



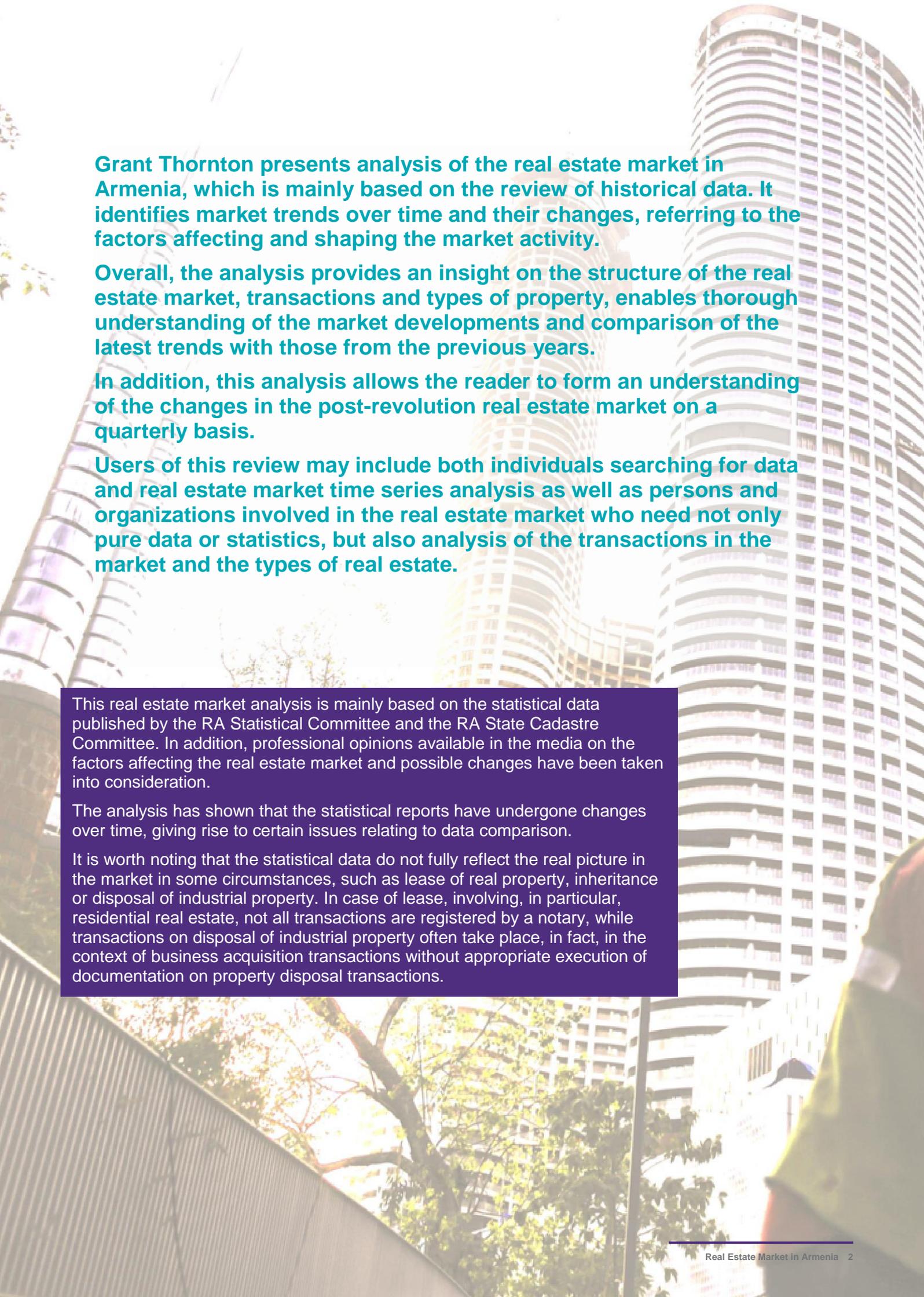
Real estate



Market analysis

Real Estate Market in Armenia





Grant Thornton presents analysis of the real estate market in Armenia, which is mainly based on the review of historical data. It identifies market trends over time and their changes, referring to the factors affecting and shaping the market activity.

Overall, the analysis provides an insight on the structure of the real estate market, transactions and types of property, enables thorough understanding of the market developments and comparison of the latest trends with those from the previous years.

In addition, this analysis allows the reader to form an understanding of the changes in the post-revolution real estate market on a quarterly basis.

