

REAL ESTATE MARKET OVERVIEW - RIGA AND GREATER RIGA AREA

APRIL 2005

Notwithstanding the low interest mortgage credit campaigns organized by commercial banks, beginning with mid April residential market is witnessing slowdown in the purchaser interest.

Price polarization of standard type apartments is increasing, the highest price level having climbed and reaching in average 993 EUR/m², whereas the lowest price level has slightly started to fall – for about 1%. The average price of standard type apartments has remained stable – about 780 EUR/m².

Lately in the segment of centrally located apartments a new trend has emerged that property owners are willing to sell their residential properties.

Due to the growing prices of land and construction costs, prices of detached houses have a tendency to climb.

Not only supermarkets expand their network, but also discount chain shops show keen interest in the lease and procurement of retail space.

Manufacturing is experiencing more active development in Latvia generating growth in demand for manufacturing premises. As further development of manufacturing is forecasted, new centres of logistics are expected to be constructed.

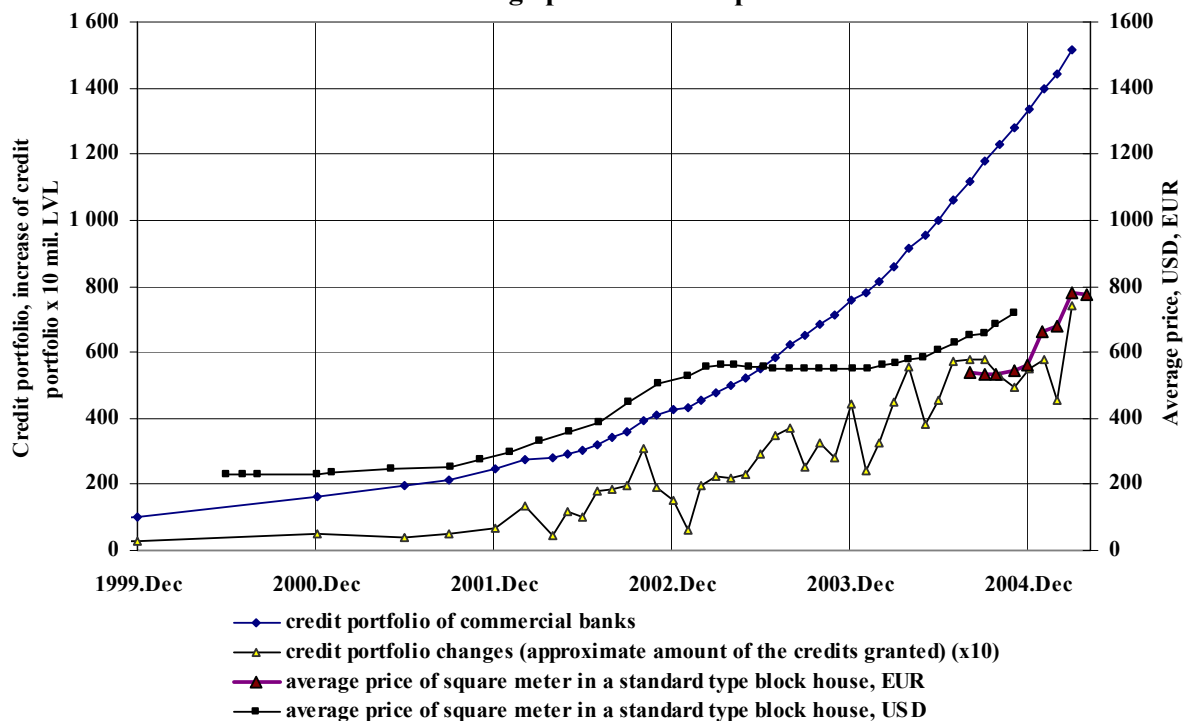
Starting from mid April when the new mayor of Riga abolished the regulations prohibiting organization of gambling in the historical centre of Riga, growth in demand to buy and lease premises for gaming-houses is witnessed. There are two major trends – some look for premises in the Riga historical centre, some – in residential districts.

