for new apartments accounted for about 10–15% out of the total amount of apartment transactions in Riga monthly in 2013.

### Apartments in downtown Riga

In December, the apartment segment of Riga centre was vibrant, although the prices remained on the previous level.

Foreign buyers prefer to purchase quality apartments in buildings which are in very good condition in the Old Town, the silent and the close centre. A lift, car parking possibilities, and well-kept surroundings are important factors to the buyers. Apartments within the price range between EUR 180,000–200,000 are in the strongest demand. Where the asked price of the property is raised and does not concord to the market situation, there is no deal. Some foreign buyers, however, consider an option of purchasing apartments in non-renovated buildings in Riga centre.

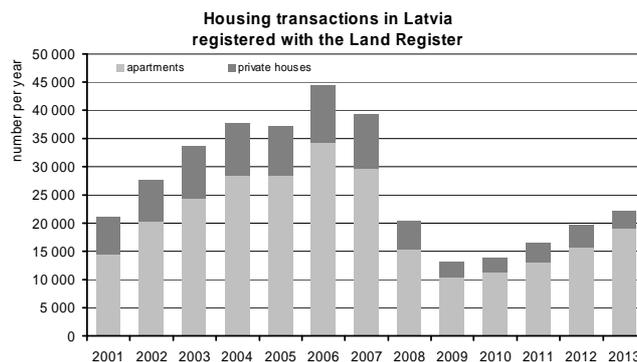
Local people show interest in apartments in Riga centre provided that the price does not exceed EUR 1,000 per square metre. The buyers seek for both small-space two-room apartments and also larger apartments of three and four rooms.

In December, the most typical square metre price range in different segments of apartments depending on their space, in Riga centre was as follows: in non-renovated brick-wall buildings in the Old Town – 1,820–2,100 euro, in the silent centre – 1,000–2,000 euro, in the close centre – 1,100–1,500 euro, in the remote centre – 800–900 euro; in partially renovated brick-wall buildings in the Old Town – 2,000–2,750 euro, in the silent centre – 2,300–2,500 euro, in the close centre – 2,000–2,300 euro, in the remote centre – 1,225–1,500 euro; in fully reconstructed buildings and new developments in the Old Town – 3,000–3,500 euro, in the silent centre – 2,850–3,500 euro, in the close centre – 2,600–2,800 euro, in the remote centre – 2,000–2,200 euro. The prices may achieve 5,000–6,000 euro per square metre for apartments featuring smart layout and high-class interior decoration, found in quality renovated buildings, in prestigious spots of the Old Town, the close and the silent centre.

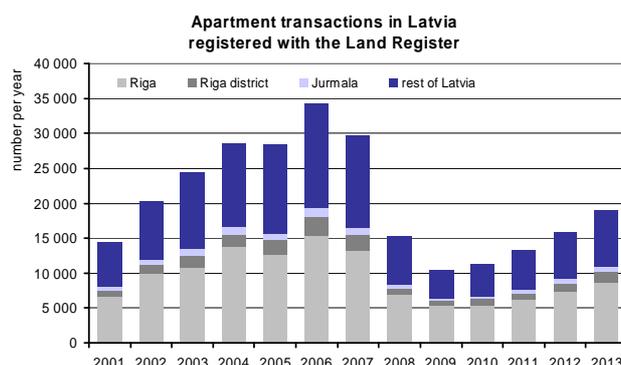
### Prefabricated apartments

The average price per square metre for Riga prefabricated apartments decreased 0.8% in December, so it stood at 600 euro. In comparison with December 2012, the average price per square metre for prefabricated apartments increased 2.9%.

