

## HOUSING MARKET OVERVIEW

June 2013

### New projects

The trends of the previous months have continued in the new project apartment segment – interest in purchasing properties in the center of Riga is shown mainly by foreign buyers, while local buyers are generally interested in apartments in the residential neighborhoods. As the offer of apartments in the central part of the city in new or fully renovated buildings meeting the requirements of foreign buyers is limited, properties farther from the center are also purchased.

Foreigners are mainly looking for apartments at a price of 150,000–180,000 euros. As some of these apartments are placed on the rental market after purchase, preference is given to properties with full interior finishing and built-in kitchen appliances.

Developers and investors are showing interest in acquisition of unfinished apartment buildings, as well as buildings requiring renovation in the center of Riga with an aim of offering the apartments for rent and sale after completion or renovation of the project. The high demand for good rental apartments in the center of Riga is spurring the development of rental buildings – in the near future, apartments in several buildings that have recently changed owners and are being renovated or finished will be offered to tenants.

In the first months of the year, the prices of new apartments have increased more quickly in the center of the capital, where the demand of foreign buyers is greater. The average price of new apartments (including fully renovated buildings) in the center of Riga in Q1 2013 was 18.5% higher than a year ago and reached 2,400 euros per square meter, while the price of new project apartments (also fully renovated buildings) in Old Riga and its vicinity in Q1 2013 surpassed the average price of Q1 2012 by 16.2%, reaching 4,100 euros per square meter. The average price of new apartments in the residential neighborhoods of Riga in Q1 2013 was 1,294 euros per square meter, exceeding the average price of Q1 2012 by 11.6%.

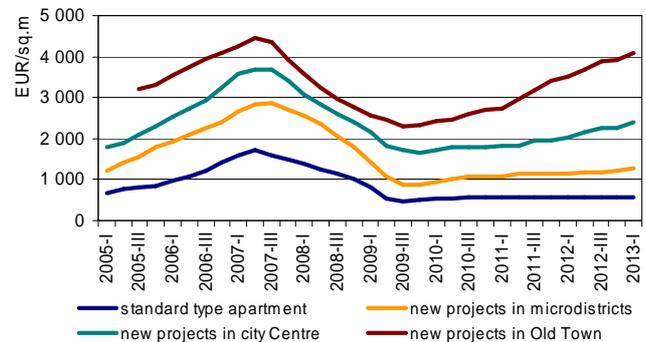
The price range in which transactions are taking place is quite wide and depends on the location, apartment finishing type and other factors. The average price of new project apartments near Riga in June was 700–900 euros per square meter; in the residential neighborhoods of Riga – 900–1,400 euros; in the center of Riga (including also the outer areas) – 1,500–3,500 euros. The prices 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 comprise approximately 10% of all apartment transactions.

### Apartments in downtown Riga

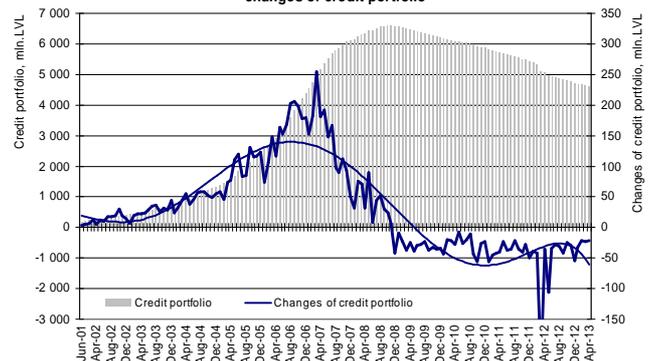
With the beginning of the summer, the interest of foreign buyers in purchasing apartments in the center of Riga has slightly increased. Foreigners mainly wish to purchase quality apartments in buildings in very good

Dynamics of apartment sales prices in Riga



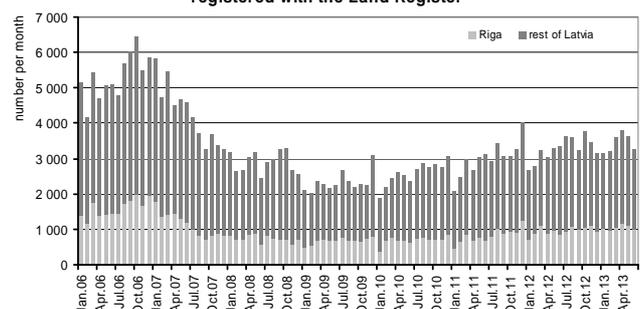
Source: LATIO

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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condition located in Old Riga, the “quiet center” and the “inner center” at a price of 180,000–200,000 euros. Demand for properties in this price category is dictated by the buyers’ desire to apply for a temporary residence permit after purchasing the apartment. The offer of suitable apartments remains insufficient, so properties farther away from the city center are also considered.

