REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

May 2007

- **In May, a fall of prices almost for 1% was observed thus reaching the average price of a standard type apartment – 1,709 EUR per sqm, for the first time in the history after the climb of dwelling prices having been sustained for several years.**

- **In May, amount of supplied apartments was still increasing, especially within the price category up to 100 000 EUR.**

- **Activity of apartment purchasers was lower. Individual cases occurred when deals were not made because bank refused to grant credit for buying a dwelling to purchaser.**

- **In May, 15 new housing projects were announced. A tendency marks out that new projects develop in Riga District most rapidly.**

- **The international credit ratings agency "Standard & Poor's" lowered credit rating of Latvia for long-term liabilities in foreign currency from A- down to BBB+. Thus assessment of Latvia returns back to the level of the year 2002 among international finance circles.**

- **Increasing activity is observed on the market of office space rent while purchasers' activity has lowered on the market of office sales.**

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GENERAL ECONOMIC SITUATION

In May, the international credit ratings agency "Standard & Poor's" lowered credit rating of Latvia for long-term liabilities in foreign currency from A- down to BBB+ mentioning the increasing risk of “heavy landing” in economy and retained external disequilibrium as the reason. Besides, the agency has retained negative forecast of the rating meaning that it could be lowered again in the future.

Lowering of the credit rating is justified by the negative condition of external indices, deficit of the account of current payments, and external debt of the country that all retained for a long time. The credit ratings agency also uttered qualms that the measures of inflation prevention plan issued by the government would implement processes of economic stabilization too slowly.

As a result of the lowered credit rating, also credit rating of Latvian commercial banks lowers on the global market that, in its turn, can affect negatively the opprtunities of commercial banks to borrow money on international financial markets in order to offer it to Latvian borrowers at profitable rates.

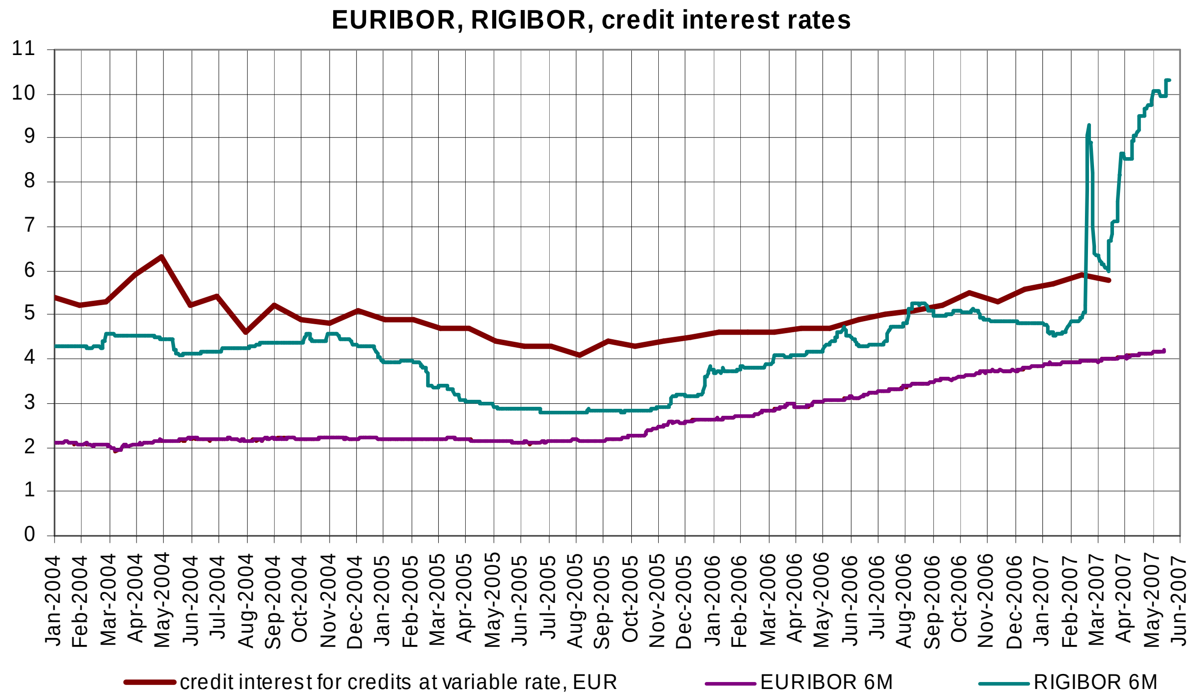
In reaction to the statement of the credit ratings agency, demand in euro exceeded the supply on Latvian market. Therefore stability of lat fluctuated, and the Bank of Latvia had to carry out a passive currency intervention in order to preserve stability of lat rate against euro.

The Bank of Latvia raised also refinancing rate for 0.5 percent points, i.e. to 6%.

President of the Bank of Latvia Ilmars Rimshevich announced that Latvia, with its total volume of granted credits annually growing about 60%, has taken a place among the leaders in Eastern Europe by its credit to GDP ratio and has almost reached the average EU level. Moreover, export has grown two times slower than import during the first two months of this year whereas growth of import has exceeded 36% making a record of the recent years. Thus account deficit of current payments of payment balance of Latvia has been about two times bigger in the first two months of this year than within the respective time period last year. It was enhanced by the low interest rates on the Latvian financial market that were determined, in their turn, by both the low interest rates on the world's financial markets and financial resources from foreign countries quite easy available to the sector of Latvian banks most often as funding from the parent bank. Therefore the growth of crediting in Latvia has been even more than significant during the recent years, the president of the Bank of Latvia admitted.