Users of this review may include both individuals searching for data and real estate market time series analysis as well as persons and organizations involved in the real estate market who need not only pure data or statistics, but also analysis of the transactions in the market and the types of real estate.

This real estate market analysis is mainly based on the statistical data published by the RA Statistical Committee and the RA State Cadastre Committee. In addition, professional opinions available in the media on the factors affecting the real estate market and possible changes have been taken into consideration.

The analysis has shown that the statistical reports have undergone changes over time, giving rise to certain issues relating to data comparison.

It is worth noting that the statistical data do not fully reflect the real picture in the market in some circumstances, such as lease of real property, inheritance or disposal of industrial property. In case of lease, involving, in particular, residential real estate, not all transactions are registered by a notary, while transactions on disposal of industrial property often take place, in fact, in the context of business acquisition transactions without appropriate execution of documentation on property disposal transactions.

Development of the real estate market is considered one of the important factors of stable market economy due to the huge national wealth embodied in the real estate, its high share in the GDP, provision of high budget revenues, creation of new jobs in the market along with the development of services offered in the market and etc.

The real estate market emerged as part of the market economy in Armenia during the transition from the planned economy to the market one. The privatized and subsequently constructed real estate displayed itself as the subject assets in the real estate market.

Armenia's real estate market, after the decline and moderate growth in the recent years, showed substantial growth in 2018 mainly due to positive political and economic expectations of the market's potential buyers. Nonetheless, the quantity and price growth is qualified by the industry experts as a result of a short-term impact, and in the absence of further economic and investment deep-rooted developments, it may significantly slow down, while under conditions of increased demand (followed by price increases) the offer will also increase in the foreseeable future and the real estate market is likely to have steady growth trends both quantitatively and in terms of price.

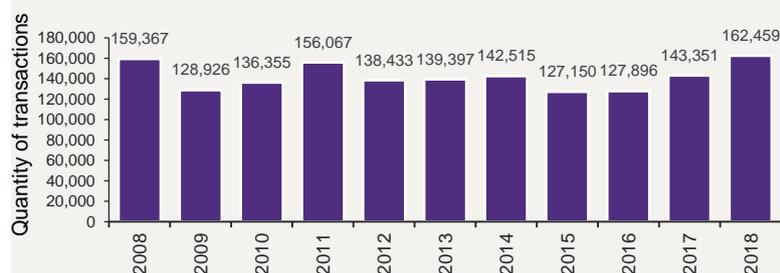
Already in the 4th quarter of 2017, a significant growth of real estate transactions was observed both in comparison with the previous quarters and the corresponding quarters of the previous five years. It is worthwhile mentioning that the tax amendments discussed at the end of 2017 provided for certain limitations in part of mortgage loan interest servicing at the expense of income tax, market value of the real estate being purchased and restrictions in terms of co-borrowers. This is likely to have impacted the decisions of the deep-pocketed segment to purchase real property from the primary market before the amendments would take effect. Anyway, the real estate market is quite dependent on public expectations, external and internal factors and is rather quick in reacting to such

signals, particularly in part of residential real property.

In hindsight of the last year's trend, it should be noted that the total number of real estate registration transactions reached its 10-year maximum in 2018, making 162,459 transactions. This is by 13.3% more than in the previous year. However, the growth rate was not steady during the year, but rather fluctuating from quarter to quarter. Thus, the number of transactions in the 1st quarter of 2018 increased by an average of 33%, or 8,757 transactions, compared to the corresponding period of the previous year. The growth rate slowed down in the 2nd and 3rd quarters, making 24% and 10%, respectively. Interestingly, the growth rate in the 4th quarter was slightly negative at -0.4%, and in the 4th quarter of 2018 the total number of transactions decreased by 180 in comparison with the corresponding quarter of the previous year.