Foreign buyers may also purchase several cheaper properties to reach the investment threshold established by the Immigration Law. Often several properties must be purchased because the cadastral price of an apartment in the center of Riga is lower than 30,000, which is one of the requirements to apply for a temporary residence permit.

Local buyers are interested in apartments in the capital city’s center at a price not exceeding 100,000 euros.

### Precast apartments

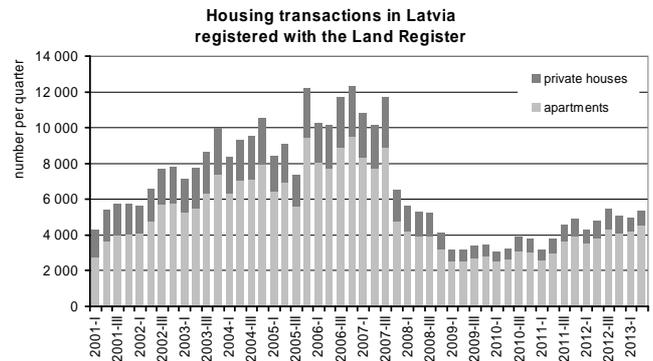
The average price of precast concrete panel apartments in Riga in June has remained unchanged at 598 euros. Compared to June 2012, the average price per square meter is up 2.6%. In contrast to the previous two years, when the average price alternately increased and decreased, during the last eight months it has stabilized and is slightly increasing each month.

The prices of precast apartments remain stable on a background of an increasing number of transactions. In the past 2–3 years, the number of apartment transactions has significantly increased – in 2010 and 2011 there were an average of 400–500 apartment purchase transactions in Riga each month, while today the average is close to 700. Approximately 85% of these transactions involve standard apartments.

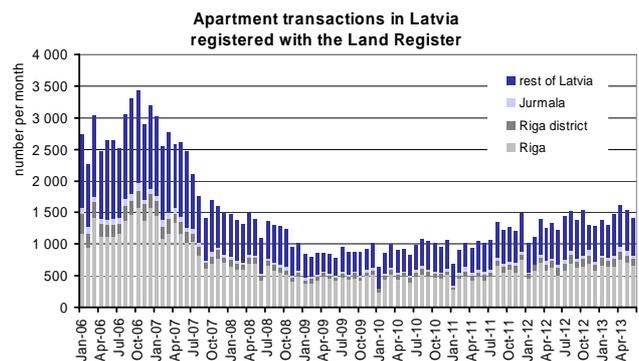
Apartment price changes differ in various residential neighborhoods and building series. The price of precast concrete panel apartments in good condition in neighborhoods such as Purvciems, Pļavnieki, Zolitūde, Imanta and Ziepniekkalns in June was 23,000–29,000 euros for single-room apartments, 31,000–39,000 euros for two-room apartments; 35,000–48,000 euros for three-room apartments; 41,000–50,000 euros for four-room apartments.

The activity of precast apartment buyers has slightly increased. However, a relatively long time is spent on selecting a suitable property, as many apartments are looked at. Like in the previous periods, buyers generally wish to purchase standard apartments in good condition that do not require additional investments in improving the property. Such apartments are sold quickly if the price corresponds to the market situation and the paying capacity of buyers. The offer of good apartments is limited, which is the main reason for the gradual increase of the average price in the past few months.

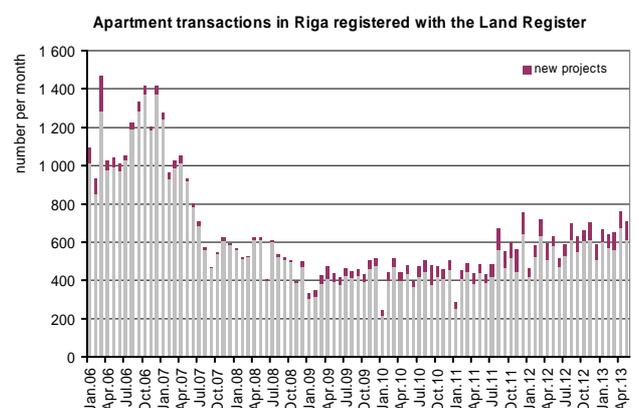
Apartments in poor condition are purchased if the price is low. In recent months there has been an increase in the number of buyers purchasing apartments in poor condition to sell or rent them out after renovation.



