

REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

October 2007

- In October, prices of standard type apartments continued falling. The average price of a standard type apartment – compared to September – decreased 2% down to 1,490 EUR per sqm. The price is higher 6% as compared to the last October.
- Saturation of rent market has begun: demand stabilizes while supply grows.
- In several new projects buyers-up offer apartments 15-25% cheaper than their developers.
- Demand in agent's services grows on the real estate market. Sellers thus hope to accelerate conclusion of transaction, buyers – in their turn – wish to find better offers and conclude a safe transaction.
- Potential buyers mention lack of front money as the main obstacle in purchase of a dwelling.
- Sellers are aware of the role that investments in interior decoration have in more successful selling of an apartment.
- On the lease market of commercial space, quality of supply retains its inability to meet demand.
- On the lease market of industrial space, demand is strengthened by the lessors whose current lease contracts at remarkably lower rentals than the present market prices will expire soon.
- On the market of outdoor retail space supply grows on the most demanded spots.
- Difference grows among prices that new project developers are willing to pay for commercial building plots and that are asked by the sellers.
- In Greater Riga Area, demand exists in large land areas for commercial development, but asked price is much higher than buyers would wish it to be.

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GENERAL ECONOMIC SITUATION

In October – in comparison with September – more pronounced features of “cooling down” of national economy were observed. It allows conclusions that rates of overall growth of this year will be remarkably lower than forecast, based on the results of the first half-year. However, discussions on “soft-landing” of economics will be possible only after longer comparison of the latest data.

Although general unemployment rate continues its rapid decrease in Latvia – reaching 5.1% in August – unemployment rate remained hardly variable for several months and reached 3.3% mark in the business centre of Latvia – Riga. With national economy cooling down, this index is expected to increase instead of its decrease in the next few months.

Turnover of retail trade diminishes. Though purchasing activity driven by beginning of school season was anticipated in August, yet it was not pronounced. In September down tendency in turnover of retail trade can be expected to continue. It was confirmed also by consumers’ inquiry conducted in September and reflecting down of previously optimistic mood.

In September, purchase rates for new cars decreased, too. In the segment of motorcars annual registration growth rates dropped from 95% in the beginning of the years down to 6% in September. Registration indices for trucks had a similar declining trend.

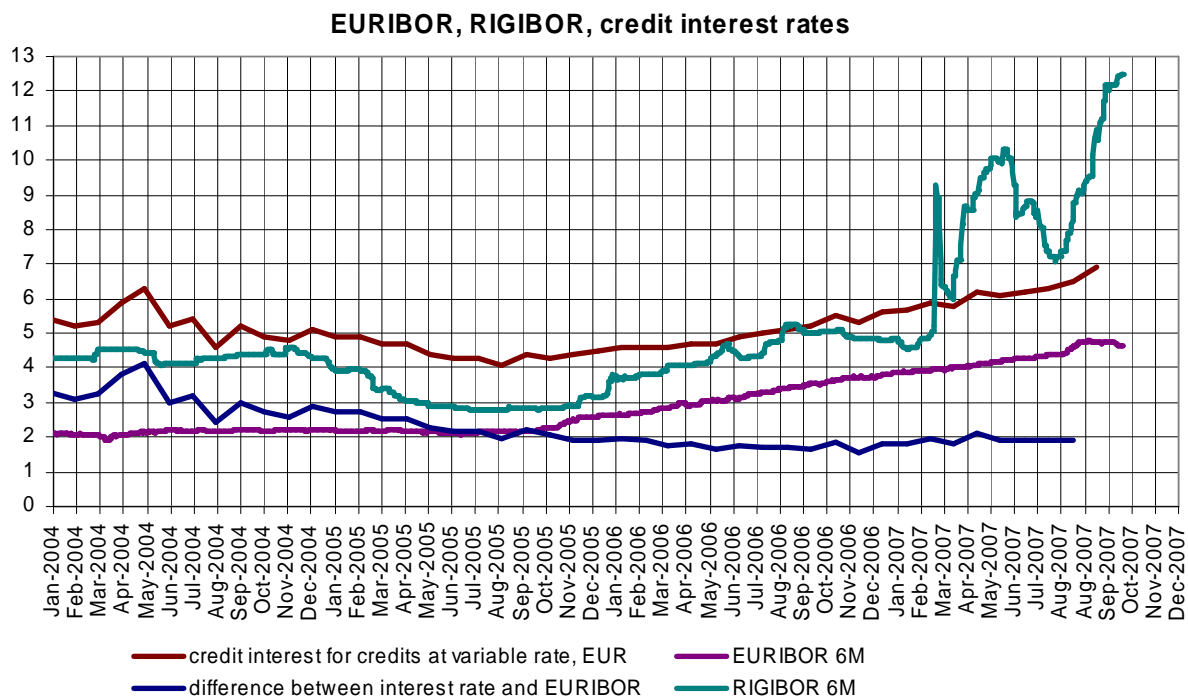
Judging by changes in turnover of cash and volume of deposits, people have started to prefer short term deposits in foreign currency to consuming. At the same time volume of deposits in lats decreases rapidly thus confirming ever ceasing people’s trust in stability of lats. In September, specific weight of lats within total volume of deposits made by households was 45% as opposed to those 54% in the beginning of the year.

