

REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

June 2007

- **In June, fall of prices of standard type apartments proceeded. The average price reduced for 3.5% down to 1,648 EUR per sq.m.**
- **Supply of apartments stabilizes in Riga.**
- **Activity of purchasers diminishes on the market of apartments. More cases occur when banks refuse to grant credits to buyers for purchase of dwelling.**
- **Some large banks do not want to credit purchase of land plots any more provided there is a project approved for its building-up.**
- **In June, 19 new housing projects were announced. There was a retained tendency that most of them were in Riga and Riga District.**
- **In June, several measures of inflation prevention plan were initiated. It strengthened “expectations of crisis” for real estate purchasers.**

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TABLE OF CONTENTS

1. General economic situation.....	2
2. Housing market.....	5
2.1. Standard type apartments.....	5
2.2. Detached houses.....	11
2.3. Residential development land.....	12
2.4. New housing projects.....	14
2. Commercial space market.....	16
3.1. Office space.....	16
3.2. Retail space.....	17
3.3. Warehouse and industrial space.....	17
3.4. Commercial development land.....	18

GENERAL ECONOMIC SITUATION

In June, there came into force the initial standard acts adopted within the framework of measures of inflation prevention plan. Changes in the Law on Personal Income Tax provide that personal income from sale of real estate within less than a year's time from its purchase to be subjected to tax amounting to 25%. Just in April, the government raised stamp duties on real estate registration and on recording a mortgage with the Land Register for the third and each of the next properties thus expecting speculative transactions to become limited.

Analysis shows that major serious short-term investors have already moved to developing market countries, for example, Bulgaria or Romania.

Less activity on the real estate market and, consequently, stabilization of prices and even their reduction was determined mainly by changes in credit policy of banks. Granting credits has already become much more cautious before the mechanisms were established by the government that demanded banks to verify legality of the clients' income. Measures taken by the government have strengthened "expectations of crisis" – most of potential purchasers anticipate for price fall.

On June 26, the government arrived at a decision to reduce property tax rate from 1.5% down to 1% of cadastral value of real property from the year 2008 on as well as to determine limit of tax growth in the amount of 25% in order to prevent disproportionate growth of tax load. In his report to government, Minister of Finances Oskars Spurdzins noted that tax payment will grow despite reduction of tax rate and limitation of tax growth: it will grow 3.4 times in Jurmala, 2.4 times in Riga and Liepaya, and 2.6 times in Riga District.

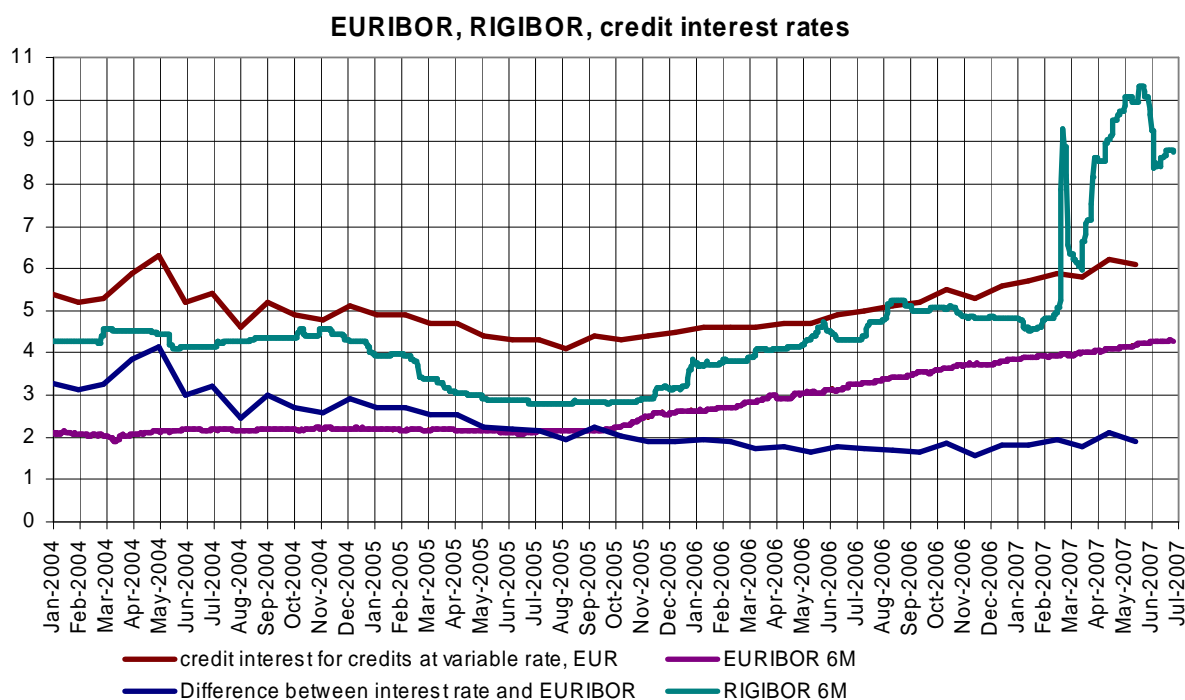
According to calculations by the State Land Service, land cadastral value of agricultural land will grow two times in 2008, residential development land – 5.6 times, commercial development land – 5.5 times, but land for building industrial objects – 5.1 times.

