

HOUSING MARKET OVERVIEW

March 2014

New apartments

Demand for new apartments in March stayed at the previous month's level and was ensured by both foreign and local buyers.

In recent months, the overall interest of local buyers in purchasing new apartments has increased, however the buyers' financial means, as well as the strict bank loan issue terms, do not always allow purchasing a property in a new building, so some of the demand returns to the standard apartment market.

More pronounced demand of local buyers for large (three and four room) apartments is observed. The larger apartments are purchased by families who need a stable home, while one and two room apartments are more suitable to young people or new families, and it is often decided in favor of renting such apartments, rather than buying.

The demand of foreign buyers is mainly focused on the center of Riga. As the offer suiting the buyers' requirements in that part of the city is increasing gradually, buyers from other countries are also showing interest in purchasing apartments in new buildings in the residential neighborhoods. The demand of non-residents is mainly related to new apartments at a price of 150,000–180,000 euros.

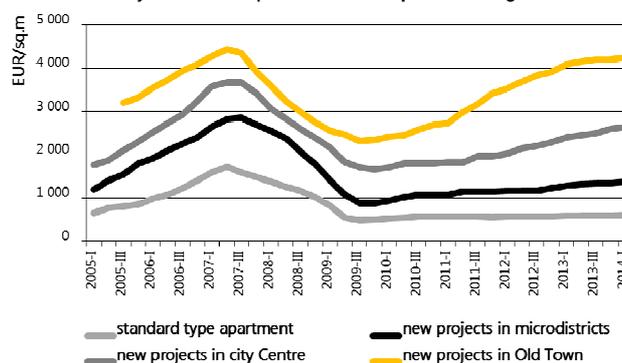
For both local and foreign buyers, significant factors in selection of the property are the location, quality, complete interior finishing, a built-in kitchen set, the energy efficiency of the property and maintenance expenses.

In the first months of this year, a small increase of the average prices is continuing in the new apartment segment in Riga. Like in the previous quarter, the lowest increase of new apartment prices has been observed in Old Riga, where housing prices have approached the level before the economic crisis. In Q1 2014, the average price of apartments in new projects (also fully renovated buildings) in Old Riga and its vicinity was 4,250 euros per square meter. Compared to the last quarter of the previous year, it has grown by 1.2%, and compared to Q1 2013 – by 3.7%.

The average price new apartments (including fully renovated buildings) in the center of Riga in the first quarter of the year compared to the previous quarter increased by 1.9%, reaching 2,650 euros. Compared to Q1 2013, the average price has increased by 10.4%. The average price of new apartments in the residential neighborhoods of Riga in the first quarter of the year was 1,380 euros per square meter – 2.2% higher than at the end of last year, and 6.6% higher than in the first three months of last year.

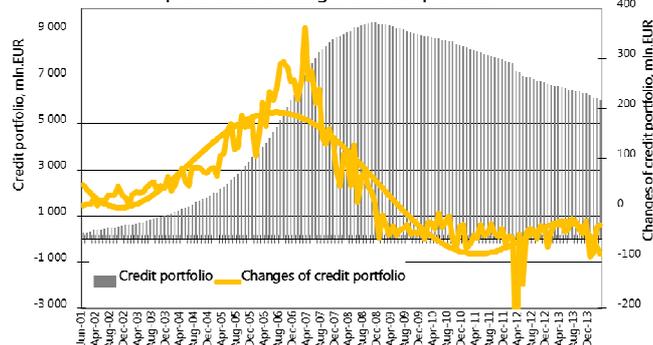
The price range of transactions is rather wide and depends on the project's location, the apartment finishing type and other factors. The average price of apartments in new projects near Riga in March were 700–900 euros per square meter, in the residential neighborhoods of Riga – 900–1,500 euros per square meter, in the center of Riga (including also the outer parts of the center) – 1,500–3,500 euros per square meter. The prices of apartments in high-quality, renovated projects in good locations in the city center can reach 4,000–6,000 euros per square meter.