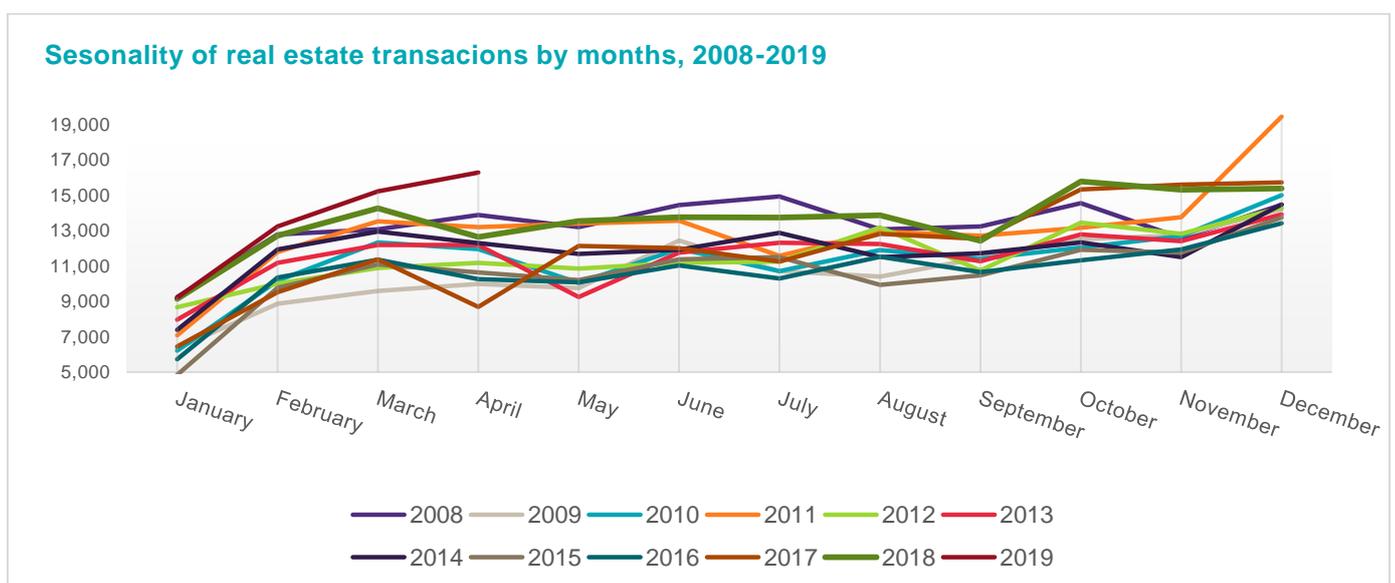
The comparison of the first three months of 2019 with the corresponding period of the previous year shows a significant decrease of the growth rate to 4% p.a. from 33% p.a. in the 1st quarter of the previous year. The annual growth as at April 2019 certainly increased in comparison with the 1st quarter, but it remained relatively low (29%) compared to the annual growth as at April 2018 (45%).

Total real estate transactions by years



Source: www.armstat.am , www.cadastre.am

The time series analysis of the executed transactions indicates certain seasonality. Historically, fewer transactions are made in January, while their number increases at the end of the 1st quarter. In the 2nd and 3rd quarters, the number is relatively steady and is slightly below the number for March. The number of transactions started to grow sharply in the 4th quarter, reaching its yearly maximum in December.



Source: www.armstat.am , www.cadastr.am

Considering that the number of newly constructed residential buildings and the terms of mortgage lending are among the major factors affecting the real estate market's activity, it can be concluded that the increased activity in the real estate market in 2018 had objective sides, along with being affected by subjective conditions caused by the change in the political situation. Thus, 589 residential buildings have been commissioned in 2018: this number is by 121 more than the one for 2017. However, most of the newly constructed residential buildings is acquired by buyers beforehand, therefore, this condition may be reflected in purchase and sale transactions earlier than the commissioning of a building. This indicates that besides the already commissioned buildings, the construction volumes are important as well.

Real estate construction volumes in 2018 increased by 5.7% from the previous year, while in January-June of 2018 construction volumes showed a 0.8% increase compared to the corresponding period of 2017. In fact, real estate construction volumes in the 2nd half- of 2018 increased by 2.3 times compared to the 1st half- of the same year – from AMD 34 million in the 1st half of the year to AMD 79 million in the 2nd half of 2018.



Real estate disposal transactions which are factually comprised of purchase and sale, donation and exchange transactions make 1/3 of the total number of transactions. Disposal transactions in 2018 grew by 20.4% compared to the previous year, reaching the maximum for the past ten years: up to that point, the highest growth at 11.8% had been recorded in 2017, while the lowest indicator at -23.5% had been observed in 2009.

Most of disposal transactions (73% on the average) are made of buy and sell transactions, totaling to 45,637 in 2018 - a 17.5% increase from the previous year. Growth has been registered for all types of property, in particular, in comparison with the growth rate of the previous seven years, and the increase in the number of residential house and land disposals in 2018 in comparison with the previous year is most noticeable (23.9% and 18.2%, respectively).

Structural Review of Types of Transactions

The review of the structure of transactions enables to establish that the largest share in total transactions is for that of disposals, making 36-39% over the past five years. Approximately the same proportion is provided by primary registration, pledge and lease transactions, each with a share ranging from 15% to 18%.