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Cadastral value of buildings, in its turn, is expected to grow 1.5 times for commercial buildings and 1.2 times for industrial buildings next year.

Since the beginning of June, cadastral notice of the State Land Service is not necessary any more when executing transactions with any property registered with the Land Register. Data required for fixing client's ownership title will be received by departments of the Land Register electronically from the Real Estate Information System of National Cadastre.

The total area of dwelling fund in Latvia reached 58.7 million sq.m in the end of 2006, testify data gathered by the Central Statistical Bureau. Last year, total area of living-space grew per one resident on average. In the year 2000 it was 22.6 sq.m, in 2005 – 24.8 sq.m, but in 2006 it reached 25.7 sq.m already.



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

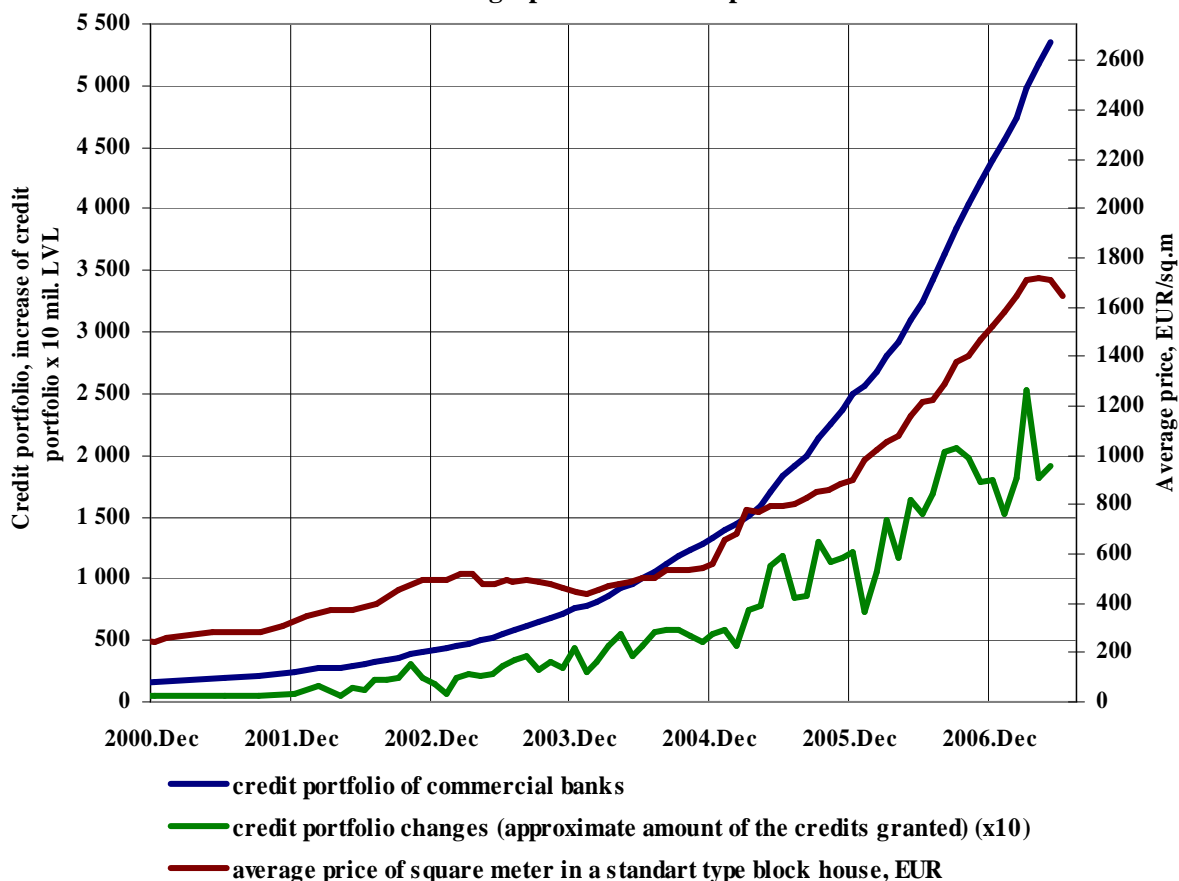
In June, credit interest rates for credits at variable rate remained unchanged, but rate of six months EURIBOR kept gradual increase. Rate of six months EURIBOR that decreased from 10% down to 8% at the end of May restarted climbing up by coming close to 9%.