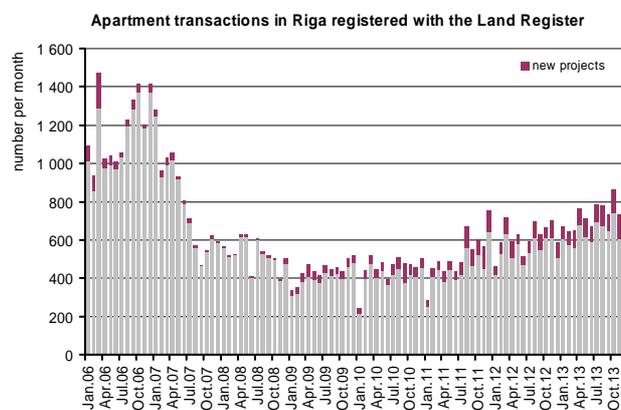
Apartment prices change unequally in different parts of the capital city depending on the type of the



Source: Land Register, LATIO



Source: Land Register, LATIO



Source: Land Register, Cadaster Register, LATIO

## HOUSING MARKET OVERVIEW

December 2013

multiresidential building. In December, prices of prefabricated apartments in good technical condition in parts of Riga like Purvciems, Plavnieki, Zolitūde, Imanta, and Ziepniekkalns were as follows: EUR 23,000–29,000 for one-room apartments; EUR 30,000–39,000 for two-room apartments; EUR 37,000–47,000 for three-room apartments, EUR 43,000–50,000 for four-room apartments.

There is a limited supply of prefabricated apartments in good condition. Buyers prefer to purchase housing that is appropriate for prompt moving in, and so that improvement thereof would not require additional investments. In selection of an apartment, a great attention of buyers is paid to the apartment maintenance cost level, technical condition of the building, improvement measures done and intended in the building; an important factor is the maintenance costs and quality as well as the fact whether the land plot is possessed by the apartment owners or it is rented.

### Transactions

The Land Registry data analysis conducted by Latio revealed that, in Latvia, total number of all kinds of real estate purchase transactions increased 11.6%, but number of transactions for housing – 13.2%, including 20.7% for apartments in 2013 against the preceding year. In 2013, there were nearly 44,000 purchase transactions completed for all kinds of real estate in Latvia, while housing transactions accounted for half of them.

In Riga, amount of housing purchase transactions grew 19.4%, including apartment transactions – 18.7%, and detached houses transactions – 25.7% in 2013 as opposed to the preceding year.

In 2013, over 9,800 housing purchase transactions were closed in Riga, 90% out of them being apartment transactions.

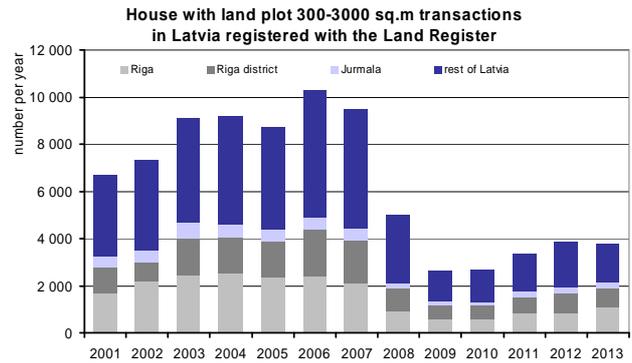
In Jūrmala, number of housing purchase transactions grew 24.8% including apartment transactions having increased 30% and detached houses transactions having added 11.9%, in 2013 as compared to the previous year. On the whole, number of transactions closed in Jūrmala exceeded 1,000 in 2013. Apartment transactions accounted for ¾ out of those.

