

Latio

Housing Market

REPORT

2 0 2 2



P R E F A C E



Welcome to the buyers' market!

The situation changed rapidly. The scare of huge bills, cold and the darkness has had its effect - buyers have become noticeably more prudent. We are considering adjusting the auction tool, which was designed to handle forced 'bidding', to the opposite - buyers could invite sellers to underbidding.

No one knows where we are in the real estate market cycle. It is impossible to predict market behaviour in the near future. What is constant is that real estate is one of the best investments to protect savings from inflation. It is the right thing to buy a home today if you have a stable income if you choose the right location, a quality, energy-efficient property. Buying at the right price is crucial.

EDGARS ŠĪNS

Latio Chairman of the Board

M A C R O E C O N O M I C S

Latvia ranks 4th among 36 OECD countries in inflation marathon

While last year's inflation encouraged people to invest in savings, including in real estate, this year people already started saving money in the summer for possible winter spending and are not in a hurry to invest recklessly and buy non-primary necessities.

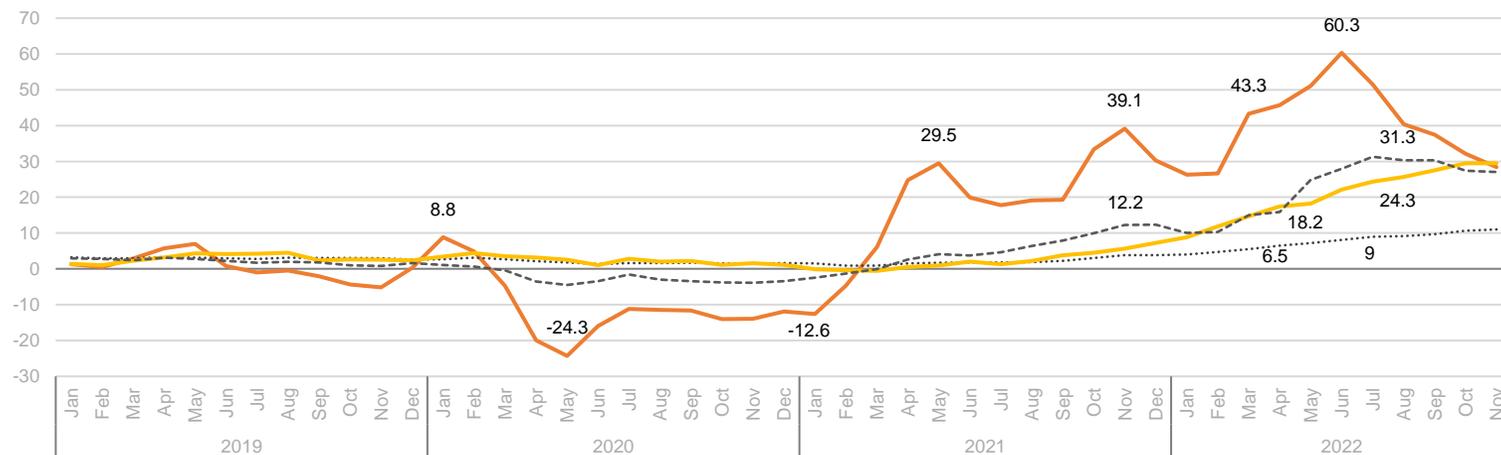
Price increases in all areas have forced and will continue to force many to make choices about which product categories to give up first in the short and the long term, including considering investment options more thoughtfully, based on economic calculations. For example, by calculating the investment rates on potential rental properties.

Even in this crisis, people are expected to bear the costs of housing first.

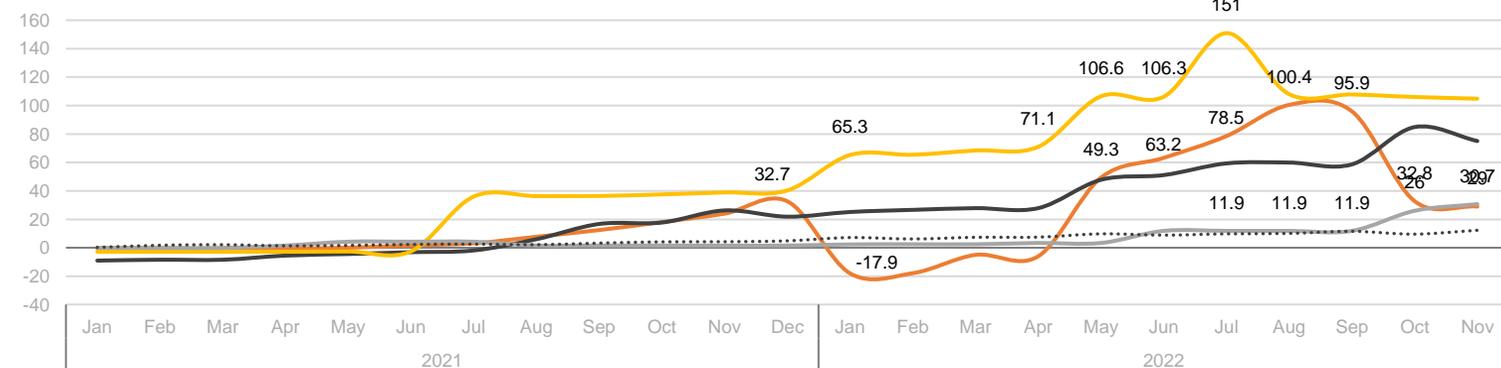
Among OECD countries, Latvia is:

- 3rd in energy price increases;
- 5th in food price increases.

Changes in consumer prices in Latvia (% vs. corresponding period of previous year)



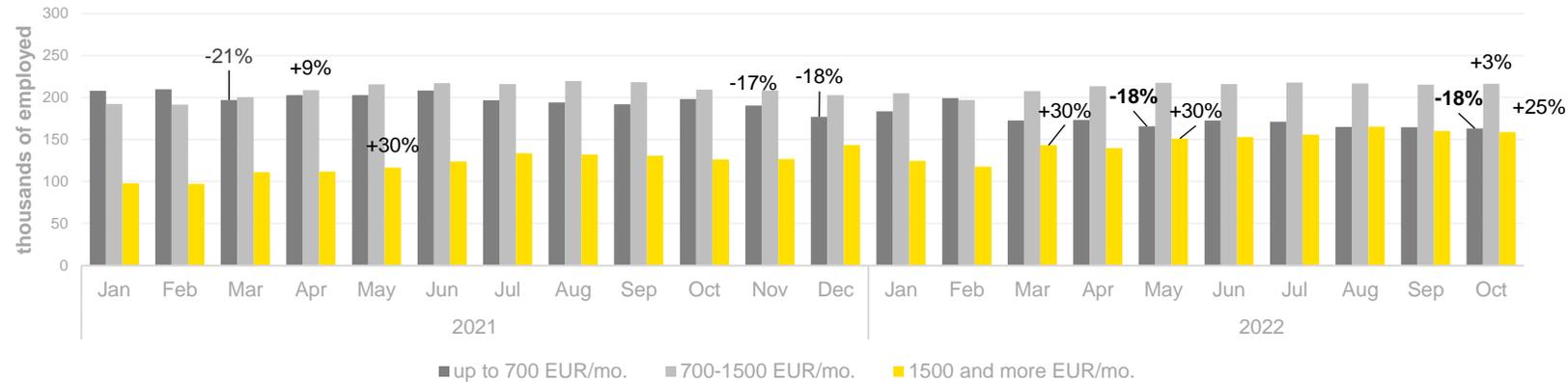
Consumer price changes by housing commodity groups (% over the corresponding period of previous year)



Electricity Heat energy Gas Water supply Furnishings, household equipment and routine household maintenance

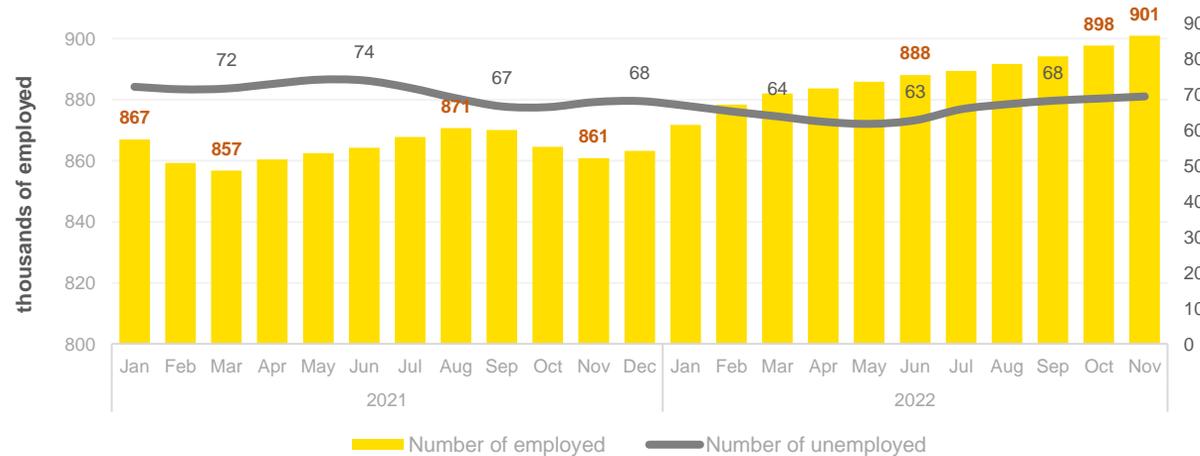
The share of better-paid people has risen significantly over the year, but price wins the "price/wage growth" race

Breakdown of the number of private sector employees by gross income

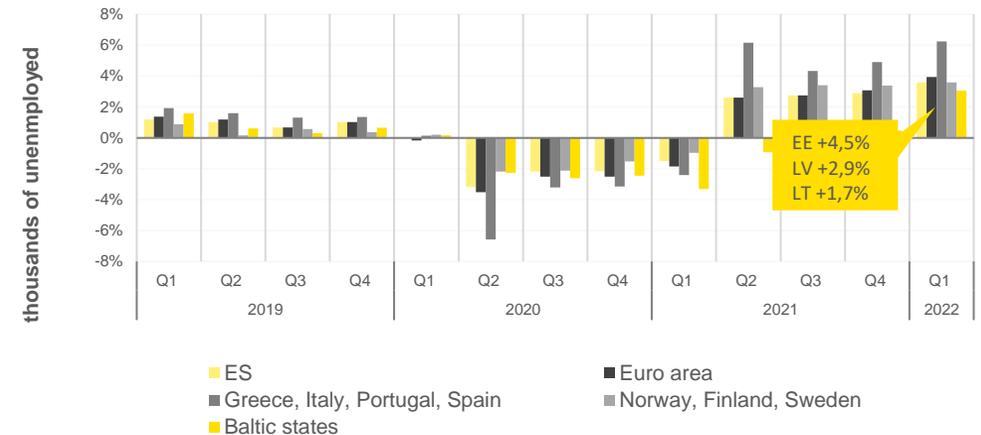


October (2022./2021.)		
<700 EUR/mo.	700-1500 EUR/mo.	>1500 EUR/mo.
-18%	+3%	+25%

Number of unemployed and employed aged 15-74

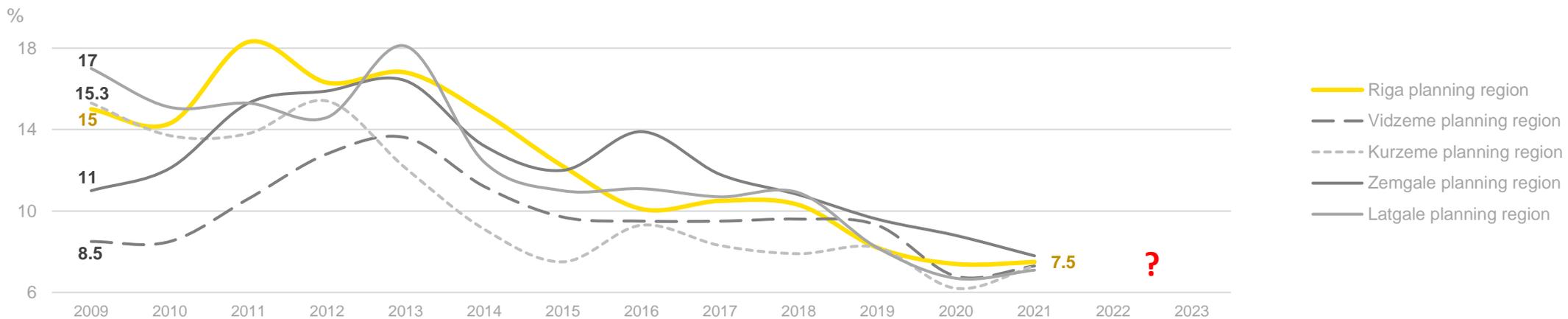


Change in number of employees aged 15-74 (% , Y/Y *)

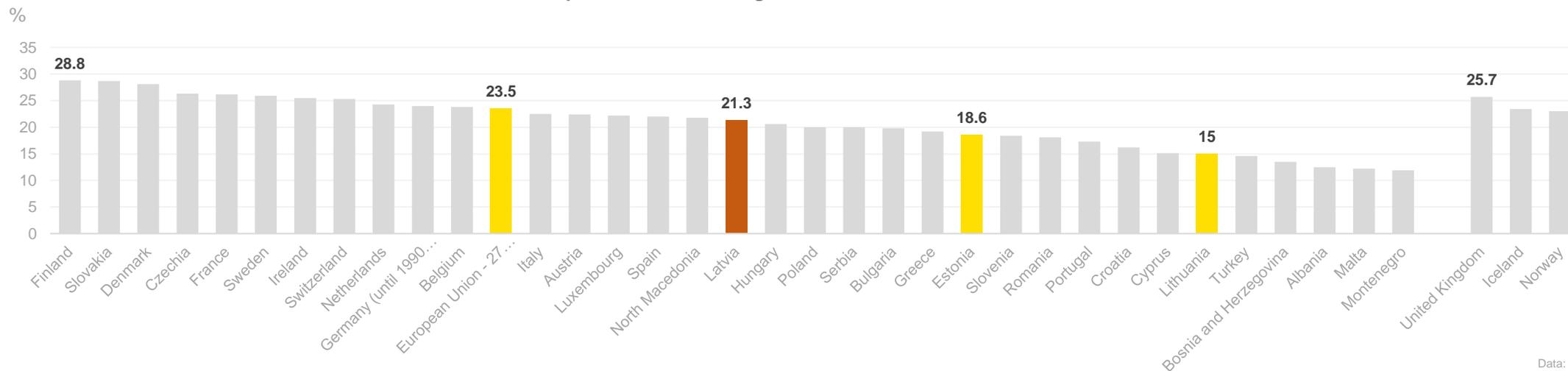


This winter, covering housing costs is a revision lesson in financial literacy for households

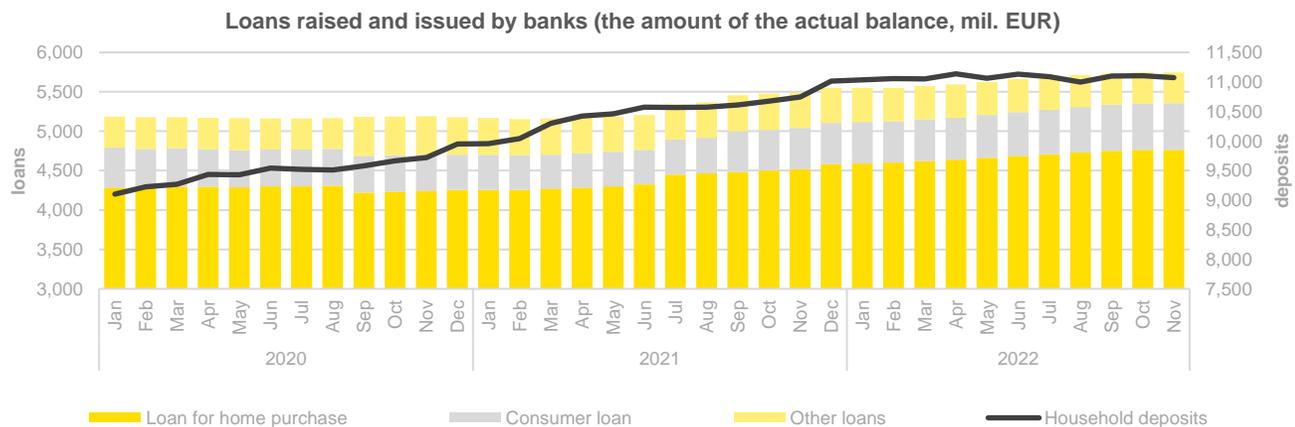
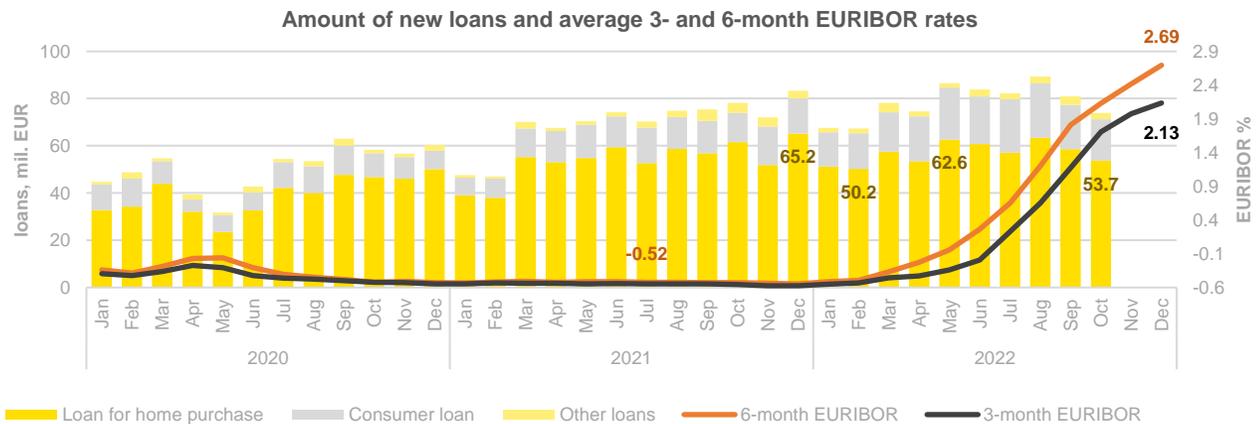
Proportion of households overburdened by housing costs