HOUSING MARKET

STANDARD TYPE APARTMENTS

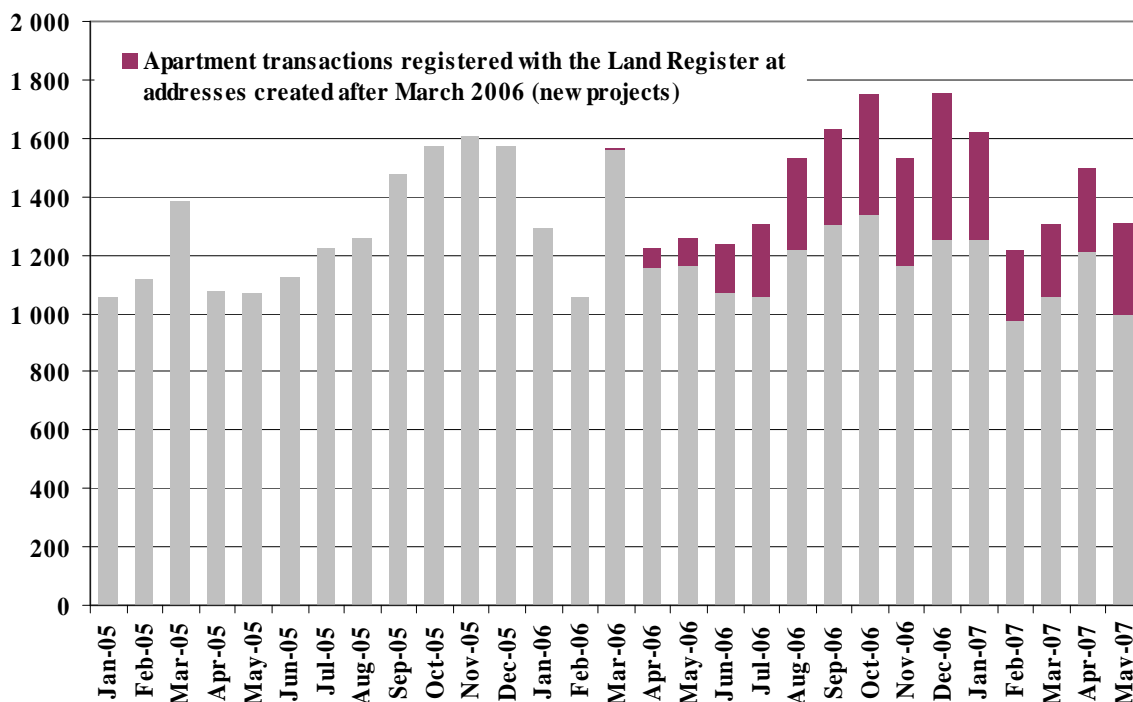
- In June, fall of prices proceeded in all segments of market of standard type apartments. The average price was 1,648 EUR per sq.m in June, or it was 3.5% lower than in May.

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.

Transactions with apartments in Riga registered with the Land Register in May decreased to 1300 transactions as compared to April. Data on transactions of June will be available only in July. The present observations indicate that amount of transactions will decrease.

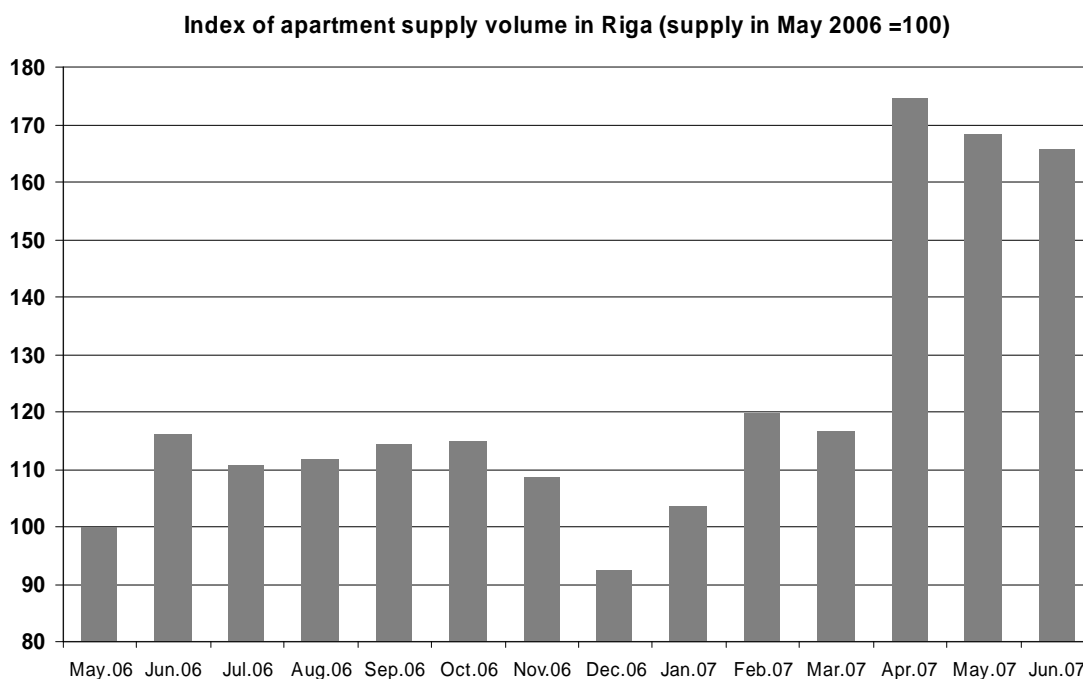
Purchasers' interest in buying apartments has rapidly diminished. More and more interested people are anticipating for further price fall.