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Industrial volumes grew rapidly 2.6% in August as compared to July. Yet this growth is not likely to be sustainable if judging by sharp decline in export orders as noted in the inquiry on producers' mood. It is more and more difficult to sell products on external market due to growing costs.

There is not a great reason for optimism in relation to growth of foreign direct investments flow. In July and August, direct investments in Latvia were on the lowest level over the last 12 months, and the volume was about four times less than in April and May.

In October, rate of EURIBOR 6-months remained stable at about 4.8% mark. Rate of RIGIBOR 6-months kept climbing up getting close to 13% mark.



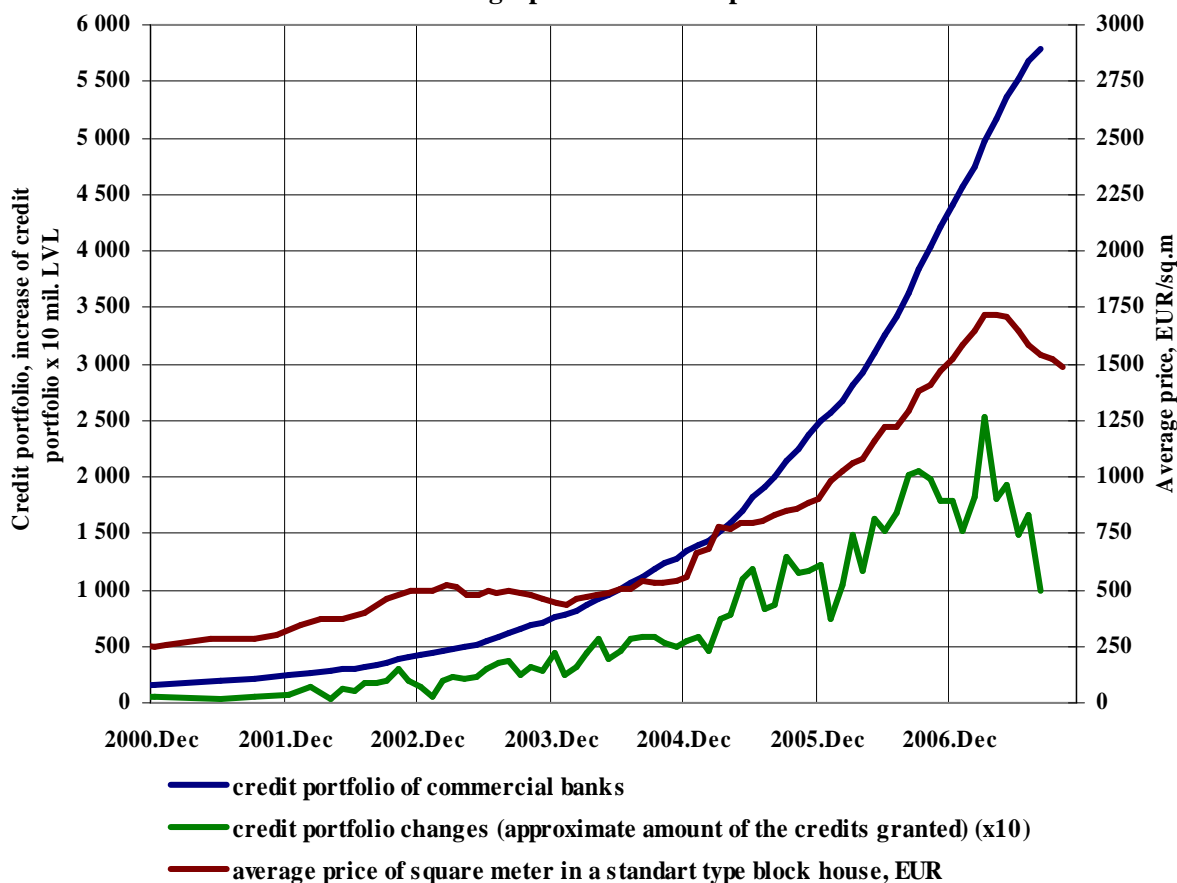
Source: British Bankers Association, Central Statistical Bureau, Bank of Latvia, LATIO