Household expenditure on housing as % of total income in EU countries 2020



Hopefully, central banks have a plan B to fight inflation, if raising interbank rates doesn't help

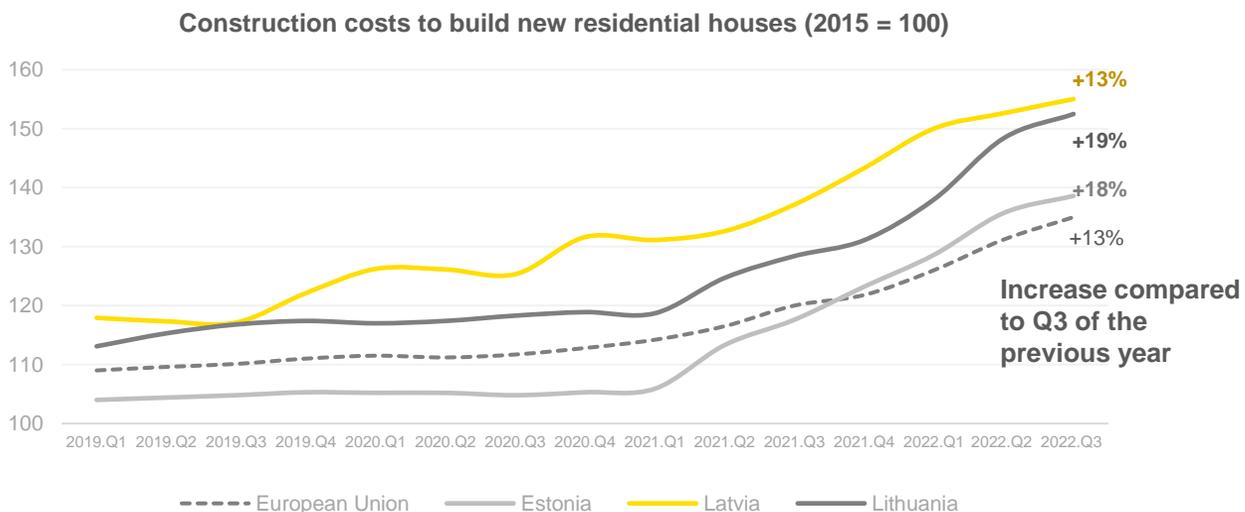
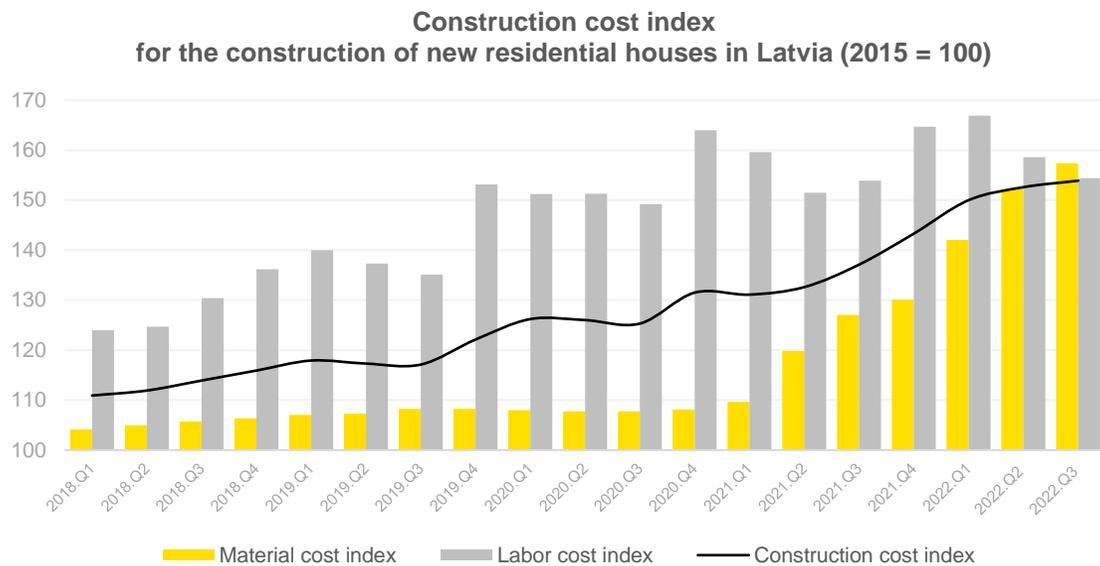


As households cope with monthly loan payments and other housing expenses, less budget is left for non-primary goods and services. Lower demand is expected to cool the economy and halt the rapid inflation dynamics.

The price increases were driven not only by the large amount of money printed during the pandemic, or the "overheating" of the economy but also by another important factor: the energy crisis. While the first factor will be tackled by an increase in interbank rates, the second factor has already been tackled by each country introducing its own instruments.

Commercial banks' credit policies, which have often remained tight, are also not conducive to the development of the housing market. For example, when purchasing a property requiring additional investment, the buyer may also be asked to provide an estimate of the planned works and to confirm that such funds are available.

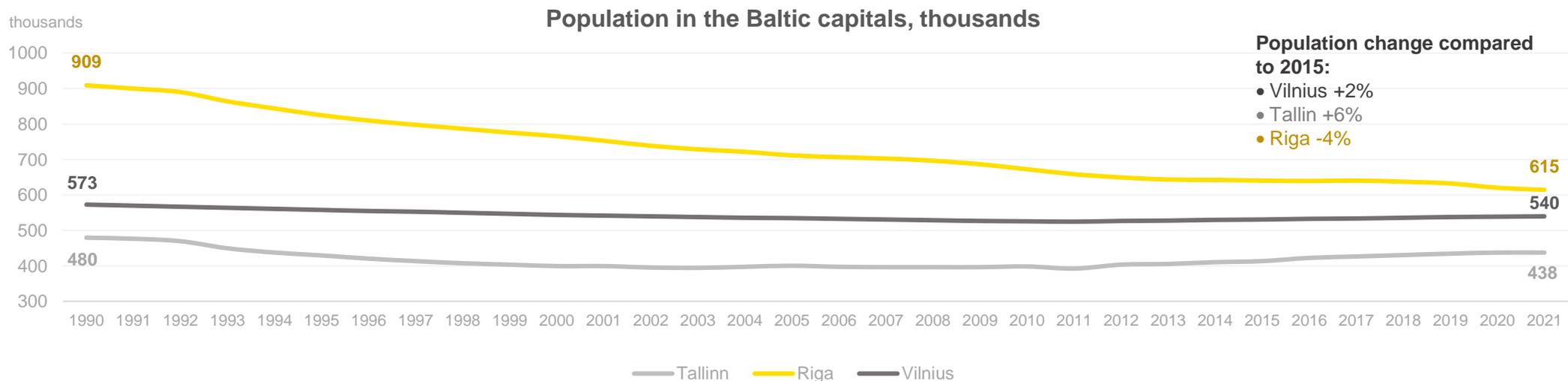
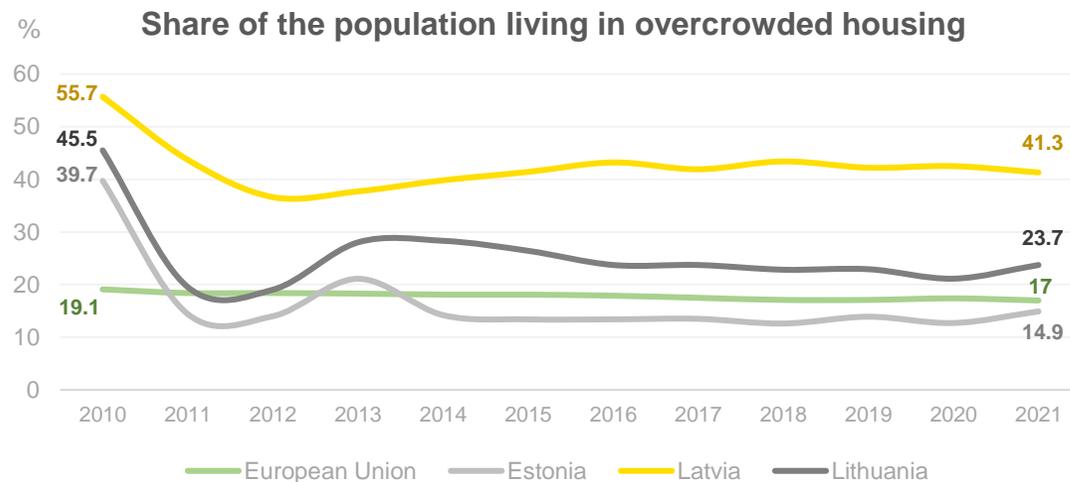
Construction



Construction output
(% vs. corresponding period of previous year)

	2022-Q1	2022-Q2	2022-Q3
EU 27	5,7	2,3	1,6
North Macedonia	-11,2	-1,1	-19,2
Serbia	-6,3	-11,3	-13,8
Latvia	-8,4	-13,8	-13,6
Montenegro	-3,2	-5,1	-10,2
Spain	-6	-9,8	-8,5
Switzerland	-1,6	-1,2	-6,5
Ireland	22,5	6,7	-4,4
Estonia	13,9	-1,5	-3,3
Czech Republic	9,8	3	-1,8
Bosnia and Herzegovina	1,3	-1,6	-1,8
Germany	4,2	-2,7	-1,1
Bulgaria	2,8	1,1	-0,8
Luxembourg	2,7	-2,1	-0,8
Slovakia	0,8	-1,7	-0,8
Sweden	1,1	0,8	0,4
France	0,8	0,7	1
Lithuania	8,6	-0,1	1,3
Hungary	17,8	0	1,4
Portugal	3,6	1,6	1,6
Belgium	-1,9	2,1	1,8
Austria	4,8	4,1	2,2
Croatia	4,6	4,3	3,2
Finland	8,3	3,7	3,5
Poland	23	9,2	4
Norway	4,7	6,3	4,2
Netherlands	5,5	3,4	4,7
Denmark	6,3	7	4,9
Malta	8,3	3,5	5,3
Italy	19,7	14,8	8,4
Albania	26	-5,1	14
Romania	6,3	2,2	16,8
Greece	14,1	25,7	20,7
Slovenia	21,8	25,2	29,1
Cyprus	-6,6	-6,4	:

Potential of the construction segment



HOUSING MARKET INDICATORS AND
TRENDS

Housing market January - December 2022: A leap from a "sellers" to a "buyers" market

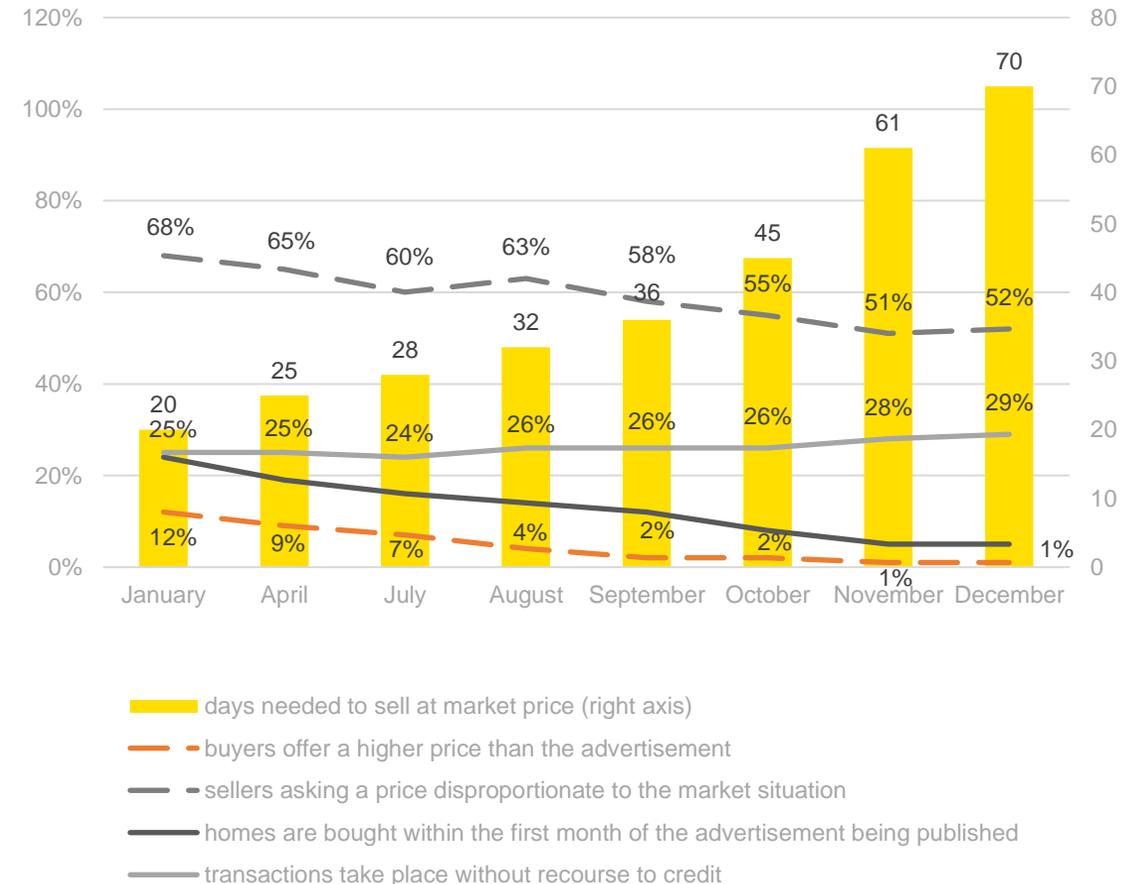
Despite the geopolitical turmoil, the number of housing transactions in the first months of this year has been relatively high. While demand for new projects and energy-efficient housing, in particular, has increased significantly, other good properties that did not live up to these expectations were also sold quite quickly due to limited supply. This introduced a new trend in the Latvian real estate market - forced bidding, where several buyers bid for a property, promising to pay more and raising the sale price.

In the second half of this year, however, the market has become much more cautious.

As a result, the number of advertisements has increased - compared to January, the supply of series-type apartments increased by 58% in August. The significant increase in supply was mainly due to large-area properties, often with old-fashioned finishes and energy inefficient. Although buyers were looking for the opposite.

At the same time, the number of days required to sell homes at the market price has increased. This is due to both a wider supply and buyers being able to take longer to make up their minds, but also to prospective buyers' concerns about the upcoming costs of the heating season and the consequences of inflation, including the current and potential increase in Euribor.

Housing market confidence index



Data: The index is calculated on the basis of data provided by "Latio" transaction managers

Summary of residential market core indicators

Total value of transactions*

1.3 billion Y/Y ▼ - 1 %

Median of the sum of all transactions *

32 000 Y/Y ▲ + 23 %

Total number of transactions*

~ 25 800 Y/Y ▼ - 12 %

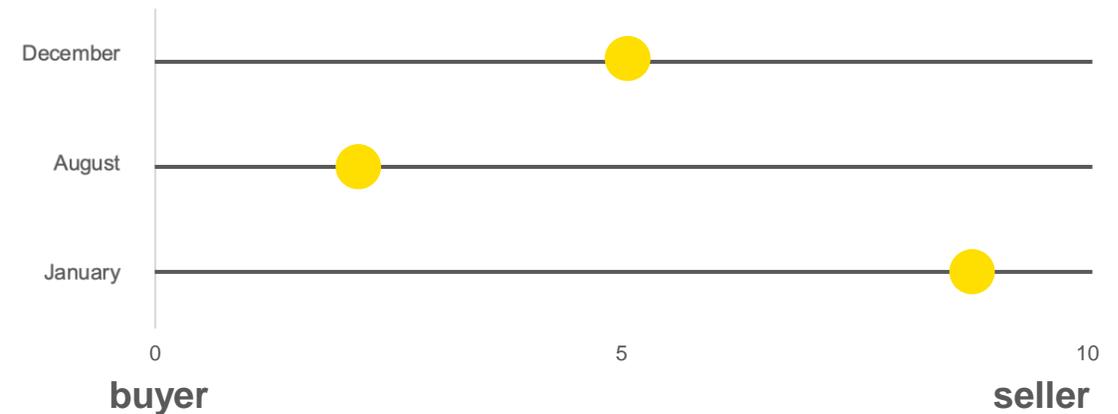
*Source: VZD data (all transactions with apartments and private houses in 2022)

In the second half-year, buyers became more demanding and, while at the beginning of the year, people, driven by inflation fears, bought also illiquid properties, overpaying their market value, frugality had already set in by autumn. Buyers and sellers alike repeatedly evaluated the pros and cons, weighing and comparing different options.

In November, this was also reflected in the dynamics of the number of adverts, which dropped by almost 36% compared to August, as most people who wanted to sell decided to wait, hoping that prices would rise in the spring. At the same time, prospective buyers, too, hope for a favourable situation for themselves next year, expecting prices to fall.

This gradually brought equilibrium to the market, and a "recovery" is thus slowly taking place.

Who feels more secure in the residential market?



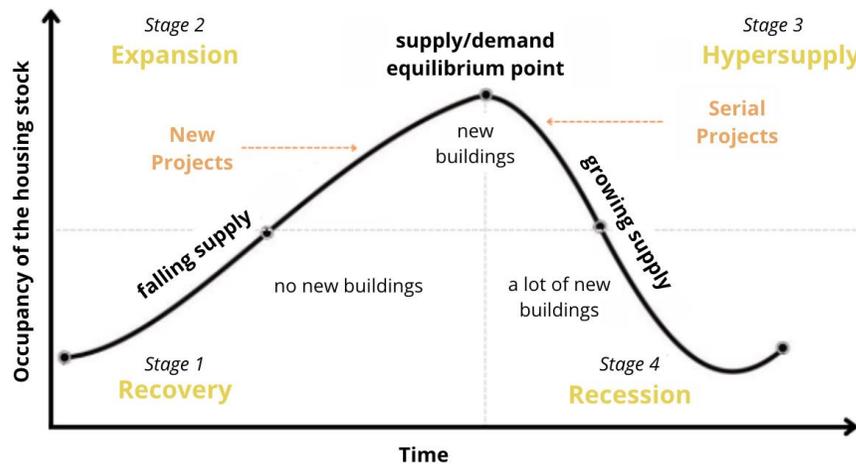
Source: calculated on the basis of "Latio" real estate agents' ratings on a scale of 1-10, where 1 is the buyers' market and 10 is the sellers' market

Risk of bubble bursting in OECD countries

With property prices rising in early 2022, a logical question arose - Is this the sign of a bubble? Observing a slight decline in prices in the series- type flat segment in autumn, the question became topical again - Is this the beginning of a bubble bursting?