Many of the larger banks refuse to grant mortgage loans more often even if they promised to grant them previously. A special attention is paid to purchaser's co-financing.

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Credit institutions review real estate valuations and lists of the companies which would be entrusted performing of valuations to.

Popularity of small credit companies grows due to more liberal terms of loan granting despite their loans being more expensive than in banks.



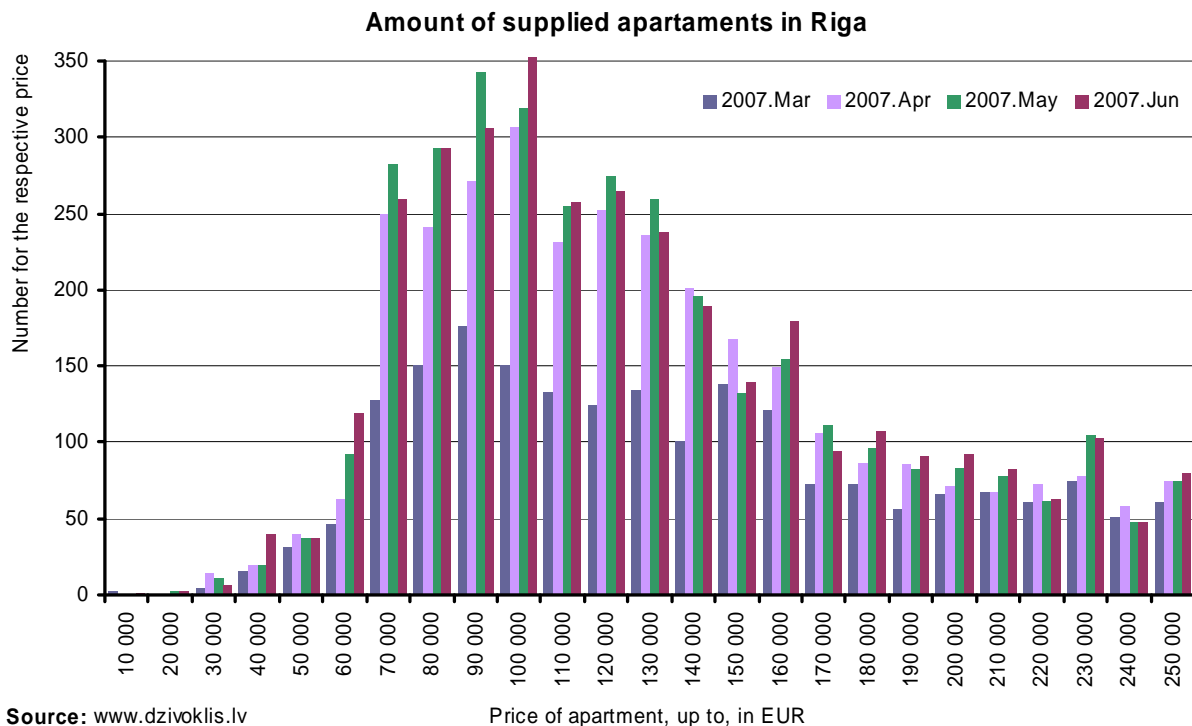
Source: www.reklama.lv, www.dzivoklis.lv, LATIO

Based on the largest real estate portals, supply of apartments in Riga decreased in June as compared to May but retained its previously high level.

Judging from supply dynamics in price categories, purchasers reduced prices. For instance, supply of apartments at 120 000 EUR has decreased but the supply of apartments at the price 110 000 EUR and 100 000 EUR has increased.

One can observe widening price range. The upper limit does not change in a certain segment since there are purchasers who are not going to reduce their prices. At the same time, the lower price limit goes down in this segment since other purchasers need resources urgently due to impact of various factors. Prices are usually reduced for 5-10%, but most purchasers anticipate for more reduction. Immediate and great interest is shown for apartments prices of which are lower for 20-30% than the average ones on the market.

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Just like in May, demand in apartments for rent in Riga increases. The biggest interest is in one-room and two-room apartments, traditionally.

