

REAL ESTATE

Kadi Leppik
Statistics Estonia

The article provides an overview of the Estonian real estate market in 2006–2011. It examines the types of real estate transactions, the total number and value of purchase-sale transactions, the average purchase-sale value of a transaction, the average price of an apartment per square metre and the interest rate of housing loans.

Statistics of real estate transactions

The number and value of real estate transactions in Estonia increased continuously since the beginning of the 1990s. During the first half of the 2000s, the high level of buying and selling on the real estate market was supported by the liberal lending policy of banks and the favourable economic environment. In 2004–2006, the Estonian real estate market was active like never before and forecasts about the future of the market were optimistic. After Estonia's accession to the European Union, the Estonian real estate market became attractive for foreign buyers as well. In 2007 the number and value of real estate transactions started to decrease, with the global economy heading towards a recession. A slowdown in economic growth and a soft landing was predicted in Estonia – no one could foresee the painful crash that took place in 2008–2009. The years 2007–2010 were a period of difficult decisions and changes on the real estate market. Today, real estate statistics show signs of recovery.

Types of real estate transactions

The majority of real estate transactions are purchase-sale transactions. In 2011, 32,505 purchase-sale transactions of real estate (incl. purchase-sale contracts and purchase-sale contracts of right of superficies) with a total value of 1.5 billion euros were notarised in Estonia. Their share was 77% of the total number of transactions (Table 1, p. 72). Purchase-sale transactions accounted for 87% of the total value of all real estate transactions. Over the years, purchase-sale transactions have on average accounted for more than 70% of all real estate transactions, and their total value has made up more than 80% of the total value of all real estate transactions. In addition to purchase-sale transactions, real estate is also the object of granting, exchange and other types of transactions (transfer for no fee, transfer as non-monetary contribution etc.).

In 2005–2006, the number of real estate transactions grew 30–40% per year on average, and their value rose by more than 40% per year. The total number and total value of purchase-sale transactions were record-high in 2006, followed by a significant decline (Figure 1, p. 73). Compared to 2006, the number of transactions decreased by 48% in 2010 and by 46% in 2011.

In the first half of the 2000s, the economic conditions were good and banks applied a liberal lending policy – this fostered the purchase and sale of real estate. According to the Bank of Estonia, the turnover of loans granted to households was 120 million euros in 2000. By the time of the property boom in 2006, home loans were available to an increasingly larger share of the population and the turnover increased to 2,339 million euros. In 2009 there was a sharp decline, with loan turnover falling to 446 million euros. In 2011, the turnover of loans granted to households was 490 million euros, which is comparable to the level of 2003 (Figure 2, p. 73).

Types of purchase-sale transactions of real estate

During the last two years, the number of purchase-sale transactions has increased. However, in both 2010 and 2011, the number of transactions with registered immovables with buildings and the number of purchase-sale transactions with apartments were about twice as small as in the boom year 2006. In 2010, there were signs of recovery on the real estate market: 30,979 purchase-sale transactions of real estate were notarised with a total value of 1.2 billion euros (Table 2, p. 74). This means 18% more transactions for a 6% higher total value, compared to the year 2009.

The distribution of purchase-sale transactions by type has been relatively stable. About half of the purchase-sale transactions are made with apartments, a fifth with registered immovables with residential buildings, and nearly 30% with unimproved registered immovables (Figure 3, p. 75).

The distribution of purchase-sale transactions by type of purchaser has also been stable. In 2011, the biggest number of real estate objects (over 50%) was purchased by resident natural persons. Slightly more than a quarter (28%) of the real estate objects were purchased by legal persons in private law, with one tenth of all objects acquired by foreigners and less than 4% by other buyers. The distribution of purchase-sale transactions by seller was similar: 58% of the sellers were resident natural persons and about 27% were legal persons in private law. Thus, the share of foreigners and other consumers among the sellers was smaller than among the purchasers.