Source: Land Register, LATIO



Source: Land Register, LATIO



Source: Land Register, Cadaster Register, LATIO

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### Private houses

Interest in purchasing private houses and land for construction has increased in the summer.

In Riga, there is insufficient offer of modern, high-quality private houses with good surrounding infrastructure – kindergartens, schools and stores. The biggest demand is shown in houses sized 200–250 sq. m. with a 1000–1200 sq. m. plot of land. Similarly to the apartment market, both foreign and local buyers in the private house segment wish to purchase fully completed buildings. Buyers are mainly interested in houses at a price up to 200,000–250,000 euros.

Buyers rarely show interest in houses with an inadequately high price or houses that are unfinished or in poor condition. Demand is low for private houses built in the Soviet era or earlier in the residential neighborhoods of Riga or in their vicinity. The layout and placement of such houses is often irrational and awkward, and significant investments must be made in repairs and renovation of utility networks. Buyers' interest in such properties can be attracted with a low price.

Interest in purchasing private houses near Riga is shown also by foreign buyers wishing to obtain a temporary residence permit after acquiring the property.

There has been a slight increase in demand for land intended for private construction. The interest is increasing because there is a lack of completed private houses with a rational layout and size on offer at adequate prices.

### Jūrmala

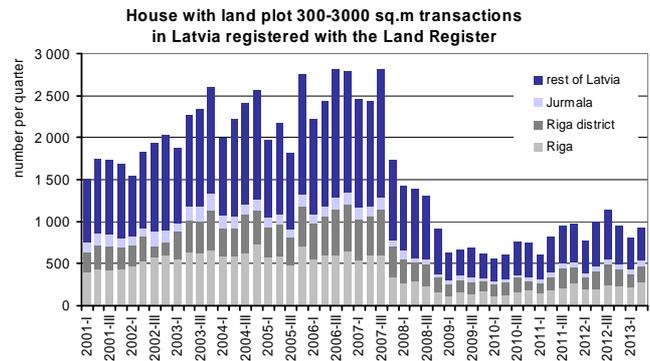
The high activity of buyers has contributed to an increase in the number of transactions in the housing market of Jūrmala. According to the data aggregated by Latio, in the first five months of 2013, compared to the respective period last year, the number of housing transactions in Jūrmala is up 56%, including a 70% increase for apartments. Buyers' interest in properties in the resort city traditionally is linked with the beginning of the summer, however even in the first five months there have been more purchase transactions than last year.

There is a notable increase in the interest of local buyers and tenants, compared with the market decline period. There remain different proportions of local buyers in various segments of the Jūrmala housing market; for example, foreigners dominate in the new project apartment segment, however the overall trend indicates that the demand of local buyers is gradually increasing.

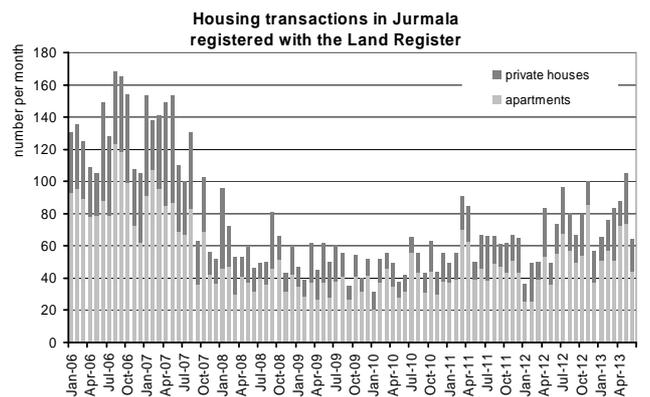
In June, interest remained high in both renting and purchasing housing. Most of the potential tenants from abroad, who are willing to dedicate up to 5,000–10,000 euros on housing rental, wish to rent the property for up to one month; interest in longer periods is much rarer.