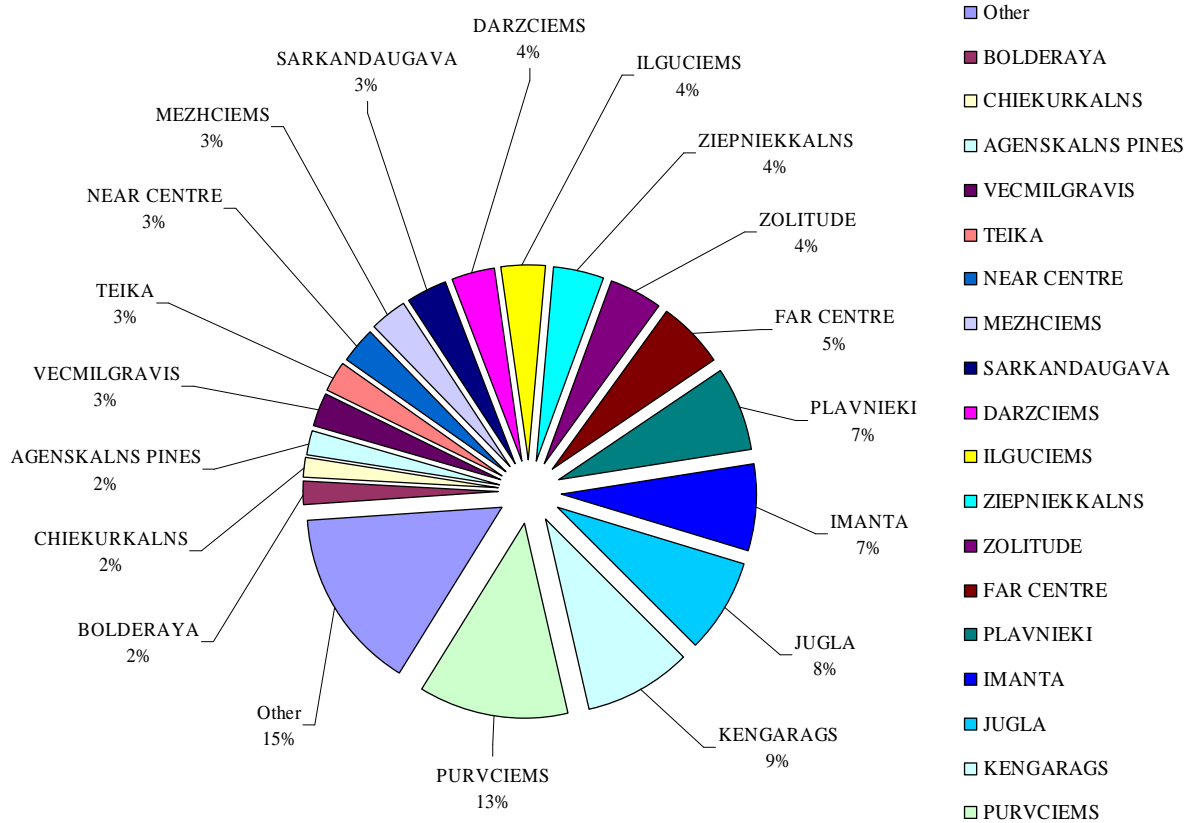
One room apartments in a good condition are offered for rent at 220-250 Ls per month, excluding charge for public utilities, depending on residential area. Tenancies of two-room apartments are from 250 to 280 Ls per month. Similar prices are offered also for rent of three-room apartments, but there is less demand in those, because total monthly payment including charge for public utilities is much bigger than that of a two-room apartment.

Apartments are rent out at 9-12 EUR per sq.m in the historical centre.

Significant demand exists in non-renovated apartments for rent, since many companies search for short-term dwelling for their guest workers who come from rural areas and from abroad. Such apartments are rented out at 170 to 200 Ls per month on average.

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Apartment purchase transactions ratio among residential districts in Riga in May 2007



Source: the Land Register, the State Address Register

In May, the biggest number of transactions was registered in Purvciems. Activity of transactions has retained the level of previous months or has lowered in other residential areas of Riga.

Like before, most transactions took place with two-room apartments in the Lithuanian type houses.

Typical prices of standard type apartments in Riga residential districts in June, 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	80 000	80 000					76 000				
	2- rooms	100 000	100 000					93 000				
	3- rooms	112 000	115 000					109 000				
	4- rooms	128 000	130 000					124 000				
Series 602	1- room	65 000	63 000	62 000			61 000			60 000	57 000	
	2- rooms	89 000	88 000	87 000			84 000			84 000	80 000	
	3- rooms	103 000	100 000	99 000			97 000			97 000	95 000	
	4- rooms	116 000	112 000	110 000			111 000			110 000	110 000	
Series 103	1- room	70 000	67 000		65 000					60 000	60 000	56 000
	2- rooms	92 000	90 000		90 000					84 000	81 000	75 000
	3- rooms	110 000	112 000		105 000					107 000	103 000	89 000
Series 104	1- room	80 000	80 000	76 000		76 000	76 000			76 000		
	2- rooms	98 000	95 000	95 000		95 000	95 000			95 000		
	3- rooms	114 000	120 000	113 000		110 000	110 000			110 000		
„Lithuanian” proj.	1- room	63 000		60 000	58 000		56 000		58 000		53 000	48 000
	2- rooms	84 000		83 000	79 000		79 000		77 000		74 000	68 000
	3- rooms	99 000		100 000	91 000		90 000		88 000		89 000	83 000
„Hruschov” type houses	1- room	61 000			59 000			57 000	56 000	57 000	54 000	52 000
	2- rooms	83 000			75 000			76 000	74 000	76 000	75 000	71 000
	3- rooms	96 000			91 000			87 000	86 000	86 000	90 000	80 000

