

REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

July 2007

- **In July, drop of prices of standard type apartments continued. As compared to June, the average price of a standard type apartment has reduced for 3.8%, i.e. down to 1,590 EUR per sq.m, while it has increased for 29.4% as compared to last July.**
- **Amount of transactions has decreased in all segments of non-commercial real estate.**
- **Amount of transactions with standard type apartments increased in residential areas of a lower rating (Kengarags, Ilguciems).**
- **In July, supply of apartments for rent has increased.**
- **On the housing market, activity of transactions has been negatively affected by the new provision – statements of the State Revenue Service required in order to get credits.**
- **Time taken to execute transactions has prolonged essentially. It has almost doubled in Riga District. Banks retard granting of credits.**
- **There is a growing amount of transactions financed without using loans from credit institutions.**
- **There is a growing activity on the market of commercial space.**
- **Lease payments of retail premises boom at the best spots of shopping streets in Riga.**

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GENERAL ECONOMIC SITUATION

In July, Amendments of Consumer Protection Law came into force obligating lenders to demand statements on natural persons' income which taxes have been deducted from, to be issued by the State Revenue Service. Loans exceeding amount of 100 minimum salaries (i.e., 12,000 LVL at present) are allowed to be granted just after considering this income. The lenders contravening this provision for the first time will be subject to a penalty in the amount of LVL 500 to LVL 1,000, but for the second time LVL 1,000 to LVL 3,000.

Amendments of the law also provide that customers should be able to co-finance at least 10% of the service or product price which the loan is taken for, thus suggesting the customers to think over necessity of loans.

Officials at the Ministry of Finance hold a view that these amendments of law will facilitate control of legal origin of the funds used for repayment of loans; they will lessen willingness to be paid "envelope wages" and tax revenue will be increased as well. Also it is expected that the amendments of the law coming into force will decrease consumption of goods and services being financed by illicit funds and thus the inflation could be restrained.

Data collected by the Bank of Latvia (BL) in early June indicate that growth of real estate crediting in Latvia has been the lowest one since summer 2006 as annual growth decreased to 80.3%. Ilmars Rimshevich, the president of BL, noted that growth of crediting retained its previously high level in April, but in May annual growth of granted loans decreased to 56.6% – the lowest index since August 2005. In June, in its turn, the tendency continued as annual growth decreased to 56.2% – mainly at the expense of mortgage loans while loans granted to enterprises grew that was necessary to national economy very much.

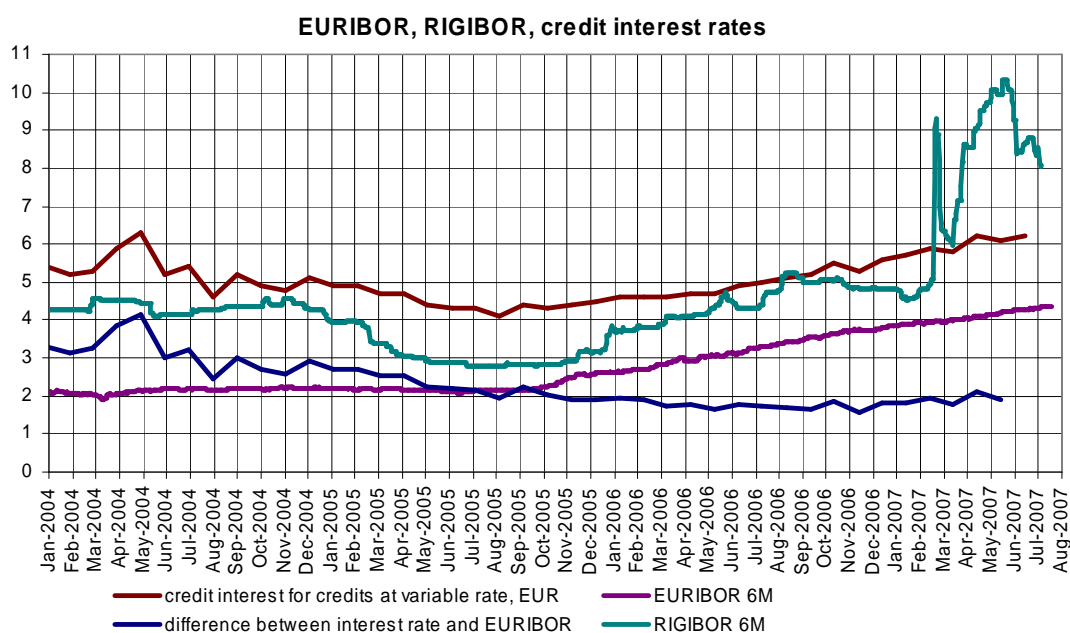
At present, the latest data published indicate that volume of the loans granted to resident financial institutions, non-financial associations and households reached 11.755 thousand millions lats.