Part of the lessees of the highrise buildings - LTV building in Zakusala and “Preses nams”, have not ceased looking for new office premises. Lessees of “Preses nams” are searching for new premises due to the disadvantageous lease terms authorizing owner of the building to terminate lease agreement prior 2 months notice.

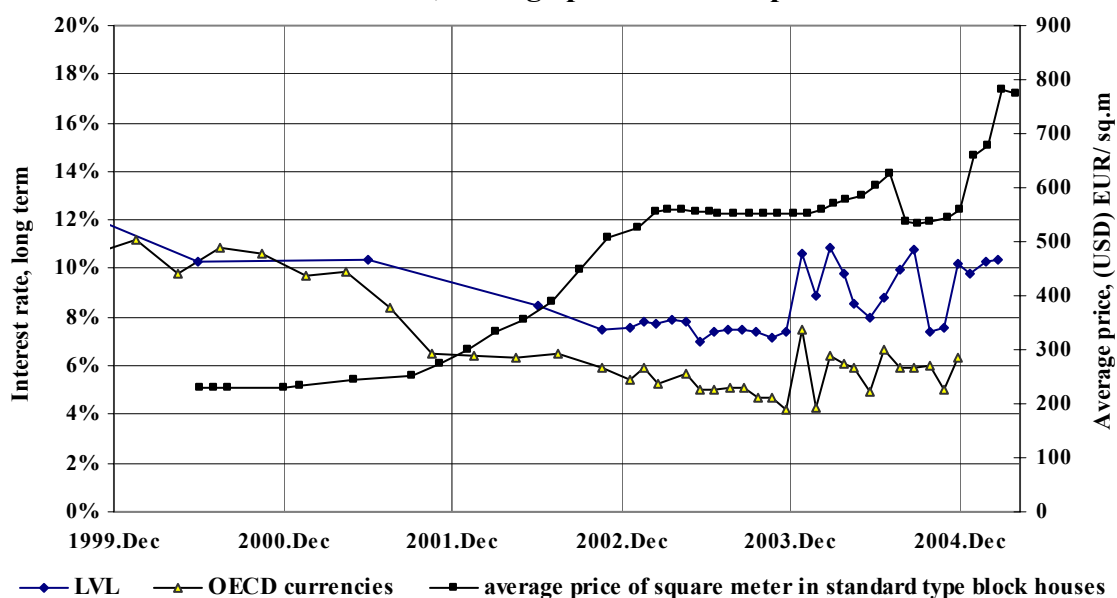
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RESIDENTIAL MARKET

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



Interest rate, average prices of total space



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STANDARD TYPE APARTMENTS

Notwithstanding the low interest mortgage credit campaigns organized by commercial banks, beginning with mid April residential market is witnessing some slowdown in the purchaser interest both in standard type apartments in residential districts and in centrally located apartments. If in March the average standard type apartment price increased for 20%, in April it has remained stable – 780 EUR/m².

Polarization of standard type apartment prices is increasing, i.e., price range between the same type apartments of different quality is growing. The said price polarization is influenced by the following factors:

1. Location of the building in the respective residential district.
2. Surroundings of the specific building or nearby objects having favourable or unfavourable impact upon the quality of living in the house.
3. Inhabitants of the respective house, technical condition and state of the building.
4. Good or bad technical condition of the apartment itself, resulting from the above factors and intensifying them.

Consequently the price range of apartments of the same size, the same series and location in the same residential district is increasing.

Besides, the average price of the lowest price level of standard type apartments, i.e., of lowest quality apartments, has started decreasing, in April prices of these apartments have fallen for about 1%, i.e., from 665 EUR/m² in March to 658 EUR/m² in April. At the same time the average prices of the highest quality apartments are continuing to grow, from 947 EUR/m² in March rising to 993 EUR/m² in April.

For the needs of this market overview the following terms are used:

The average maximum price:

The arithmetical mean of the maximum price of all the apartments of every size, each series and every residential district.