HOUSING MARKET

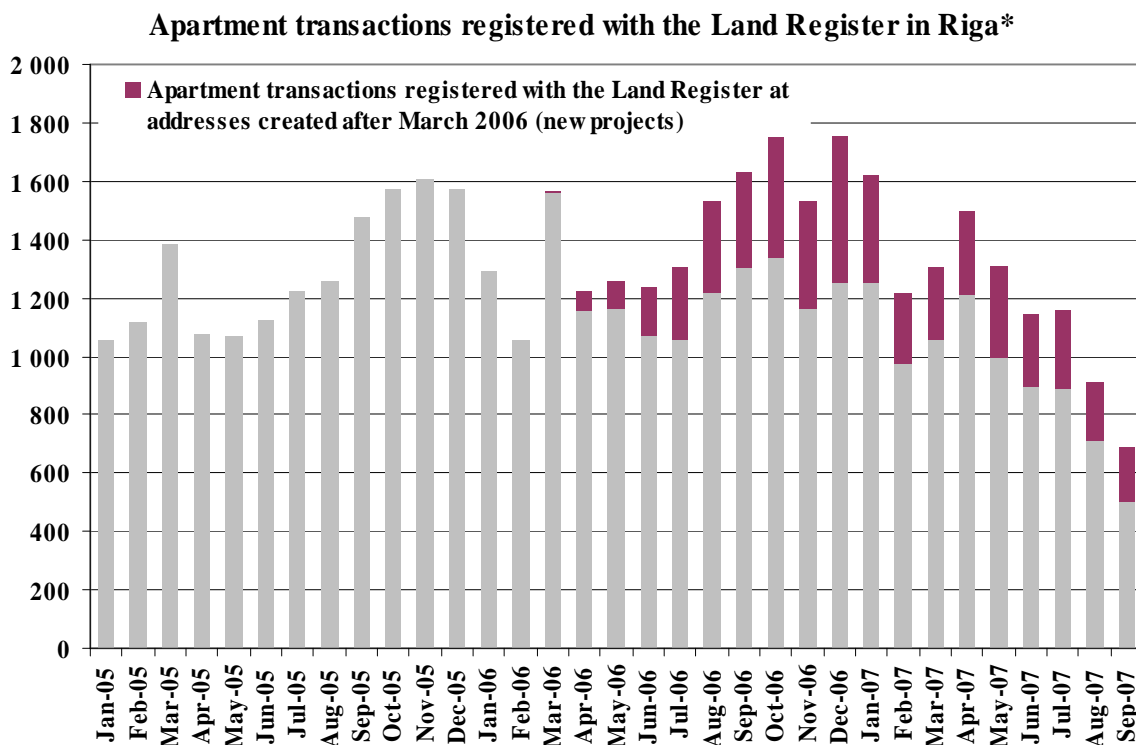
STANDARD TYPE APARTMENTS

- In October, prices of standard type apartments continued falling. The average price of a standard type apartment – 1,490 EUR per sqm. The price was 2% lower than in September, but 6% higher as compared to the last October.

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



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 adjusted 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 chart 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 non-residential space such as parking places in new projects are also registered with the Land Register as apartment transactions.