To answer this question, it is important to keep in mind that there are other factors controlling the market temperature. In the case of the Latvian market, the following key aspects limited the formation of a potential bubble:

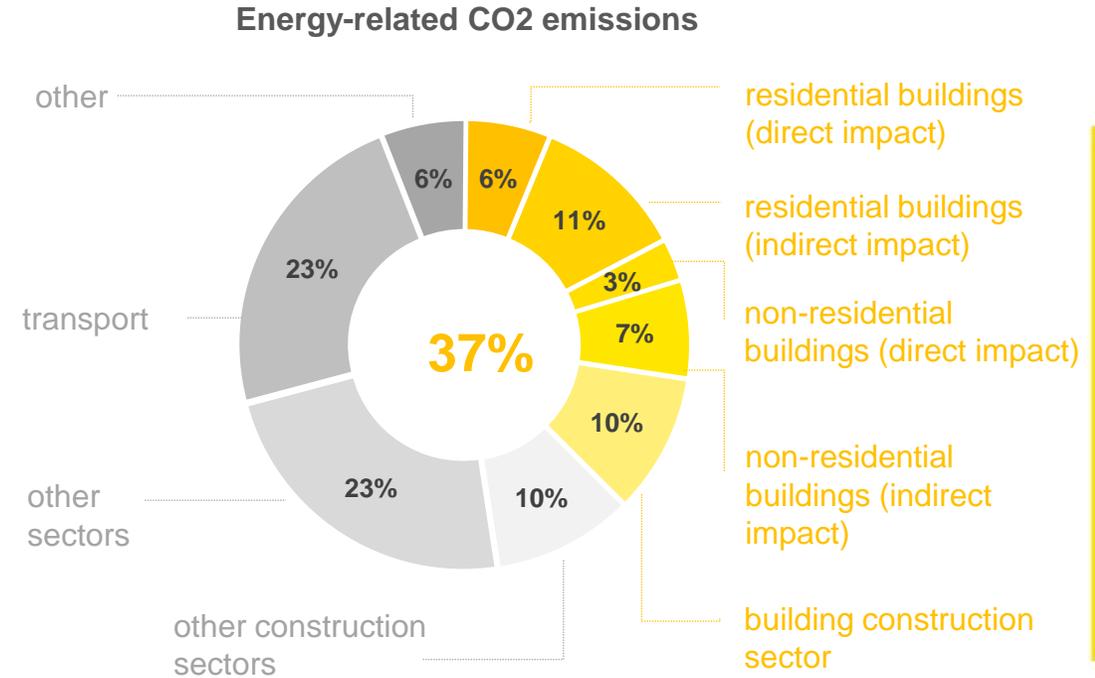
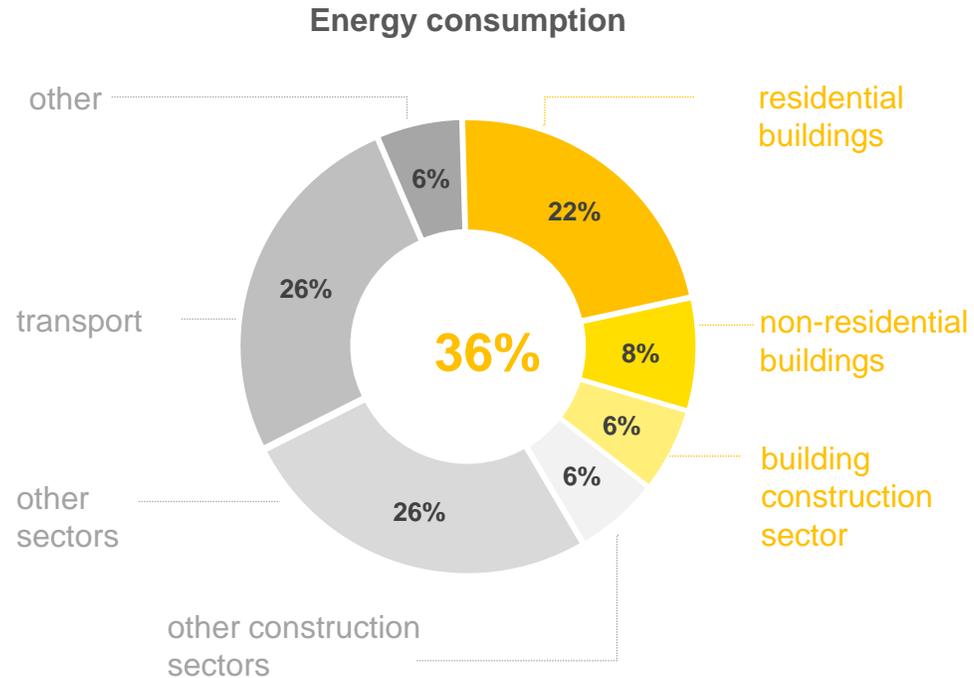
- the limited supply of good properties for which demand is still relatively high
- wage growth slower than price dynamics
- concerns of the population about the increase in heating bills in the series-type apartment segment
- rapidly rising construction costs, that prevent developers from reducing the prices of apartments in new projects
- tight credit policies of commercial banks



Country	Degree of risk	Price to Rent Ratio	Price to Income Ratio	Real Price Growth %	Nominal Price Growth %	Credit Growth %
New Zealand	1	162,60	149,30	19,76	25,18	1,50
Czech Republic	2	176,10	146,10	11,23	24,69	2,40
Hungary	3	167,90	139,80	9,44	20,52	-0,50
Netherlands	4	160,50	146,80	13,46	19,53	-3,30
Australia	5	141,50	119,70	21,09	23,69	-3,30
Canada	6	160,40	151,00	11,52	17,77	-4,70
Portugal	7	159,10	147,20	9,02	12,94	-2,00
USA	8	139,20	136,30	11,68	18,73	-2,50
Austria	9	134,10	140,90	11,60	14,91	-1,30
Russia	10	157,60	99,80	11,62	22,77	-1,40
Luxembourg	11	166,50	143,80	8,25	12,05	-5,70
Germany	12	151,00	138,40	6,99	12,33	-0,90
Lithuania	13	128,10	107,80	6,75	19,11	0,87
Latvia	14	164,90	113,30	7,62	17,41	-8,27
Sweden	15	131,60	117,40	6,23	10,28	-1,20
Switzerland	16	123,80	123,40	6,96	8,70	-1,70
Japan	17	114,70	111,00	8,68	9,22	1,30
Estonia	18	121,10	117,10	7,83	20,82	-8,18
United Kingdom	19	129,10	121,70	4,60	10,07	-4,10
South Korea	20	113,00	108,80	3,97	7,47	3,10
Chile	21	132,30	117,30	5,56	12,26	-7,80
Ireland	22	126,50	115,90	6,82	20,52	-12,60
France	23	127,30	113,20	4,30	7,35	-2,30
Spain	24	132,10	123,70	2,50	8,56	-6,40
Poland	25	121,40	109,30	3,30	13,52	-6,40
Denmark	26	132,70	120,80	1,20	6,67	-6,40
Greece	27	133,60	109,30	3,90	8,54	-7,00
Columbia	28	121,80	113,80	2,20	7,75	-6,20
Belgium	29	119,10	107,00	-0,31	6,38	-5,60
Norway	30	125,10	112,00	4,09	7,15	-13,60
Finland	31	102,60	99,10	0,70	4,26	-2,30
Italy	32	104,10	94,30	-0,09	4,62	-3,30
South Africa	33	103,80	100,00	-2,02	4,00	-7,10

S U S T A I N A B I L I T Y A N D
E N E R G Y E F F I C I E N C Y

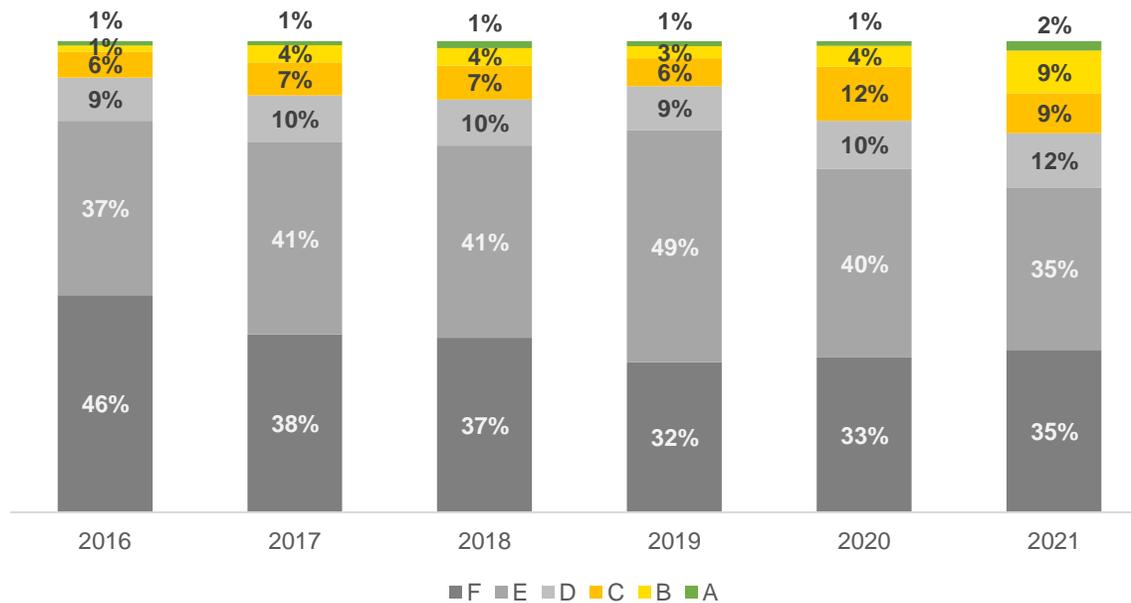
Housing and construction are the most energy-intensive sectors



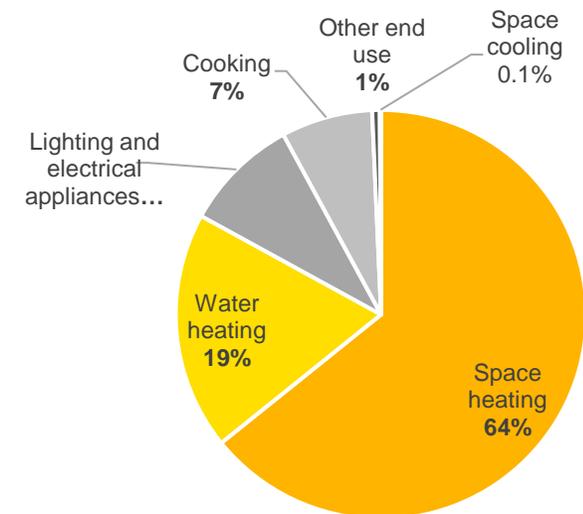
- According to a UN study, the real estate and construction sectors together account for around 37% of global emissions and consume around 36% of global energy. This is more than any other sector.
- Housing consumes around 22% of global energy and accounts for around 17% of global emissions.
- Clearly, as the European Union embarks on its Green Deal, these are the sectors that will come under the spotlight.

The majority of the Latvian population lives in energy-inefficient housing

Distribution of energy performance certificates for buildings by energy efficiency class

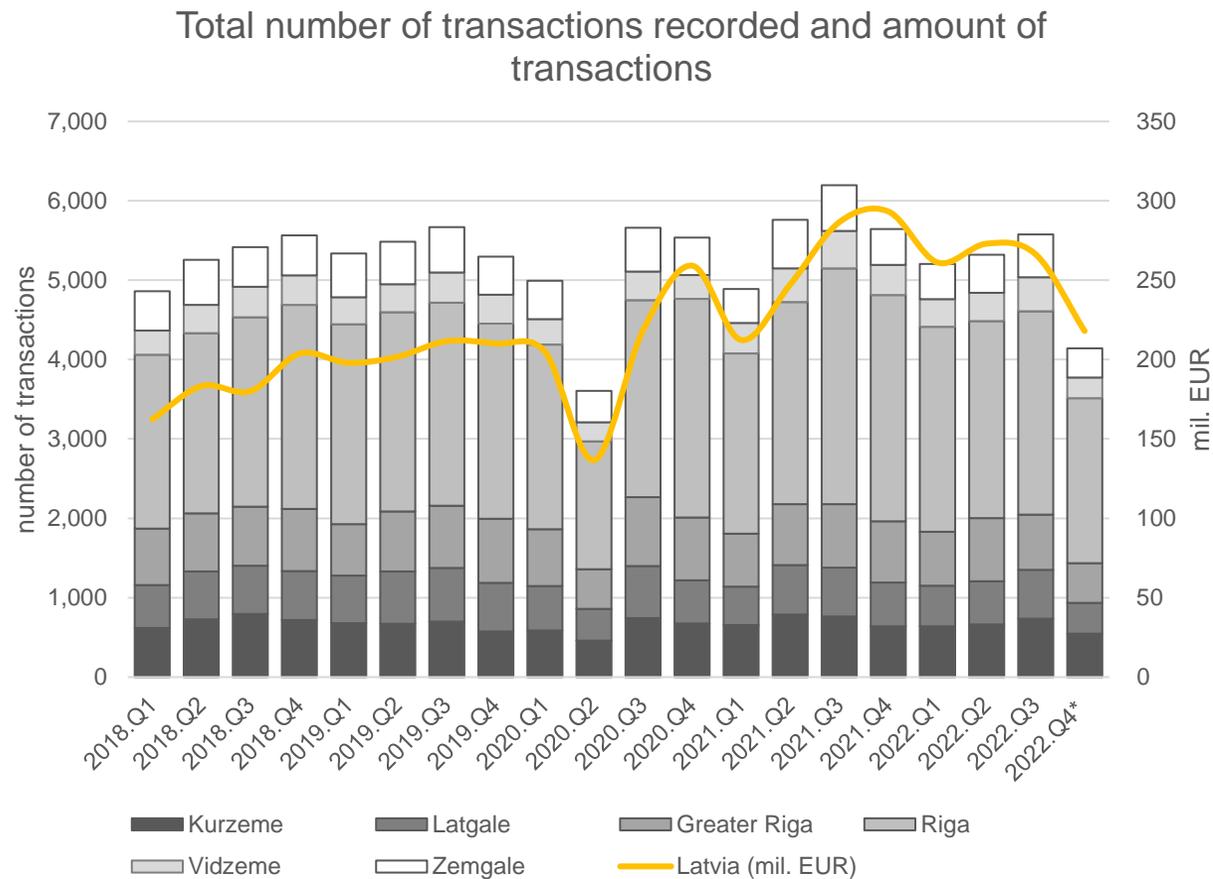


Household energy consumption by its type in Latvia in 2021



HOUSING MARKET

Apartment market in Latvia

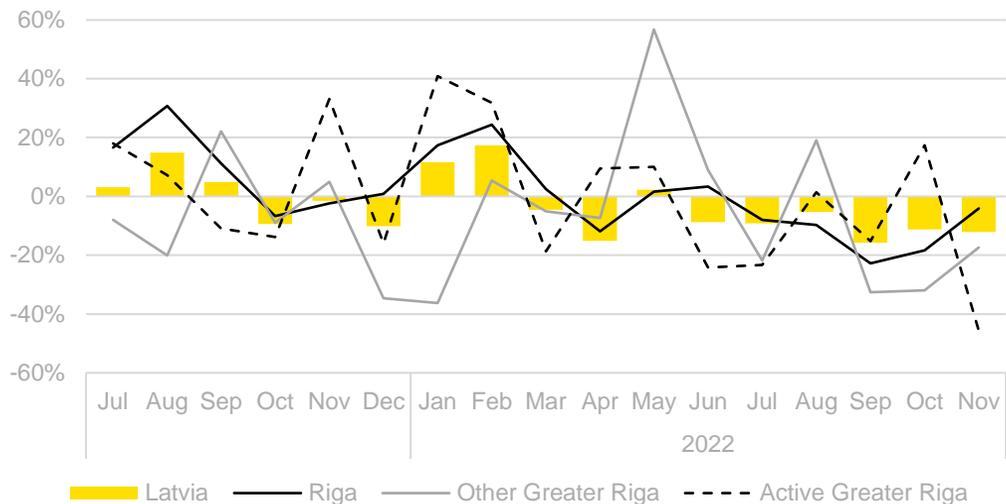


* Data will be updated once several transactions in November and December will be registered in the Land Register in the following period (Q1 2023)
 ** %, Y/Y - percentage change compared with corresponding period of the previous year, by month