In May, the Saeima accepted amendments of several laws that were elaborated within the framework of the inflation prevention plan by providing more exactions regarding consumption crediting, subjecting real estate speculations to taxes as well as other measures.

In May, credit interest of credits at variable rates retained the previous level. Rate of six month EURIBOR increased slightly. Rate of six month RIGIBOR, in its turn, sustained the tendency of its rapid growth in May.



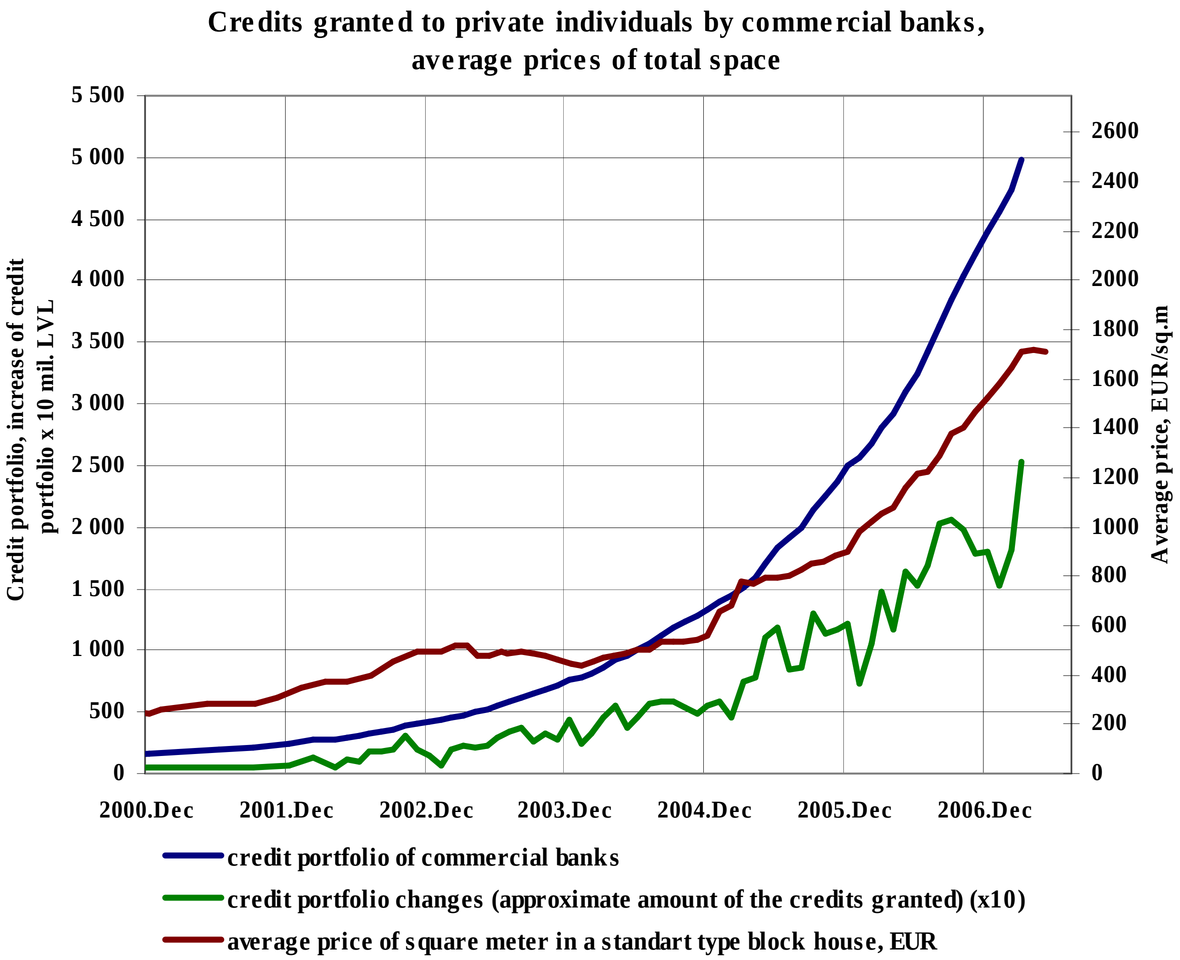
Source: British Bankers Association, CSP, Latio

According to the Finance and Capital Market Commission (FCMC) data, number of the credits granted by commercial banks for purchase of dwellings has increased during the first quarter of this year, whereas number of the granted consumption credits decreased. It is indicative of development tendencies of crediting policy of commercial banks having become more conservative during the first quarter already.