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In the July report of the rating agency “Fitch ratings” Latvia was ranged with the countries having got negative forecast of their economic development. Analysts of the company noted that economic growth that reached 11.2% during the first quarter would slow down gradually as the terms of crediting would become stricter. The analysts also marked that the plan for inflation restraining was a good start but it should have been more aggressive. Through constraints of national budget revenue Latvia might get a budget surplus this year.

After the meeting with the Minister of Finance this month, Commissioner for Economic and Monetary Affairs of European Union Joaquín Almunia also emphasized that the government had to implement a strict inflation plan. Development of a balanced budget providing a gradually increasing surplus was also important. Thus the Minister of Finance had to certify that this year the government had already set the target to provide a balanced national budget at the end of the year by planning a surplus budget for a term of several years. Yet real resolutions in reaching this goal are awaited.

In July, Euro rates of 6-month EURIBOR continued their usual climb, and the tendency was not likely to change in August, too. Rate of 6-month RIGIBOR having grown in June, changed slightly in early July by reaching a mark of 7%, and it reached the lowest level over the course of three months at the end of the month.



Source: British Bankers Association, Central Statistical Bureau, Bank of Latvia, LATIO

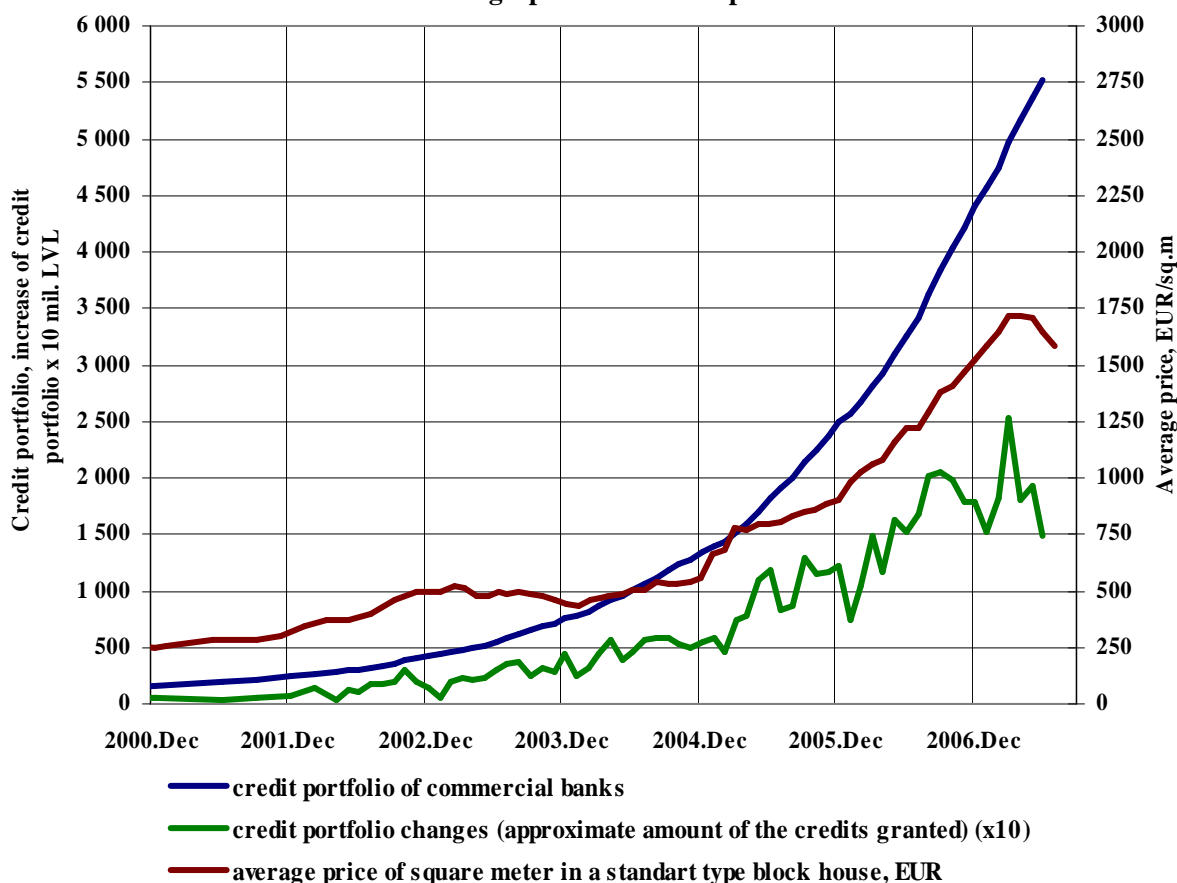
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HOUSING MARKET

