

Baltic Residential, 2019/2020

After stable growth in 2019, the residential market is likely to slow down in 2020

Picture 1: Newton Studios in Tallinn by Estonia's biggest rental property developer Scandium Real Estate, 2020

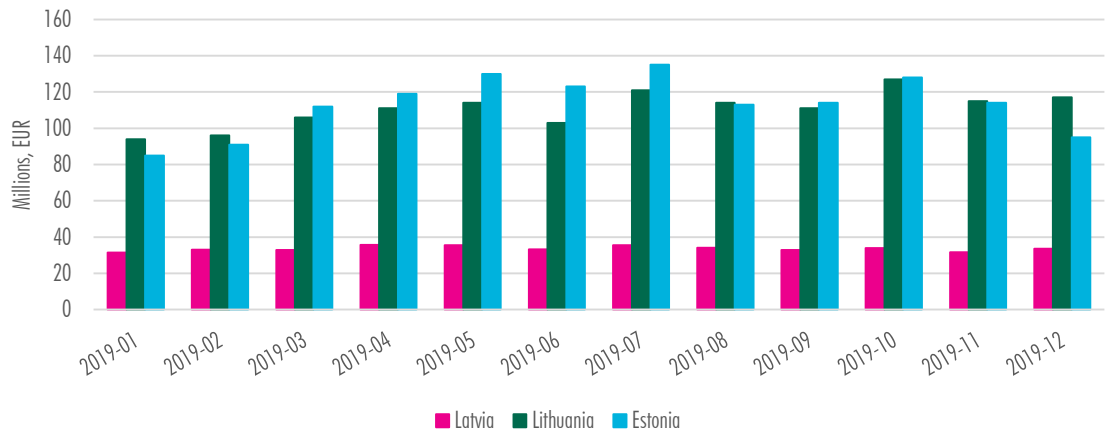


Source: CBRE Baltics, Q1 2020

KEY POINTS

- At the end of Q1 2020 some of the more than 5,600 short-term rental apartment unit owners across the Baltics are expected to shift to long-term rental business, due to travel restrictions in the region, putting pressure on long-term rent rates.
- New residential development activity is decreasing, with some of major residential developers in the Baltics postponing construction starts, due to uncertainty in the market, a shortage of workforce and supply issues for materials, at the end of Q1 2020.
- In 2019 total new development deliveries in the Baltic capitals were over 10,000 dwellings, for the second consecutive year, reflecting about the same amount as in 2018 and 19% more than in 2017.
- Tallinn is the leading rental market in the Baltics with the highest rent rates. At the beginning of 2020, the average asking rent for a 45 sq m apartment in Tallinn city centre was ca. 810 EUR/month; Vilnius – ca. 600 EUR/month; Riga – ca. 470 EUR/month.
- Housing affordability in Riga remains the highest among the Baltic capitals, a record held since mid 2015.
- At the beginning of 2020 interest rates remained low, leading to a favourable environment for the expansion of housing loans in the Baltics, although until the end of the emergency situation in the region, banks may take an even longer time to make decisions regarding new loans.
- Intermediate Capital Group (ICG) acquired the Raadiku municipal housing scheme in Tallinn from LCN Capital Partners for EUR 144 mln at a 6.2% yield. This was one of the largest 2019 investment transactions, showing that well established residential schemes in the Baltic region can be attractive to global investors.

Figure 1: New housing loans - volume, 2019



Source: CBRE Baltics, European Central Bank, Bank of Latvia, Q1 2020

RESIDENTIAL MARKET IN BALTICS

Residential markets in the Baltics have been growing since the last major market correction in early 2010, with only minor hurdles along the way. In 2019 in all three Baltic capitals the residential market showed strong growth, both in sales and development. New investment market entrants appeared in the residential rent market, as this is a relatively new segment in the region with just a few players, but with significant potential, especially in the student housing sector, with a growing number of foreign students choosing the Baltics as their study destination.

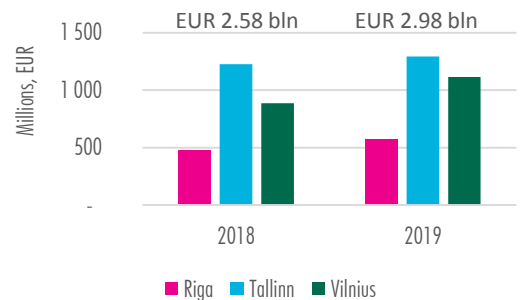
Apartment price growth in Riga reached 9.3% at the end of 2019 leading the Baltic market with the highest growth rate, compared to 7.3% in Vilnius and a 7.4% increase in Tallinn, according to local statistical agencies. In total, the number of transactions in the Baltic states has increased by 7% and the total value of all transactions increased by 15%, with the total Baltics residential market at 2.98 bln, compared to EUR 2.5 bln in turnover ca. EUR 2018.