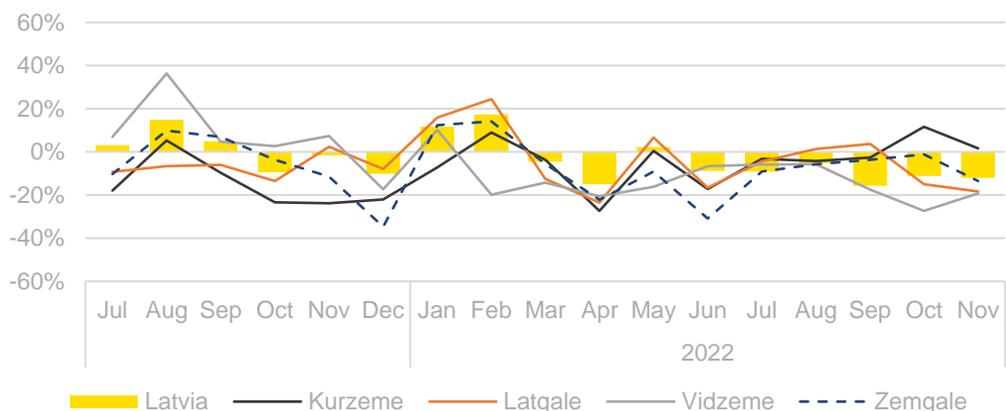


Apartment market in Latvia

Monthly changes in the number of transactions (% , Y/Y)**



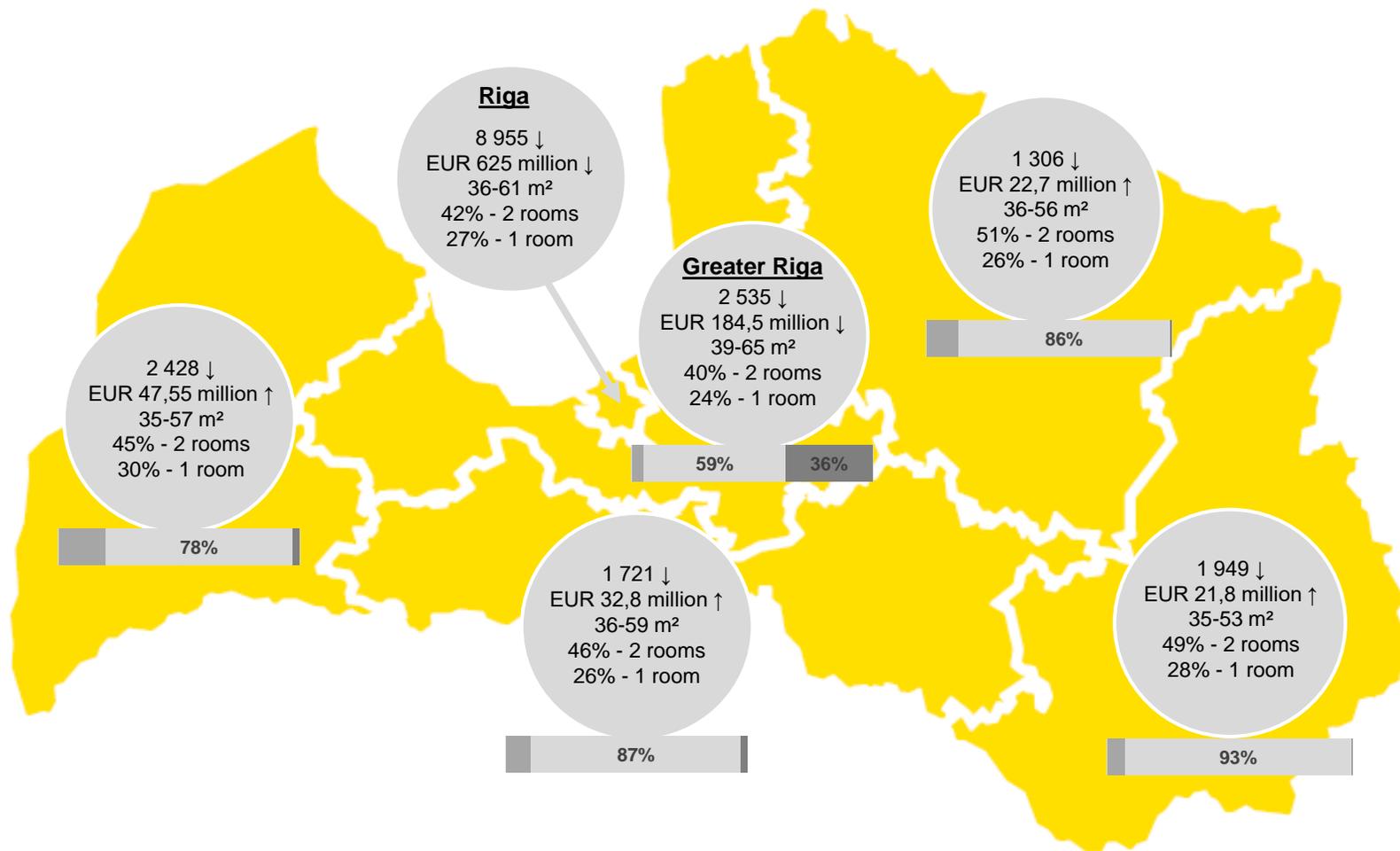
Monthly changes in the number of transactions (% , Y/Y)**



Source: SLS data, *Latvio* calculations

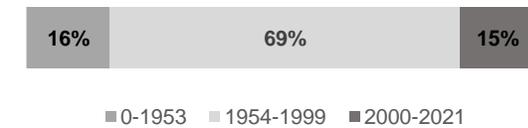


Apartment market in Latvia



Number of transactions	19 240 ↓
Number of transactions with 1 room apartments	27%
Number of transactions with 2-room apartments	44%
Number of transactions with 3-room apartments	23%
Gross transaction value	EUR 961,1 million ↓
Average space (median)	50,3 m² ↓ (47 m²)

Number of transactions depending on the year the building was completed

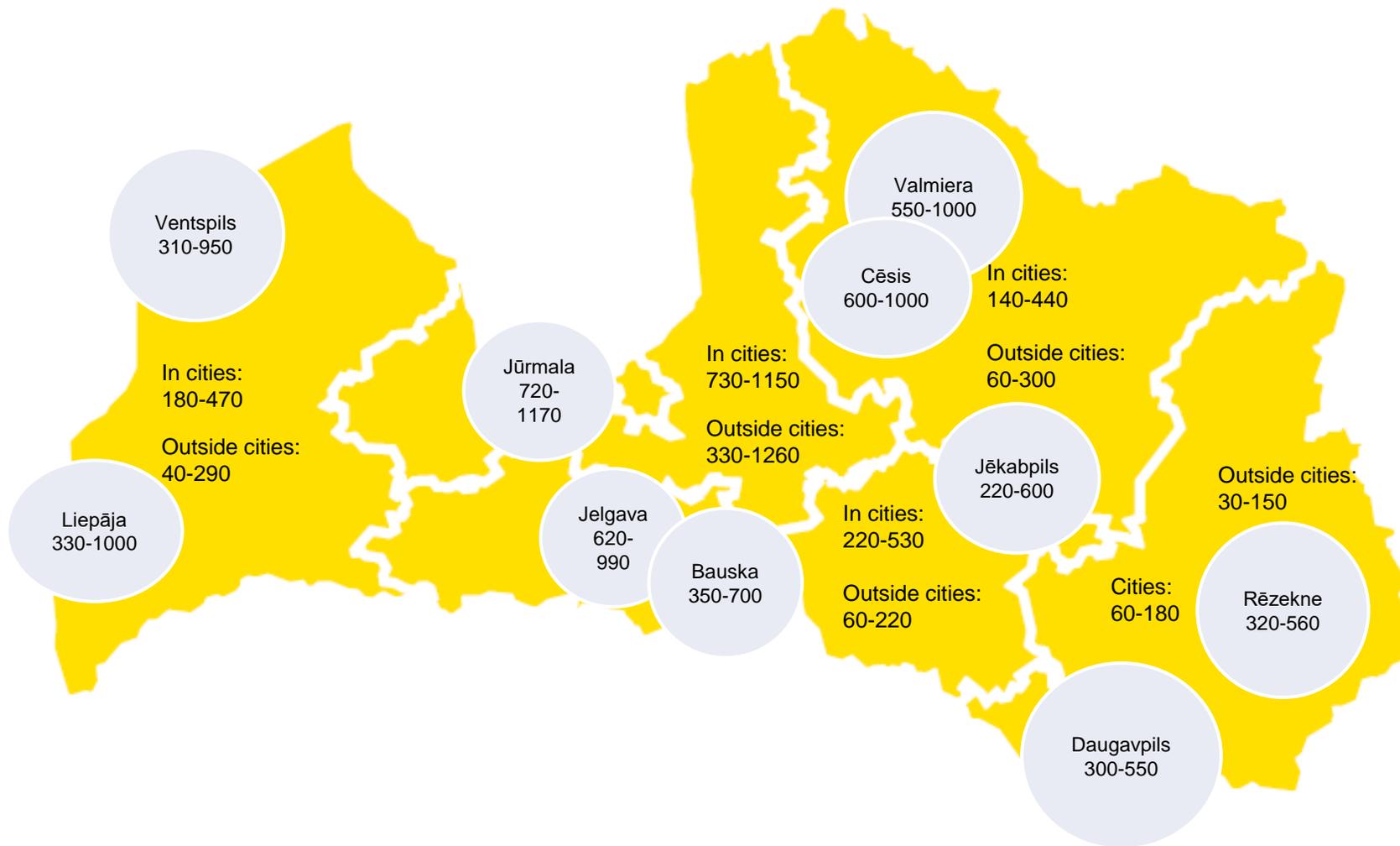


On the map:

- Number of transactions and changes in the region
- Total transaction amount and changes
- Most sought-after areas
- Number of transactions with 1 - and 2-room apartments
- Number of transactions depending on the year the building was completed

* All changes are presented by comparing data for January-November 2022 with the corresponding period of 2021. Data are only provided for transactions where one whole apartment has been sold as one group of premises

Apartment prices in regions of Latvia



Average price of two-room apartments built in 1954-1999 (euro)

Region	In cities	Outside cities
Active Greater Riga	47 100	40 100
Rest of Greater Riga	37 900	36 400
Zemgale	27 600	11 600
Kurzeme	23 600	11 700
Vidzeme	35 500	11 800
Latgale	15 400	5 300

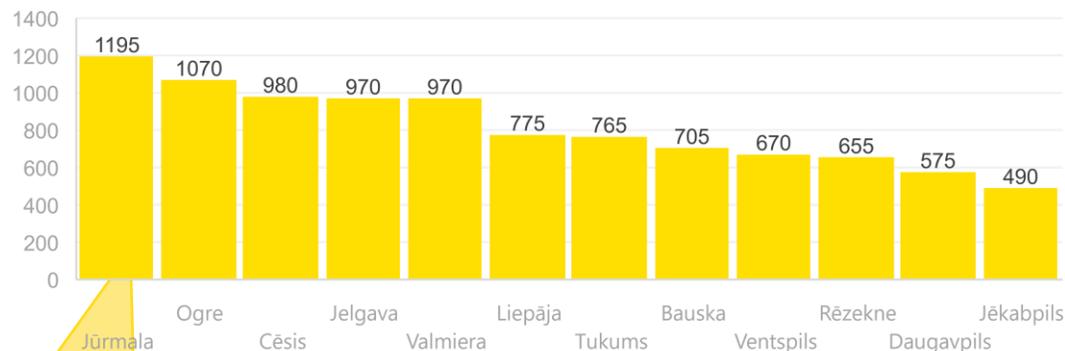
On the map:
Average price in euro per indoor m² for apartments within buildings completed between 1954 and 1999

* The price of the apartment is significantly influenced by the quality of the buildings

** Average prices in cities are presented without considering individually marked cities (for example, the average price of Kurzeme cities has been calculated excluding the prices of Liepāja and Ventspils apartments, Greater Riga cities excluding Jūrmala, etc.).

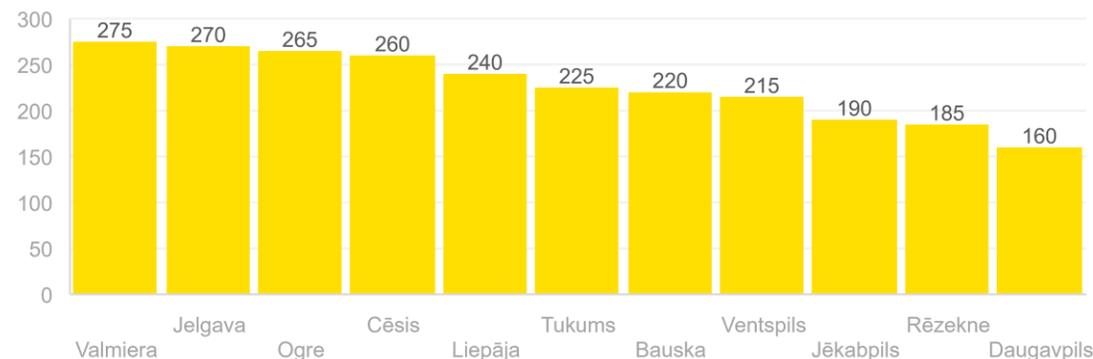
For-sale and long-term rent classified ads in Latvian cities

Asked prices of serial apartments in ads (EUR/m²)

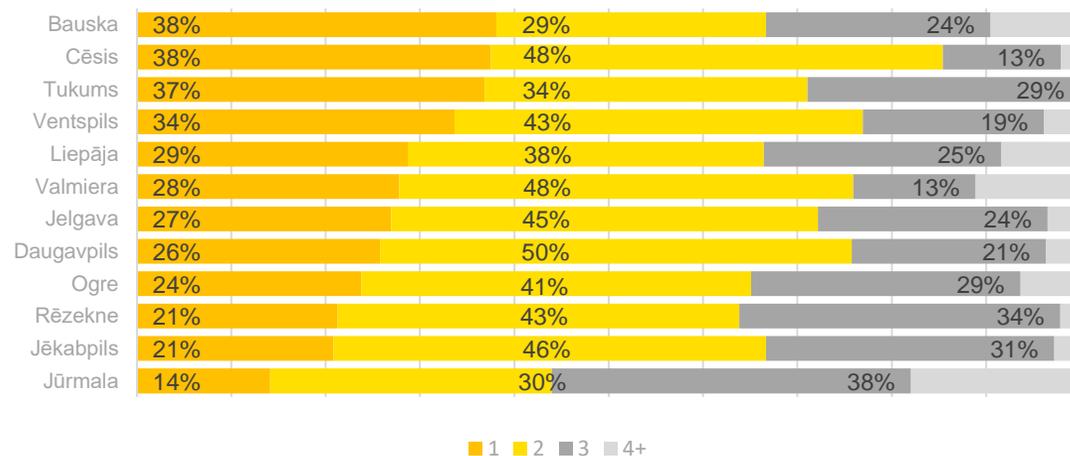


Kauguri, Ķemeri, Sloka, Valteri:
990 EUR/m²
Other parts: 1 580 EUR/m²

Asked rent of serial apartments in ads (EUR/mo)



Number of for-sale ads depending on the number of rooms

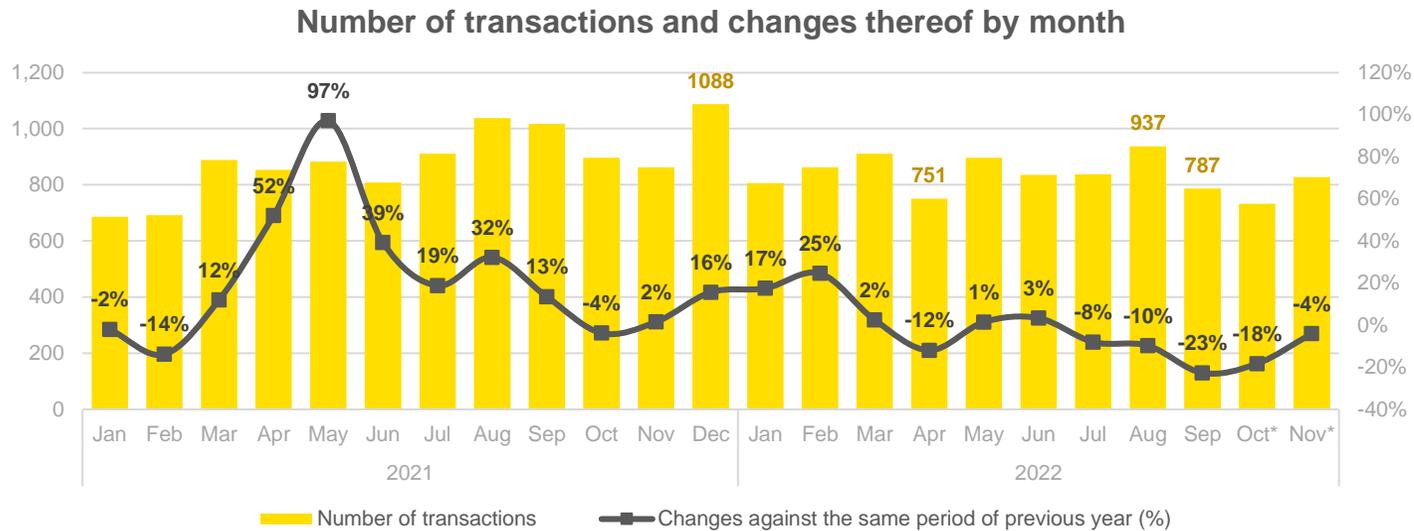


The substantial increase in listings was mainly due to large properties, often with outdated finishes and energy inefficient. While buyers were looking for the opposite, the supply of new projects has been very scarce. In August, only around 624 new-build apartments were available in Riga, down 15% compared to January 2022. This market situation still allowed owners of unprofitable apartments to sell their properties. However, because of unwillingness to cut the price, this has become much more difficult and, without the involvement of estate agents who know the specifics of approaching prospective buyers and how to highlight the best features of the properties, almost impossible within a reasonable timeframe.

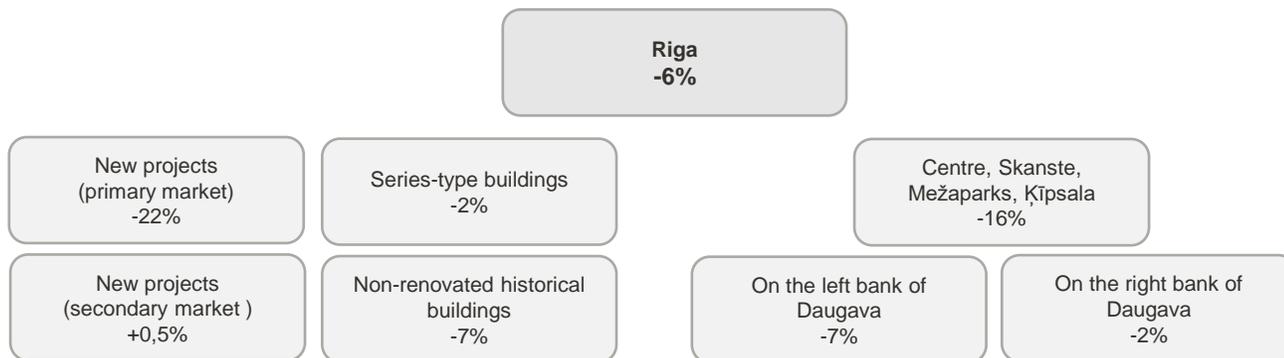
By August, prices for series-type apartments were rising, but in September and October, it was already evident that sellers were starting to reduce prices and rent slightly in order to attract buyers' attention due to the high supply in the advertisements.