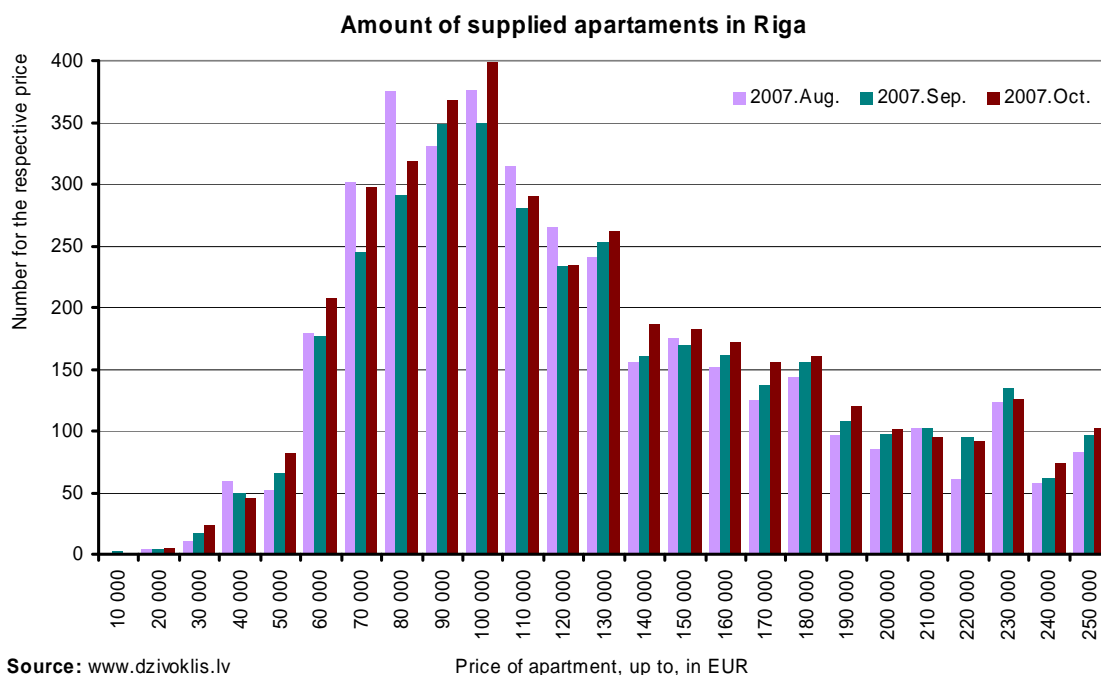
In September – like in August – amount of apartment transactions registered with the Land Register continued remarkable decrease. Now these data are record low since when it had been started to aggregate data on activity in this market segment. Official data on transactions of October will be available in November. Judging by activity of purchasers, amount of transactions is likely to become ever smaller.

In October, there was retained the tendency that buyers anticipated further price decline and diminished demand in apartments. In the face of tightened lending conditions from banks, there are not many people among potential buyers who qualify for getting a credit.

Lack of co-financing, i.e. front money, or its insufficient amount is mentioned as the main obstacle. Thus prospects grow for those apartment sellers whose settled prices are close to apartment evaluation accepted by bank. Buyers with guaranteed financing may be successful to reach agreement on price reduction even for 15% of the initial asking price provided that the seller has a limited term for transaction finalization. Since there is a growing supply, the specific weight of such sort of owners motivated by „sell as soon as possible” also grows.