Source: LATIO data

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DETACHED HOUSES

Demand has decreased on the market of detached houses, but the prices do not change or increase even. It is hard for potential purchasers to get credits or they anticipate for price reduction.

Direction to Baltezers – activity of transactions is observed though it becomes more complicated for the clients to get credits and this fact affects the process of property sale. Prices of houses have not changed. Most clients estimate their estates higher than it would be determined by the market.

In Saulkrasti, demand in detached houses has decreased slightly, yet the prices retain the previous rate or even grow. A similar tendency is observed almost along the entire coast-line of the sea-shore in Vidzeme.

Real properties located in the centre of Saulkrasti and in Pabazhi within 700 m from the sea seem most interesting ones to purchasers. Less interest is shown in properties in Zvejniekciems due to its long distance from Riga.

There is a big demand in houses 150 to 250 sq.m large and built as winter houses, i.e., with heat-insulation and all communications. The preferred distance from the sea is 700 m. Supply of such houses is poor and their prices range from 150,000 Ls to 300,000 Ls depending on their location and quality. The potential purchasers are most interested in fully finished houses which do not require any renovation.

There is also a sustained interest in summer cottages and vacant land plots in cooperatives located in Saulkrasti rural area and Skulte Parish, but there are few transactions, because the sellers ask inadequately high sums for their properties.

In Carnikava, there is a demand in detached houses in the town centre. It exceeds the supply significantly. Larger supply is found on territories of Carnikava area – Garciems, Garupe and Gauja where villages of summer cottages are located.

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In Jurmala, supply of detached houses remains stable. Demand diminishes. The sellers disagree with price reduction. Many of them place their hopes on season of summer vacations when rich people come to Jurmala from foreign countries, first of all – from Russia. In the recent years, this time stood out owing to activity of transactions, especially in the category of expensive detached houses.

In the summer season, there is a growing demand in apartments and houses for rent near the sea. The potential tenants are willing to pay 150 to 300 Ls a month for an apartment within 500 m from the sea, or a summer cottage within a distance of ca.2-3 km from the sea, yet those must have all amenities and must be in a good condition.

Tenants are willing to pay up to 1,000 EUR a month for houses rented together with a land plot and being in a good condition (all amenities, renovated, at least 4 rooms, close to the sea).

RESIDENTIAL DEVELOPMENT LAND

On the market of building plots there is a sustained volume of supply; demand has diminished, except for exclusive properties in good places.

Banks refuse to grant credits for purchase of land plots provided there is an approved project for its building up.

Sellers of land plots in Riga and around its borderland do not intend to reduce prices. Sellers in Riga District do not exclude such possibility.

In Saulkrasti, interest in selling is shown also by several land owners in the town centre where supply has been quite poor up to now. Still a great part of land owners wait for the new territory planning that will determine purposes of land use including building possibilities and allowed area of land plots to be parceled.

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The most demanded building plots are those covering 1,200 - 2,000 sq.m, located in Pabazhi and Saulkrasti within the distance of 700 m from the sea. Prices of building plots are determined by distance from the sea and Saulkrasti centre as well as quality of access roads and communications.

Prices of land plots 1, 000 - 2,000 sq.m large, Ls per sq.m

Location	On the sea side (within 300 m from the sea)	On the right side of the highway or within 700 m from the sea	700 m to 2 km from the sea	In cooperatives (500-700 sq.m)
Saulkrasti	100-200	50-100	20-35	35-45
Pabazhi	100-175	50-90	15-30	30-40
Zvejniekiems	50-120	40-70	15-30	30-40
Skulte Parish	50-100	35-45	15-25	35-45

Source: LATIO

In Adazhi, purchasers show interest in land plots 1, 200 - 2, 000 sq.m large located close to the centre of Adazhi. Prices of these land plots range between 60 and 100 Ls per sq.m. In more remote areas, prices of building plots fluctuate between 25 and 50 Ls per sq.m.

Large land plots are still being parceled, but the parceled building plots cannot be registered with the Land Register for the new owner, till they are connected to communications, i.e., electricity and access roads.

In Carnikava, there is a demand in land plots purpose of use of which is determined as building plots. Actually, such objects are not supplied. Prices of the most demanded land plots covering 1, 200 to 2, 000 sq.m fluctuate between 50 and 100 Ls per sq.m, depending on location, i.e., on the sea side or over the railway. Land located closer to the centre with convenient access and close to public transport is more expensive.