The share of non-renovated and older apartments in the listings has increased, but more modern apartments were higher in demand anyway, benefiting the seller and the landlord who had already prepared their apartment for sale and rent.

Number of apartment transactions



Change in the number of transactions**



* Data for October and November 2022 partially available
 ** January-November 2022 data compared to the corresponding period in 2021

Riga is illustrative of the entire Latvia, so the trends in the number of transactions do not differ much from those observed in Latvia as a whole.

The housing market in Riga at the end of 2022 can be described largely as a wait-and-see one - with no significant fluctuations in the directions preferred by both sellers and buyers. Sellers tend to keep prices at the summer-autumn levels, not lowering them, and expecting demand to get stronger in the 1st quarter of 2023. Buyers, on the other hand, are much slower to make decisions, carefully evaluating all options and often weighing up the yield potential of a new property. At the same time, the market is not stagnant. Good properties that are tastefully furnished, have modern finishes and do not require additional investments are still selling relatively quickly - within a month on average. Even in serial buildings. But outdated properties that do not meet the latest requirements without a significant price decrease can be for sale for months without a single call. The average number of days it takes to sell a property on the market is now 70.

Unlike in the pandemic years, the market “went on holiday” during the summer months in 2022. This trend was typical of the market each year until the pandemic period when the situation got more active in the summer months thanks to lifting of the restrictions.

Interest in apartments in Riga was also expressed by Lithuanians and Estonians who were eager to invest because the price per square metre in Riga was still lower than in Tallinn or Vilnius.

The most sought-after apartments, both for rent and for purchase, were ready-to-rent, renovated and insulated small apartments with decent finishes. For this reason, there are few such apartments in supply, as they are snapped up and rented out more quickly.

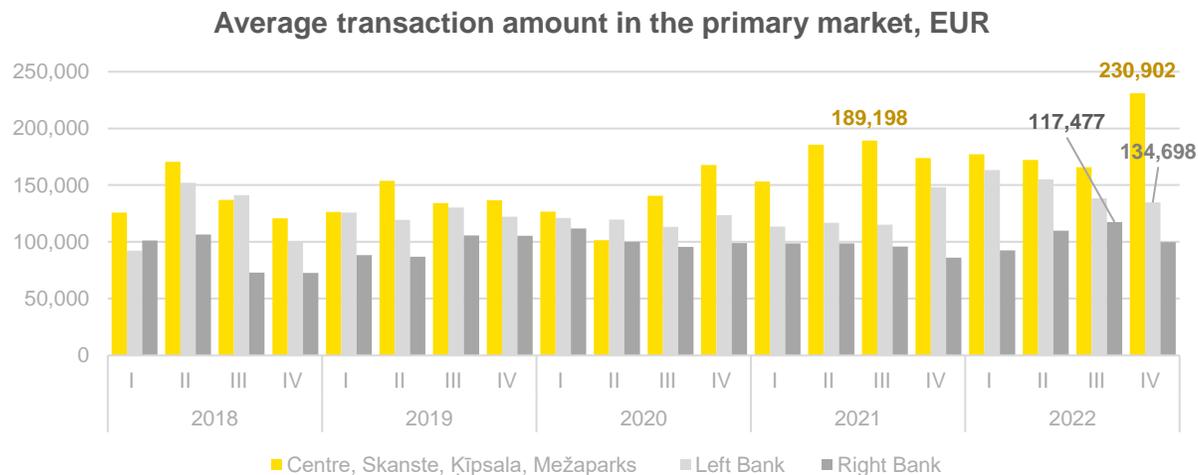
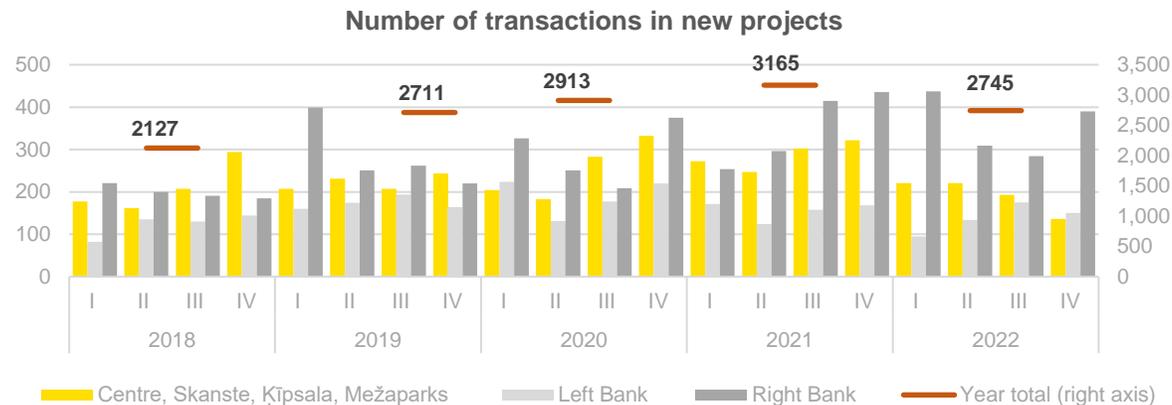
Apartment transactions in series-type buildings in neighbourhoods of Riga



LEFT BANK	Number of transactions	RIGHT BANK
1 703 (-10%)	Number of transactions	3 024 (-11%)
	Number of transactions depending on the number of rooms:	
23%	1 room	29%
45%	2 rooms	41%
26%	3 rooms	23%
79,6 million EUR (↑8%)	Transaction value (changes)	133,5 million EUR (↑6%)
38-59 m²	Floorspace in the strongest demand	36-56 m²
48 m²	Average floorspace	47 m²
Imanta (27%) – 1 137 EUR/m ² (↑13%) Ziepniekkalns (17%) – 1 139 EUR/m ² (↑10%) Iļģuciems (14%) – 1 140 EUR/m ² (↑12%)	Top areas (% of total transactions) - average price per indoor m ² (change)	Purvciems (20%) – 1 149 EUR/m ² (↑9%) Ķengarags (19%) – 1 050 EUR/m ² (↑13%) Pļavnieki (14%) – 1 130 EUR/m ² (↑10%)
Lithuanian project (24%) – 1 075 EUR/m ² (↑13%) Series 602 (21%) – 1 127 EUR/m ² (↑10%) Khrushchev project (17%) – 1 119 EUR/m ² (↑8%)	Top series (% of total transactions) - average price per indoor m ² (change)	Lithuanian project (21%) – 1 046 EUR/m ² (↑8%) Khrushchev project (20%) – 1 070 EUR/m ² (↑8%) Series 602 (18%) – 1 117 EUR/m ² (↑10%)
1 114 EUR/m² (↑10%)	Average price per m ²	1 104 EUR/m² (↑10%)

* changes in the number of transactions are presented by comparing data for January-November 2022 with the corresponding period of 2021. Other data are provided for the data available for 2022.
Data only to be reported for transactions where one whole apartment has been sold as one group of premises

Transactions in new projects



* At the time of reporting, some transactions in Q3 and Q4 were not available

The following projects had the highest number of completed transactions in 2022 (the number of transactions and the average price for indoor space in Q4 are shown in brackets):

In the neighbourhood of Riga Centre, Skanste, Mežaparks and Ķīpsala:

- City Home (63; 2 190 EUR/m²)
- Merks Viesturdārzs (36; 2 960 EUR/m²)
- Fjordi (34; 2 265 EUR/m²)
- B95 (27; 2 430 EUR/m²)
- Strēlnieku 4b (23; 3 750 EUR/m²)
- Park Alley (18; 2 525 EUR/m²)
- Katrīnas Pagalms (18; 2 250 EUR/m²)
- Ernesta Birznieka-Upīša iela 10 (15; 2 300 EUR/m²)
- Blaumaņa 9 (13; 2 355 EUR/m²)
- Mežaparka Rezidences (13; 2 850 EUR/m²)
- Alūksnes 1 (12; 2 057 EUR/m²)
- Hoft (10; 4 285 EUR/m²)
- Magdelēna (10; 4 680 EUR/m²)

On the right bank of Daugava River:

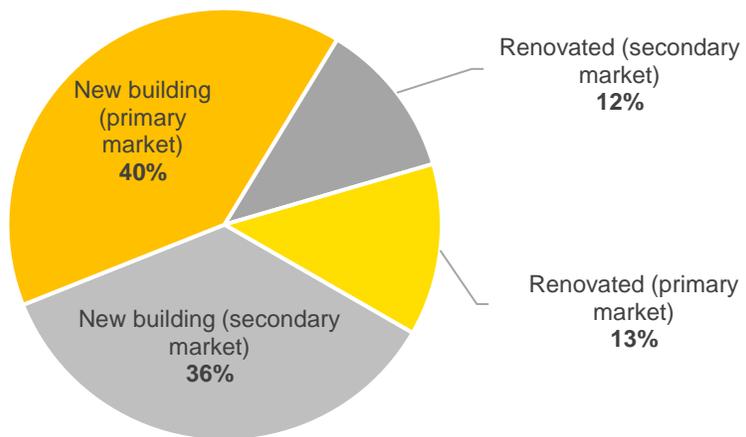
- Silvas nami (115; 2 030 EUR/m²)
- Deglava Gleznotāju rezidence (97; 1 960 EUR/m²)
- Burtnieku nams (79; 1 350 EUR/m²)
- Merks Duntēs Zīles (77; 2 265 EUR/m²)
- Safrāns (77; 2 245 EUR/m²)
- Trebū Home (72; 1 990 EUR/m²)
- Divi krasti (71; 2 200 EUR/m²)
- Green City (70; 2 485 EUR/m²)
- Liepziedi (56; 1 940 EUR/m²)
- Harmonija (35; 2 065 EUR/m²)

On the left bank of Daugava River:

- Vertikāles (67; 2 500 EUR/m²)
- Goldingena Rezidence (29; 2 540 EUR/m²)
- Hoffmann Rezidence (25; 3 415 EUR/m²)
- Ernestīne (20; 2 900 EUR/m²)
- Filozofu Rezidence (18; 4 785 EUR/m²)
- Baložu 9 (18; 3 190 EUR/m²)
- Ventspils 6 (16; 2 700 EUR/m²)
- Mūkusalas 56 (14; 2 515 EUR/m²)
- Staraja Rusas (12; 2 370 EUR/m²)

Sale of apartments in new projects

Number of transactions in new projects



Average indoor prices on primary market for new projects

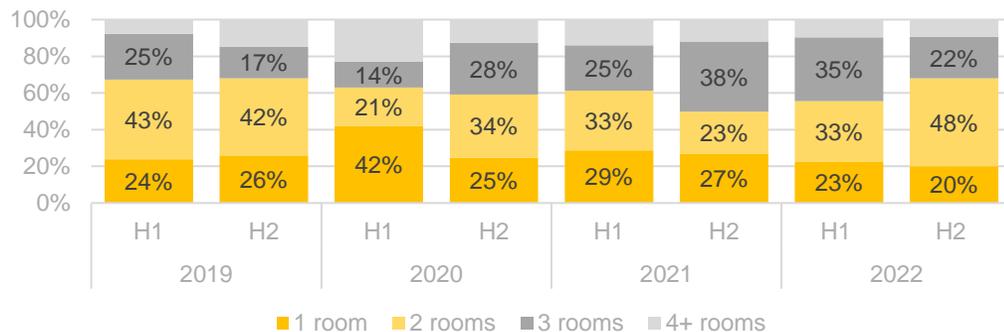
	New buildings	Renovated historical buildings
Centre, Skanste, Mežaparks, Ķīpsala	3 025 EUR/m ² (+15%)	2 310 EUR/m ² (+13%)
Left Bank of Daugava River	2 800 EUR/m ² (+12%)	2 515 EUR/m ² (+3%)
Right Bank of Daugava River (the rest)	2 025 EUR/m ² (+4%)	1 530 EUR/m ² (+3%)
Luxury projects, regardless of location	3 210 EUR/m ² (-1%)	

Source: SLS and *Latvian* data, *Latvian* calculations

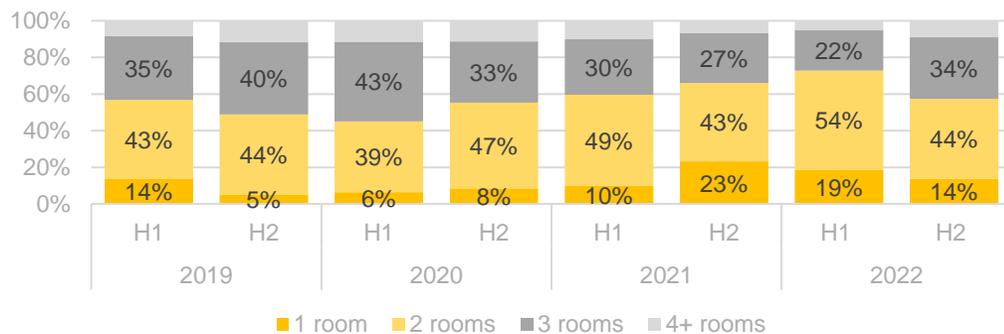


Sale of apartments in new projects

Number of first-time sales in new projects
(Centre, Skanstē, Mežaparks, Ķīpsala)
(breakdown by number of rooms)



Number of first-time sales in new projects
(the rest of Riga)
(breakdown by number of rooms)

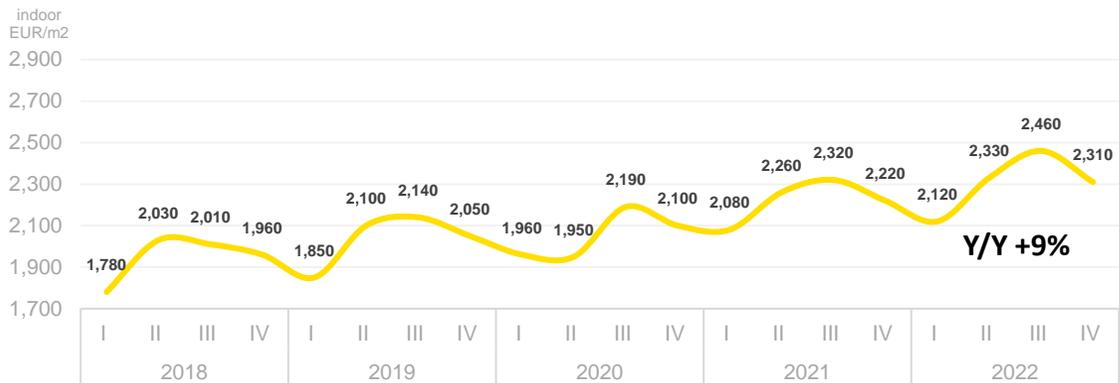


Source: SLS and Latio data, Latio calculations



Supply in the new projects segment

Average prices EUR/m2 in new projects on the primary market, Riga

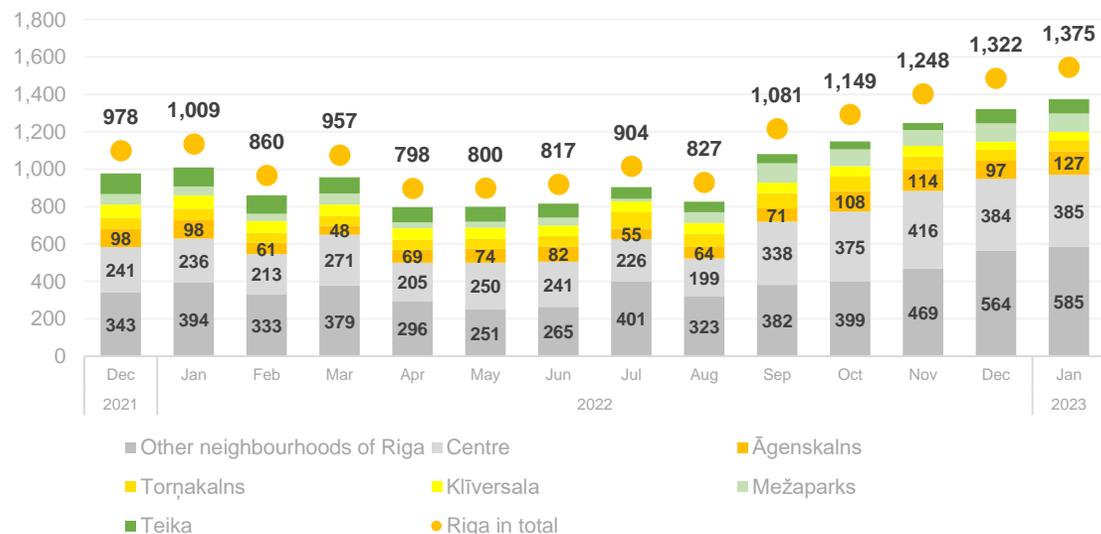


Summarising the data on the supply of new projects in the primary market in Riga, it can be concluded that in the 4th quarter, with the largest supply of new projects in a year entering the market, the average transaction price of this segment of housing has slightly decreased - if in October it reached 2470 EUR/m², then in November it was already 2400 EUR/m².

The decrease in the average price is mainly due to reservations made in advance, but also to the fact that most of the sales so far have been in the cheaper price segment. However, the overall price of these properties in the listings has continued to increase, from EUR 2990/m² in October to EUR 3025/m² in November.

Despite the price fluctuations, prices in this segment have risen by 9% on average over the year.