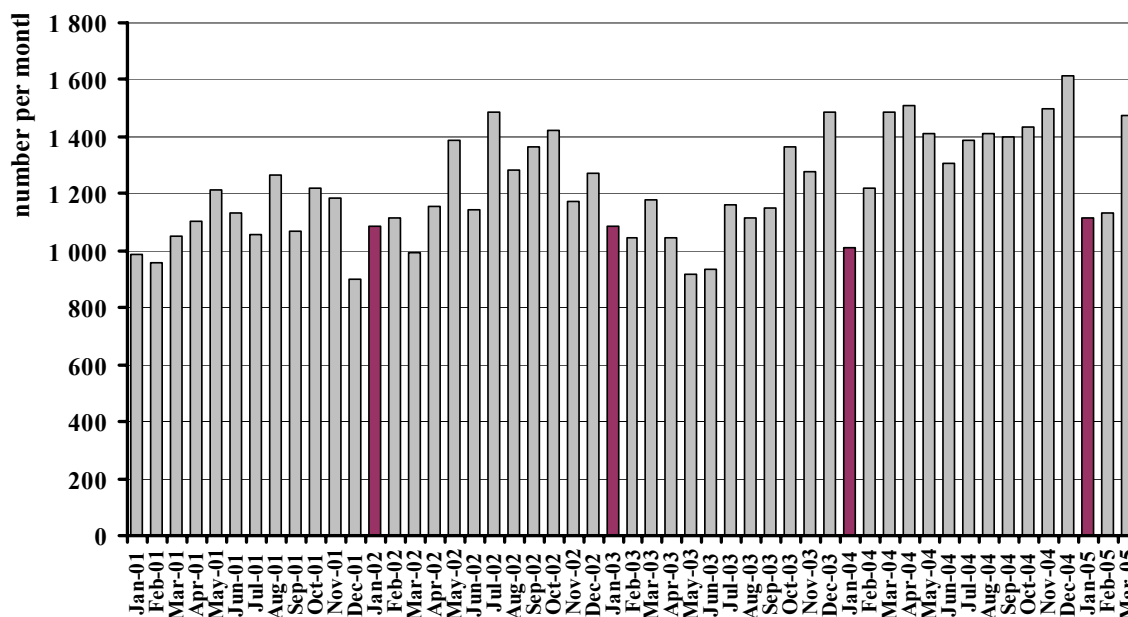
The average minimum price:

The arithmetical mean of the minimum price of all the apartments of every size, each series and every residential district.

Increase of the range actually means that the purchaser when choosing an apartment in a concrete residential district (no matter whether in Bolderaja or Purvciems), in a residential building of concrete series (no matter whether series 119. or “Hruschov” type) and of concrete size is ready to pay more for the best possible variant of the respective category.

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Dynamics of apartment transactions in Riga



The increase of apartment transactions given in the graphic above reflects the apartment market activity in March, at the time when the overview was under preparation data from the Land Book register on April were not yet available.

Dynamics of apartment transactions in the first quarter of the year 2005 practically has not changed from the results of the year 2004 – in March about 1400 – 1500 transactions.

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Prices of standard type apartments in residential districts of Riga in April, EUR