Parceling of large land plots is carried out actively in Carnikava, too. Owners of these building plots rather choose to build houses and sell them afterwards.

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NEW HOUSING PROJECTS

New projects announced in June

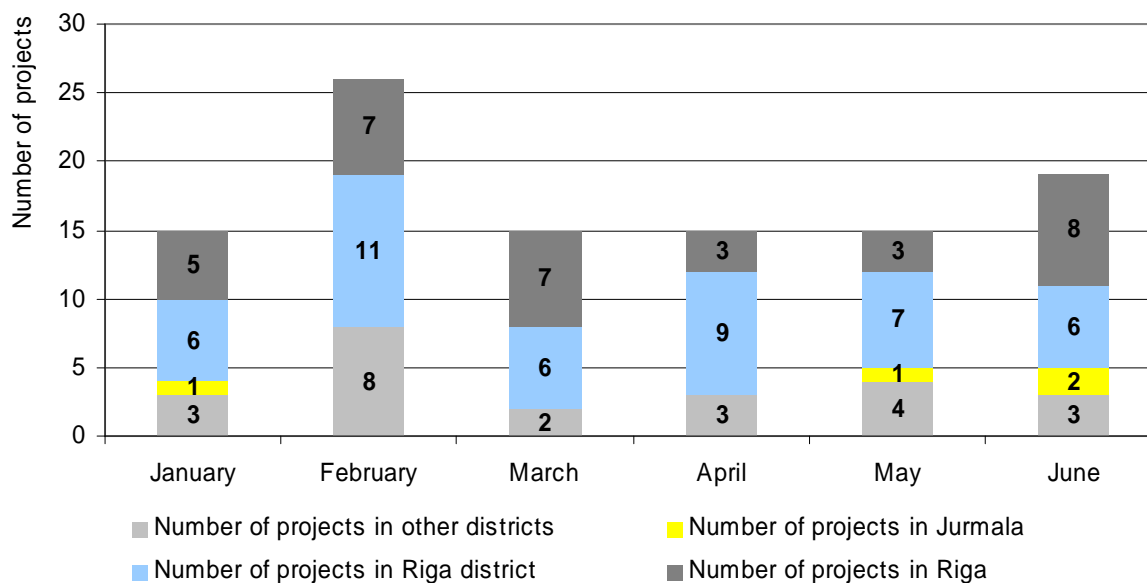
Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
Riga						
Riga, Centre, 46 Matisa Str.	A	-	-	Partial	11	1
Riga, Mezhdziems, 7 Liduma Str.	A	-	-	Partial	8	1
"Saules Aleja", Riga, Imanta, Erksku, no No./ 124 Jurmalas gatve	TH	SIA "Saules dzive"	-	Partial	24	3
"Nams Deglava iela" Riga, Plavnieki, Deglava Str.	A	SIA "Eiromaja"	-	Partial	328	2
"Baltik nams", Riga, Plavnieki, 129 Lubanas Str.	A	SIA "Delfis nams"	1,550	Partial	30	1
"Kengaraga zieds" Riga, Kengarags, 4 Prushu Str.	A	-	1,740	Partial	299	3
"Visavi", Riga, Shampeteris, 95 Kalnciema Str.	A	-	1,430	Partial	38	2
Riga, Centre, 12a Blaumana Str.	A	-	-	Partial	14	1
Riga District						
Riga District, Carnikava, 21 Juras Str.	A	-	-	Partial	16	1
"Somu majas Marupe", Riga District, Marupe Par., Jaunbebru Str.	TH	SIA "Somu Maja Inzhenieru Birojs"	1,115	Full	20	10
"VIA Marina", Riga District, Vecaki, Vecaku prospects, no No.	TH	SIA "Vecdaugavas nami"	-	Full	26	13
"VIA Marina", Riga District, Vecaki, Vecaku prospects, no No.	A	SIA "Vecdaugavas nami"	1,590	Full	60	2
"Siguldas Ares", Riga District, Sigulda, 84 Strelnieku Str.	A	SIA "Sigma 1"	1,265	Partial	131	3
"Bruklenparks", Riga District, Marupe, area of Ceres / Bruklenu Streets	A	SIA "Capitolia Group"	-	Full	204	4
Jurmala						
"Sundays", Riga District, Jurmala, Vaivari, 3 Kauguru Str.	A	SIA "Capitolia Group"	-	Full	550	8
"Admiralu Osta", Riga District, Jurmala, Lielupe, Viestura Str.	A	SIA "DP Fonds"	2,600	Full	57	4
Other regions						
Jelgava, 88 Tervetes Str.	A	SIA "AR Projekti"	1,190	Full	60	1
"Daugavmalas", Ogre District, Ikshkile, 14 Rigas Str.	TH	-	1,000	Full	14	-
Liepaja, 4 Daugavas Str.	A	SIA "Arida"	-	Partial	96	1

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

Source: LATIO

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



Source: LATIO

In June, 19 new projects were announced. A tendency retains that most new projects are being developed in Riga and Riga District.