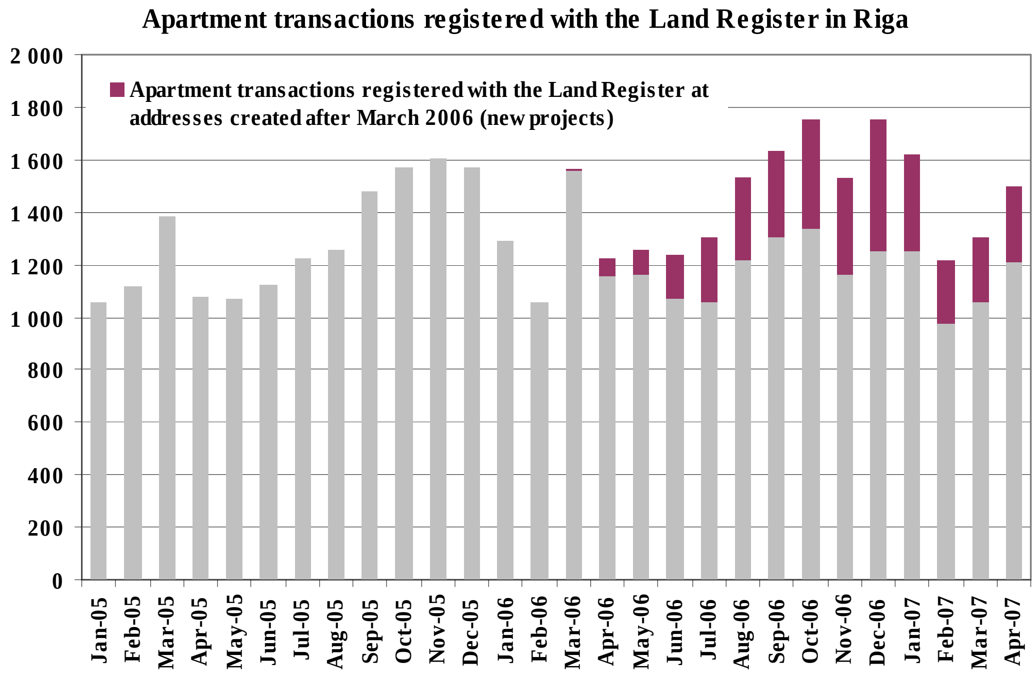
HOUSING MARKET

STANDARD TYPE APARTMENTS

- **In May, a fall of prices almost for 1% was observed thus reaching the average price of a standard type apartment – 1,709 EUR per sqm, for the first time in the history.**



Source: the Finance and Capital Market Commission, LATIO



Source: the Land Register, the State Land Service

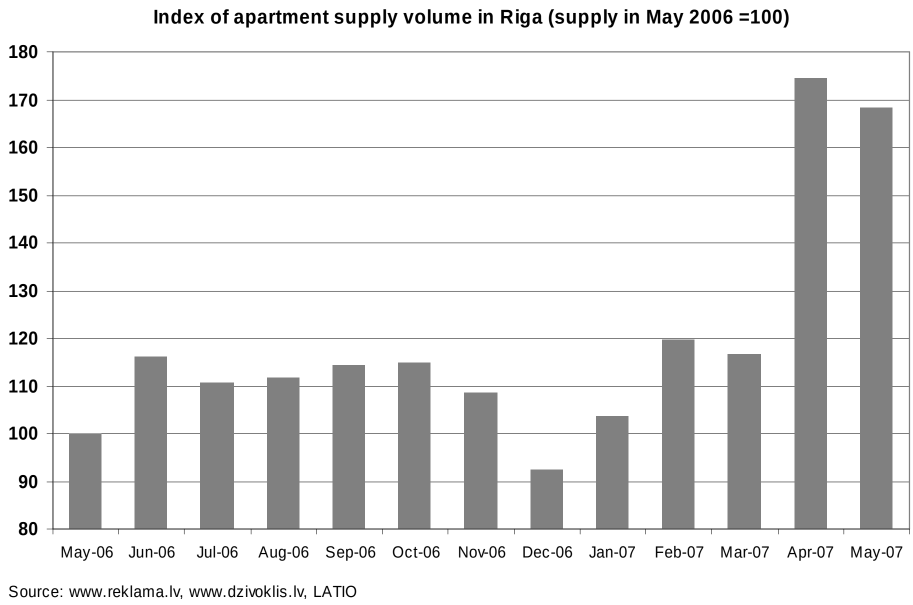
** Amount of apartment transactions is estimated based on the Land Register records dividing in types of transactions: purchase or gift, and in properties: apartments. These data are corrected while neglecting the records that may double if an apartment has been purchased as joint property. Amount of 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 April, number of the apartment transactions in Riga recorded in the Land Register has increased as compared to March and it reached about 1,500 transactions. A note should be taken that records are made on concluded transactions in the Land Register with temporal deviation and no reflection of the present situation that has changed rapidly has appeared in transactions' amount yet.

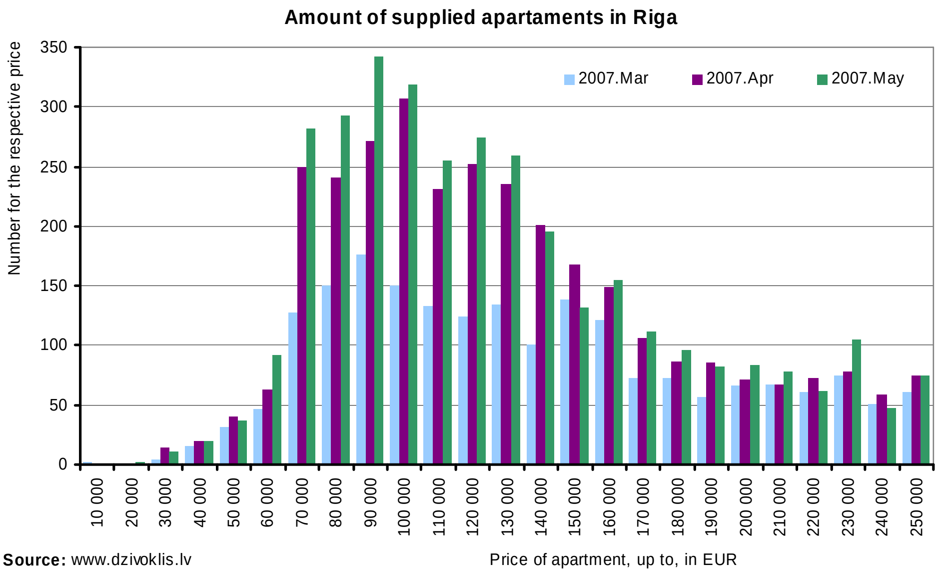
In May, a tendency strengthened that the process of transaction execution prolongs since more time is taken to get a credit. Granting loans was declined more often than in the previous period.