Developer activity during 2019 can be considered as highly active in Tallinn and Vilnius and slightly less in Riga, where total delivered dwellings were 3.5 times less than for the two other capitals. The secondary market has seen growing activity in terms of transactions in all three capitals during 2019, although the share of sold new construction apartments remained above 22% in all three countries.

HOUSING LOANS

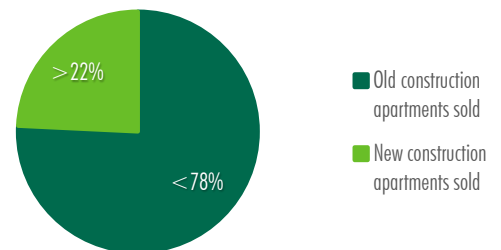
Low interest rates, growing salaries and consumer confidence have contributed to an upward trend in the past few years, supporting the expansion of the residential market. Demand for housing loans was rising and CBRE Baltics assume it may bounce back to reasonable extent, following stabilisation of the global situation in the near future. In 2019, the total amount of new housing loans issued for the Baltics amounted to EUR 3.09 bln, Estonia – EUR 1.3 bln, Lithuania – EUR 1.3 bln, Latvia – EUR 403 mln. The current market situation means that banks will reduce the list of non-risky industries and their decision regarding a loan would be impacted by the job position according to the shortlist.

Figure 2: Total value of residential apartment transactions in Vilnius, Tallinn and Riga, 2018 / 2019



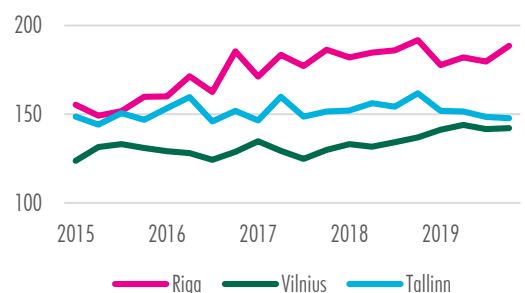
Source: CBRE Baltics, State Land Service, MAA-AMET, Statistics of Lithuania Q1 2020

Figure 3: Share of old and new construction apartments sold in Baltics, 2019



Source: CBRE Baltics, State Land Service, MMA-AMET, Statistics of Lithuania, Q1 2020

Figure 4: Baltics housing affordability index, Q1 2015 – Q4 2019



Source: Swedbank, CBRE Baltics, Q1 2020

NEW DEVELOPMENT MARKET

Showing strong confidence, the most active in new residential development was Vilnius with more than 4,790 new dwellings delivered to the market in 2019, maintaining the high pace from 2018. New development activity in Tallinn was the same as in Vilnius, reaching 4,790 delivered dwellings in 2019. According to CSB of Latvia the delivery rate in Riga was 3.5 times lower than in neighbouring capital cities, reaching over 1,350 dwellings in 2019. It is expected that around 9,500 will be delivered during 2020 in all three Baltic capitals, although the number may change depending on the situation in the market and reflecting dwindling confidence due to the pandemic.

In terms of asking price, the highest rate per sq m at the end of 2020 Q1 among the Baltic capitals was in Tallinn standing around EUR 3,000 per one square metre in the city centre, followed by Vilnius where the average new development asking price is around 2,500 EUR/sq m. Currently, in Riga the average asking price is the lowest among the three Baltic capitals and stands at just over the 2,300 EUR/sq m price tag. Although, the ongoing market situation could lead developers to decrease their asking prices, due to high competition, especially in Vilnius and Tallinn and current market conditions, when on-site visits are very difficult to arrange.

RENT RATES

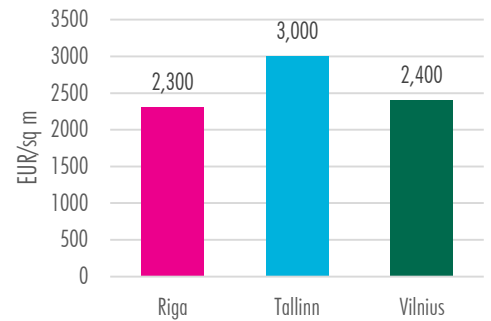
In line with rising apartment prices in the Baltic capitals, rent rates were rising at an even higher pace. A strong factor of demand growth are local and international students. The continuously growing number of foreign students in Latvian universities and lack of classic student housing facilities has meant that at the beginning of March 2020 the average rent rate for a two-bedroom apartment in the city centre stood around 470 EUR/month in Riga, 500 EUR/month in Vilnius and around 810 EUR/month in Tallinn.

The ongoing fight against novel-corona virus has been affecting many markets and we can already see that there will also be a major impact on the real estate market. Currently, it is evident that some apartment owners in short term rental business are considering shifting their focus and are willing to get lower yields, signing contracts with long term tenants. According to AirDNA data in all Baltic capitals there were around 5,600 apartments listed in different short-term rental platforms. CBRE Baltics expects that the majority of short-term rental apartment owners will supplement the regular rental market leading to an expected rent rate reduction.