In 2011 the number of purchase-sale transactions of real estate decreased by 48% compared to 2006. The biggest decrease (over 50%) occurred in the number of transactions with apartments and registered immovables with residential buildings. The decrease was the smallest (35%) in the number of purchase-sale transactions with unimproved registered immovables. The number of purchase-sale transactions with registered immovables with non-residential buildings decreased by 45%. In 2008 and 2009, the number of real estate transactions decreased by 30% per year on average. However, the total number and value of real estate transactions increased in 2010 compared to 2009 – this growth stimulated the Estonian real estate market and raised hopes that the decline had bottomed out. Compared to 2009, there were 18% more transactions in 2010 and interest in purchasing or selling real estate grew all over Estonia. The rise in the total number of transactions in 2010 was most of all influenced by an increase in the number of transactions with apartments (3,000 transactions or one fifth more than the year before). In 2011, the growth was more modest at 4%. Compared to 2010, the value of purchase-sale transactions with unimproved registered immovables decreased the most.

In 2011 the total value of purchase-sale transactions decreased by 66% compared to 2006. But the total value of transactions in 2010 increased by 6% compared to 2009. In 2011 the increase was 26% compared to 2010.

Purchase-sale transactions of real estate in counties

In 2011, there were 32,264 notarised purchase-sale transactions of real estate (excluding transactions with right of superficies). The greatest part of these transactions (12,980) belongs to Harju county, which accounted for 40% of all real estate transactions in Estonia (Figure 4, p. 76; Figure 6, p. 76). The number of transactions in Harju county was affected the most by Tallinn, which represented 67% of all transactions in Harju county and 76% of the total value of transactions.

In the county rankings, Harju county was followed by Tartu county. With 2,976 transactions, Tartu county accounted for 9% of the total number of transactions. The transactions in Ida-Viru county (2,886) also accounted for 9% of the total number of transactions in Estonia.

Tallinn accounted for 52% of the total value of purchase-sale transactions in Estonia. Ida-Viru county had a high number of purchase-sale transactions, but the value of these transactions was low: 54 million euros in 2011, which was 4% of the total value of real estate transactions in Estonia. In case of Tartu county, there is a better correlation between the number of purchase-

sale transactions and their value: the value of transactions in Tartu county (135 million euros) accounted for 9% of the total value of purchase-sale transactions in Estonia. Figure 5 (p. 76) offers an overview of the average value of real estate transactions in 2011 by county.

Average value of a purchase-sale transaction

In 2011, the average value of a purchase-sale transaction of real estate was 47,180 euros, which is one fifth higher than in 2010, but still only about a half of the average value of a transaction in 2006, the peak of the boom.

In 2011, compared to 2010, the average value of a transaction with a registered immovable with non-residential buildings increased 46% and the average value of a transaction with an unimproved registered immovable increased 17%. The average value of a transaction with an apartment increased 14% in 2011. The average value of a transaction with a registered immovable with residential buildings increased the least – 3%.

Compared to 2007, when the average purchase-sale prices were the highest, the average price of a purchase-sale transaction in 2011 decreased the most (48%) in Western Estonia^a, mainly due to a decrease in the value of unimproved registered immovables in that region (by 51% on average). Over the same period, the average value of real estate had decreased by a quarter in Central and Northern Estonia, by 31% in North-Eastern Estonia and by 29% in Southern Estonia. In Northern Estonia, the biggest decrease (47% on average) occurred in the value of unimproved registered immovables. In Central Estonia, there was a significant decrease (60%) in the average value of purchase-sale transactions with apartments. In North-Eastern Estonia, there was a decrease in the average value of both transactions with registered immovables with residential buildings and transactions with apartments – 51% and 54%, respectively. In Southern Estonia, the average value of transactions with unimproved registered immovables decreased the most, by 36%.

Compared to 2010, the average value of a purchase-sale transaction increased the most (32%) in Northern Estonia in 2011. The increase was 14% in Central Estonia, 8% in North-Eastern Estonia, 5% in Southern Estonia and 3% in Western Estonia.