According to the largest real estate portals, amount of supplied apartments in Riga keeps growing.



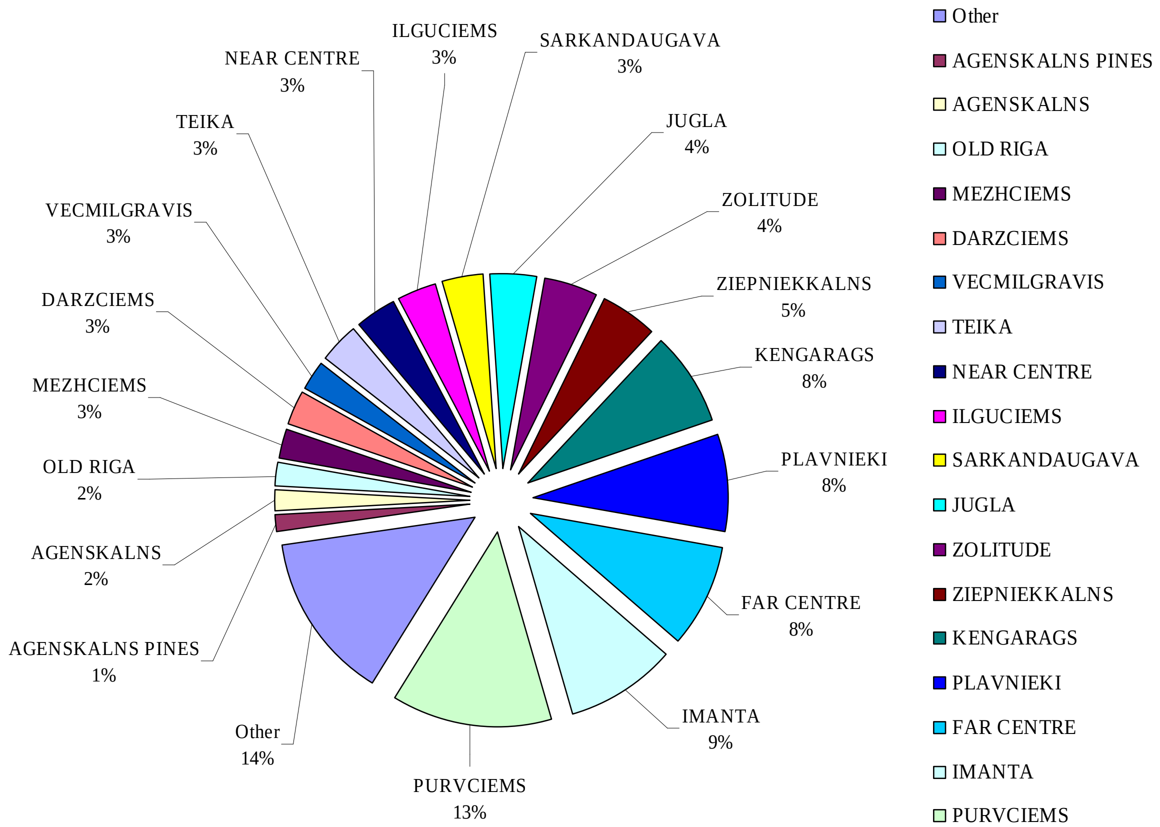
It was observed during the last month that purchasers took a waiting position expecting fall of prices because of the current events in the field of real estate. Sellers are also aware of that and are willing to reduce their prices slightly; nevertheless, deals are not made quite often because purchasers are waiting for more significant reduction.

In May, supplied apartments within the price category up to 100,000 EUR has duplicated thus indicating that number of the so called "retained apartments" was the biggest one in this very segment of prices.



Demand in apartments for rent, in its turn, keeps growing. As a result, rentals also have increasing tendency.

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



Source: the Land Register, the State Address Register

In April, the biggest number of transactions with apartments was recorded in Purvciems. Business activity in other residential areas of Riga retained the tendencies observed in the previous months.

In April, most transactions were concluded on 2-room apartments in the „Lithuanian" type houses.

Though the average price of a standard type apartment reduced in May, changes in prices of individual apartments were various: price fall was observed in most of residential districts of Riga while, for instance, a slight climb of prices of apartments in houses of Series 119 was witnessed in Purvciems and Plavnieki.