Number of available apartments in new projects at the end of the month



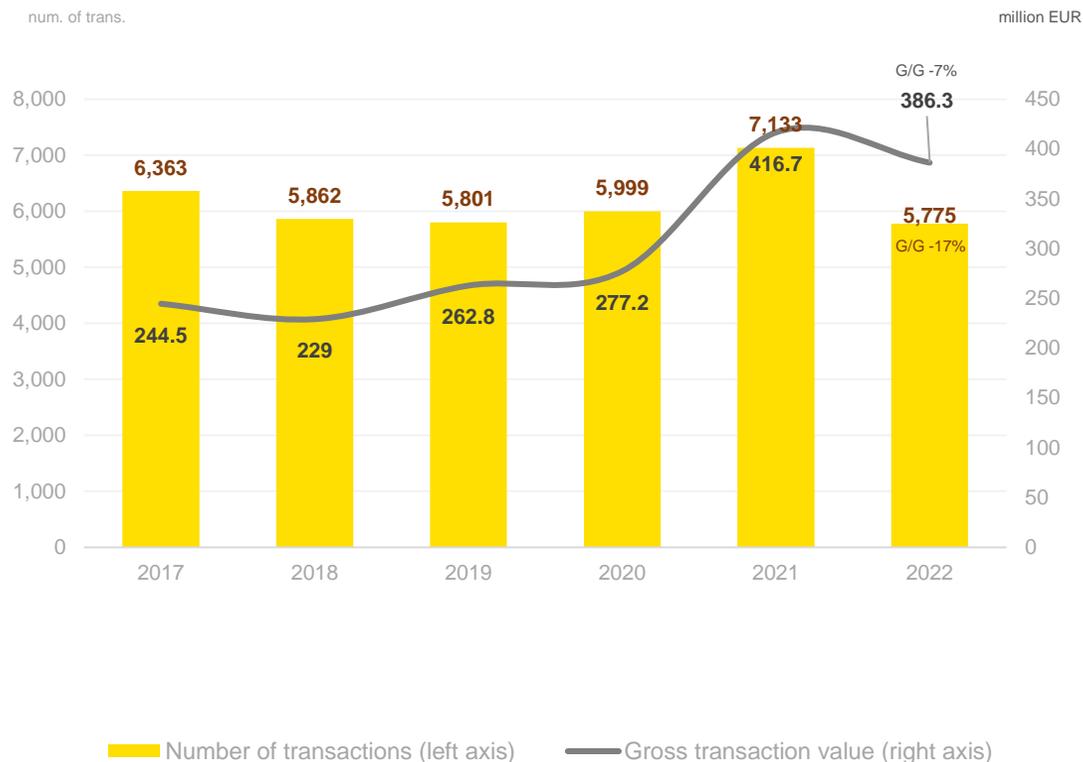
At the same time, prices of new projects on the secondary market have continued to rise compared to the first quarter of the year: the average transaction price for such apartments in the neighbourhoods of Riga was EUR 1850/m² in November and EUR 1750/m² in the first quarter. This confirms once again that there is no reason to forecast a possible price decline in the new project segments in both the primary and secondary markets at present. On the contrary, prices continue to increase.

In total, 385 apartments were available in new projects in the centre of Riga in December, and around 610 - in the neighbourhoods.

Thus, the price increase and the relatively small supply of properties in this segment reaffirm that there is no reason to forecast a significant price decline for new housing projects in the near future.

Private houses

Number of transaction and gross values



Latio experts' observations show that the supply of private houses in the market in Latvia was not able to meet the demand at the beginning of 2022.

It was expected that due to rising bills, a lot of private houses with gas-based heating would flood the market, but this was not the case. Only a few such houses appeared, as most private house owners are not willing to part with their property. Instead, they are looking for cost-effective solutions, such as installing solar panels or a heat pump.

While during the pandemic there was a strong demand for more space, thus providing additional space to relax and work, now buyers and sellers realise that every extra square metre means additional unnecessary costs. Now, many people try to achieve the illusion of extra space with the help of interior solutions. This trend is likely to be long-lasting, as it is expected that people in Latvia will continue to look at different elements of their homes from an economic perspective.

Until June, it took a very short period of time to sell a private house, but in the second half of the year this period has prolonged.

According to Latio experts, the most important factors in the buyer's choice in 2022 were and still are functional and well-thought-out layout, energy efficiency of the building, and modern equipment. Legal obstacles - e.g. illegal construction - can render a property unattractive to buyers. Brand-new houses with modern engineering solutions are more liquid. Compact detached houses, in areas with developed infrastructure, are now selling on average within two months.

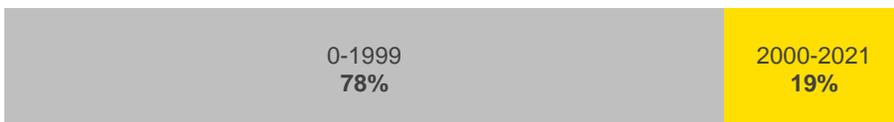
Despite the current situation, demand for private houses in good technical condition is still strong, especially those located in the Baltic Sea Region and offering a low-cost type of heating.

Private houses

Share of transactions by the area of the house



Share of transactions by the construction year of the house

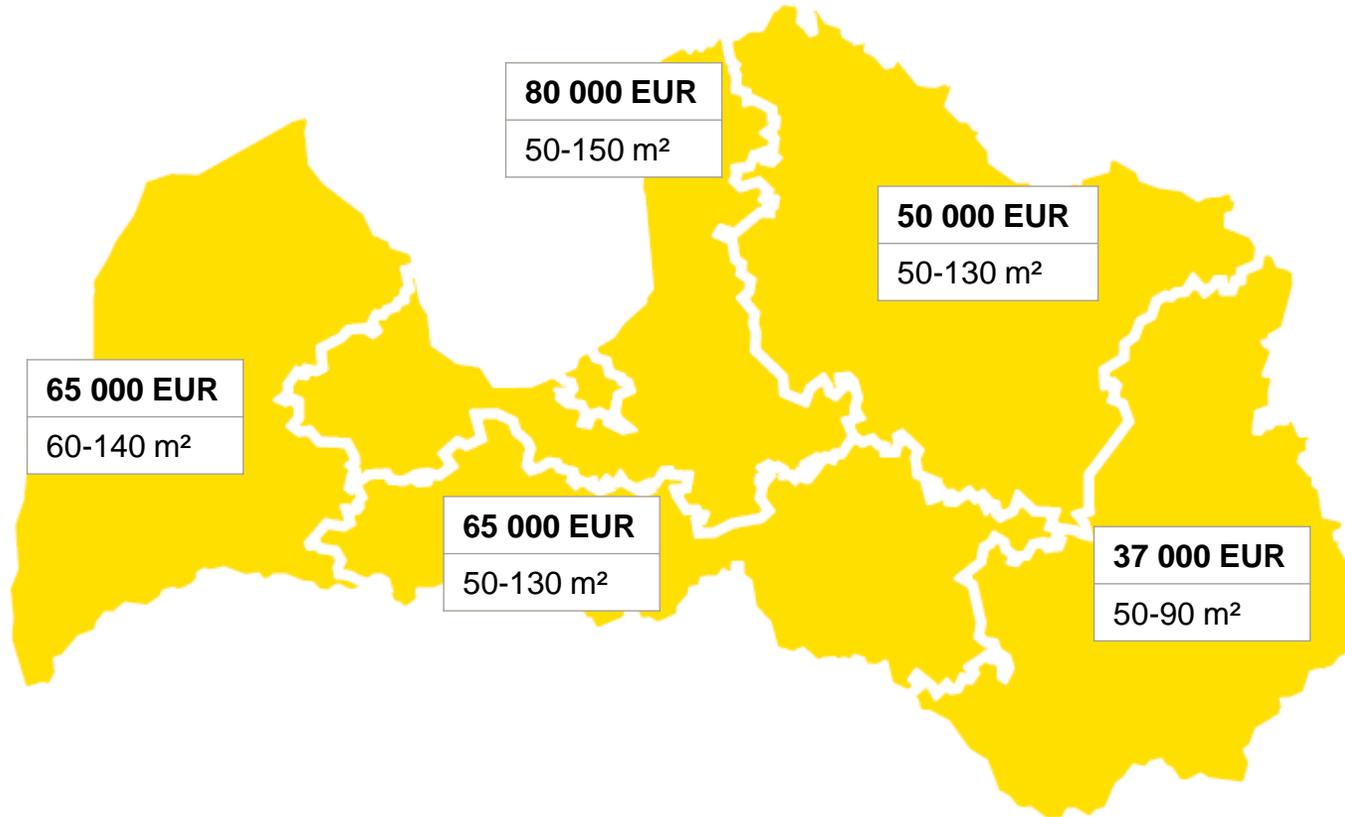


Share of transactions by the number of house floors



Private house prices and most sought-after areas

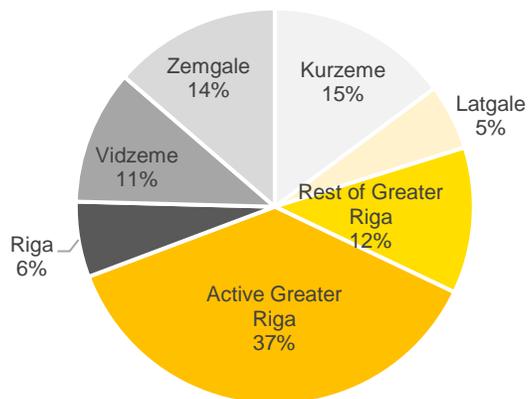
** average transaction values are presented for private houses of 50-150 m² built before 1999*



Active Greater Riga Area	
Space in the strongest demand	70-220 m ²
up to 150 m ² , built after 2000	135 000 EUR
100-150 m ² built after 2000	170 000 EUR
150-200 m ² built after 2000	210 000 EUR
200-250 m ² built after 2000	230 000 EUR

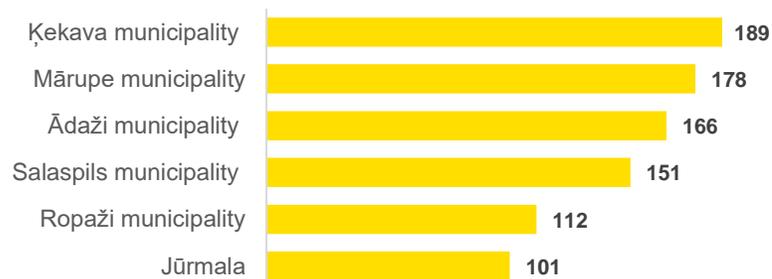
Residential development land

Breakdown of the number of transactions by region in 2022



	2022/2021
Kurzeme	-31%
Latgale	-23%
Rest of Greater Riga	-37%
Active Greater Riga	-40%
Riga	-32%
Vidzeme	-25%
Zemgale	-29%

Number of transactions in Greater Riga Area municipalities



Changes in the number of transactions 2022 vs. 2021:

Mārupe municipality -62%
 Ādaži municipality -56%
 Ķekava municipality -55%
 Ropaži municipality -62%
 Salaspils municipality -37%
 Jūrmala -23%

While demand for private land is still strong, there has been a decline in the number of transactions, which is due to a lack of good supply and sellers' reluctance to budge on price, rather than a fall in demand. For example, the bulk of the residential development land has already been sold in Mārupe municipality.

Land is one of the best types of investment, unlike apartments and private houses, because it is a limited resource that is likely to increase in value in the future.

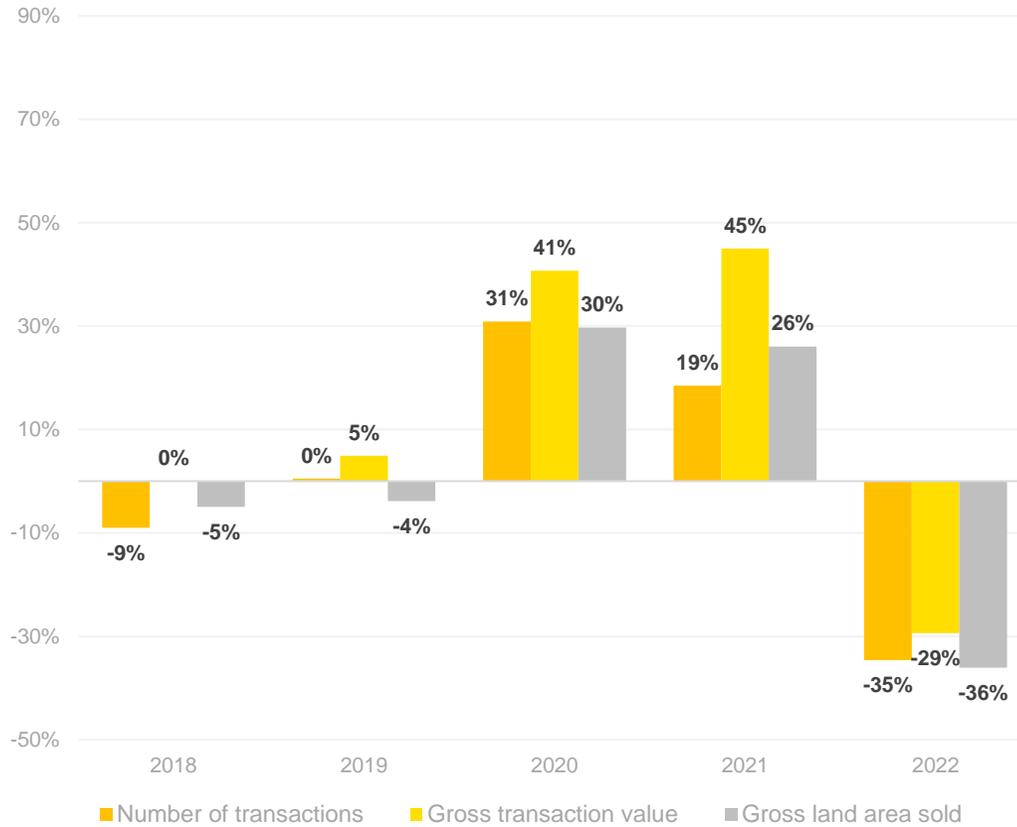
Prices for residential development land have risen across the country.

Riga and the Active Greater Riga are still the most sought-after regions, although demand in the regions has decreased as people are no longer willing to spend longer commuting distances to work in the capital due to higher fuel prices.

* Undeveloped private land. In the chart of the number of transactions in the Greater Riga municipalities: the buyer is not a legal person, state or municipality

Residential development land

Changes in the number, value and area of transactions against previous year

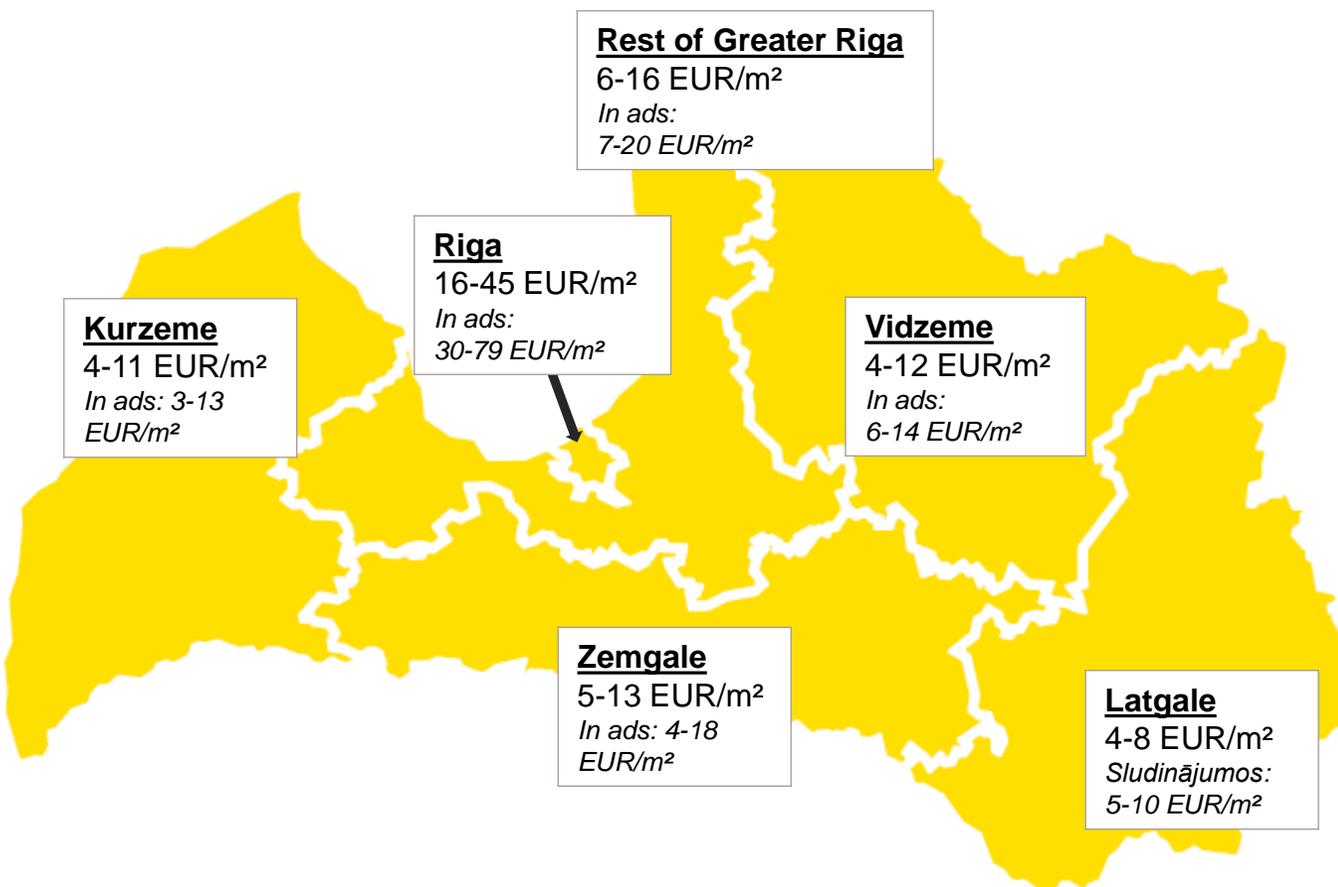


Source: SLS and Latio data, Latio calculations

* Undeveloped private land. In the chart of the number of transactions in the Greater Riga municipalities: the buyer is not a legal person, state or municipality



Residential development land prices



Average prices in active Greater Riga Area (EUR/m²)

Municipalities as of 01.07.2021 reform

	Margins of most frequently recorded sales prices	Limits of the most frequently advertised prices
Ādaži municipality	10-28	15-39
Ķekava municipality	6-14	7-31
Mārupe municipality	13-35	12-48
Ropaži municipality	7-32	17-46
Salaspils municipality	8-19	15-26
Jūrmala	16-59	25-129

On the map:

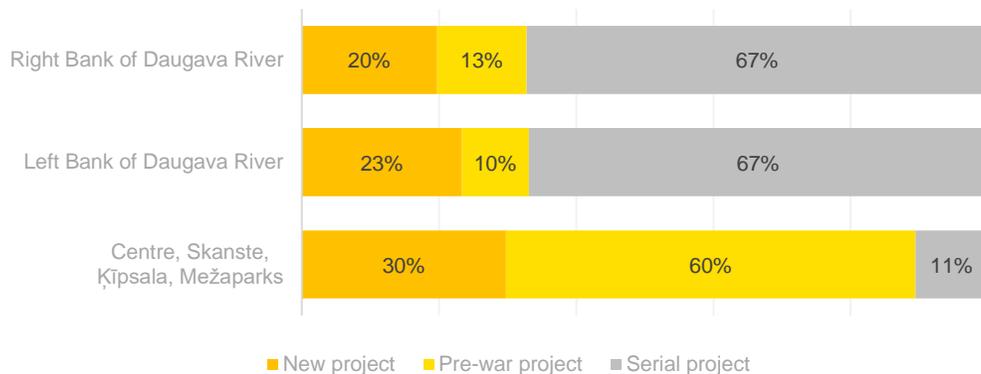
The most frequently recorded sales price margins in the region concerned.