Annual growth of buy and sell transactions by type of property



Source: www.armstat.am , www.cadastre.am

Another important component in disposal transactions is made by donation transactions, making 23% of the total number of transactions in 2018. Compared to the previous years, this share had decreased by 2-4%, although the transactions had grown quantitatively by about 11% compared to 2017, reaching the peak (14,711). in the past ten years.

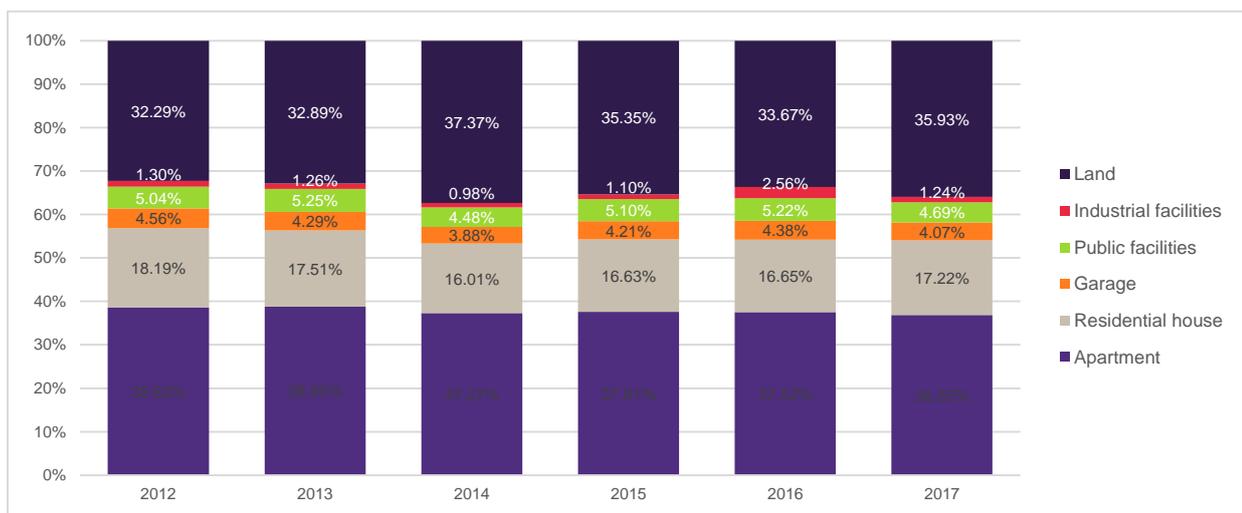
The analysis according to the types of property shows that most of disposal transactions in 2018 pertain to apartments, making 36.9% of the total transactions. Another significant type of property in disposal transactions is represented by land, with its 35.9% share. This figure has not changed significantly compared to the previous years. The share of industrial and public buildings in 2018 remained almost unchanged.

It's noteworthy that according to the statistics for 2018, summer houses that used to be disclosed separately by the Statistical Committee and the State Committee of Real Property Cadastre are consolidated into the statistics for private residences (dwelling houses). For the purposes of

this analysis, the previous years' statistical data on summer houses are included in the data for private residences as well in order to make the information comparable.

Disposal transactions involving industrial facilities increased dramatically in 2017 due to the 800 performed donation transactions, according to the statistics in all regions. However, we consider this quantity of donation transactions not typical and, in order to ensure comparability, contemplate the changes within the frame of buy and sell transactions. The latter made 78% of transactions involving industrial facilities in 2018. Thus, in 2018 a 13.6% growth of transactions from 2017 was recorded: this is less than the 2017 annual growth of 22.9%. Nonetheless, the number of transactions in 2018 grew by 73% compared to the previous year, mainly due to the growth of buy and sell transactions in the Ararat (increase by 36 transactions), Yerevan (increase by 19 transactions) and Kotayk (increase by 11 transactions) regions.