Typical prices of standard type apartments in Riga residential districts in May, 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	84 000	85 000			77 000			77 000				
	2-rooms	103 000	106 000			97 000			95 000				
	3-rooms	123 000	124 000			115 000			111 000				
	4-rooms	133 000	132 000			125 000			126 000				
Series 602	1-room	68 000	67 000	65 000			63 000		64 000		59 000	58 000	
	2-rooms	91 000	89 000	90 000			87 000		88 000		82 000	80 000	
	3-rooms	108 000	109 000	104 000			99 000		103 000		103 000	100 000	
	4-rooms	121 000	121 000	117 000			116 000		114 000		117 000	114 000	
Series 103	1-room	71 000	70 000		67 000						62 000	63 000	52 000
	2-rooms	95 000	94 000		92 000						89 000	84 000	73 000
	3-rooms	120 000	123 000		111 000						110 000	107 000	95 000
Series 104	1-room	83 000	85 000	75 000		79 000	79 000		79 000				
	2-rooms	100 000	99 000	98 000		100 000	101 000		99 000				
	3-rooms	124 000	127 000	120 000		116 000	117 000		122 000				
„Lithuanian" proj.	1-room	65 000		61 000	59 000		55 000	61 000	57 000	58 000		54 000	50 000
	2-rooms	82 000		87 000	80 000		84 000	79 000	78 000	81 000		78 000	70 000
	3-rooms	100 000		100 000	94 000		96 000	95 000	91 000	91 000		90 000	83 000
„Hruschov" type houses	1-room	65 000			61 000			59 000	58 000	58 000	55 000	51 000	
	2-rooms	84 000			79 000			76 000	76 000	75 000	75 000	75 000	
	3-rooms	96 000			95 000			90 000	92 000	88 000	92 000	88 000	

Source: LATIO data

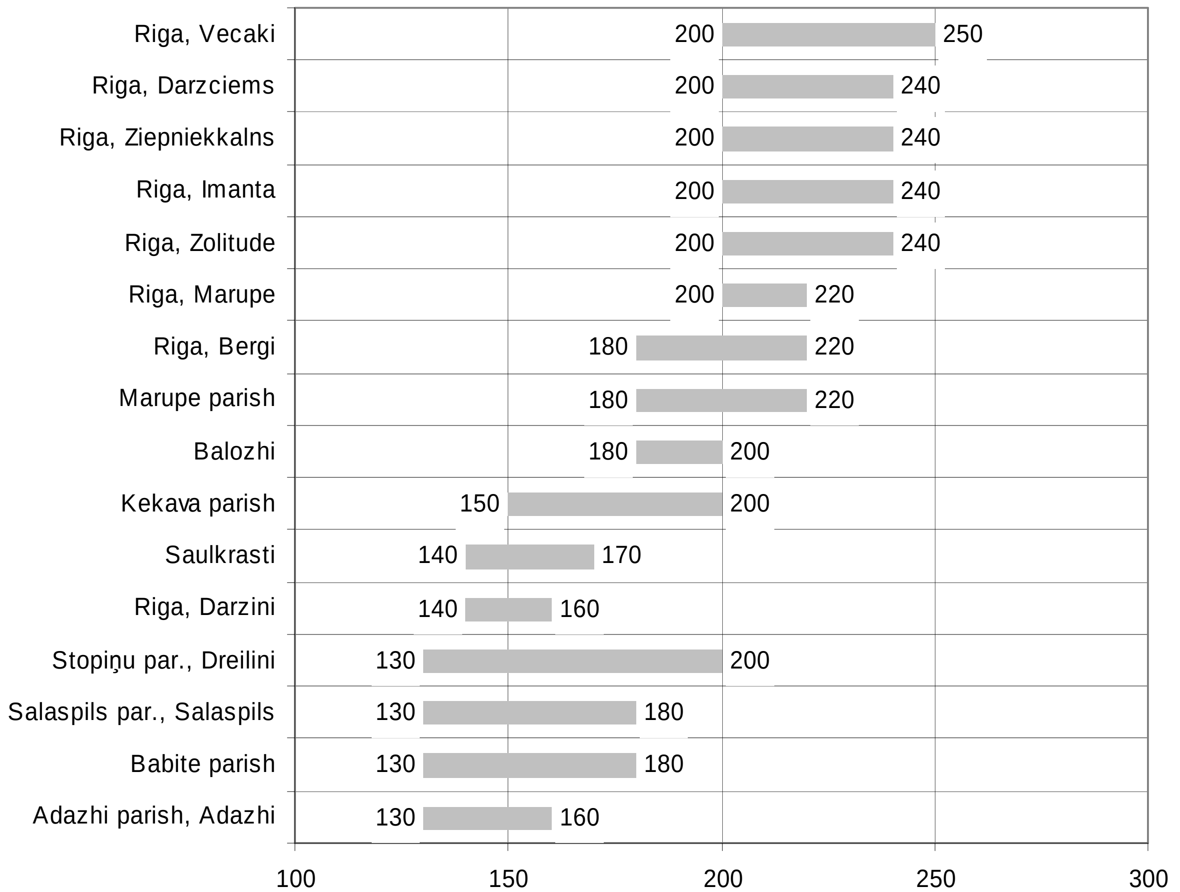
DETACHED HOUSES

On the market of detached houses, a situation was also witnessed that purchasers were waiting for price fall while observing the events on the market of standard type apartments.

On the market of building plots, prices of exclusive building plots have risen for about 10 to 15% on average since the autumn, and they are still demanded. Interest of purchasers, in its turn, in common building plots is minimal despite the average price fall for about 10-15%.

The highest price of newly built private houses is observed in Vecaki thus rendering the properties in Darzciems, Ziepniekkalns, Imanta and Zolitude into runners-up.

Prices of newly built private houses in thousands of EUR (the house not older than 5 years, ca. 200 sqm, partial finish, land ca. 1, 200 sqm, in villages or groups)



Source: LATIO in thousands of EUR

Data publishing without reference to the source is prohibited!

In Sigulda, interest of end consumers in building plots has increased along with the warm weather setting in. The market, however, is passive in general. Purchasers are waiting for price fall as well as more carefully consider the amount of financial means to be invested in property maintenance.