STANDARD TYPE APARTMENTS

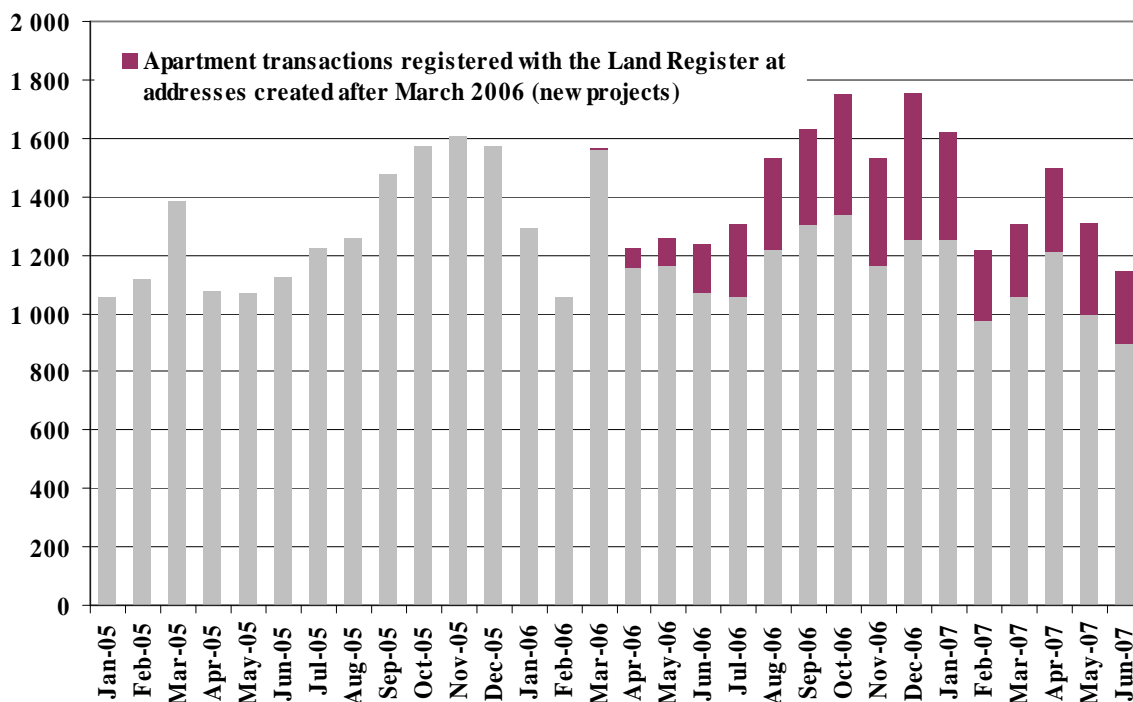
- In July, fall in prices of standard type apartments proceeded. The average price of a standard type apartment in July was 1,590 EUR per sq.m, i.e. for 3.8% lower than in June, and for 29.4% higher than in July last year.

Credits granted to private individuals by commercial banks,
average prices of total space



Source: the Finance and Capital Market Commission, LATIO

Apartment transactions registered with the Land Register in Riga*



Source: the Land Register, the State Land Service

* Amount of apartment transactions is estimated based on the Land Register records dividing in types of transactions: purchase or gift, and in properties: apartments. These data are corrected while neglecting the records that may double if an apartment has been purchased as joint property. Amount of apartment transactions is corrected by a coefficient that is based on the proportion of purchase transactions registered with the State Land Service.

The marked part within the diagram represents transactions that were registered with the Land Register as apartment transactions at the addresses created after March 2006. This part represents transactions with apartments in new projects; yet it is just an approximate index since transactions with nonresidential space such as parking places in new projects are also registered with the Land Register as apartment transactions.

In June, amount of transactions with apartments registered with the Land Register in Riga decreased to 1,170 transactions as compared to May. Data on transactions in July will be available just in August. Meanwhile there is no indication of the decline to stop.

In July, just like in June, there was observed little interest of buyers in apartment purchase. Further reduction of prices is expected. Yet amount of transactions has increased in residential areas of lower rating especially such as Kengarags and Ilguciems where more sellers are compliant as to reducing of prices.