Figure 7 (p. 77) provides an overview of changes in the average value of purchase-sale transactions.

Average price per square metre in purchase-sale transactions with apartments

The apartment market is the most active sector of the real estate market, where compared with other types of real estate there are considerably more transactions and the liquidity of objects is higher.

In 2006–2008, the average price per square metre in the apartment market exceeded 1,000 euros in Estonia (Table 3, p. 78; Figure 8, p. 79). In 2007, during the property boom, the average price was high at 1,159 euros, but then fell by 45% by 2009 (635 euros). Since 2009, the average price per square metre of apartments has varied between 600 and 700 euros. In 2011, the average price in purchase-sale transactions with apartments was 706 euros per square metre, which is 10% higher than in 2010. Tallinn had the biggest impact on the average price per square metre of apartments in Estonia: the average price per square metre in Tallinn is about 40% higher than the Estonian average. In 2007, the average price per square metre of apartments in Tallinn was 461 euros higher than the Estonian average. The average price per square metre of apartments in Tartu and Pärnu is about 20% higher than the Estonian average. In the last two years, the average price per square metre of apartments in Tallinn and Tartu has increased.

^a The regions mentioned in this article include the following counties: Northern Estonia – Harju county (incl. Tallinn); Central Estonia – Järva, Lääne-Viru and Rapla counties; North-Eastern Estonia – Ida-Viru county; Western Estonia – Hiiu, Lääne, Pärnu and Saare counties; Southern Estonia – Jõgeva, Põlva, Tartu, Valga, Viljandi and Võru counties.

In 2011, compared to 2010, the average price per square metre increased 13% in Tallinn, 8% in Tartu and 6% in Pärnu (Table 3, p. 78). The apartment market in Tallinn is influenced by new apartment developments and investors. People buy apartments that are more expensive and better than the average. In 2011, the average price per square metre in Estonia (without Tallinn) increased by 7% compared to the previous year. In 2011, the biggest increase occurred in the average price per square metre of apartments with a size over 70 m²: by 17% in Estonia as a whole and by 16% in Tallinn. The average price per square metre of apartments with a size over 41 m² increased the most in Pärnu (15%), and the average price per square metre of apartments with a size over 30 m² increased the most in Tartu (14%). Tartu continues to have a high level of activity among clients who invest in an apartment with the aim of renting it out in the future. Apartments with one or two rooms are preferred, as these can be rented out to students, for example. In Pärnu, which is a resort city, the activity of the real estate market is the highest in the summer. In case of apartments with an average size under 30 m², the biggest increase (13%) in the average purchase-sale price per square metre was recorded in Tallinn. In 2011, the average purchase-sale price per square metre of an apartment was 39% smaller than in 2007.

Interest rate on housing loans

According to the Bank of Estonia, the monthly average interest rate of housing loans was 9% in 2001 and decreased to 3% by 2005. In 2006, during the property boom, the monthly average interest rate of housing loans increased to 4%. In 2007 and 2008 the interest rate was 6%, and dropped down to 4% in the following years. In 2011 the monthly average interest rate of housing loans was 3% (Figure 9, p. 79).

Conclusion

The Estonian real estate market bottomed out in the second half of 2009 and has since then slowly but gradually recovered. The crisis years have curbed the inflated prices of real estate.

Improvements on the labour market mean that demand for real estate is increasing. The fact that more people are purchasing a home refers to the population's higher level of confidence and to the banks' willingness to lend.

The growth in the value of real estate transactions has exceeded the increase in the number of real estate transactions. This means that the real estate market has undergone two significant shifts. Firstly, real estate prices have taken a slow upturn. Secondly, the structure of real estate transactions has changed: there are increasingly more transactions with more expensive properties, instead of the cheapest objects.

The number of inhabitants and the level of activity in the real estate market are strongly correlated; therefore, the number of transactions is the biggest in counties with a larger population.