In Saulkrasti, several new projects are being developed: erection of apartment houses and construction of detached houses; parceling of land plots takes place actively. Land owners willingly parcel their estate and sell it on the stage when detailed planning is developed and approved. Prices of such projects fluctuate between 15 and 20 Ls per sq.m for land plots 1.5 to 2 ha large, and between 10 and 15 Ls per sq.m for larger ones covering 3 to 4 ha above ground.

At present, apartments in a new project are on secondary sale at 1,000 Ls per sq.m with “gray” finish on Juras Street, in Carnikava. New multi-apartment house is being erected in Sautini and could be offered for sale in autumn.

At present, the second round of a new village of apartments “Podnieki” is being developed in Adazhi and apartments are on secondary sale at prices fluctuating around 1,000 Ls per sq.m with “grey” finish.

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COMMERCIAL SPACE MARKET

OFFICE SPACE

On the market of office space, activity is observed on the both sides: supply and demand, while supply encounters a poor demand on the sales market of office premises.

Lack of interest in office purchase can be explained by high asking prices mainly. Moreover, there are old buildings on sale in general and big investments are required for their renovation. Consequently, credit payments for premises exceed rent payments for them.

In Riga, tenants are interested in small offices 20-100 sq.m large. In June, several requests for space 2,000 – 3,000 sq.m large occurred. Requirements for office centres are traditional: to have convenient access by car and a parking place. Improved surroundings and prestige of an area are given great weight to.

The preferred areas are the Centre and territories of commercial development on Krasta Street, Dunties Street, Skanstes Street and Vesetas Street. There is no supply of new space on these territories therefore rentals grow. Rentals range between 18 and 25 EUR per sq.m depending on the area.

In June, LLC “NP Properties”, a developer of industrial parks have commissioned a Class B1 office building in Riga, on Jurkalnes Street. The area of “NTP Biznesa Centrs” is 8,400 sq.m including car park for 500 cars.

The company "Metro Baltic Horizons" have announced about investments in the amount of 105 million EUR to construction of an office complex on Krasta Street.

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RETAIL SPACE

On the market of retail space, there is a demand in small space around 30 – 150 sqm in areas with intense surge of people in *top* centre, mainly. There is no appropriate supply therefore rentals grow. The most demanded ones are premises on the ground floor of the buildings. Their monthly rentals reach up to 80 EUR per sq.m. It is pretty often that premises on the ground floor must be rented along with the cellar or semi-basement premises of the same space. Their rentals are 8-12 EUR per sq.m, but their use is made difficult most often.

A developer of real estate projects "Hanner" plans to invest ca. 120 million EUR to construction of a complex of multi-story buildings (function of dwelling, offices, retail space) on the territory covering 7 ha near the VEF House of Culture.

WAREHOUSE AND INDUSTRIAL SPACE

In June, there is a sustained demand in industrial space 500 – 1,000 sq.m large for rent. Enterprises change their location or enlarge. Usually, they wish to do this within the limits of the same area. Consequently, the demanded one is industrial space located in the traditional industrial areas, i.e. Ganību dambis, Kengarags, area of Braslas Street. Enterprises wish to take on lease premises at 3-4 Ls per sq.m a month for 5 to 7 years. Premises on the ground floor are demanded since the supply is limited. There is a wide supply of premises on the first floor, but problems occur usually when it is required to adapt them for production needs.

In Riga, there is a sustained demand in warehouses covering up to 500 – 1,000 sq.m including an office 50 sq.m large. The objects must have convenient access by car and proper equipment – ramps and descents to maintain both: trucks and delivery vans. Supply of such objects does not satisfy the demand.

Data publishing without reference to the source is prohibited!

Large warehouses covering 5,000 – 10,000 sq.m occur in supply.

In June, two large projects of industrial space were announced in Kekava Parish. The company “Capitolia Invest” wishes to develop industrial and warehouse territory covering 30 ha, but the company “NCC” will run a similar project covering 5 ha.

COMMERCIAL DEVELOPMENT LAND

Supply increases on the market of commercial development land. Also, those owners, who did not plan to sell their estate at least for the next few years, wish to get rid of them now.

The supply is dominated by land plots 3,000 – 4,000 sq.m large, the price – 100 EUR per sq.m. There is poor demand in them. In their turn, land plots being 1-1.2 ha and 2-2.5 ha large are demanded. There is almost no supply of such space, but prices of the supplied objects reach 400 - 500 EUR per sq.m that do not satisfy purchasers.

Demand is limited because of the strict credit policy of banks. Banks offer to finance up to 50% of a land plot value and do not take into account future value and cash flow of the prospective project any more. A developer is demanded a monetary co-finance in cash that was replaced by an additional mortgage before. Transactions take place, yet they are executed by non-residents mainly by their own capital or by loans granted abroad.