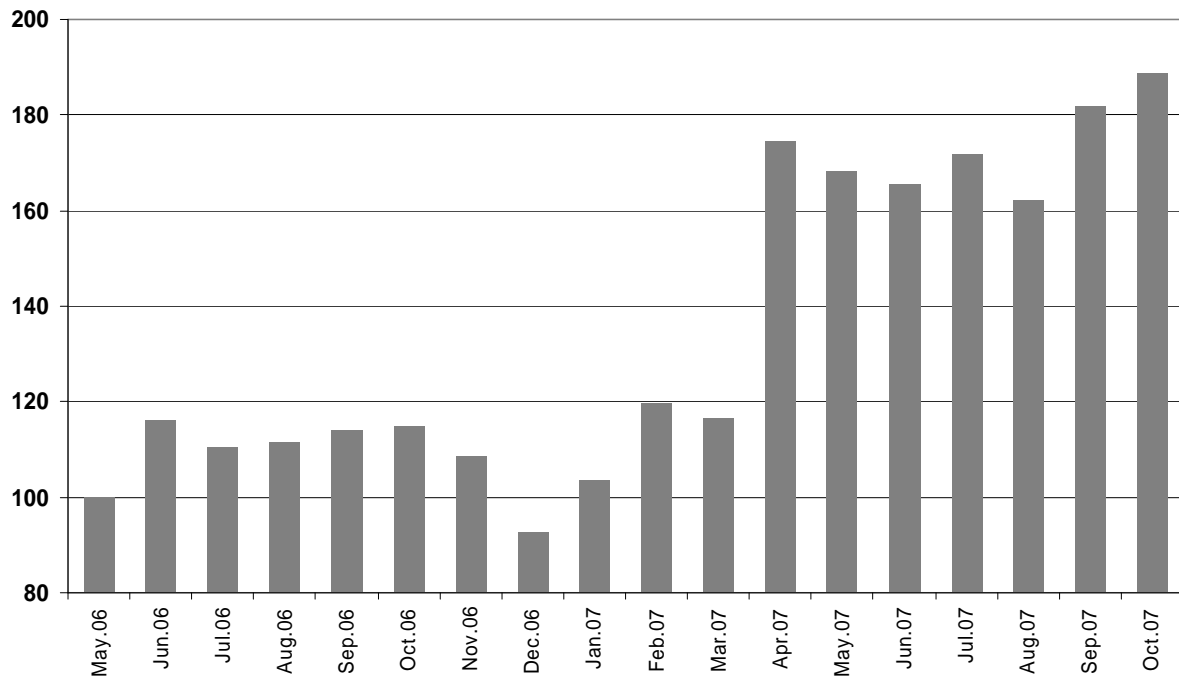
More and more sellers acknowledge that investments in interior decoration enlarge prospects for apartment selling, since buyers give great weight to price-to-quality adequacy.

Lending policy of banks does not change and it is confirmed by ever diminishing growth rate for volume of loans granted to households. In September, residue of volume of loans granted to households by crediting institutions for dwelling purchase has grown in four times less volume than six months ago – in March.



Based on the information provided by the largest internet portals on real estate, supply of apartments has enlarged again in Riga in October as compared to September. Specific weight of one-room apartments remained high within the supply though it was not typical some months ago.

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



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

Market participants seek for real estate agent's help more often than before as compared to the first half-year. Sellers are willing to use real estate agent's services in order to, for instance, make transactions safer and faster.

A small portion of sellers misbelieve that an agent will be able to sell a property at an inadequately high price for the market situation. When transactions are not concluded within a certain term, such clients rather seek for another agent instead of agreeing on price reduction.

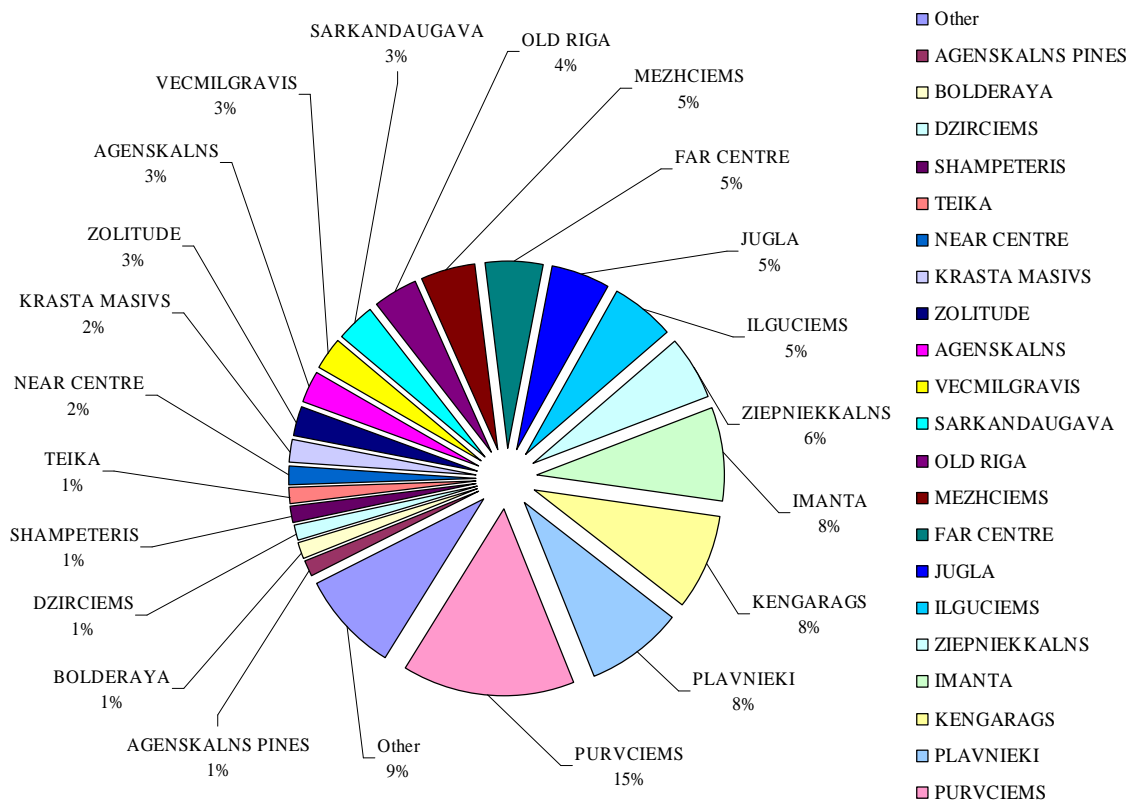
In October, features of market saturation for rented apartments were noticed. Demand has become stable while supply grows. More often sellers offer their apartments also for rent.