Dynamics of apartment sales prices in Riga



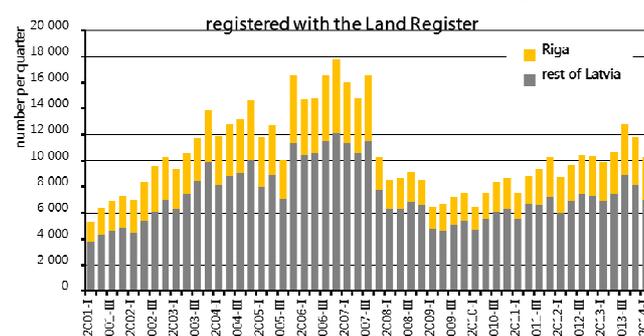
Source: LATIO

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



Source: the Finance and Capital Market Commission, I A IIC

Real Estate sales transactions in Latvia and Riga



Source: Land Register, LATIO

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Apartments in downtown Riga

The demand in the apartment segment of the center of Riga in March remained at the previous month's level.

Local residents in the center of Riga are mainly interested in apartments that are not pricier than 1,000–1,300 euros per square meter. Buyers are interested both in small two room apartments and larger three and four room apartments.

The caution of foreign buyers is related to possible changes in the conditions for obtaining a temporary residence permit. Overall, like before, buyers from other countries are purchasing high-quality apartments in buildings in very good condition in Old Riga, the silent center and inner center. Important factors are the availability of an elevator, car parking, and neat surroundings. Demand is highest for apartments priced at 180,000–200,000 euros. Some foreign buyers are interested also in apartments in non-renovated buildings in the center of Riga.

The range of typical prices per square meter in various apartment segments in the center of Riga in March – non-renovated brick buildings in Old Riga: 1,450–1,600 euros, in the silent center: 1,750–1,850 euros, in the inner center: 1,050–1,350 euros, in the outer center: 800–925 euros; in partially renovated brick buildings in Old Riga: 2,400–2,600 euros, in the silent center: 2,200–2,500 euros, in the inner center: 2,000–2,150 euros, in the outer center: 1,150–1,350 euros; in majorly renovated buildings and new projects in Old Riga: 3,500–4,000 euros, in the silent center: 2,700–3,250 euros, in the inner center: 2,350–2,800 euros, in the outer center: 1,750–1,850 euros. The price of high-quality apartments with a good layout and exclusive finishing in renovated buildings in good locations in Old Riga, the inner center and the silent center can reach 5,000–6,000 euros per square meter.

Prefabricated apartments

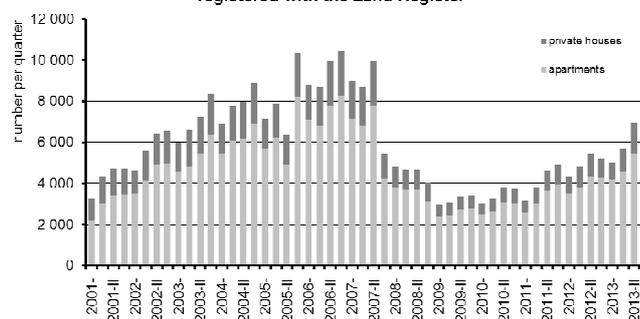
The average price per square meter for standard apartments in Riga in March increased by seven euros from the previous month, reaching 617 euros. Compared to March 2013, the average price of standard apartments has increased by 3.7%, and the increase over the course of this year is 1.8%.

The interest of buyers in purchasing standard apartments in March remained comparatively high.

The offer of apartments in good condition suitable for moving in right away continued to decline, while new apartments suiting buyers' requirements were offered less often than before. That situation facilitated an increase of the prices of standard apartments.

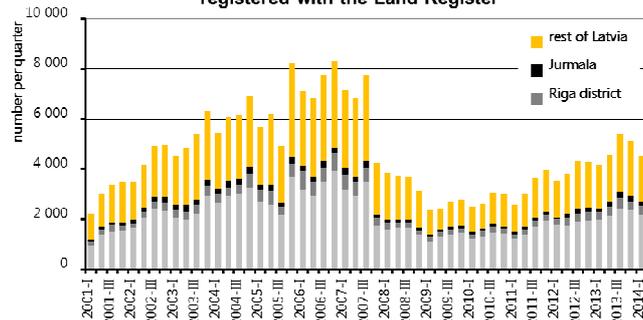
Similarly to the new apartment segment, in the standard apartment market families with children are also showing greater interest in three of four room apartments. A trend of faster price growth of these apartments is emerging. Some buyers who are unable to afford a new apartment due to financial reasons are showing interest in apartments in the so-called "special project" buildings.

