

Residential in the Baltic States

Price rises take a short breather amid convergence with West



By Peter Gage Morris
Managing Director
Ober-Haus Real Estate Advisors

September 2007

In both Estonia and Latvia residential price growth has been flat in 2007, after surging more than 100% over 2004-2006. With both household debt and home mortgages in Estonia and Latvia the highest for the entire CEE region, and large current account deficits, both countries have seen banks rein in new lending, putting the brakes on residential price growth.

But, most experts say, the pause is temporary. Underlying fundamentals are extremely good, with GDP growth this year set to be 7% in Estonia, 8% in Lithuania, and 10% in Latvia this year, and 7-8% each year thereafter. Annual wage growth is over 15% in all three (wages in Lithuania grew a staggering 27% last year) and residential prices are still 50% to 70% lower than in nearby Scandinavia, the economies the Baltic States are converging on. Convergence with Western Europe has been the story of the CEE region, and to do so residential prices need to nearly triple once again. As we expect full convergence to take another 10-15 years, we expect residential real estate prices in Tallinn, Riga and Vilnius to grow 10-12% per year over that period. The current pause in price growth presents an excellent opportunity to buy now and benefit from that upcoming price convergence.

Tallinn, Estonia

Prices of newly built apartments in suburbs vary from €1,800-2,200 per sqm in the largest districts (Lasnamäe and Mustamäe) and up to €2,500 per sqm in new developments near the sea in Kakumäe and Pirita. These prices are for fully fitted units. In the Old Town prices for flats in newly renovated buildings are €3,800-5,100 per sqm.

In the Soviet-era, pre-fabricated concrete suburbs, prices for unrenovated apartments are between €1,200-1,300. As a result of more of these flats being sold, the average selling period has lengthened and prices have softened.

More than 3,400 newly built units were completed in Tallinn and surrounding areas in 2006. That is 20% more than in year 2005. There are very strong bottlenecks in the supply side, however – most of all in construction capacity – which limits future supply growth.

Riga, Latvia

Prices for newly built apartments grew more than 30% in 2006, then flattened out in 2007. Prices for new apartments in the city centre at between €2,700 and €5,100 per sqm, and prices in the historic Old Town from 3,500 to 6,000 per sqm. New apartments outside the city centre range from economy class at €1,300 to luxury levels at €3,500 per sqm. New apartments in the suburbs are typically sold shell in Latvia, meaning the buyer will have to pay about €200 per sqm more to finish out flooring, painting, lights, bathrooms and kitchen.

The price of secondary market apartments in Soviet-era suburban prefabricated concrete panel flats increased nearly 50% in 2006, to €1,350-1,650 per sqm, but have been flat in 2007.

New apartment construction is growing at a record pace, with more than 6,000 new units delivered in 2006, and over 8,000 due in 2007, although construction companies are currently facing a severe labour shortage.

Vilnius, Lithuania

In Lithuania prices have started to rise again after already pausing in 2006. Last year prices rose 10% in the first quarter, then levelled off for the year. In 2007 they started to rise again.

Prices of new apartments in the suburbs range from €1,050 to €2,000 per sqm. In more prestigious districts (Antakalnis, Žvėrynas, Valakampiai), prices range from €1,800 to €3,500 per sqm. In the city centre and Old Town, prices can be as high as €5,500 per sqm. New apartments are sold shell in Lithuania, meaning the buyer will have to pay about €200 per sqm more to finish out flooring, painting, lights, bathrooms and kitchen.

Prices of secondary market apartments in Soviet-era, prefabricated concrete buildings became 5–10% cheaper. Ober-Haus expects the price gap between old and new dwellings to continue to increase. A standard two-room apartment (approximately 50 sqm) in an older apartment building located in a bedroom community costs from €55,000–€75,000.

There are plans to build 7,000 new apartment units in Vilnius in 2007, but the lack of construction resources almost guarantees not all will be built. Ober-Haus works with all major developers and estimates that slightly more than 6,000 new apartments will be realised in 2007.