Demand exceeds supply in Saulkrasti. The biggest demand is made for property in the centre of Saulkrasti and in Pabazhi – within 700 m from the sea. The most demanded building plots are those covering 1,200 to 2,000 sqm. Price of such land plots depends mainly on location of the land plot: prices of building plots ca.1,200 sqm large and located at the sea (within 100 m) fluctuate between 100 and 150 LVL per sqm, but closer to the railway the prices range from 35 to 70 LVL per sqm. On the territories of Pabazhi and Saulkrasti, as well as Zveyniekciems it ranges from 20 to 50 LVL per sqm.

The most demanded detached houses are ca.150 to 200 sqm large, with 4 rooms and having all communications. The price of such houses fluctuates between 150, 000 LVL and 250, 000 LVL: the closer to Riga and the sea, the more expensive; the closer to Zvejniekciems and the railway, the cheaper. The potential purchasers are most interested in fully finished houses.

There is sustained a big demand in heat-insulated “winter houses” having all communications and being located within 700 m from the sea. But there is almost no such supply.

Big supply and demand is sustained in summer cottages and vacant land lots in Saulkrasti rural area and the Skulte Parish where more than 20 gardening societies are located. In these societies, the average area of the land plots are ca. 600 sqm, but space of the houses range form 60 to 120 sqm. Prices in these cooperatives fluctuate depending on the quality of the summer cottages as well as location of a cooperative and its distance from the public transport, drive ways and electricity. The cheapest summer cottages that are around 70 sqm large cost 25, 000 to 50, 000 LVL. Prices of summer cottages which are larger and in better condition fluctuate between 50, 000 and 90, 000 LVL. Prices of vacant land plots that are 600 sqm large fluctuate between 30 and 40 LVL per sqm.

As summer season comes closer demand in apartments and houses for RENT grows in Saulkrasti. The potential tenants are willing to pay 150 to 300 LVL a month for an apartment in a good condition, with all amenities and located within the distance of 500 m from the sea, or for a summer cottage located within the distance of 2-3 km from the sea. Tenants are willing to pay up to 1, 000 EUR per month for renovated detached houses (with all amenities and at least 4 rooms) in an excellent condition which are let out together with the land plot and located close to the sea.

In Carnikava, a big demand in building plots is witnessed but such land plots are hardly supplied. The prices of the demanded land plots that are 1,200 to 2,000 sqm large fluctuate from 50 to 100 LVL per sqm. In Carnikava, active parcelling of land plots is observed but more often the owners choose to construct houses themselves and to sell the land plots along together with the erected buildings.

Demand in detached houses is observed in the centre of Carnikava while there is no proper supply. More supply is found on the territories in Carnikava area – Garciems, Garupe and Gauja where villages of summer cottages are located and active trade of summer cottages takes place.

In Adazhi, the most demanded land plots for 60 to 100 LVL per sqm are in the area of 1, 200 to 2 , 000 sqm and situated closer to the centre. In more remote areas, the prices of building land plots are 25 to 50 LVL per sqm. Parcelling of large land plots continues but it is not possible to register the parcelled land plots with the Land Register under the name of the new owner until these land plots are connected to communications (electricity, drive-ways). New winter houses are being built actively along the either sides of Tallinn highway and their prices fluctuate between 150, 000 and 250, 000 LVL.

Also in Adazhi, like in Saulkrasti and Carnikava, there was observed a big demand in apartments prices of which fluctuate around 1, 000 LVL per sqm. A bit cheaper apartments are in Kadaga, i.e. 900 to 950 LVL per sqm.

In May, interest in expensive land in Jurmala has increased slightly. There is a great interest in cheap (up to 30 000 – 35 000 LVL) real estates in the country-side where retired people are willing to move to from Riga due to rent term expired out in householders' houses.