Structure of disposal transactions by type of property



Source: www.armstat.am , www.cadastre.am

Structure of transactions in the real estate market by types, 2012-2018

Type of transaction / Years	2012	2013	2014	2015	2016	2017	2018
Purchase and sale	35,998	36,208	39,221	36,413	33,754	38,824	45,637
<i>Section</i>	76.73%	74.32%	75.03%	72.79%	72.19%	74.27%	72.51%
Apartment	12,625	13,484	14,686	12,478	11,948	14,355	17,049
Residential house	5,251	5,276	5,518	4,613	4,443	5,278	6,540
Land	13,258	12,856	14,186	15,453	13,327	14,388	17,012
Public facilities	2,211	2,035	2,239	1,739	1,853	2,167	2,223
Industrial facilities	574	564	573	412	436	536	609
Garage	2,079	1,993	2,019	1,718	1,747	2,100	2,204
Donation	10,623	12,242	12,815	13,255	12,705	13,268	14,711
<i>Section</i>	22.64%	25.13%	24.51%	26.50%	27.17%	25.38%	23.37%
Apartment	4,755	5,239	5,476	6,032	5,518	5,211	5,748
Residential house	3,238	3,557	3,612	3,375	3,319	3,412	4,143
Land	2,059	2,754	2,931	3,074	3,061	3,111	3,800
Public facilities	334	410	497	485	512	548	626
Industrial facilities	74	69	82	75	78	800	135
Garage	163	213	217	214	217	186	259
Exchange	294	266	241	355	298	183	151
<i>Section</i>	0.63%	0.55%	0.46%	0.71%	0.64%	0.35%	0.24%
Apartment	114	96	123	135	119	49	30
Residential house	34	27	24	22	15	14	11
Land	109	118	76	168	142	102	93
Public facilities	22	9	10	17	18	13	5
Industrial facilities	11	1	2	3	-	3	1
Garage	4	15	6	10	4	2	11
Other type of disposal							2440
Total	46,915	48,716	52,277	50,023	46,757	52,275	62,939
<i>Section</i>	17,494	18,819	20,285	18,645	17,585	19,615	23,192
Apartment	8,523	8,860	9,154	8,010	7,777	8,704	10,840
Residential house	15,426	15,728	17,193	18,695	16,530	17,601	22,615
Land	2,567	2,454	2,746	2,241	2,383	2,728	2,951
Public facilities	659	634	657	490	514	1,339	782
Industrial facilities	2,246	2,221	2,242	1,942	1,968	2,288	2,559

Source: www.armstat.am , www.cadastre.am

The analysis of buy and sell transactions by quarters reveals that the annual growth of transactions in quarters starts to accelerate from the 4th quarter of 2017, but the annual growth in 2018 is not quite even. By comparing a quarter in 2018 with the corresponding quarter in the previous year, we may see that the rate of annual growth decreases in each subsequent quarter, dropping from 45% annual growth in the 1st quarter to -1% decrease in the 4th quarter.

Except several regions (Ararat, Armavir and Lori) where the growth of transactions in quarters, in comparison with the corresponding quarters of the previous year, certainly persists or does not tend to decrease, a slowdown and actual decrease of the growth rate in the remaining regions and Yerevan can be observed.

The annual growth rate in the 1st quarter of 2019 approximates the annual growth rate in the last quarter of 2018 both in Yerevan and regions, reaching 7% for the annual growth of transactions in regions and 2% for the annual growth in Yerevan. The improvement in the annual growth of buy and sell transactions in the 1st quarter of 2019 is mainly due to land transactions.

Annual growth in buy and sell transactions in quarters by types of property

Annual growth in buy and sell transactions in quarters

	2017 I Q.	2017 II Q.	2017 III Q.	2017 IV Q.	2018 I Q.	2018 II Q.	2018 III Q.	2018 IV Q.	2019 I Q.
Buy and sell transactions, from which:	-10%	7%	15%	42%	45%	27%	15%	-1%	6%
Apartment	8%	15%	17%	37%	33%	26%	20%	4%	3%
Residential house	-3%	2%	42%	29%	39%	35%	6%	25%	19%
Land	-27%	-1%	2%	54%	65%	33%	20%	-11%	3%
Public facilities	0%	17%	13%	34%	20%	5%	5%	-12%	-1%
Industrial facilities	38%	3%	29%	26%	29%	24%	4%	4%	0%
Garage	-25%	9%	27%	45%	70%	-3%	-7%	-7%	14%

Source: www.armstat.am

Transactions of buy and sell of apartments started to grow significantly since the 4th quarter of 2017 compared to the 4th quarter of 2016, constituting 37%. The growth trend in the 1st quarter of 2018 is almost the same as the one in the corresponding period of the previous year, showing a 32.9 growth, down to 26.2% in the 2nd quarter, to 20.2% in the 3rd quarter and, then, to 4% in the 4th quarter. This growth rate has dropped even more in Yerevan, showing a 1.1% decrease, compared to the 4th quarter of 2017. The annual growth rate of the total transactions on purchase and sale of apartments remained almost unchanged in 2019, compared to the growth rate of the last quarter of 2018.