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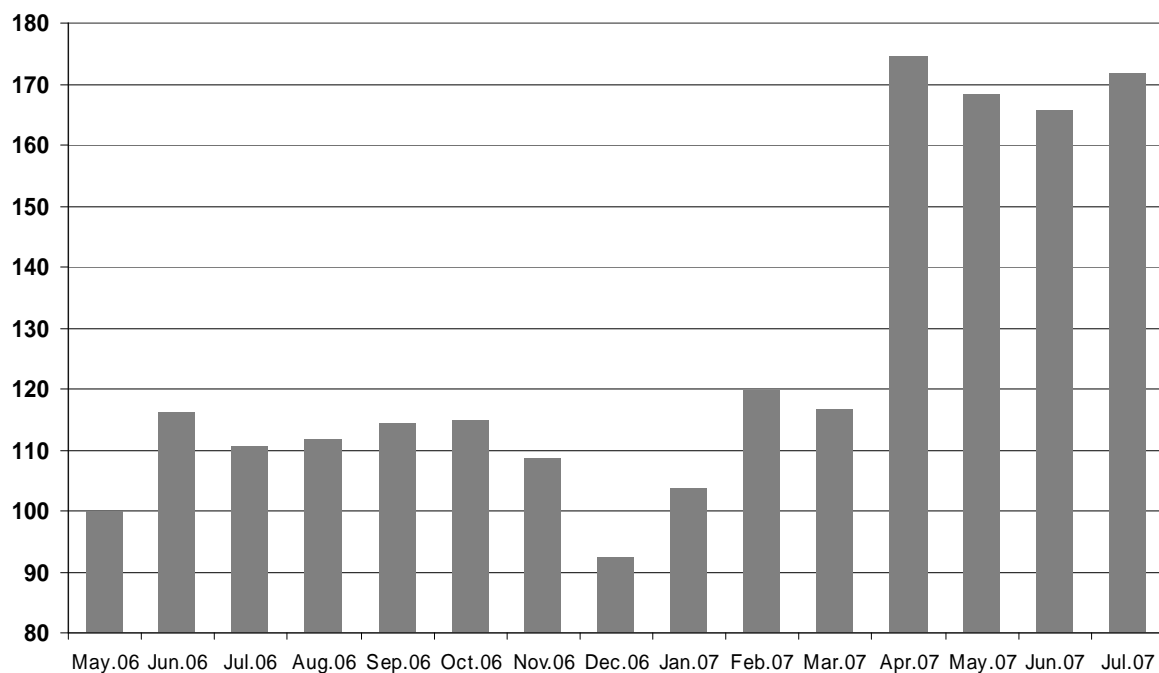
Activity of transactions was significantly affected by a provision of the law that came into effect on July 10, i.e. to get a credit exceeding 12,000 lats a statement of the State Revenue Service on income, which taxes had been paid from, was to be submitted. Therefore several transactions were not concluded as the involved parties did not manage to go through the necessary formalities till July 10. On the market, there appeared propositions to buy contracts on apartment purchase in new projects owners of which did not manage to get loans from banks.

Consideration of lending takes more time for banks than before that along with other implemented changes may prolong execution of transaction even twice as much. There is a sustained tendency that clients not having got loans in banks turn to smaller crediting companies. As demand grows, new business companies of such type are established. Operating enterprises, in their turn, expand their business, as judging by their activities on the lease market of commercial space. Premises are searched for to open additional offices or to move to larger ones.

After a long break, it could be observed in July that there was an increasing amount of transactions which were financed via payment in cash or money transfer instead of using loans of credit institutions. In such cases, price of a transaction is lower for 10% and more than that in case of a purchaser using a loan. This price reduction is not typical of cases of land selling.

The average price reduction of standard type apartments in July is a strong confirmation of the fact that stabilization stage has not set in on the market, but correction of the previous price rise takes place instead. Prices have dropped down for more than three per cents in the course of two months; that could be characterized as a fast drop, and now it is hard to make out any factors that could change market orientation next month.

Index of apartment supply volume in Riga (supply in May 2006 =100)



Source: www.reklama.lv, www.dzivoklis.lv, LATIO

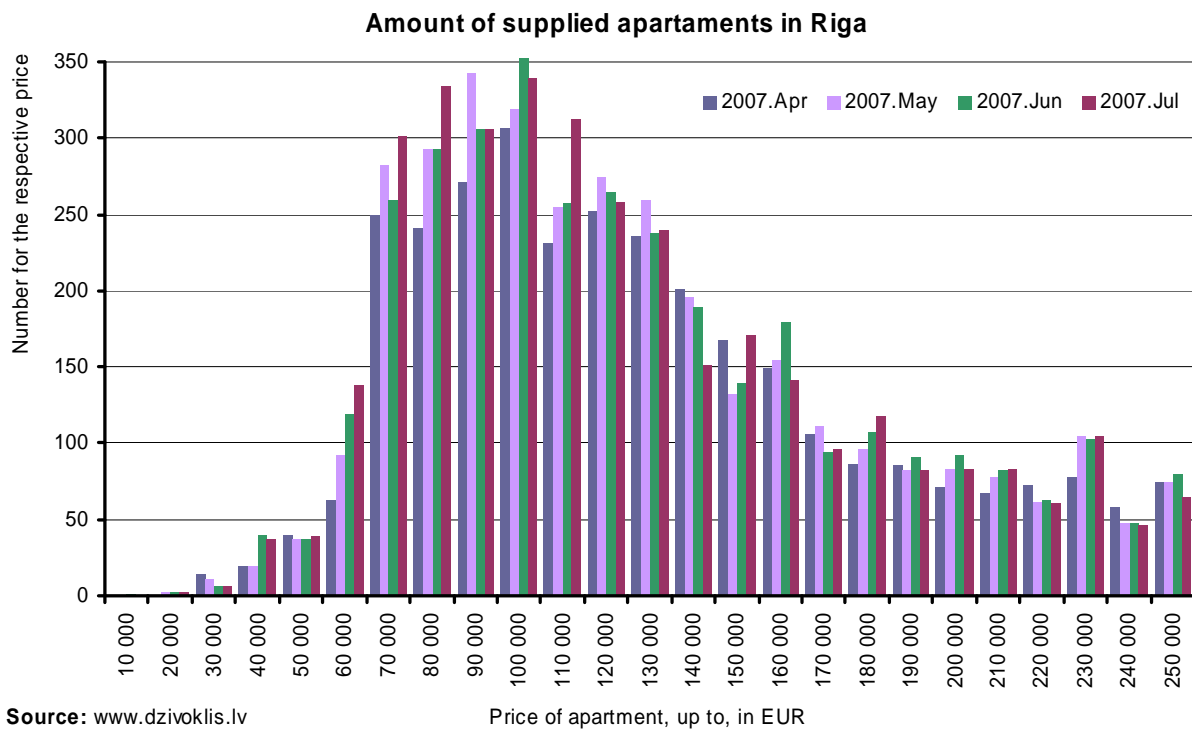
Based on the largest real estate portals, supply of apartments in Riga has not changed much in July as compared to June. The supply has been retaining the highest annual rates for four months, and in the face of the comparatively small number of transactions the supply volume is not likely to decrease much in August. Such a high level of supply is one of the essential factors making pressure on dwelling prices.