Potential tenants have started to pay more attention to rental-to-quality adequacy. Thus it may take a longer time period to rent out apartments on worse location. Rentals of such apartments go down.

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Therefore it could be expected that also rentals of demanded apartments would become stable in a short-term period. For one-room and two-room apartments they fluctuate between 200 and 250 LVL per month, excluding charge for residential services. For similar space apartments in the historical centre 400 to 450 LVL per month are asked, and also these prices are not accepted instantly any more like it was in September.

Dzīvokļu pirkšanas darījumu sadalījums pa mikrorajoniem Rīgā 2007. gada septembrī



Source: the Land Register, National Address Register

In September, like in August, most transactions with apartments were concluded for Purvciems. As total amount of transactions decreases, specific weight of areas “unnoticeable” before stands out, for example, the Old Riga.

Just like before, most transactions were concluded on two-room apartments. The latest data shows comparatively rapid growth of specific weight of one-room standard type apartments within number of transactions.

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Typical prices of standard type apartments in Riga residential areas in October, 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	67 000	66 000			67 000		68 000				
	2- rooms	90 000	90 000			84 000		85 000				
	3- rooms	100 000	100 000			96 000		97 000				
	4- rooms	105 000	105 000			117 000		118 000				
Series 602	1- room	56 000	56 000	56 000			54 000	54 000		53 000	52 000	
	2- rooms	78 000	79 000	78 000			77 000	79 000		76 000	75 000	
	3- rooms	96 000	92 000	90 000			86 000	89 000		95 000	94 000	
	4- rooms	100 000	102 000	101 000			108 000	103 000		105 000	104 000	
Series 103	1- room	56 000	60 000		58 000					57 000	56 000	48 000
	2- rooms	85 000	83 000		83 000					77 000	77 000	67 000
	3- rooms	97 000	95 000		97 000					102 000	102 000	80 000
Series 104	1- room	67 000	67 000	68 000		69 000	67 000	70 000				
	2- rooms	92 000	90 000	90 000		86 000	85 000	86 000				
	3- rooms	100 000	100 000	101 000		97 000	96 000	98 000				
„Lithuanian” proj.	1- room	51 000		53 000	53 000		49 000	50 000	47 000		51 000	47 000
	2- rooms	72 000		76 000	70 000		72 000	69 000	67 000		71 000	60 000
	3- rooms	90 000		90 000	85 000		82 000	83 000	81 000		85 000	73 000
„Hruschov” type houses	1- room	50 000			54 000			49 000	52 000	52 000	54 000	52 000
	2- rooms	69 000			69 000			65 000	67 000	71 000	70 000	67 000
	3- rooms	87 000			85 000			81 000	83 000	81 000	83 000	84 000

Source: LATIO data

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DETACHED HOUSES

On the market of detached houses, neither volume of supply nor the sellers' asked prices had changed remarkably in October – like in September.