After the sharp decline in the 3rd quarter of 2018, the annual growth rate of residential house buy and sell transactions re-bounced in the 4th quarter due to the transactions performed in regions.

Changes in the annual growth (by quarters) in part of land purchase and sale transactions are even more drastic. Thus, after demonstrating significant growth in the 4th quarter of 2017, compared to the corresponding period in the previous year, the annual growth of buy and sell transactions in the 1st quarter of 2018 increased even more – by 66.2%, compared to the corresponding quarter of the previous year, while in the 2nd and 3rd quarters the growth rate decreased twice, equaling to 33.5% and 18.7%, respectively. In the 4th quarter the trend became negative at -11.2%. In part of land, most of the transactions are concentrated in regions (93.4% of the purchase and sale transactions in 2018). In the 1st quarter of 2019, the annual growth rate showed a tendency for recovery again.

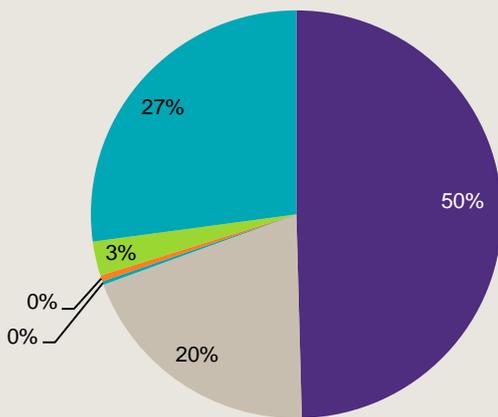
As per the public facilities, the volume of purchase and sale transactions also showed a declining trend in the 4th quarter of 2018, compared to the corresponding period of the previous year, in contrast to the rising trend of the annual growth in the 1st quarter (a 20.4% growth in the 1st quarter of 2018, compared to the 1st quarter of 2017, in part of all the transactions registered Armenia, and an 11.8% decline in the 4th quarter of 2018, compared to the corresponding quarter of 2017).

Property transactions performed by foreign citizens

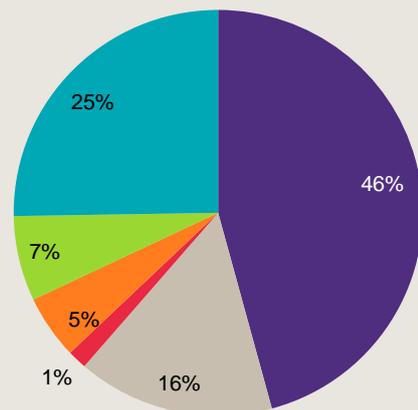
Buy and sell transactions performed by foreign citizens in 2018 made 10.9% of the total. Sale transactions are almost twice the number of purchase transactions (530 purchase transactions vs 1,024 sale transactions); 63.2% of purchases and only 37.3% of sales were performed in Yerevan.

Circa 70% of transactions involve purchase and sale of apartments and residential houses. It is noteworthy that, in part of public facilities, purchases in 2018 exceeded sales by 28%, or 17 transactions, in contrast to other types of property (except garages).

Distribution of sold property by types



Distribution of purchased property by types



■ Apartment
■ Residential house
■ Industrial facilities
■ Public facilities
■ Garage
■ Land