Housing transactions in Latvia registered with the Land Register



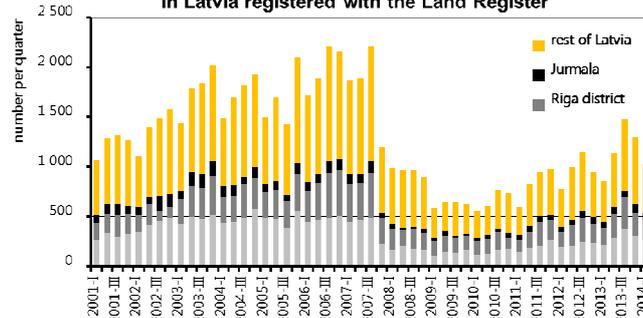
Source: Land Register, LATIŅO

Apartment transactions in Latvia registered with the Land Register



Source: Land Register, LATIŅO

House with land plot 300-3000 sq.m transactions in Latvia registered with the Land Register



Source: Land Register, LATIŅO

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Currently, in the apartment offer of Riga, a gap is forming between standard and new project apartments, with the average price difference between those segments being more than double. There is a lack of high-quality offer in the market in the price range between those two segments.

Price changes in various residential neighborhoods and buildings of various series are different. Standard apartments in good technical condition in neighborhoods such as Purvciems, Pļavnieki, Zolitūde, Imanta and Ziepniekkalns in March cost 23,000–31,000 euros for one room apartments, 32,000–41,000 euros for two room apartments, 37,000–49,000 euros for three room apartments, and 43,000–54,000 euros for four room apartments.

Private houses

Activity in the private house market and the market of plots for private construction slightly increased in March with the approach of the spring.

Buyers are mainly interested in modern, high-quality private houses in locations with good infrastructure, but offer at prices corresponding to the market situation is limited. Demand is highest for houses up to 200–250 square meters with 1,000 – 1,200 square meters of land. Buyers show minimal interest in houses with an unreasonably high price, as well as in unfinished houses or houses in a poor condition.

Compared to previous periods, the interest of both local and foreign buyers in purchasing row houses has increased.

In March, there was an increase in demand for plots for private construction. The growing interest is related to the approaching of the spring and the construction season, as well as to the current offer of private houses: there is a shortage of completed buildings with a suitable layout and size at a price corresponding to the buyers' means.

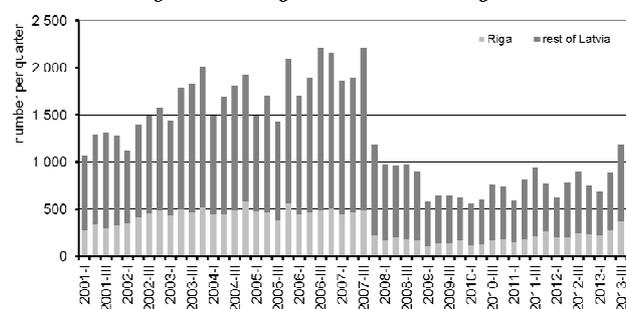
The increased activity of buyers in the market of land for private construction is associated also with the changing stance of sellers: some owners who had previously set an overly high price for the offered plots – even as high as before the economic crisis – are deciding to reduce it to a level corresponding to the current market situation.

Jūrmala

The activity of buyers in the housing market of Jūrmala was high in the first months of the year. In Q1 2014, compared to the respective period last year, the number of housing purchase transactions in Jūrmala has increased by 15.6%, including a 13.2% increase of apartment transactions and a 21.5% increase of private house transactions, according to the analysis of Land Registry data conducted by Latio. In three months, over 250 housing transactions have taken place in Jūrmala, with apartment transactions comprising more than two thirds of those.