Foreigners mainly wish to purchase new apartments at a price not exceeding 200,000 euros. Such a price corresponds to the investment level required to apply for a temporary residence permit.

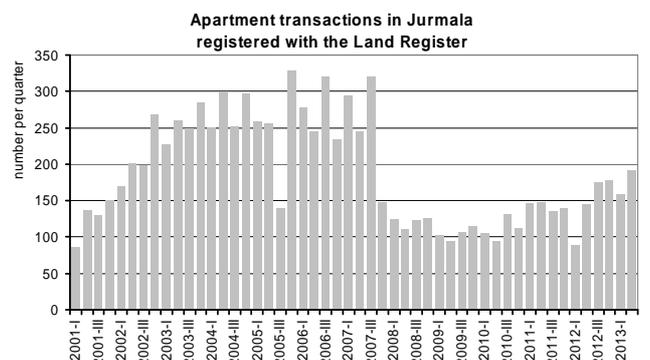
The interest of buyers in purchasing land for construction in various locations in Jūrmala notably increased in June.



Source: Land Register, LATIO



Source: Land Register, LATIO



Source: Land Register, LATIO

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### Transactions

Analysis of the Land Registry data gathered by Latio shows that the overall number of all real estate purchase transactions in Latvia in the first five months of 2013 has increased by 15.3% compared to the respective period last year, and the number of housing transactions has increased by 14.3%, including a 20% increase for apartments; the number of transactions involving private houses has grown by 0.7%.

The number of apartment purchase transactions in Riga in the first five months of 2013 compared to last January–May has grown by 14.9%, while private house transactions are up 28.4%. The number of transactions involving apartments in Riga is significantly greater than the number of house transactions – almost 3,500 apartment transactions have taken place in the five months, comprising almost 90% of all housing transactions in Riga.

### Housing rental market

Unlike the past several years, when activity declined in the housing rental market of Riga in the summer season, stable demand remained this June for good rental apartments both in the center of Riga and in the residential neighborhoods.

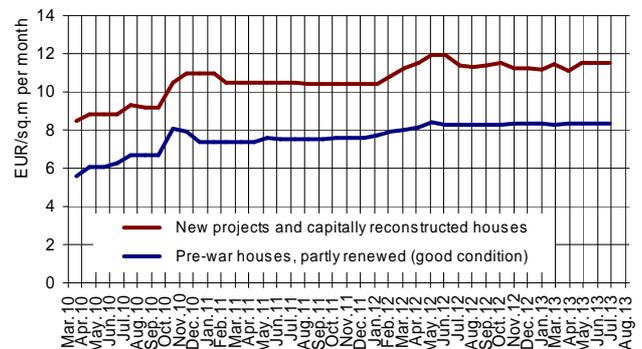
Rental demand in the center of Riga is generated by both foreigners and local residents; the biggest interest is shown in high-quality, furnished one-, two- and three-room apartments up to 80 square meters at a rent of 450–600 euros per month (ex. utilities).

In response to the high rental demand, new rental apartments are gradually being placed on offer. These are both properties in the center of Riga that have been purchased by foreigners, and apartments in the new projects and in standard buildings in the residential neighborhoods. In the near future, the offer will be expanded with apartments in several rental buildings that have recently changed owners and are being renovated or finished.

The demand will increase in the end of summer, when, with the approach of the new study year, local and foreign students will be looking for housing. Some foreign students that will begin studies in Riga in September have already started looking for a suitable apartment in June. As the number of foreign students is increasing, there is a general lack of suitable apartments for this category of tenants. Housing is typically rented by several foreign students together, so apartments with multiple bedrooms – as many as four or five – are desired, preferably in the central part of Riga or close to the chosen school. Foreign students are generally willing to pay 200–300 euros per person for apartments with multiple bedrooms.

The average rent in June in non-renovated brick buildings in Old Riga 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

Rent of apartments in Riga centre (Old City included)



Source: LATIO

Rent and price of standart type apartments in Riga



Source: LATIO — price per sq.m — rent per sq.m per month

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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 neighborhoods of Riga in June remained at the previous month’s level of 4 euros per square meter (ex. utilities).

In the standard apartment rental segment of the residential neighborhoods 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 June was around 8%. It means that from the viewpoint of capital return it is more beneficial 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.

Capitalization rate and percentage rate