NEW HOUSING PROJECTS

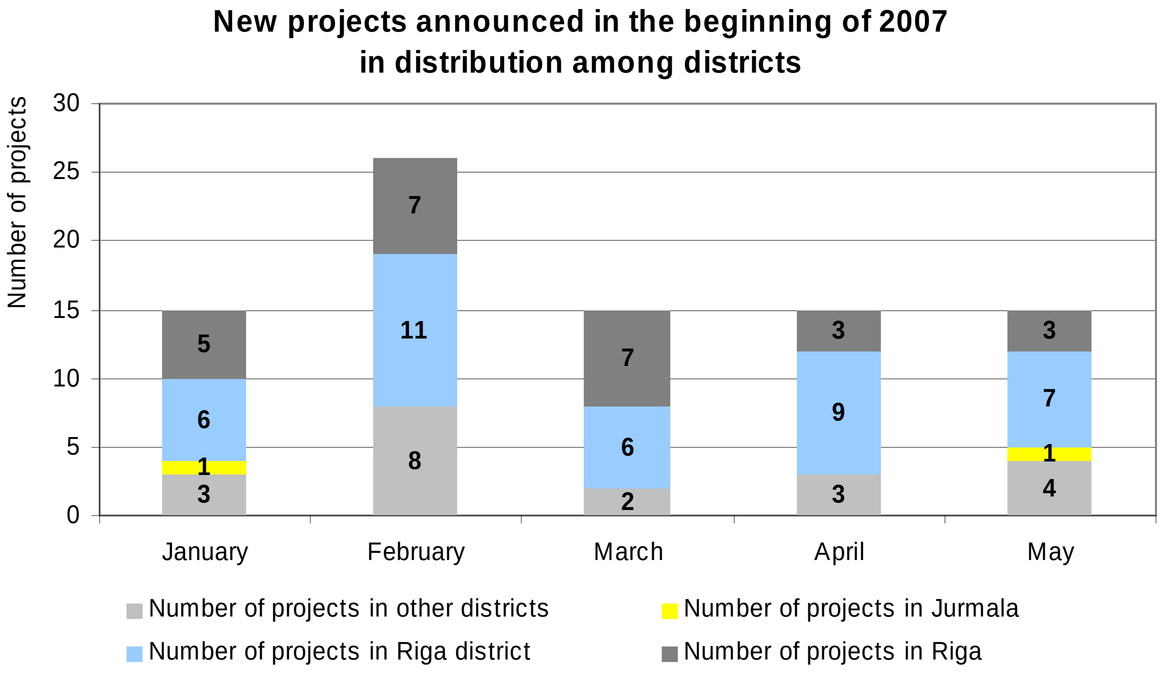
New projects announced in May

Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
Riga						
Riga, Far Centre, 9 Zaubes Street	A	SIA "Zaubes Nams"	-	Full	28	1
Riga, Mezhaparks, 3 Aplokciema Street	A	-	-	-	-	2
"Saulesrasa", Riga, Kengarags, Rasas iela	A	SIA "Rasa project"	-	Partial	58	1
Riga District						
Riga District, Salaspils, Griezes Street	A	SIA "Saite"	-	Partial	60	1
Riga District, Salaspils, 38 Nometnu Street	A	SIA "Saite"	1,030	Partial	60	1
Riga District, Marupe Parish, 61 Dzelzcela Street	TH	SIA "Besthaus Būve"	874	Full	3	1
"Mežkalnu nami", Riga District, Marupe Parish, 11, 13, 15, Mezhkalnu Street	TH	SIA "Upes kuģi"	810	Partial	6	3
"Loriķu nami" Riga District, Kekava Parish, Loriku Meadows	TH	SIA "Bergerhouse"	595	Partial	4	2
"Loriķu nami" Riga District, Kekava Parish, Loriku Meadows	DH	SIA "Bergerhouse"	646	Partial	3	3
"Dālderu īpašumi" Riga District, Balozhi, 8;10;12;14;16;18a;18b Skolas Street	A	SIA "Dālderu Īpašums"	1,200	Partial	125	7
Jurmala						
"Vaivaru Nami" Riga District, Jurmala, Vaivari, Asaru prospekts	A	-	-	Partial	44	1
Other regions						
"Četri", Ogre District, Lielvarde, Lakstigalu Street	DH	SIA "Red Industry"	1,295	Full	4	4
"Vaiņodes dārzs", Liepaya, Vainodes/Ventas Streets	DH	SIA "Vaiņodes dārzs"	1,600	Partial	8	8
"Cīrulīši" Cesis, 33 Kovarnu Street	A	SIA "Bergerhouse"	680	Full	50	1
"Alejas Dārzs" Liepaya, 43 Alejas Street	A	SIA "Alejas dārzs"	2,000	Full	14	1

Source: LATIO

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

In May, 15 new housing projects were announced. There is still the tendency sustained that new projects are developed in Riga District mostly.



Source: LATIO

In Saulkrasti, several new projects are being developed: building of apartment houses and building of detached houses, parcelling of land plots is carried out especially actively. Land owners parcel their property willingly and sell them on the stage when detail planning is worked out and approved. Prices of such projects fluctuate around 15 to 20 LVL per sqm for land plots ca. 1.5 to 2 ha large and 10 to 15 LVL per sqm for larger ones (3 to 4 ha).

In Carnikava, apartments in the new project along Juras Street are being offered for sale at present. The apartments with “grey” finish are sold in secondary trade already for 1, 000 LVL per sqm. A new multi-apartment house is erected also in Sautini and expected to appear in trade in autumn.

In Adazhi, the second round of the apartment village “Podnieki” to be newly laid out is developed, and the apartments with “grey” finish are in the secondary trade for the prices that fluctuate around 1, 000 LVL per sqm.

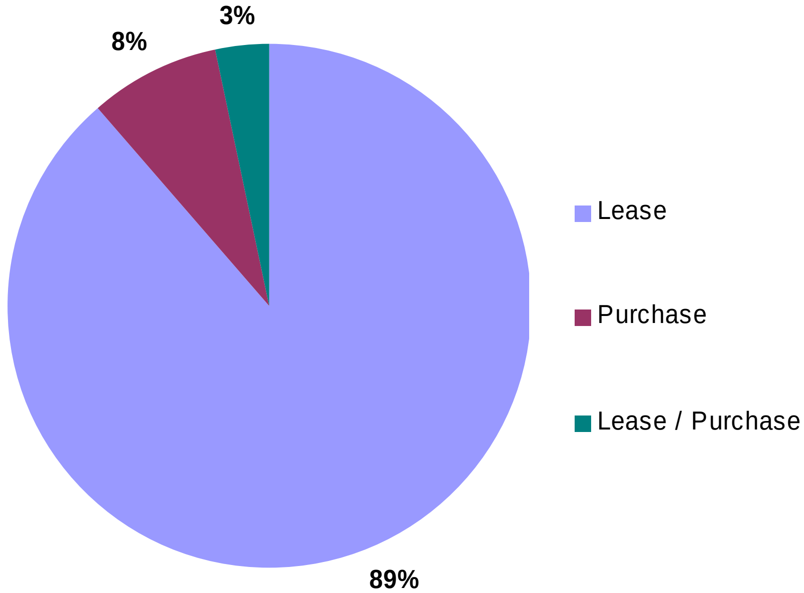
COMMERCIAL SPACE

OFFICES

Activity is observed on the lease market of office premises while activity of purchasers has lowered on the sales market of office premises.