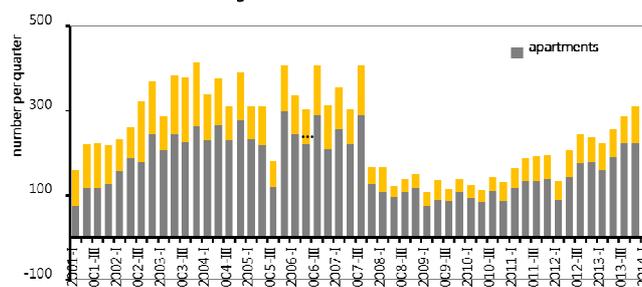
Demand for properties was generated by both local and foreign buyers.

Private house (with land plot 300-3000sq.m) transactions in Riga and Latvia registered with the Land Register



Source: Land Register, LATIO

Housing transactions in Jūrmala



Source: Land Register, LATIO

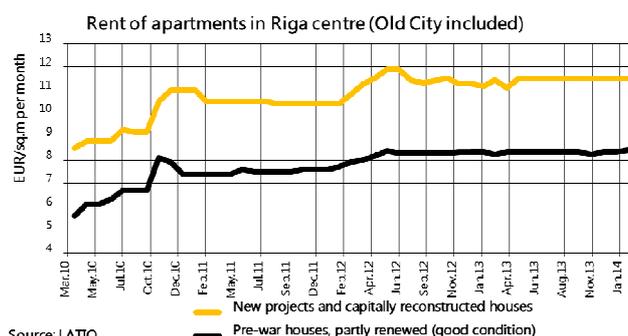
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The demand of local residents was focused mainly on standard apartments, also new project apartments on the secondary market, and private houses priced up to 200,000 euros.

The greatest demand of foreign buyers in the new apartment segment was for properties priced up to 300,000 euros. Foreigners wish to purchase apartments with a complete finishing.

In the private house segment, foreign residents are showing interest mainly in houses with an area up to 300 square meters, land up to 2,000 square meters, and a price up to 500,000 euros.



Source: LATIŅ

Transactions

Analysis of the Land Registry data aggregated by Latio shows that in Q1 2014, compared to the respective period last year, the number of all types of real estate purchase transactions in Latvia has increased by 3.1%, while the number of housing transactions has increased by 10.4%, including an 8.4% increase for apartments and 20.8% for private houses.

In Riga, the total number of all types of real estate purchase transactions in the first three months of 2014 compared to last January–March has increased by 8.2%.

The number of housing purchase transactions in the capital city has increased by 7.9%, including a 6.3% increase of apartment transactions and a 21.9% increase of private house transactions.

Rent and price of standart type apartments in Riga



Source: LATIŅ

Housing rental market

In the housing rental market of Riga, activity in March was lower than in the previous month, but the rent level for apartments both in the city center and the residential neighborhoods remained unchanged.

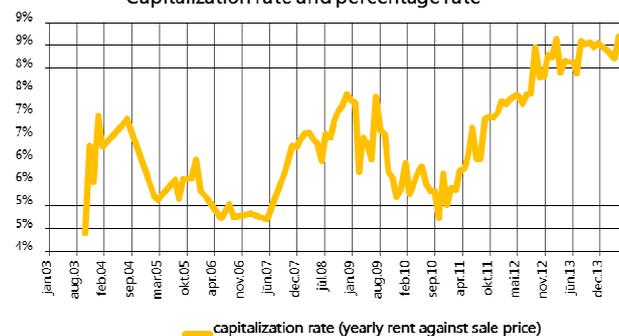
In the center of Riga, the demand is highest for high-quality, furnished one, two and three room apartments up to 80 square meters for a rent of 450–600 euros per month, excluding utilities.

In March, depending on the size of the apartment, the average monthly rent per square meter in non-renovated brick buildings in Old Riga was 6–7 euros, in the silent 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 silent center: 8–10 euros, in the inner center: 8–9 euros, in the outer center: 7 euros, in majorly renovated buildings and new project in Old Riga: 13–14 euros, in the silent center: 11–13 euros, in the inner center: 11–12 euros, and in the outer center: 7–8 euros.

The average rent ex. utilities for standard apartments in average condition in the residential neighborhoods of Riga in March was 4.3 euros per square meter.

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

Capitalization rate and percentage rate



Source: LATIŅ, CSB