Purchasers are not able to absorb this supply for different reasons, and correction of prices is a natural reaction of market participants. At present, it is hard to make out any factors that could change this market tendency in August and now it can be called a steady one.

Sellers usually agree to reduce price for 5 % to 10 % only in case of emergency. Owners of apartments in areas of lower rating are especially flexible. In July, sellers of some most expensive new projects reduced prices even for 30 %.

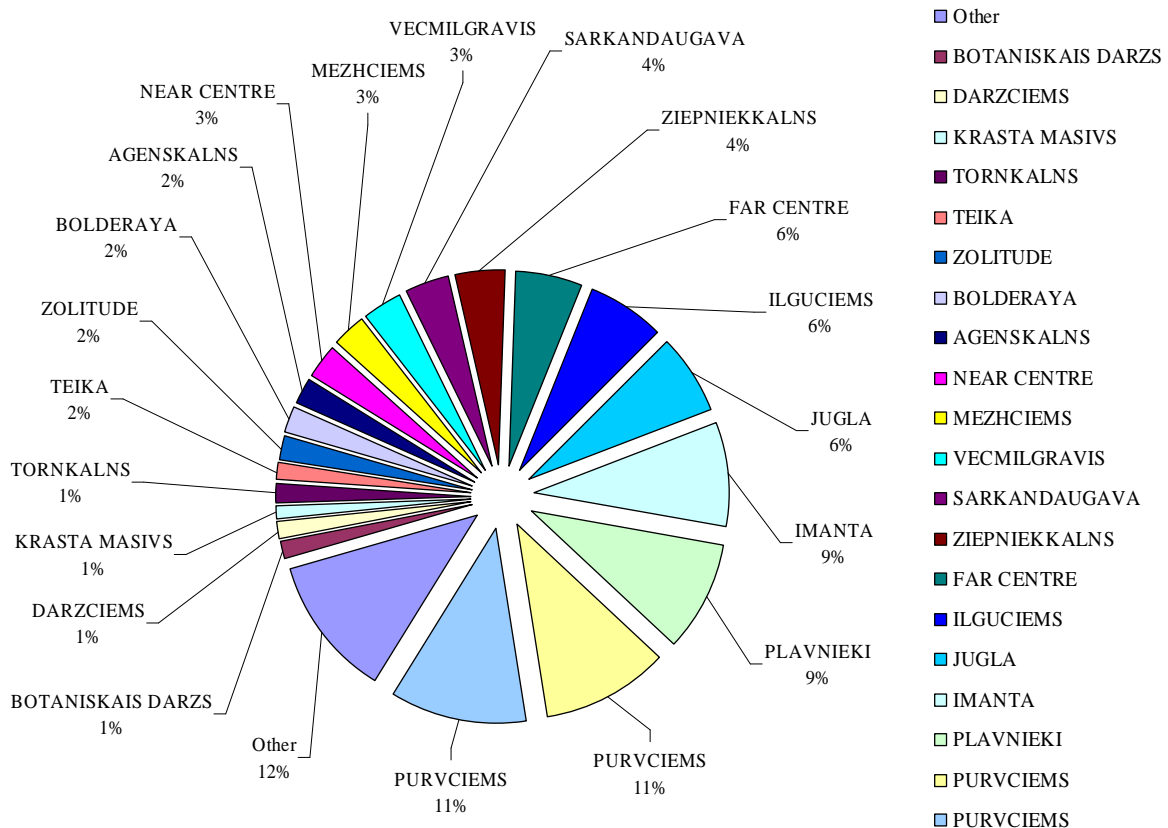
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Potential purchasers anticipate further drop of prices. Most active purchasers make their choice of apartments more carefully and well - considered. More attention than ever is paid to correlation between price and quality.



In July, supply of apartments for rent increased. As interest of purchasers lapse more and more owners of apartments choose to get profit via rent of apartments initially offered for sale. In Riga, there is a sustained high demand in one-room and two-room apartments for rent. Amount of their rentals depending on the area and condition fluctuate between 200 and 250 Ls per month, excluding charge for public utilities. The category of tenants most often met are students and new families which, in the present strict crediting policy circumstances, do not qualify for getting credits any more due to insufficient income or required considerable co-finance.