The most frequently published asked price margins in ads in the region concerned.

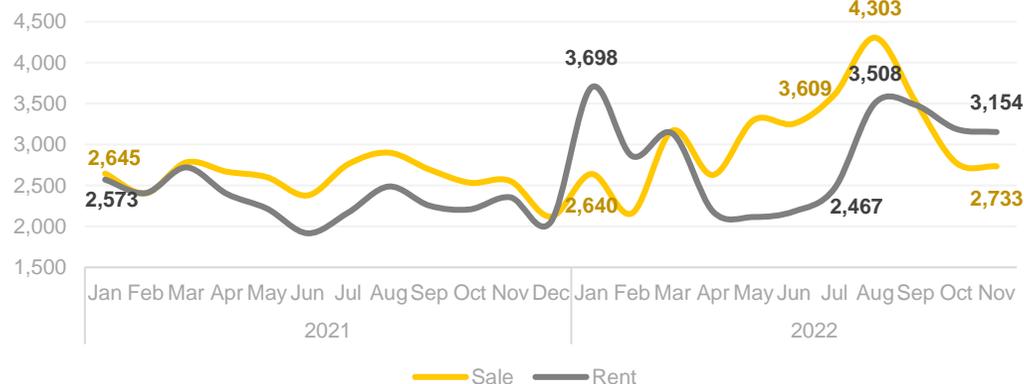
R E N T A L S E G M E N T

Long-term rental supply in ads

Long-term rentals by the house project and location



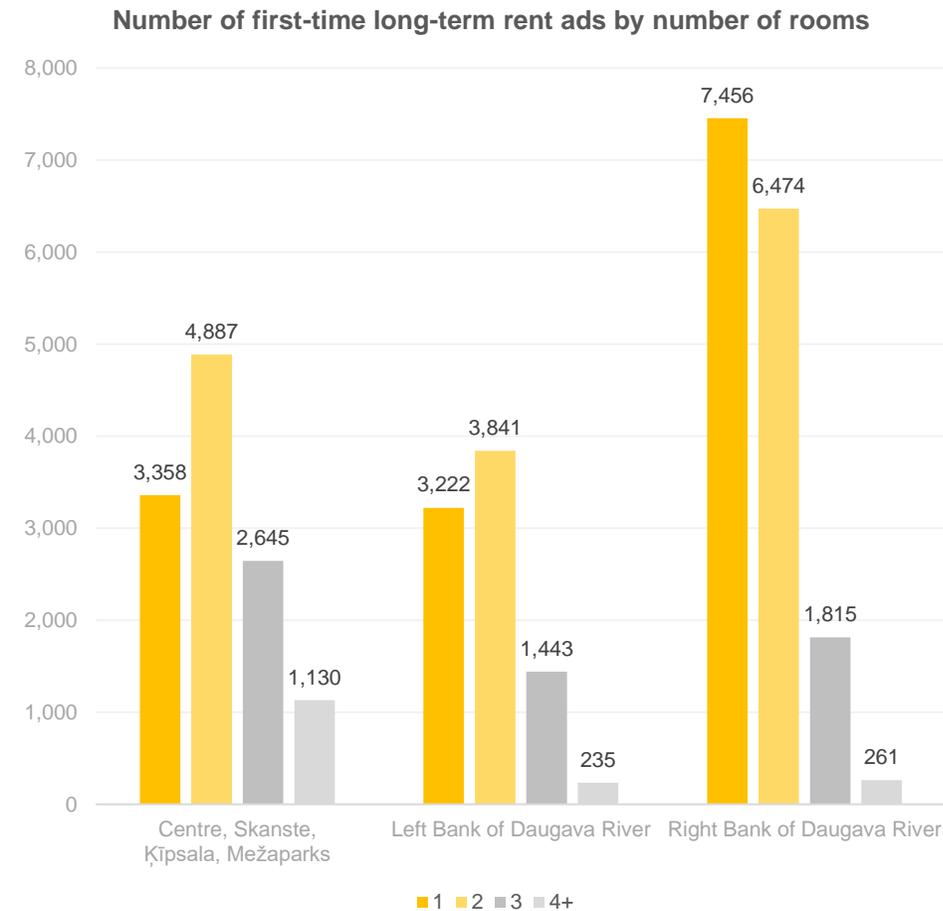
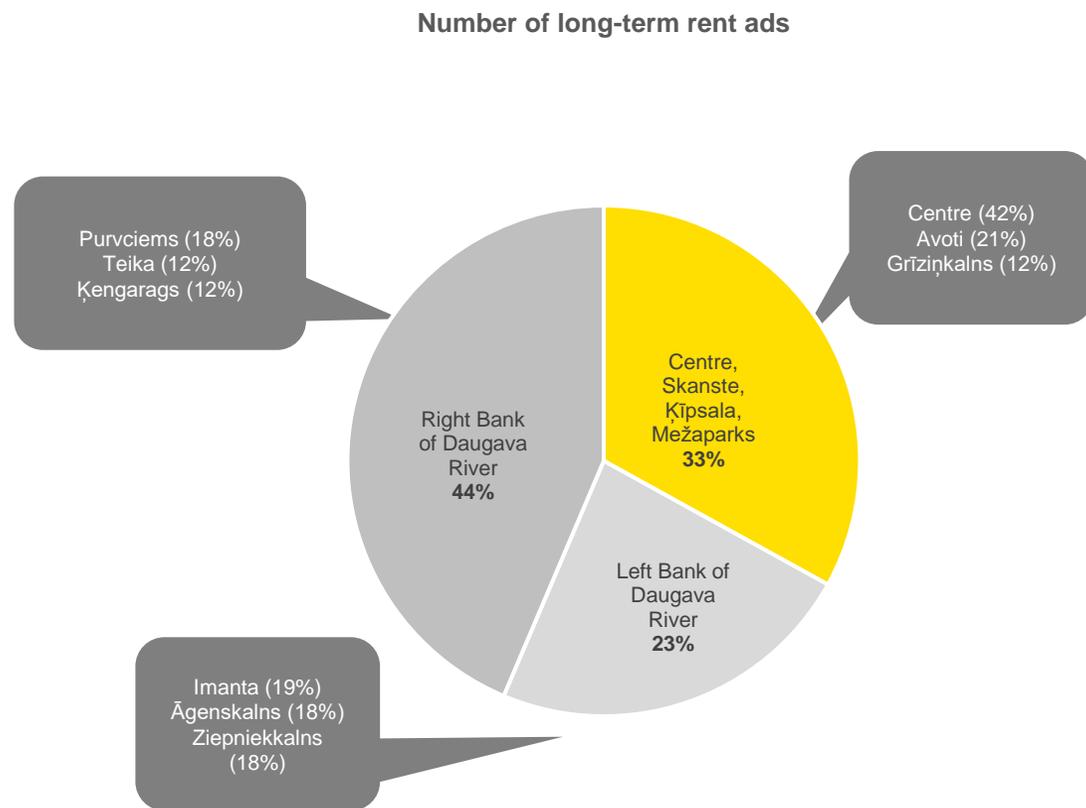
Number of advertisements for sale and rent, Riga



Source: ss.com advertisement data compiled by Latīo



Long-term rental supply in ads



Source: ss.com advertisement data compiled by Latio

Long-term rental supply in the most popular neighbourhoods and projects (EUR/mo.)

Neighbourhood (% of Left Bank ads)	Project (% of neighbourhood ads)	1-room apartment	2-room apartment
Imanta (19%)	Serial project (79%)	245	300
	New project (20%)	400	490
Āgenskalns (18%)	Serial project (37%)	265	335
	Unrenovated pre-war project (27%)	245	345
	New project (23%)	460	610
Ziepniekkalns (18%)	Serial project (78%)	250	315
	New project (16%)	350	465

LEFT BANK



RIGHT BANK

CENTRE, MEŽAPARKS, ĶĪPSALA

Neighbourhood (% of Centre, Mežaparks, Ķīpsala ads)	Project (% of neighbourhood ads)	1-room apartment	2-room apartment
Centre (42%)	Unrenovated pre-war project (63%)	310	450
	New project (30%)	410	660

Neighbourhood (% of Right Bank ads)	Project (% of neighbourhood ads)	1-room apartment	2-room apartment
Purvciems (18%)	Serial project (80%)	250	315
	New project (18%)	370	475
Teika (12%)	Serial project (41%)	260	330
	New project (22%)	280	490
Ķengarags (12%)	Serial project (86%)	235	290
	New project (12%)	370	430
	Unrenovated pre-war project (2%)	215	290

R E G I O N S

Given the global energy situation, people have become more cautious and are in no hurry to buy property before winter. Many are expecting a fall in prices, but if there is one, it will not be more than 10%, because there is only so much housing available. There has long been a shortage of good properties and new projects are not being actively built in the regions.

In Liepāja, Ventspils and Kuldīga there are enough properties to develop and reconstruct, which can be renovated and transformed into either energy-efficient buildings for luxury apartments or rental houses.

Liepāja is gaining momentum, attracting companies that are building new production facilities. The city is attractive for young families with young children because there are schools, kindergartens and sports facilities. There are many recreational areas and parks. From anywhere in Liepāja, one can reach the sea in 30 minutes. Kuldīga is also developing and becoming increasingly popular year by year, while the growth of Ventspils has slowed down.

The average time needed to find a buyer for a property at market price in Kurzeme in 2022:

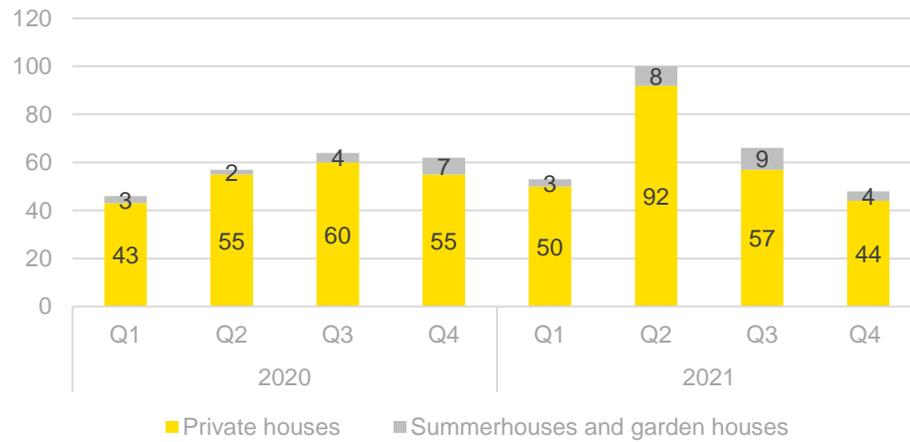
- a well-equipped modern two-storey private house in a good location (e.g. Liepāja) - 30 days;
- a modern apartment in a good location - 28 days;
- residential development land, 1500-2000 m² - up to 3 months.

**EDIJS
SPROĢIS**

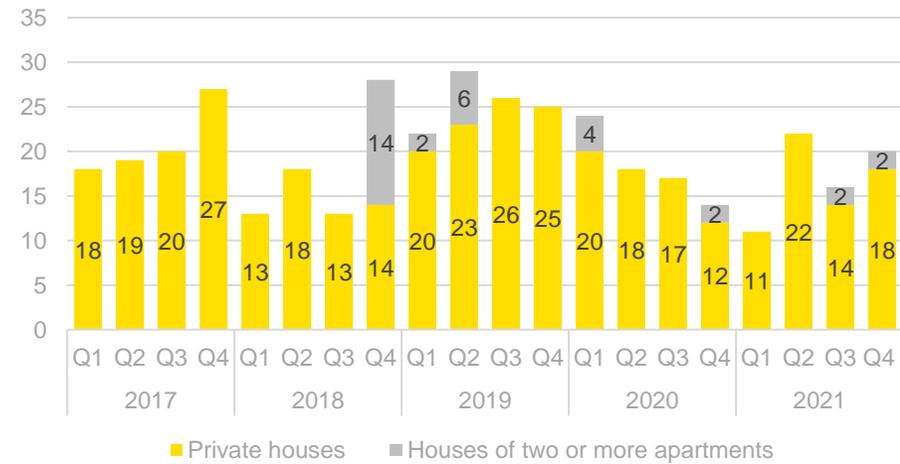
*Latio Real
Estate Agent*



Number of construction permits issued for new buildings in Kurzeme region



Number of new homes put into service in Kurzeme region



LATGALE

The Latgale region has a poorly developed segment of new projects. For example, in Daugavpils, only 7 apartment houses have been built since 2000 (the last one in 2008). In Rēzekne, only 2 apartment houses have been built since 2000 - in 2008 and in 2019, which is a 9-apartment house, and the last apartment was sold in February 2020 (up to EUR 1 010/m²).

The buyers' requirements do not differ much from those of other regions of Latvia. Buyers prefer modern, well-maintained properties in good locations. In the last two years, they have paid special attention to utility bills, but this is still not a crucial factor, as the supply of good housing is limited and the share of renovated houses is low.

In recent months, there has been a noticeable "silence" in the market of Latgale. This is probably due to the upcoming utility bills. There is a demand for private houses that meet modern requirements and were built after 2000 or renovated, modern apartments and waterfront properties.

Latgale is attractive as a place to live because of its unique nature, ~ 5-15 km from the city limits one can buy a dwelling or residential development land in a rural area in a scenic location, for example on a lake shore or surrounded by a forest. In addition, prices are the lowest ones compared to other regions.

The average time needed to find a buyer for a property at market price in Latgale in 2022:

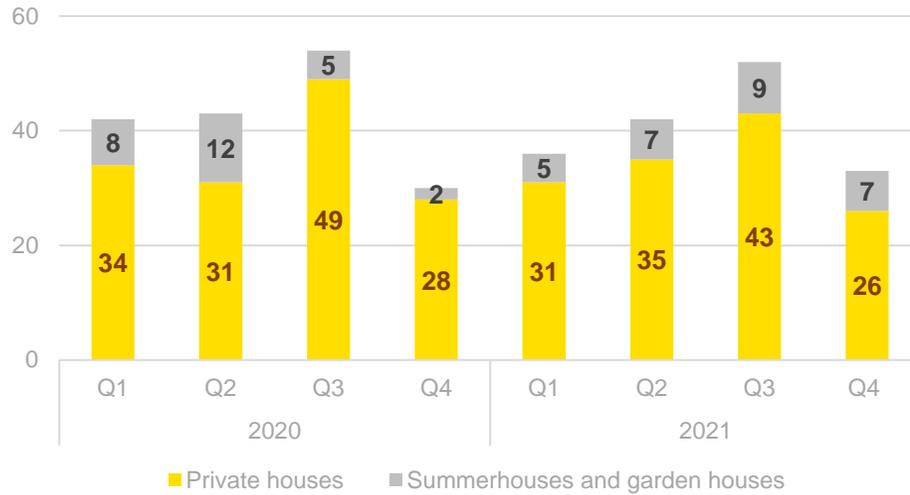
- a well-equipped modern two-storey private house in a good location (e.g. Daugavpils or Rēzekne) - one to two months;
- a modern apartment in a good location - up to one month;
- residential development land, 1500-2000 m² - up to two months. Demand for building plots got stronger and the prices started to rise in early 2021.

**NATĀLIJA
MAKUŠEVA**

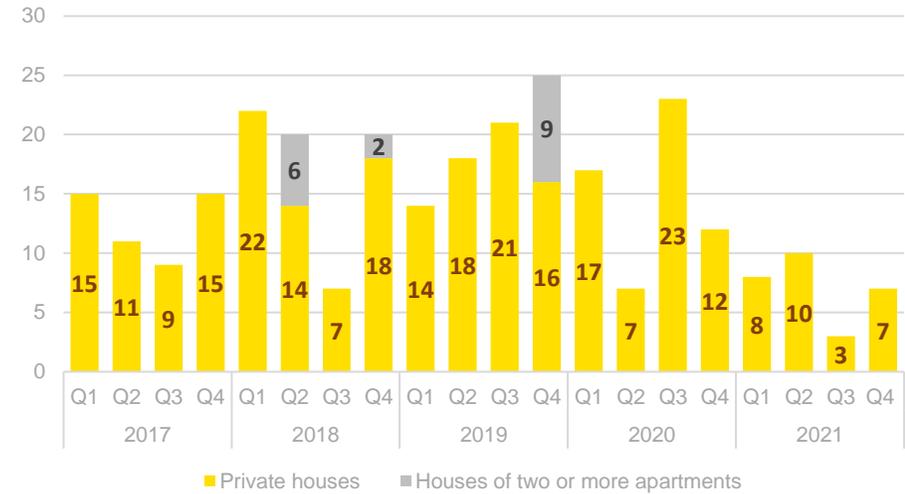
*Latio Real
Estate Agent*



Number of construction permits issued for new buildings in Latgale region



Number of new homes put into service in Latgale region



Zemgale faces a distinct shortage of apartments on the primary market, as developers have expressed little interest in recent years, giving preference to other Latvian cities such as Liepāja. This paradox is difficult to explain, as Jelgava is one of the largest cities, often referred to even as a city of the Greater Riga Area, the population's ability to pay is relatively sufficient, buyers' interest in new projects is very high, so the price difference with Riga's new projects would not be large. There would be even stronger demand for such apartments in Ozolnieki, but there is hardly any supply.