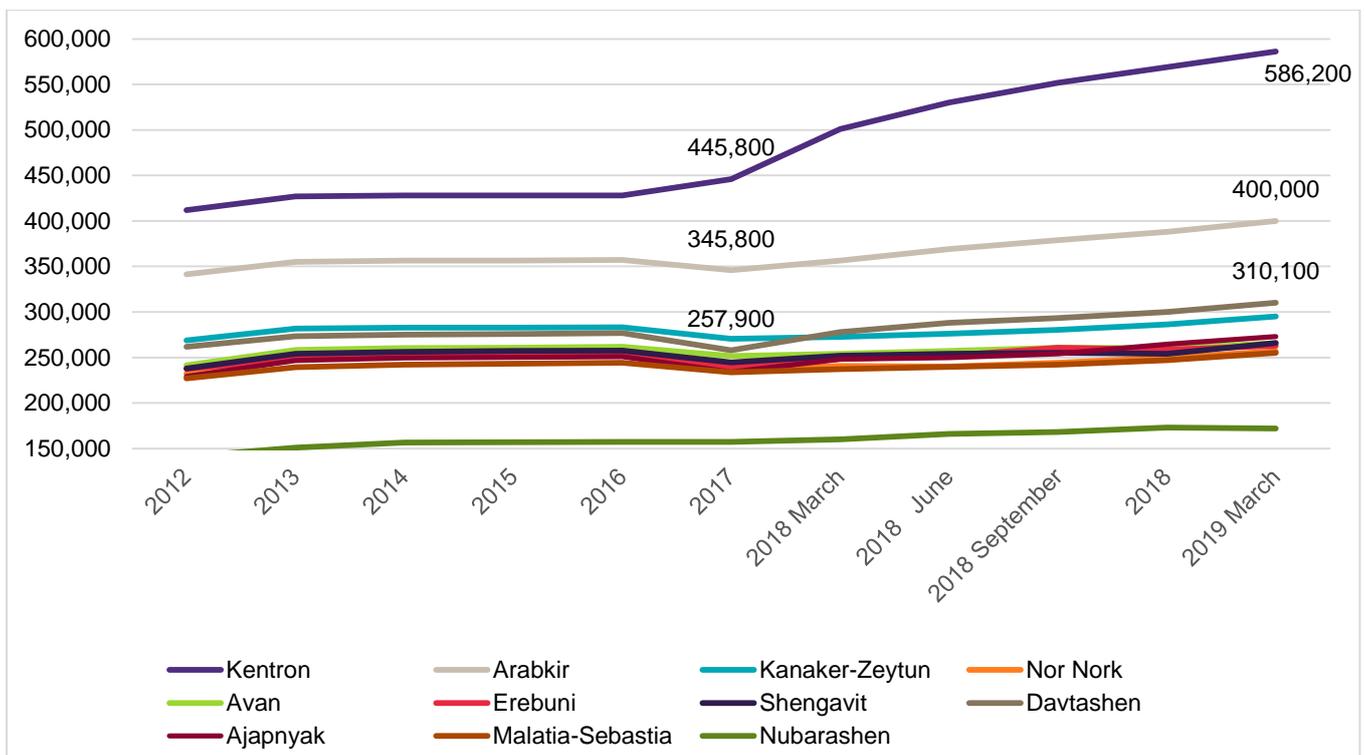
■ Apartment
■ Residential house
■ Industrial facilities
■ Public facilities
■ Garage
■ Land

Buy and sell prices

The latest increase in the market prices of apartments is observed in 2013, having increased by an average of 5.4%, compared to 2012. Nonetheless, the prices remained steady up to 2017, sometimes showing a slight annual growth. In 2017, a drop in the market prices was observed in all administrative districts, except the Kentron where a 4.1% growth was observed in contrast to the 3.5% decline in the average of Yerevan market prices.

In 2018, the market prices of apartments in multi-apartment buildings increased by an average of 22.5%, compared to the previous year, representing the largest annual growth since 2012. The prices grew, in particular, in the Kentron, Arabkir, Davtashen, Ajapnyak and Nubarashen administrative districts.

Average market price apartments by years



In most of the administrative districts, market prices range between AMD 250,000 and AMD 300,000 per sq.m., except the Kentron and Arabkir administrative districts, where the market price per sq.m. is about 2 and 1.5 times higher than the most probable value, respectively. The largest growth in 2018 was recorded in the Kentron administrative district (27.6% annual growth).

Nonetheless, it is of interest to observe the trend of increase in the apartment prices during the year. The analysis shows that, overall, the quarterly rate of growth in the average market prices in 2018 slowed down mostly in the 2nd and 3rd quarters.

Quarterly growth rates of the market prices

	2018 March	2018 June	2018 Sept	2018 Dec	2019 March
Kentron	12.4%	5.8%	4.2%	3.1%	3.0%
Arabkir	3.1%	3.5%	2.7%	2.4%	3.1%
Kanaker-Zeytun	0.7%	1.3%	1.5%	2.1%	3.1%
Nor Nork	1.6%	-0.3%	1.8%	2.3%	2.8%
Avan	1.1%	1.2%	1.3%	-0.1%	2.0%
Erebuni	3.5%	1.4%	3.5%	-0.9%	1.7%
Shengavit	3.0%	0.8%	0.4%	-0.3%	4.6%
Davtashen	7.8%	3.7%	1.7%	2.3%	3.4%
Ajapnyak	5.9%	0.7%	1.7%	4.1%	3.2%
Malatia-Sebastia	1.5%	1.1%	1.0%	2.0%	3.2%
Nubarashen	2.0%	3.6%	1.3%	3.0%	-0.7%

Source: www.armstat.am; www.cadastre.am

The price growth rates increased at the end of the 4th quarter of 2018, compared to the previous quarters, except Avan, Erebuni and Shengavit districts. At the end of the 1st quarter of 2019, the quarterly growth of market prices continued to increase, compared to the numbers for the previous quarter, showing significant growth for Shengavit, as opposed to the considerable slowdown in Nubarashen.