DEMAND

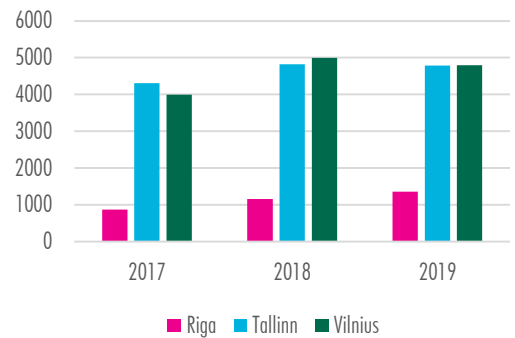
All three Baltic residential markets in terms of demand are similar, with residential areas outside the city centre being popular among local buyers and with the city centre attracting investors, both local and international buyers. In line with general expectations, key factors for successful projects are a good location, good quality construction and a fit-out with the lowest square meter price possible. The highest demand is for fully finished two- and three-room apartments (40 - 70 sq m). It is expected that overall demand in the residential sector will decrease during 2020, mainly because of the general restrictions regarding the ongoing pandemic and its consequences.

Figure 5: Average asking price in newly constructed buildings in the city centre, with final finish, Q1 2020



Source: CBRE Baltics, Q1 2020

Figure 6: Number of dwellings delivered to the market, 2017 - 2019



Source: CBRE Baltics, CSB of Latvia, Statistics Estonia, Statistics Lithuania Q1 2020

Figure 7: 45 sq m apartment average rent rate in the city centre



Source: CBRE Baltics, Q1 2020

RESIDENTIAL MARKET OUTLOOK - 2020

As at the end of Q1 2020 the situation in the real estate market is changing quickly we can expect that during the year there will be changes in terms of pricing, supply and demand across the Baltic states in the residential market as well.

The state of emergency in all three Baltic capitals has put pressure on developers - at the end of Q1 2020 the CBRE Baltics team has seen some major construction slowdowns, and almost all new construction work has been postponed. Some ongoing development projects have been stopped due to uncertainty in the market, delays in the supply of materials all across Europe and shortages of an immediate workforce, as foreign specialists have returned to their home countries.

On-site visits have been limited, negatively affecting the apartment sales process. Many developers are looking to introduce new technological ways of virtual apartment visits, but in lacking a real-time experience, many conservative clients will most likely postpone any decision until the end of the state emergency situation. The short-term rent apartment market has stopped completely, and with more than 5,600 apartments available across various rental platforms, most apartment owners will likely change their focus to long-term leases at least until the end of travel restrictions in Europe, putting pressure on prime yields in the sector.

Picture 2: Selected residential apartment buildings recently delivered or currently under construction, 2020



Viesturdarzs (Riga)

Average single bedroom apartment price starts at ~2,200 EUR/sq m.



Gailezera nami (Riga)

Average single bedroom apartment price starts at ~1,350 EUR/sq m.



Lofts & Rosegold (Riga)

Average single bedroom apartment price starts at ~2,600 EUR/sq m.



HOFT (Riga)

Average two bedroom apartment price starts at ~3,500 EUR/sq m.



PILIES APARTAMENTAI (Vilnius)

Average two bedroom apartment price starts at ~3,500 EUR/sq m.



Vilneles slenis (Vilnius)

Average single bedroom apartment price starts at ~1,950 EUR/sq m.



Uus-Mustamäe (Tallinn)

Average single bedroom apartment price starts at ~2,700 EUR/sq m.



TORN (Tallinn)

Average three bedroom apartment price starts at ~4,300 EUR/sq m.

Source: CBRE Baltics, Q1 2020

RESEARCH DEFINITIONS

Sellers' Market - a market situation where sellers are outnumbered by buyers by a big margin and the quantity of income generating commercial properties available for sale becomes far less than the quantity demanded. As a result, sellers are able to increase prices and obtain better sale conditions and the situation becomes favourable for sellers.

Prime Yield – represents the net yield that an investor would receive when acquiring a class A building in a prime location (for an office in the CBD, for example), which is fully let at current market value rents. Prime Yield should reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. If there are no relevant transactions during the survey period, a hypothetical yield should be quoted, and is not a calculation based on particular transactions, but it is an expert opinion formed in the light of market conditions, but the same criteria on building location and specification still apply.

Transaction Count – the number of single apartment transactions in the Baltic region during the research period. The transaction count may differ if counted for each country separately - in that case a portfolio transaction could be divided by the number of properties located in each country.

Housing Affordability Index – is a number calculated for a family whose income is equal to 1.5 of average net wages with an average-sized apartment of 55 square meters. The HAI is 100 when households use 30% of their net wages for mortgage costs. When the HAI is at least 100, households can afford their housing, according to the established norm. The higher the index, the greater the affordability. (Swedbank, 2020)

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