In October, there was observed increased interest of buyers in cheap detached houses that were not sufficiently supplied. Buyers would prefer 30-40% lower prices than the asked ones.

In September, amount of transactions with detached houses – as compared to August – decreased 5% in Riga, about 13% in Riga District, but more than 45% in Jurmala.

RESIDENTIAL DEVELOPMENT LAND

On the market of building plots, inflexible supply is retained judging by the prices. It is explained by the fact that there is a low specific weight of sellers having limited term for finalization of transactions. Most landowners can afford waiting for „the right buyer” or to modify their selling plans.

Demand in building plots has dropped significantly due to tightened lending conditions of banks.

On the market of parceled land plots where, probably, there is higher specific weight of motivated people on the sellers' side, a slight increase in amount of transactions was observed as compared to August. It, however, retained its record low level.

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NEW HOUSING PROJECTS

New projects announced in October

Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
Riga						
“Ozolnams”, Riga District, Stopini Parish, 1a Ozolu Str	A	SIA "AJ Real Estate"	1 470	Full	27	1
Riga District						
“Baldones nams”, Riga District, Baldone, 4 Pasta Street	A	–	–	Partial	45	1
Riga District, Marupe, 28 Kokles Street	A	SIA "DVS Real Estate"	2 080	Full	4	1
Jurmala						
“Jaunami”, Riga District, Jurmala, 58 Jauna Street	TH	–	1 680	Partial	3	1
“Priezhu nams”, Riga District, Jurmala, Bulduri, 5 Rezeknes pulka Street	A	A/S "Tukuma straume"	3 305	Full	14	1
Other Districts						
Talsi, 6 Dagu Street	A	SIA "ALTA-Talsi"	–	Full	14	1
Talsi, 6 Dagu Street	TH	SIA "ALTA-Talsi"	–	Full	8	1
“Amatciems”, Cesu District, Amatas Area, Drabeshu Parish	DH	SIA "Amatciems"	–	Full	117	117

Source: LATIO

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

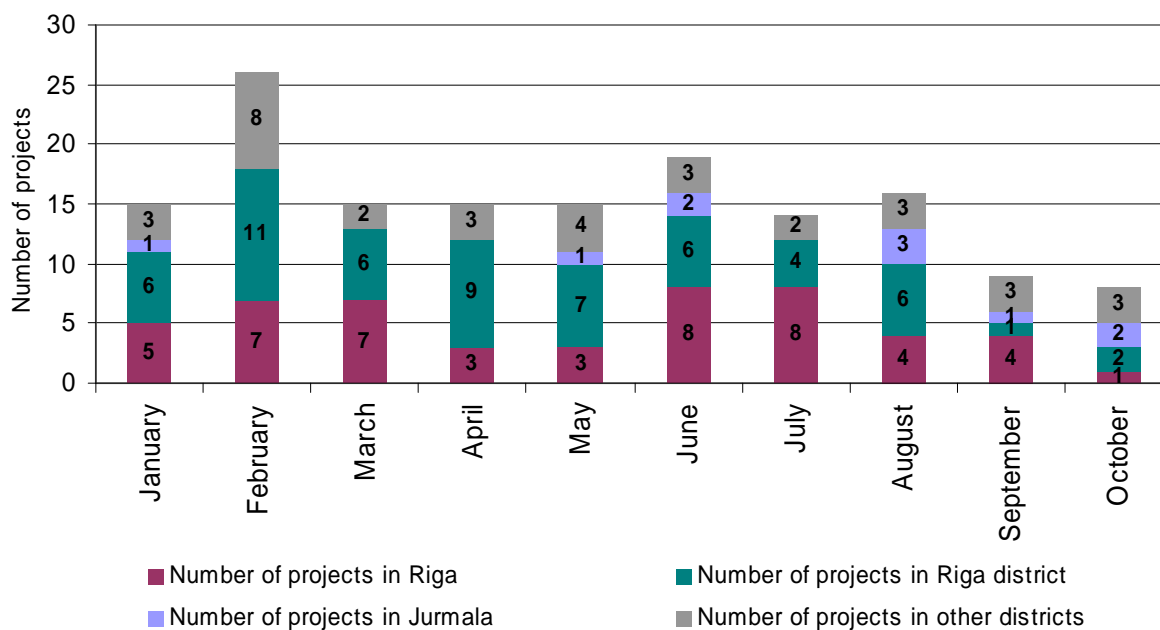
In October, nine new projects have been announced. There was retained the tendency of many developers to postpone fulfillment of their intentions uttered previously.