### Housing rental market

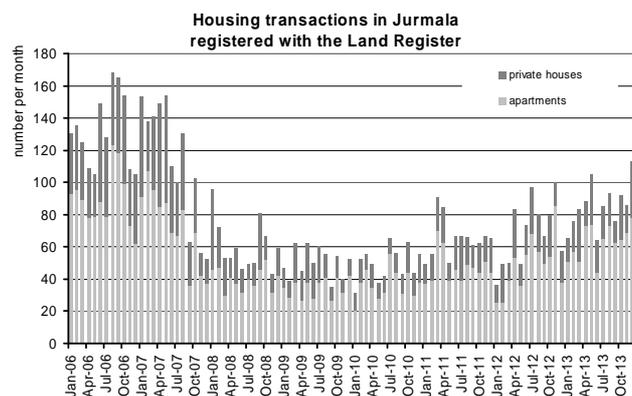
A slightly lower renting activity was observed in Riga housing market in December unlike several preceding months. It is a typical phenomenon for demand to drop toward the end of the year, yet the demand was enhanced by the long year-end holidays of 2013.

Despite the weaker activity of prospective tenants, housing rent charge is preserved on the previous levels.

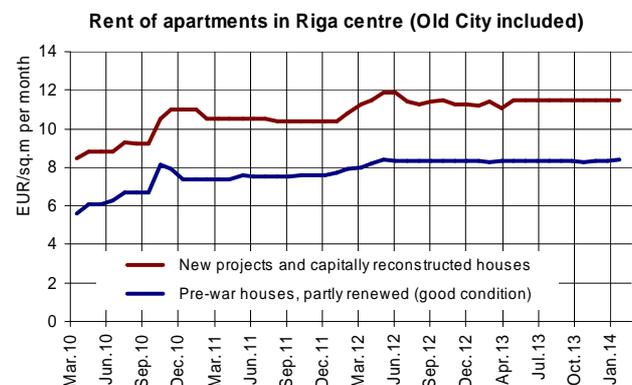
In the centre of Riga, the demand in rental housing is sustained by both local people and foreign nationals. In December, along with the lowered activity of tenants, the shortage lessened in the segment of quality apartments in the centre where the current demand has been in two-room and three-room quality apartments maximum



Source: Land Register, LATO



Source: Land Register, LATO



Source: LATO

## HOUSING MARKET OVERVIEW

December 2013

80 sq.m. large, including all utilities and furniture, at a rent charge of EUR 450-600 a month plus utility charges. In the end of December, foreign student demand renewed for rental apartments, though it was not that strong as few years ago. Foreign students, who will start their studies in some Riga universities, prefer housing in the city centre or in the vicinity of the educational establishment.

Strong demand in rentals is sustained for brand-new apartments in the areas outside the city centre. The tenants increasingly more often prefer new apartments because of lower utility costs, better technical condition of the building, higher comfort, and improved environment in comparison to the prefabricated housing. The tenants believe that these advantages compensate for the higher rent charge of a new apartment.

In December, the average rent charge per square metre a month depending on apartment space was as follows: in non-renovated brick-wall buildings: in the Old Town - 6-7 euro, in the silent centre - 6-8 euro, in the close centre - 6-7 euro, in the remote centre - 5 euro;

in partially renovated brick-wall buildings: in the Old Town - 8-9 euro, in the silent centre - 8-10 euro, in the close centre - 8-9 euro, in the remote centre - 7 euro;

in fully reconstructed buildings and the new developments: in the Old Town - 14-15 euro, in the silent centre - 11-13 euro, in the close centre - 11-12 euro, in the remote centre - 7-8 euro.

The average rent charge of prefabricated apartments in satisfactory condition in the parts of Riga outside the centre did not change in December, and it was at 4.3 euro per square metre.

Capitalization rate of prefabricated rental apartments exceeded 8%. This indicates that buy-to-let transactions for apartments would bring profit from the view of capital return, yet it is recommended that yield stability and future growth prospects are assessed carefully before closing such transactions.

In 2014, a steady foreign and inland demand will be retained for quality modern rental housing in Riga centre and the areas outside the centre. Still, decision of local people will be directed toward renting a home by such factors like insufficient solvency to get a loan, lack of the first deposit, unwillingness to assume loan commitments. As the supply of apartments meeting tenants' requirements has enlarged gradually, rent charge is not likely to grow in the nearest future.