Over the last 2 years, several apartment buildings in Jelgava have been reconstructed to provide rental apartments. Demand for these apartments is strong, despite rental prices which are above the average for apartments of similar quality in the old serial projects.

Over the last six months, there has been a clear trend towards a decrease in buyers' interest in outdated and poorly furnished housing. At the moment, buyers are much more interested in energy-efficient properties with quality finishes that do not require immediate investment. Such properties are even purchased at an inflated price, as evidenced by the fact that the real market value of the property is lower than the purchase price. On the other hand, buyers make offers for properties with poor finishes at below market value. This is due to the high prices of building materials and labour costs.

The average time needed to find a buyer for a property at market price in Zemgale in 2022:

- a well-equipped modern two-storey private house in a good location (e.g. Jelgava) - one to two months;
- a modern apartment in a good location - up to 1.5 months.

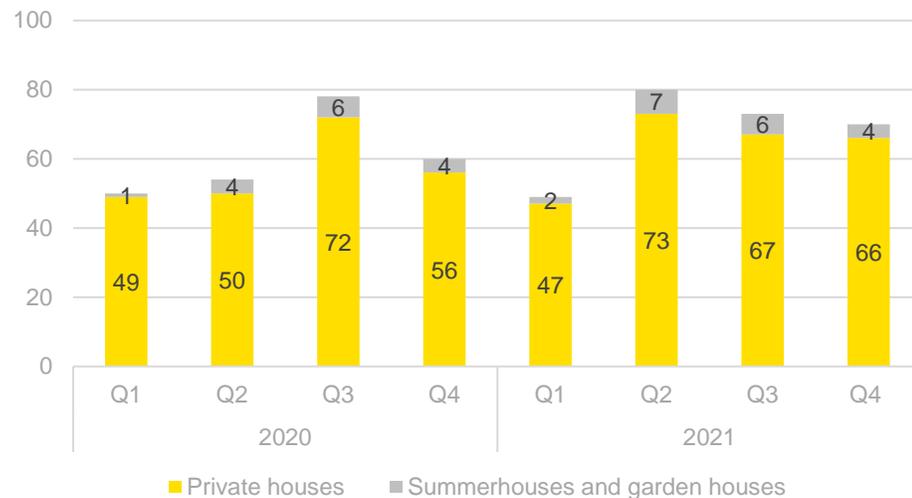
Compared to other Latvian cities, e.g. Valmiera, and Liepāja, apartment owners in Jelgava are less active in improving the energy efficiency of buildings. In the first quarter of 2022, only 25 apartment buildings were renovated in Jelgava.

**INESE
ŠTORHA**

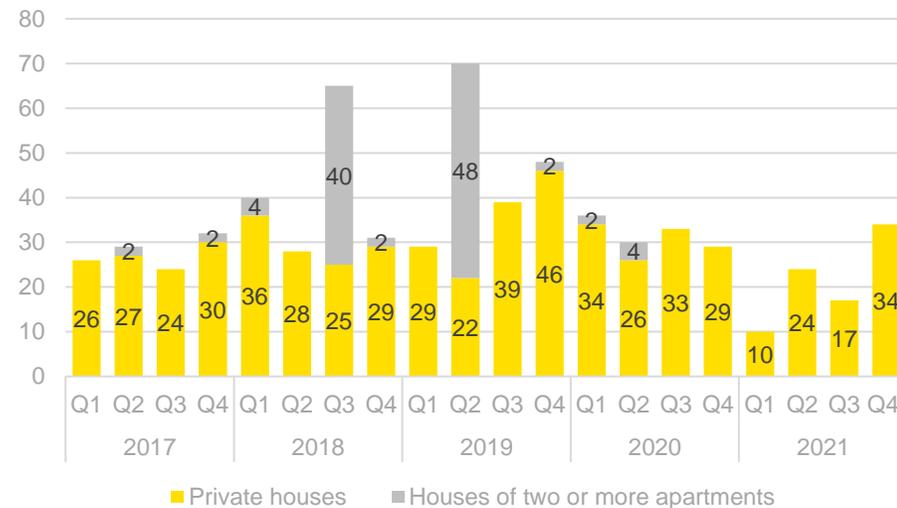
*Latio Real
Estate Agent*



Number of construction permits issued for new buildings in Zemgale region



Number of new homes put into service in Zemgale region



Although the idea of a house in the countryside is in the heart of almost every Latvian, within the region there is a migration of people from the countryside to the cities, so in the cities, there is a greater demand for housing in both the apartment and private house sectors. Buyers who are looking for, but do not find, a suitable home are purchasing building land and building a new house with the help of banks. There are hardly any new houses for sale on the market. There is a trend towards the insulation of private houses and the connection of alternative heating, as the region is dominated by Soviet-era buildings or buildings built in the 1990s, whose technical condition has deteriorated.

Developers of new projects are very cautious and inactive due to the purchasing power of the population and rising construction costs.

In line with the ability to pay, private houses in urban areas are in demand in the price category up to EUR 160 000 (apartments up to EUR 45 000). In the rural area, the price range is between EUR 15 000 and EUR 500 000, depending on the quality of the property, its composition, location, scenic character and the possibility of attracting additional financing. So far, the strongest demand has been for good-quality housing in renovated buildings. The more far-sighted and those who have been in an area for a long time are targeting land that could increase in value in the future.

The average time needed to find a buyer for a property at market price in Vidzeme in 2022:

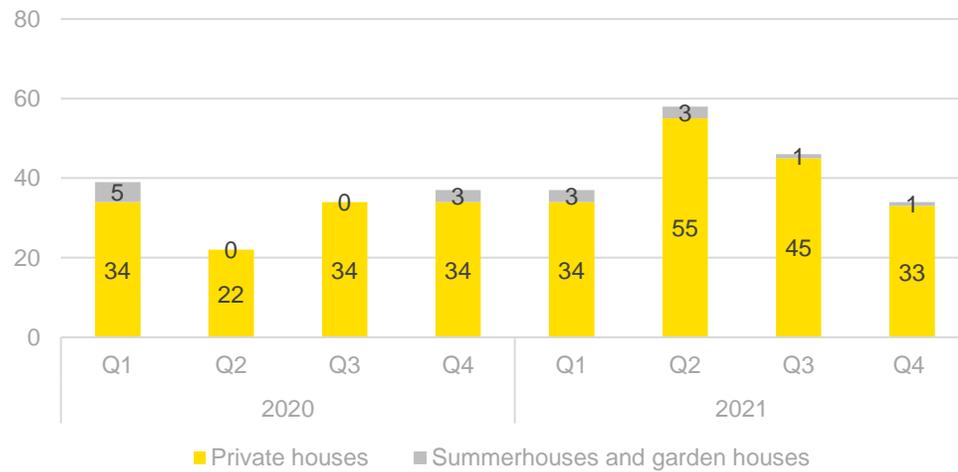
- a well-equipped modern two-storey private house in a good location (e.g. in Cesis) - up to 1.5 months;
- a modern apartment in a good location - 36 days;
- residential development land, 1500-2000 m² - 1 month.

**DAIGA
BLUMBERGA**

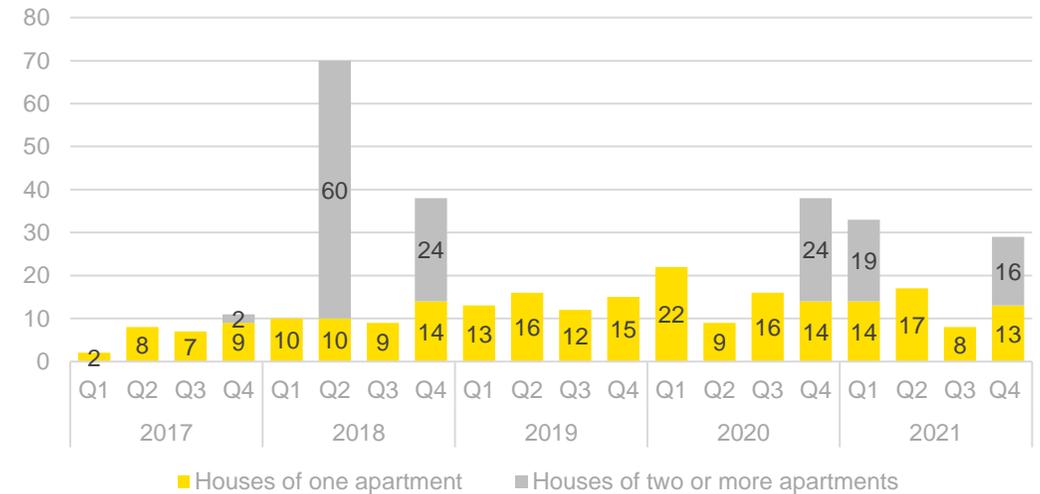
*Latio Real
Estate Agent*



Number of construction permits issued for new buildings in Vidzeme region



Number of new apartments put into exploitation in Vidzeme region



R E C E N T A M E N D M E N T S T O L A W S
A N D R E G U L A T I O N S

Recent amendments to laws and regulations applicable to the real estate sector I

I On 1 July 2022, amendments to the Construction Law entered into force, introducing the tacit approval principle in the construction process.

This means that permits, marks and approvals can be issued by default in cases specified in the building regulations. This principle applies both to the building authority or the body performing the functions of the building authority, and to other public agencies and local authorities in the construction process, and to owners of utility networks and roads with regard to construction works in the protection zones of utility networks or roads owned by them.

If the owner of a utility or a road has not refused the approval of a construction project, the owner or legal possessor shall be deemed to have approved the construction project with regard to the crossing of their utility or road or the execution of construction works in the protection zone of their utility or road.

If the building authority or the bodies performing the functions of the building authority in the cases and within the time limits specified in the building regulations have not adopted a decision or have not made a note concerning fulfilment of the conditions for launch of the construction works in the administrative procedure that requires an explanatory note to propose construction, so it shall be deemed that the building authority has adopted a decision in favour of the construction proponent.

Similarly, other public agencies or local authorities shall be deemed to have approved the construction project and issued the necessary permits in accordance with the information provided by the construction proponent, if no decision on the approval of the construction project has been taken in the cases and within the time limits set out in the building regulations, or if the permits required by the building regulations for the implementation of the construction project have not been issued.

II Amendments to the Law on Apartment Property and the Law on Management of Residential Buildings.

- One of the amendments is related to the extension of the functionality of the Building Information System (hereinafter - BIS). In particular, general meetings and surveys of apartment owners in multi-apartment buildings can now also be held electronically via BIS. However, as of 1 March 2023, the files of multi-apartment buildings will only be kept in BIS for all multi-apartment buildings.
- Other amendments to the Law on Management of Residential Buildings now explicitly state that the mandatory activities of management of a residential building include the obligation to ensure that the land plot is maintained in accordance with the requirements of the laws and regulations if the residential building is located on land owned by some other person and payments for legal land use rights are made through the manager.
- The Law on Apartment Property was also supplemented with an obligation for the apartment owner to pay land rent or legal land use right fees if the apartment building is located on land owned by some other person.

Recent amendments to laws and regulations applicable to the real estate sector II

III On 3 May 2022, amendments to the Law on Expropriation of Immovable Property for Public Needs entered into force, making it easier for state and local governments to acquire immovable property for public needs.

As stated in the annotation to the amendments to the Law, "During the implementation of the Rail Baltica project, it was found that the real estate that will need to be expropriated as part of the project includes land units and structures that have not yet been registered in the Land Registry. There are also cases when it may be necessary to expropriate immovable property which is registered in the Land Registry, but its registered owner has died, and the new acquirer of the immovable property has not yet registered its title to the property in the Land Registry, thus there is no subject to which the procedure for expropriation of immovable property set out in the Law on Expropriation could be applied."

According to the amended Law, a state administration body or a municipality competent for the provision of relevant public needs (hereinafter - the body) is entitled to take all the necessary actions and obtain all the required documents so

that to register the land needed for public purposes in the Land Registry in the name of the land user or legal possessor, and prepares a draft law on the expropriation of land needed for public purposes. The institution shall immediately register the land in the Land Registry in the name of the user or legal possessor of the land, and at the same time enter in the Land Registry a note on the prohibition to alienate and encumber the immovable property with rights in rem and obligations without the consent of the institution.

If the institution establishes that the owner of the immovable property to be alienated is deceased, that no succession case has been opened or that the time limit set in the announcement on the opening of the succession case has not expired, and that no guardian has been appointed for the estate, the institution shall alienate the immovable property and shall credit the consideration to a payment account opened for that purpose and pay it, on-demand, to his heirs or successors in obligations and rights. If the heirs or successors in the title have not requested payment within 10 years of the date of deposit of the indemnity, the indemnity shall be paid into the budget of the State or the local authority concerned.

Recent amendments to laws and regulations applicable to the real estate sector III

IV As of 1 January 2023, the long-discussed and awaited Law on Termination of Involuntary Shared Property in Privatised Apartment Buildings also enters into force.

For the purpose of this Law, an apartment building is an independent property object situated on land owned by some other person and has been privatised in accordance with the procedure set out in the Law on Privatisation of State and Municipal Residential Buildings, the Law on Privatisation of Cooperative Apartments or the Law on Privatisation of Agricultural Enterprises and Fishermen Collective Farms, and its subdivision into apartment properties has been registered in the State Cadastre Information System of Real Estate.

The Law establishes the procedure for termination of the involuntary shared property involving an apartment building and a land plot.

- In order to start the process of exercising the right of alienation, the apartment owners' community of the apartment building shall adopt a decision. Exercising of the right of alienation does not require the landowner's consent.
- The municipality shall adopt a decision on the land plot area functionally necessary for the multi-apartment residential building not later than within six months from the date of receipt of the application for commencement of the process for exercising the alienation right.
- The land area subject to alienation shall be determined under the procedure established by this Law and registered in the State Cadastre Information System of Real Estate by the State Land Service.
- The apartment owners shall purchase the land subject to alienation at the alienation price which shall be equal to the cadastral value of the land unit contained in the land subject to alienation.
- Each apartment owner shall pay a part of the alienation price corresponding to the amount of the undivided joint ownership shares contained in their apartment property composition.

The Ministry of Economy has developed a new support measure - a loan for the payment of the alienation price determined for an apartment building. The loan is expected to be available to apartment owners at the end of the first quarter of 2023.

- According to the website of the Ministry of Economy <https://www.em.gov.lv/lv>, the loan is planned to be granted within the framework of the existing support programme for construction works in multi-apartment buildings and improvement of their territories implemented by the Development Finance Institution "Altum" (the so-called Renovation Fund Programme), complementing the existing support programme with a new type of loan - a loan for the purchase of the land subject to alienation. The loans are planned to be issued within the existing available funding of the Renovation Fund Programme (€31 million).
- Beneficiaries will be apartment owners in a multi-apartment building community - natural persons and legal entities which need financing for the payment of the alienation price (or a part thereof). The apartment owners and the landowner may also agree on other procedures for termination of the involuntary lease. If the involuntary shared property between the apartment building and the land plot is terminated under a mutual agreement, the procedure established by the Law on Termination of Involuntary Shared Property in Privatised Apartment Buildings shall not apply to its termination.

Recent amendments to laws and regulations applicable to the real estate sector IV

V In order to mitigate the bad effects of the Law on Termination of Involuntary Shared Property in Privatised Apartment Buildings, for landowners whose land will be alienated without their consent to apartment owners in privatised apartment buildings under the procedure established by the law, amendments to the Law on Personal Income Tax have been adopted, i.e. Article 9(1) has been supplemented with a new Paragraph 34.1, stipulating that the annual taxable income shall not include and shall not be taxed income from a land plot alienated under the procedure set forth in the Law on Termination of Involuntary Shared Property in Privatised Apartment Buildings if the said land plot has been owned by the payer for more than 60 months (as of the date of registration of the particular real estate in the Land Registry).

VI As of 1 January 2022, amendments to the Law "On the Period of Entry into Force and the Procedure for Application of the Introductory Part, the Law of Succession and the Law of Rights in Rem Part of the Civil Law of the Republic of Latvia of 1937" have been in force, which terminated the legal relationship of involuntary lease and instead the legal right to use land governs the relationship between landowners and owners of independent buildings in involuntary shared property.

The legal right to use land entered into force at different times and, as of 1 January 2023, in all cases of involuntary shared property where the involuntary lease was governed by a valid lease agreement or a court decision,

the legal user charge applies, and the agreed or court-ordered rent no longer applies. The legal user charge is four percent of the cadastral value of the land in use per year, though not less than €50 per year.

VII On 1 January 2023, the new Local Government Law entered into force, which no longer includes the institution of local municipality's right of first refusal.

This means that when disposing of real estate comprising land, a copy of the real estate purchase agreement no longer needs to be submitted to the relevant local municipal council for a decision on whether the real estate to be disposed of is necessary for the local municipality to perform its functions before the buyer's title is registered in the Land Registry.

This is good news as it relieves the parties to the transaction from a largely formal procedure which prolonged the transaction. Municipalities have other instruments with the help of which they can expropriate the property required for performance of their functions, including under the provisions of the Law on Expropriation of Real Estate Required for Public Needs.

At the same time, it should be kept in mind that the amendments to the regulation of the municipality's right of first refusal do not apply to transactions with agricultural land, where the provisions of the Law "On Privatisation of Land in Rural Areas" must still be complied with.

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C R E A T E D B Y

Market Analyst:

Ksenija Ijevčeva

Head of Residential Brokerage Department:

Evija Dzenīte

Head of Legal Department:

Mārīte Lipša

Administrative Manager:

Aija Trotīte

Marketing Project Manager:

Linda Caune

Real Estate Agents:

Edijs Sproģis

Daiga Blumberga

Natālija Makuševa

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Jelizaveta Čelnokova

Laura Bergmane

Romāns Aleksandrovs

Diana Danilovich