Apartment purchase transactions ratio among residential districts in Riga in June, 2007



Source: the Land Register, the State Address Register

In June, for the first time during the recent years, Purvciems was not the leading area any more considering apartment transactions. The highest specific weight of transactions was fixed in Kengarags. A remarkable increase in transactions' amount was also in Ilguciems.

In June, just like before, the most transactions were executed with two room apartments of "Lithuanian" type project.

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Typical prices of standard type apartments in Riga residential districts in July, EUR

District/ series	Purv- ciems	Plav- nieki	Mezh- ciems	Agens- kalns	Zoli- tude	Imanta	Jugla	Ziep- niek- kalns	Kenga- rags	Sar- kan- dau- gava	Vec- mil- gravis	Bolde- raya		
Series 119	1- room	75 000	75 000					73 000						
	2- rooms	94 000	94 000					91 000						
	3- rooms	106 000	107 000					108 000						
	4- rooms	114 000	115 000					120 000						
Series 602	1- room	61 000	62 000	60 000			60 000				57 000	57 000		
	2- rooms	82 000	84 000	81 000			83 000				83 000	82 000		
	3- rooms	94 000	96 000	92 000			93 000				100 000	98 000		
	4- rooms	105 000	108 000	100 000			107 000				110 000	105 000		
Series 103	1- room	67 000	67 000		65 000						59 000	58 000	55 000	
	2- rooms	86 000	85 000		87 000						88 000	84 000	75 000	
	3- rooms	97 000	98 000		100 000						116 000	110 000	89 000	
Series 104	1- room	73 000	72 000	68 000			75 000	76 000						
	2- rooms	95 000	94 000	90 000			95 000	95 000						
	3- rooms	105 000	105 000	102 000			110 000	110 000						
„Lithuanian” proj.	1- room	57 000		58 000	56 000		55 000			53 000	56 000		55 000	50 000
	2- rooms	74 000		77 000	75 000		77 000			73 000	75 000		76 000	67 000
	3- rooms	91 000		90 000	89 000		90 000			86 000	87 000		90 000	80 000
„Hruschov” type houses	1- room	55 000			56 000				55 000	54 000	55 000	54 000	51 000	
	2- rooms	72 000			72 000				72 000	71 000	74 000	72 000	69 000	
	3- rooms	85 000			90 000				85 000	87 000	85 000	95 000	85 000	

Source: LATIO data

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DETACHED HOUSES

In July, on the market of detached houses there was a sustained supply and steady high prices which purchasers were seldom willing to reduce except for some cases when funds were urgently needed. The price is willingly reduced even for 10% to 15% in such cases.

Demand keeps its decline. It is mainly affected by the strict credit policy of banks. Clients provided financially, in their turn, mainly anticipate further price fall.

In June, amount of transactions with detached houses decreased in Riga for about 10%, in Riga District for more than 15%, but in Jurmala for ca.30% as compared to May.

In Ogre, houses at the price of 80,000 to 90,000 Ls are demanded yet they seldom enter the market. There are few purchasers of newly erected houses, even without regard to a slight price reduction. The continuously increasing construction costs, however, cannot be taken for a factor that would prevent price reduction of newly erected buildings. Tendencies similar to those on the market of standard type apartments may strengthen also in the segments of detached houses and new multi-apartment projects. In the circumstances of growing supply a transaction will take place at the price that the purchaser would be agreed with instead of the price initially asked by the seller.

RESIDENTIAL DEVELOPMENT LAND

Supply slightly increased on the market of building plots in July. The prices are much higher than purchasers would be willing to pay, and this inhibits them from concluding of transactions. Like on the market of detached houses, the sellers seldom agree to reduce their prices thus prolonging time of selling of their property.

Demand diminishes. Some interest is shown in small building plots up to 1,500 sqm large with attractive environment and communications installed.

In Ogre District and Aizkraukle District, the owners continue to parcel agricultural land in order to sell it as building plots up to 2 ha large. Yet there is no demand in such building plots.

