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Why the Baltics Are So Hot

**EU Membership Triggers
Better Wages, Home Quality;
Prices in Capitals Are Surging**

By SARA SEDDON KILBINGER
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Forget London and New York. The new global hot spots for home-price growth are Riga, Tallinn and Vilnius.

The capital cities of former Soviet states Latvia, Estonia and Lithuania boast some of the fastest-rising housing prices in the world, according to a report by London-based real-estate advisory firm Knight Frank LLP. Driving the increases: rising wages, better-quality homes and increased availability and flexibility of mortgage financing -- all triggered in part by their membership in the European Union.

Latvia set the pace among 31 markets surveyed by Knight Frank last month, with home prices jumping by 61.2% between the first quarter of 2006 and the first quarter of this year. Prices in Estonia and Lithuania rose by 24.5% and 21.7%, respectively. Gains were most marked in the capitals, where new developments have sprung up to cater to increasing demand for better-quality living space, according to Liam Bailey, head of residential research at Knight Frank.

Also near the top of the list was Bulgaria, which joined the EU in January. Home prices in Bulgaria leapt 22.6% in the past year, Knight Frank said.

Such growth isn't sustainable in the long term, says Mr. Bailey, who forecasts that growth is likely to slow this year to around 30% in Latvia and to between 15% and 20% in Estonia and Lithuania.

And actual prices still lag behind those in much of Western Europe and the U.S. For example, average house prices in major cities in Baltic countries, including Latvia, are around €150,000, or about \$202,375, according to Stockholm-based asset manager East Capital AB, which does work in the Baltic region. This compares with £180,314 (\$359,048) in the United Kingdom, says U.K. mortgage lender Nationwide Building Society, and around €235,000 in Germany, according to consultancy firm BulwienGesa AG. The median price for existing homes in the U.S. is \$213,800, according to the U.S. Department of Housing and Urban Development.

These booming housing markets in the Baltic nations and Bulgaria stand in contrast to slowing home-price growth in the U.S. and parts of Western Europe. Recent interest-rate rises have damped growth in Ireland, Spain and the U.K., where house prices in many parts of those countries have more than doubled in the past five years. In the past year, prices in Ireland have risen by 7.6%, down from 15.2% a year earlier. Even in Spain, where the market is widely regarded to be overheated, prices rose by 7.2% last year, according to Knight Frank.

The slowdown in those European markets has been triggered by "pressing affordability concerns," says Mr. Bailey, making it more difficult for first-time buyers to get a foot on the housing ladder.

In Switzerland, Germany and Sweden, prices have fallen in the past year, albeit slightly -- by 3.9%, 1.5% and 0.3%, respectively. Germany's housing market has been flat for the past decade, crippled both by its recent recession and a low level of homeownership in favor of the more affordable rental market. Just 42.6% of Germans are homeowners, according to German consultancy firm BulwienGesa.

The downturn in the U.S. housing market in the wake of a series of interest-rate rises has seen the median existing-home price there fall by 2% in the first quarter, compared with a year earlier, according to the U.S. Department of Housing and Urban Development.

In Asia, the story is mixed. House prices in Japan have fallen by 1.5% in the past year, although there are signs that the market is starting to rebound after a prolonged recession, which damped the housing market. Nationwide land prices rose last year by 0.1% for the first time in 16 years, according to Japanese government figures.

Singapore saw the biggest home-price gains in the past year among Asian countries surveyed, up 13.5% in the first quarter from a year earlier, according to Knight Frank.

In China, residential prices rose by 5.5% last year, largely from increasing migration to larger cities, which has triggered a surge in new development to meet the increased demand for housing.

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