In addition, it is worth mentioning that the growth rate of the volume of apartment buy and sell transactions in the 3rd and 4th quarters of 2018 also slowed down (24% quarterly growth in the 2nd quarter, 6% - in the 3rd quarter, and 3% - in the 4th quarter).

Also, the prices of apartments in regions, particularly in regional centers, have not experienced substantial fluctuations or even decreased in 2018 in comparison with 2017, except for the Artashat, Hrazdan and Kapan regional centers, where an average of 10% growth in average market prices was recorded.

Quarterly growth of market prices in regional centers improved in the 1st quarter of 2019, compared to the quarterly growth of 2018, and varied within the range of 1-4%. The market prices of residential houses in Armavir have grown markedly, moving from the steady quarterly growth of 1% to a 6% growth over the past year.

Lease

Yet, considerable part of transactions, especially for residential real estate lease, do not get legal registration.

In 2018, compared to the previous year, growth of lease transactions was registered for public facilities (26.8%, 1,003 transactions), while the number of lease transactions for industrial facilities has dropped by 557, or 32.8%. The number of land lease transactions decreased too, including agricultural land lease transactions that had decreased by 628, or 25.7%.

Geographically, 51.4% of transactions are concentrated in Yerevan, but most of them (66.1) pertain to public facilities. 41.2% of transactions in regional centers pertain to public facilities too, while 37.5% are those for land lease. Out of 2,415 transactions performed executed in rural communities, 70.5% pertain to land lease, 60% whereof represent agricultural land lease transactions.

Pledge

In 2018, a 10.7% growth of pledge transactions was recorded in comparison with the previous year. The growth mostly relates to residential real estate, constituting 76.5% of the total number of pledge transactions. In making comparison to the quantitative and annual growth rate of buy and sell transactions, it may be observed that the annual growth rate of apartment and residential house pledges in 2018 and 2017 is quite close to the annual growth rate of property transactions. Considering that these transactions based on mortgages are accompanied with mortgage pledges, a certain connection may be observed in 2017 and 2018, which was not noticeable in the earlier years.

Lease transactions

Public facilities

48.1%

Land

27.6%

Industrial facilities

11.6%



8%

of the total number of transactions pertain to the lease of apartments and private houses

Pledge transactions



Pledge transactions have made up

16-17%

of the total transactions over the past three years

Real estate market trends, number of transactions and prices of purchase and sale are affected by certain factors that may be grouped as follows:



In general, transactions in the real estate market started to intensify in the 4th quarter of 2017, probably, due to the discussion of the tax reforms providing for certain restrictions in part of servicing of mortgage interest at the expense of the income tax, market value of the real property being purchased and restrictions in terms of co-borrowers. In general, transactions in the real estate market started to intensify in the 4th quarter of 2017, probably, due to the discussion of the tax reforms providing for certain restrictions in part of servicing of mortgage interest at the expense of the income tax, market value of the real property being purchased and restrictions in terms of co-borrowers. However, the analysis shows that this was not proportional in terms of quarters, i.e., the annual growth in the 3rd and 4th quarters of 2018 slowed down compared to the annual growth in the first two quarters. In the 1st quarter of 2019, the growth in the number of purchase and sale transactions apparently improved, compared to the annual growth in the 4th quarter of 2018, partly due to land purchase and sale transactions, while, in terms of apartments, the growth rate stabilized at around 3%.

Growth in apartment prices has been recorded since 2018, and this continues to date, but the growth has mainly been observed in Yerevan's real estate market. A positive trend in regions was certainly observed in the 1st quarter of 2019, compared to the 2nd and 3rd quarters of 2018. In Yerevan, the growth in apartment prices in 2018 was relatively high in the Kentron administrative district, but then it slowed down in the 4th quarter of 2018, going down to a 3% quarterly growth, and stabilized in the 1st quarter of 2019 around the same growth rate. Overall, in the 1st quarter of 2019, prices for apartments in Yerevan's market grew mainly in the range of 3-3.5%, compared to the previous quarter.

The growth of apartment prices is likely to continue in 2019, but it will essentially depend on the above-mentioned factors, particularly, the realization of expectations relating to the economic situation.



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