

Residential Real Estate in Yerevan

January 2009

The residential real estate has been one of the most dynamic sectors of the Armenian economy, triggering the growth of other sectors in construction industry and beyond.

MAIN INDICATORS

Total residential stock(2007):
 21.3 mln sq.m.
 ~220,000 apartments
 ~40,000 individual houses

Residential space per capita:
 18.8 sq.m. (2008)

Completions during 2006-2008:
 ~1.2 mln sq.m.

Market transactions(2008):
 ~700,000 mln USD

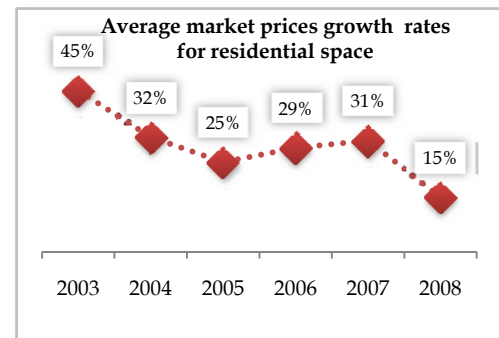
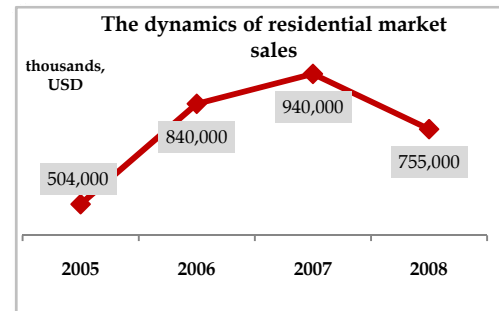
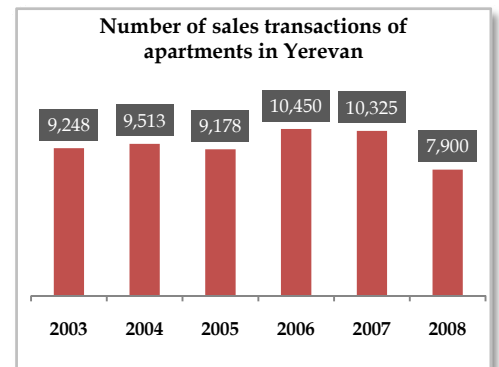
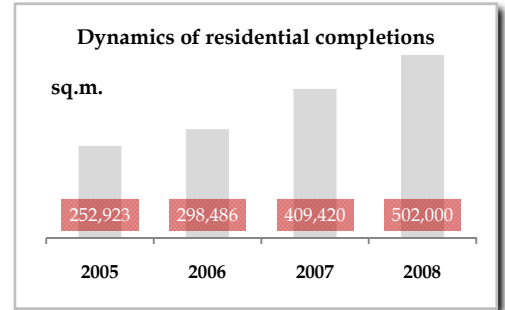
SUPPLY METRICS: The residential real estate comprises about 50% of the overall real estate developments in the country. The sector recorded up to 1.2mln sq.m. completions throughout 2006-2008.

The sector's growth has been strongly backed by large-scale state and institutional programs, aimed at overall urban development of the City. The most significant state-purported real estate project so far has been Northern Avenue project, launched in 2005. The total planned GBA (gross built-up area) of the development is about 167,000 sq.m. of residential and commercial space, planned to be fully completed by 2010. The overall amount of the investment into the project is estimated to reach up to 250mln USD.

The real estate is rapidly developing in other regions of the city as well, where the process has been of more sporadic nature - with stand alone projects dominating. Cascade area, Main Avenue and Hrazdan Gorge surroundings are among some of the most extensive development clusters in the city.

DEMAND METRICS: The volume of transactions approached the level of 755,000mln USD in 2008, recording a 20% decrease compared to 2007. The main demand triggers have been the overall increased stabilization of the economic environment, greater interest generated by the Diaspora, fast growth of household incomes and expansion of mortgage loans with eased terms.

FORMAT TRANSFORMATION: The currently dominating real estate format is the *mixed use* type of projects, which include commercial areas in the first floors, with the rest being dedicated to residential areas. Along, with the market evolving to more mature stages of development, the formats are expected to become more integrated into the overall development logic of the city's Master Plan. Also, the *mixed use* projects are expected to gradually decrease with new projects being mainly of purely residential or commercial nature. The initial boom of elite class projects in the modern format real estate developments is gradually transforming to business and lower classes. Also, the State purported massive projects to be developed in the coming decade will push the market further towards the lower-end segment, providing



quality projects with affordable pricing. The market is also moving towards smaller size apartments. The currently most demanded format of apartments is 2-3 room apartments with space of up to 150 sq.m.

CRISIS IMPLICATIONS: The market is assumed to freeze in the short-term due to difficulties in finance sourcing and considerable demand shortfall, although the pending projects are expected to be completed. The crisis can serve as a consolidating force for the market, pushing out the numerous “single project” developers and leaving the more powerful market players only.

The market is expected to stagnate in the short-term, with the liquidity further decreasing: the volume of the market transactions has already fallen in 2008 by about 23% (see the chart above). The real estate prices are also expected to experience strong downfall pressures due to halted demand and uncertain situation in the market. The extent of price decreases will be largely dependent on the financing opportunities and accumulated financial “pillows” of the real estate developers: severe financing deficits might result in prices plummeting down, whereas the moderate deficit will result in only slight price changes in the market.

The state purported massive urban development project might serve as a driving force for the market in the long term perspectives. Several major urban development projects for the city are *Yerevan City project* – the redevelopment project of Noragavit area as a financial center of the city, *Mars* and *Tichina* – the redevelopment projects of suburban areas, meant to ease the overloaded center of the city. The overall land area of the planned development projects is estimated to reach ~1,000 ha.

Despite the temporary slowdown of market liquidity caused by a number of external shocks, the sector further development prospects are seen as quite favorable due to the improving living standards of local population in longer-term perspective and consistent demand for dwelling spaces, presented by Diaspora.

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