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NEW HOUSING PROJECTS

New projects announced in July

Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
Riga						
"Nordeka nams", Riga, Ilguciems, Lillijas/Bullu Str.	A	SIA "LGS"	1,390	partial	22	1
Riga, Imanta, 100 Jurmalas gatve	A	no info	1,650	full	126	2
Riga, Plavnieki, Akademika Keldisa Str., between the houses No. 13 and 15	A	SIA "SUV INVEST"	no info	partial	43	1
"Spilves 23", Riga, Ilguciems, 23 Spilves Str.	A	SIA "Arida"	1300	partial	12	1
Riga, Far centre, 15 Artilerijas Str.	A	SIA "OPTIMUS DIVI A"	2,530	full	20	2
"Ilukstes nami", Riga, Plavnieki, 53a Ilukstes Str.	TH	SIA "BSM Grupa"	1,310	partial	8	1
"7 rindu mājas Purvciemā", Riga, Purvciems, corner of Sesku and Gaismas Streets	TH	SIA "Trigerss Nami"	1,405	partial	7	1
"Ezermezi", Riga, Jugla, 3a Maza Juglas Str.	A	SIA "Arinā 4"	3,000	partial	18	1
Riga District						
"Jaunie Avoti", Riga District, Olaine Parish, "Medemciems"	A	SIA "FERENDA"	1,406	partial	9	1
"Adazu ielas nams", Riga District, Baltezers, Adazu Str.	A	SIA "IVISS"	1,550	partial	6	1
"Mini ciemats Kekava", Riga District, Kekava Parish, Kekava	DH	SIA "EE projekti"	1,225	partial	4	4
Riga District, Marupe Parish, Jaunmarupe, 3a Osu Str.	TH	SIA "MAGREKS"	1,125	partial	4	1
Other regions						
Daugavpils, 11 Arodu Str.	A	SIA "Asset Invest Pro"	870	partial	85	1
"Sandland", Tukums, 38b Smilšu Str.	A	SIA "SALDO CC"	915	partial	20	1

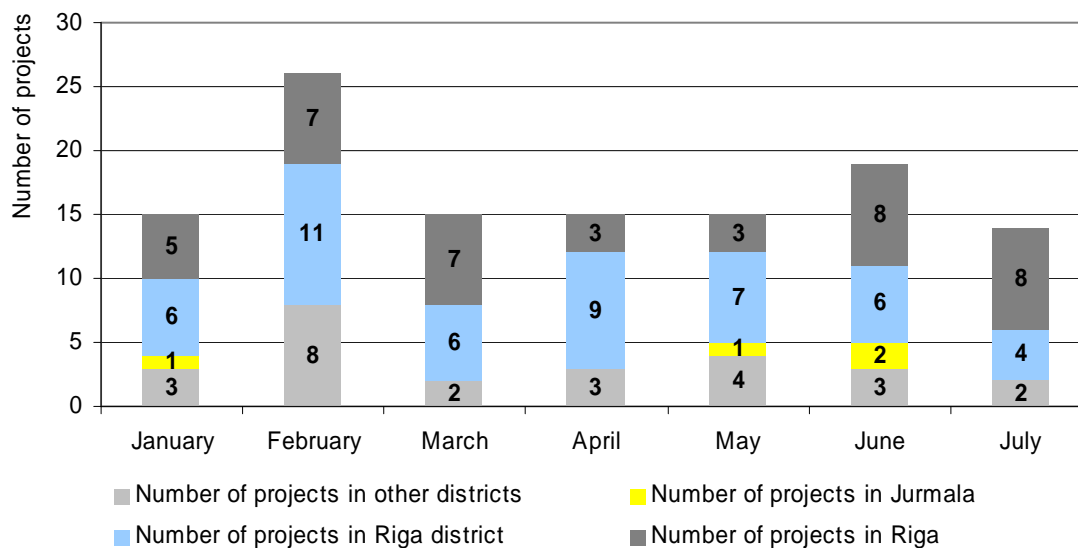
Source: LATIO

A – apartments, DH – detached houses, TH – terrace houses

In July, 14 new projects were announced. There is a sustained tendency of new projects being developed mostly in Riga and Riga District. Several developers have postponed implementation of previous plans due to saturated market and the predictable difficulties of realization of the object.

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New projects announced in the beginning of 2007 in distribution among districts



Source: LATIO

COMMERCIAL SPACE MARKET

OFFICE SPACE

Entrepreneurs are not likely to be worried about newspaper headlines on unbalanced national economy of Latvia and risks of its development slowdown since in July increasing activity was observed on the lease market of office space on both the sides, i.e. supply and demand. Like in June, the wide supply, however, does not encounter a sufficient demand by purchasers on the sales market of office space.

There cannot be traced any indication of wait-and-see policy of enterprises or reduction of their activity due to overheated national economy though poll of enterprises reveal certain concern about further development. Enterprises more actively take interest in the lease market of both: small size offices to 50 sqm large and medium size offices 50 to 150 sqm large. There is an increasing demand also in large office space, i.e. up to 2,000 sqm large and more. Thus data on national economy for the second quarter are not likely to show significant change of economic indices for worse.

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Structure of lessees stabilizes in the historical centre. Enterprises and organizations, mainly from the segment of consulting companies, select offices on prestige spots and do not take car parking for a necessary condition any more since they are aware that this supply is little in the centre. Yet it is demanded for the building hosting the respective office premises to have tidy surroundings and neat façade as well as renovated staircase.

There is demand in office premises on a location with nearby car parking - Ganību dambis, Meza Street, Krasta Street, as well as that with no parking place – in the area of Elizabetes and Valdemara Streets. Rentals are 10 to 14 EUR per sqm. Lessees represent wide range of branches – construction, nongovernmental organizations, financial services, educational establishments, tourist agencies, agencies of foreign companies.