In commissioned new projects buyers-up offer apartments at prices 15-25% lower than those asked by the developers.

There is also a growing supply of apartments for rent in new projects. Rental is up to 8 EUR per sqm a month, excluding charge for maintenance services which make up to 1 LVL per sqm, and residential services.

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New projects announced in the 2007 in distribution among districts



Source: LATIO

COMMERCIAL SPACE MARKET

OFFICE SPACE

With national economy cooling down, no essential changes in mood of participants of office space market segment can be observed. Once again inquiry data of entrepreneurs in service providing sector suggested high level of optimism about future demand. In September, however, entrepreneurs noted that in the next few months amount of people employed in enterprises would decrease. This tendency could serve as early feature of the fact that long-lasting wish of entrepreneurs to enlarge could wane soon.

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However, in October, like in September, activity on the office lease market grew slightly. Growth of demand was driven by enterprises whose current lease contracts expire this year and there is a wish to find more qualitative premises.

Traditionally, there is retained a strong demand in small space offices – within 50 sqm as well as in average space offices – 150 to 350 sqm of floor space. There is an increased interest in office premises near the emerging Dienvidu tilts (*Southern Bridge*) on the right bank of the Daugava River.

There is a growing demand also in large space offices within 2,000 sqm. Enterprises seeking for such premises, however, usually may allot much longer time for this process.

Potential lessees search for premises in renovated or new buildings but supply of adequate quality grows slowly. A remarkable “breakthrough” regarding development of new office centres is expected next year.

RETAIL SPACE

In previous months reserved attitude of potential lessees to putting up rentals for the most demanded spots in outdoor retail space sector could be noticed. This month supply of vacant space starts increasing. It is most likely that the next feature characterizing the market will be reduction of the highest rentals.

In October, there was a slight increase in supply of retail space on the ground floor in *top* centre. Though demand in such premises is strong, the rentals asked by the owners i.e. 70-75 EUR per sqm, are not accepted. Owners do not agree to reduce rentals yet.

The problem still exists that ground floor space must be obligatory taken together with basement rooms, commercial use of which is complicated.

In October, demand in retail space for sale was retained. In the historical centre transactions were concluded at an average price 3,000 EUR per sqm.

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WAREHOUSE AND INDUSTRIAL SPACE

In industrial sector positive data of August that should be assessed cautiously could not raise optimism of entrepreneurs of this sector in inquiry conducted in September: producers noted that volume of orders has decreased remarkably and stock of produced, unsold goods has enlarged rapidly. Therefore activity of industrial sector is misleading.

Still, demand has grown on the lease market of warehouse and industrial space in October. Part of the increasing demand was formed by companies whose current lease contracts are expiring and they are offered to re-conclude lease contracts at higher rentals. As the growth could make up to 100% (4-6 EUR per sqm instead of the current 2-3 EUR per sqm), a cheaper alternative is searched for. But in Riga it is not easy to find one, especially, when the lessee wants to keep price-to-quality adequacy. As to premises outside the capital city, in their turn, enterprises of Riga ever show low interest in them. It is due to various factors like immobility of labour force or considerations of logistics.

Demand remains unsatisfied by the supply in terms of quality. Potential lessees assess object specifications more scrupulously, space required to them, equipment, location of the premises, access possibilities for cars etc..

COMMERCIAL DEVELOPMENT LAND

In October, investors expressed interest in large land areas – up to 30 ha – in the vicinity of Riga for development of commercial objects. Price preferred by purchasers is 20 EUR per sqm against the asked price which is 50 EUR per sqm.

In similar situation are investors which search for land in Riga for development of new residential houses or office centre projects. Price of the existing demand is 200 EUR per sqm, and the asked price – 500 EUR per sqm – is not accepted any more. It was accepted before based on calculations that expenses would be covered after having developed high-rise buildings with 20 storeys and higher.

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