On the office space market, there is a bigger demand in premises for lease whereas a comparatively small number of purchasers is interested in buying offices.

Division of demand in office premises in Riga by the feature: purchase / lease in the 1st quarter of 2007



Source: LATIO

The biggest interest is in smaller premises in the centre of Riga, with convenient driving-up and a parking. In May, interest of tenants, in its turn, in decorated premises outside the centre limits was not observed. A trend marks out that choosing office premises outside the centre makes place of residence of the employees more important – if the employees live in Pardaugava area the enterprise agrees to lease premises on the Pardaugava side; if the employees live in Bergi area – premises are searched for on the right bank of the river Daugava.

Though many interested people are waiting for price fall, rentals of office premises kept growing in May.

A large complex of office premises meeting today’s requirements and covering 800 sqm is being erected in Jelgava, i.e. “Zemgale business centre”. The complex will host office premises only without industrial zone for the first time outside Riga. Demand in purchase of office premises, in its turn, diminished in May.

In May, a research of development of office space market in the Baltic States was carried out; its makers concluded that while development of new office centres proceeded in Vilnius and Tallinn, retardation was observed in Riga. It is explained by lack of professional developers of office centres: developers in Latvia choose to work on projects of residential houses mainly since building them is safer and bears more profit. Therefore in Riga there are the highest rentals of office premises: rental of Class A offices is 17 to 22 EUR per sqm, but within Class B it is 12 to 17 EUR per sqm. In neighbouring countries, the rentals of Class A offices, in their turn, are 14 to 20 EUR per sqm in Tallinn and up to 18 EUR per sqm in Vilnius, but for Class B premises – 8.3 to 14 EUR per sqm in Tallinn and 9 to 15 EUR per sqm in Vilnius.

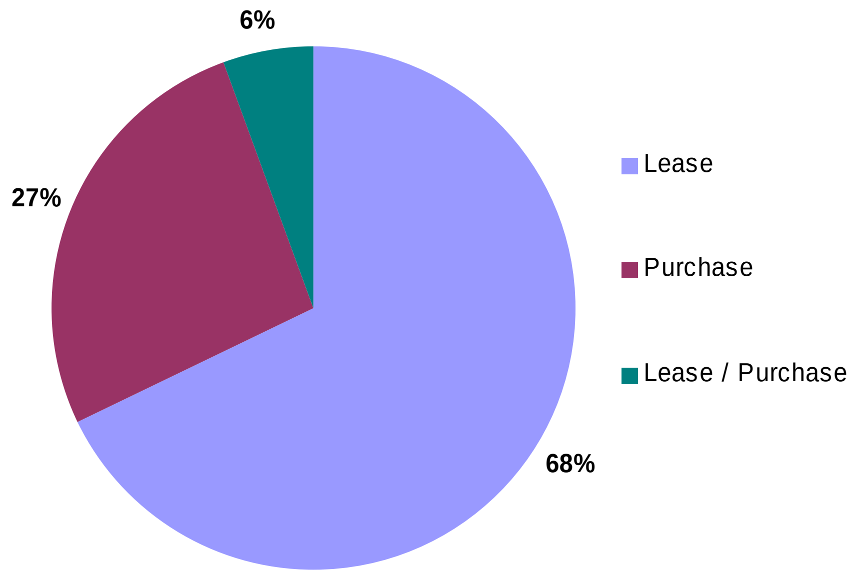
RETAIL SPACE

In May, German real estate investments fund "KanAm Grundinvest Fonds" purchased one of the largest shopping centres in Riga – "Domina Shopping" – for ca.150 million EUR (105.4 mln LVL). The fund was established in May 2003 and this was its first transaction on the Baltic market. Turnover of "Domina Shopping" reached 52.6 million lats last year. At present there are 156 shops functioning as well as restaurants, cafes, a bowling hall and a beauty centre.

There was a sustained demand on the retail space market but there were almost no proper supply.

Also in May, traditionally, the most demanded was retail space covering 30 to 150 sqm in *top* centre.

Division of demand in retail space in Riga by the feature: purchase / lease in the 1st quarter of 2007



Source: LATIO

INDUSTRIAL SPACE

In May, enterprises were mainly searching for warehouses and production space for lease. The most demanded was space within 1,000 sqm containing office premises around 50 sqm on the ground floor and providing convenient driving-up for trucks.

Interest in objects also outside Riga is sustained due to lower rentals. The lowest rentals, however, do not relate to the new industrial objects. Rentals retained the previous level in May. Demand in new industrial objects for lease is smaller because of their comparatively higher rentals.

In May, the first round of the first Class A industrial park in Latvia – “Dominante Park” – was launched in Kekava. The park hosts warehouses and office premises covering 40,000 sqm that has been completely leased out to the companies “Jungent”, “Dominante loģistikas sistēma”, “Lielais Kristaps un Ko”, and an Estonian alcohol wholesaling company already. The second round of the project will be commissioned in the beginning of 2008, but the third round in the year 2009.

Totally it is planned to develop 150, 000 sqm of industrial and warehouse space, more than 10, 000 sqm of offices, and 50, 000 sqm of retail space. The territory of the park covers 65 ha and the developers promise to make it the largest industrial park in the Baltic States.