In the lease segment of offices 50 to 150 sqm there is observed a tendency that an office is searched for closer to the residential area of the governing body of the company and most of the staff in order not to lose time in traffic jams. Among the new office centres, buildings with opening windows are preferred. Companies engaged in international business and arranging regular meetings with foreign partners select office premises in Pārdaugava to have easier access to the airport.

Potential lessees from the countries with developed office market demand quality more often and, in searching for appropriate office premises, scrutinize technical specifications and utilities of the buildings.

In Jelgava, there is being erected Zemgale Business Centre with lease space of 7,000 sqm. The planned office rental is 10 to 12 EUR per sqm. In the city centre a six-story building is being renovated and the planned office rental is 12 to 14 EUR per sqm there.

Increasing supply of office space is expected in the areas nearby Riga, yet there is little interest shown in them by potential lessees as the prices are not remarkably lower but the distance to Riga is considerable. This indisposition of enterprises to moving outside Riga or their immobility that partly lies in immobility of labour force is a comparatively essential factor in the market segments of both: offices and industrial space. It blunts the attraction and also reduces price of offices outside Riga.

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RETAIL SPACE

Last year, there was a rapid growth of income per capita: wages in national economy increased for ca.25%, the paid retirement pensions – for about 20%; volume of consumption loans granted by banks grew rapidly as well. Evidently, entrepreneurs anticipate similar growth also this year and always hope on incessant consumption by inhabitants of Latvia since in July, on the market of retail space there was sustained high demand in small space 30 to 150 sqm large in areas with intensive surge of people in the *top* centre mainly. Appropriate supply is little and rentals keep rising.

80 EUR per sqm that was regarded as the ceiling rental last month is accepted now but rentals of ground floor space at the corners of the most demanded shopping streets have already reached 120 EUR per sqm.

There still are problems with basement premises that have to be taken on lease obligatory as requested by ground floor owners, yet their use is inconvenient.

Lessors orient themselves more on long-term agreements and weigh out the potential tenants more carefully from the view of a sustainable business. Warranties of lease payments are sometimes demanded.

There is also demand in buying of retail space. Purchasers mainly are large investment companies or persons which buy real estate for business purposes instead of speculating.

WAREHOUSE AND INDUSTRIAL SPACE

Lease market of warehouse and industrial space was also active in July. The most demanded space was that up to 1, 000 sq.m with an integrated office ca. 50 sq.m large and heating or a possibility to install it. Location should be so that one could easy drive up by trucks therefore traffic jams became more essential a factor. Among the potential lessees there were wood-processing enterprises and construction companies.

In Riga, several large objects 5,000 to 20,000 sq.m large, premises of which could be used for warehouses and also for establishment of production shops were put on the market in July. Rentals for heated premises were 6 EUR per sqm, and 4 to 4.5 EUR per sqm for premises without heating plant. The supply of vacant space can be explained by the wish of owners of the premises to raise prices even twice that does not satisfy the present lessees and they terminate the contracts.

Cases occur when unprofitable production is closed or moved to cheaper space in order to vacate industrial space for more profitable companies that are able to pay high rentals for appropriate premises.

There is a sustained interest in objects around Riga due to comparatively lower prices. Still enterprises that used to operate in Riga search for new space in the capital city and do not agree to move to objects in Greater Riga Area or nearby towns Ogre or Jelgava even though the prices are lower. It is explained by difficulties in finding qualified staff since Riga residents would search for a new job in the city rather than agree to cover far distance to reach the previous employer.

There is little demand in lease of new industrial objects under construction. It is determined by both the comparatively high rentals and the circumstance that a great part of clients need space for lease in quite a short term – in one to two months.

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In July, the previous supply of warehouse and industrial space for sale remained the same. There is a poor interest in them since the owners often wish to sell their premises and afterwards take them on lease themselves on favourable terms. Purchasers are attracted neither by traditionally high prices of these objects nor by a possibility to be burdened with a privileged lessee in a situation when the lease market grows.

Potential investors are interested in large objects with sound lessees with a view to purchase a business but the purchasers do not encounter any appropriate supply.

In Riga, however, individual transactions of industrial space purchase are completed on smaller objects where the new owner sets a target to develop a financially profitable lease company which could be sold in the future.

The company "Elipse BLC" has launched construction of a logistics centre which is planned to invest ca.60 million lats to, on the business park territory of the airport "Riga". The construction is planned to be finished in spring 2008. On the territory of six hectares it is planned to erect a logistics and distribution centre over 24.7 thousand sq.m where 3.7 thousand sq.m will be allotted to office premises, 970 sq.m – to storage of heavy freight and non-standard cargo, but the rest space is planned for warehouses.

COMMERCIAL DEVELOPMENT LAND

There is a sustained supply on the market of commercial development land but the prices are high and the sellers do not agree to reduce them.

The potential investors search for development land in the area of Mukusalas and Krasta Streets for building of office centres. There is no proper supply.

Some interest is shown in long-term lease of land for construction of commercial objects.

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