District/ series	Purv- ciems	Ziepniek- kalns	Āgens- kalns	Imanta	Zolitude	Plavnieki	Mezciems	Jugla	Kenga- rags	Bolderaja
Series 119	1- room	36000 - 56000	30000 - 55000	-	-	30000 - 54000	38000 - 54000	-	-	-
	2- rooms	45000 - 64000	36000 - 62000	-	-	37000 - 62000	44000 - 62000	-	-	-
	3- rooms	55000 - 90000	46000 - 75000	-	-	47000 - 79000	54000 - 77000	-	-	-
	4- rooms	60000 - 92000	52000 - 86000	-	-	53000 - 87000	63000 - 90000	-	-	-
Series 602	1- room	28000 - 37000	24000 - 35000	-	23000 - 39000	-	29000 - 36000	29000 - 35000	-	-
	2- rooms	25000 - 53000	33000 - 55000	-	31000 - 50000	-	35000 - 52000	35000 - 50000	-	-
	3- rooms	45000 - 72000	42000 - 69000	-	35000 - 69000	-	44000 - 70000	43000 - 68000	-	-
	4- rooms	51000 - 88000	46000 - 84000	-	46000 - 88000	-	50000 - 85000	49000 - 90000	-	-
Series 103	1- room	3100 - 45000	-	22000 - 42000	-	-	30000 - 43000	-	-	21000 - 30000
	2- rooms	45000 - 65000	-	33000 - 60000	-	-	44000 - 63000	-	-	31000 - 40000
	3- rooms	58000 - 77000	-	43000 - 80000	-	-	57000 - 74000	-	-	38000 - 50000
Series 104	1- room	29000 - 56000	30000 - 48000	-	32000 - 48000	30000 - 47000	39000 - 54000	38000 - 49000	-	-
	2- rooms	52000 - 66000	37000 - 63000	-	35000 - 58000	37000 - 59000	50000 - 64000	49000 - 59000	-	-
	3- rooms	59000 - 88500	46000 - 75000	-	44000 - 70000	45000 - 72000	57000 - 77000	53000 - 74000	-	-
„Lithuanian” proj.	1- room	25000 - 35000	20000 - 30000	19000 - 31000	20000 - 42000	-	-	24000 - 32000	-	20000 - 32000
	2- rooms	34000 - 55000	30000 - 45000	29000 - 50000	30000 - 55000	-	-	33000 - 44000	-	28000 - 40000
	3- rooms	40000 - 58000	39000 - 53000	37000 - 55000	38000 - 65000	-	-	38000 - 54000	-	36000 - 48000
„Hruschov” type houses	1- room	30000 - 35000	20000 - 36000	21000 - 33000	-	-	-	-	22000 - 32000	20000 - 32000
	2- rooms	34000 - 40000	30000 - 43000	30000 - 47000	-	-	-	-	30000 - 40000	29000 - 42000
	3- rooms	42000 - 57000	38000 - 52000	37000 - 55000	-	-	-	-	38000 - 48000	37000 - 49000

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THE NEW HOMES MARKET

At the moment in Riga there are more than 50 new multifamily building projects, the majority of them located in the centre of Riga, Purvciems and Pardaugava. The number of newly built residential buildings in the historical centre of Riga is not big – five. In general the new homes are the buildings in the centre of Riga dating back to the end of 19th and beginning of 20th centuries that have undergone capital reconstruction. Demand for apartments in these residential buildings is great, the average price for an apartment with the so called white finish fluctuates between 1500 and 3000 EUR/m².

Apartments in the new homes like apartments in the centre or Old Town to a great extent are bought as investment objects. Fall in the prices in the nearest future is not expected, besides, the new homes entrants in the market are not enough to satisfy the demand.

APARTMENTS IN THE CENTRE OF THE CITY

Apartment offer in the centre remains quite extensive, the average apartment prices being 1500 – 3000 EUR/m². At the moment no demand is witnessed for the expensive apartments in the Old Town offered for about 4000 – 4500 EUR/m². Selling prices remain stable, but the interest of potential buyers has significantly decreased. Moreover, apartment rents have remained stable for a number of years in a row. Long – term rent of a top quality apartment in the Old Town or the quiet centre has remained in average 11 EUR/m² for years. This type of apartments normally is rented by the employees of the foreign diplomatic corps, high rank businessmen. In the central part of Riga in a broader sense average apartment rents constitute 5 – 6 EUR/m².

The last month has introduced a new trend in the segment of centrally located apartments, namely, due to the low yields and stable rents as well as the fixed rent limits, property owners are willing to sell residential buildings.

DETACHED HOUSING

If compared with the apartment market where the activity of purchasers has slightly fallen, demand for detached houses is growing. An increase in demand for quality detached houses with complete finish of about 250 m² for 250 000 EUR in a well - kept territory in Riga and Greater Riga is witnessed.

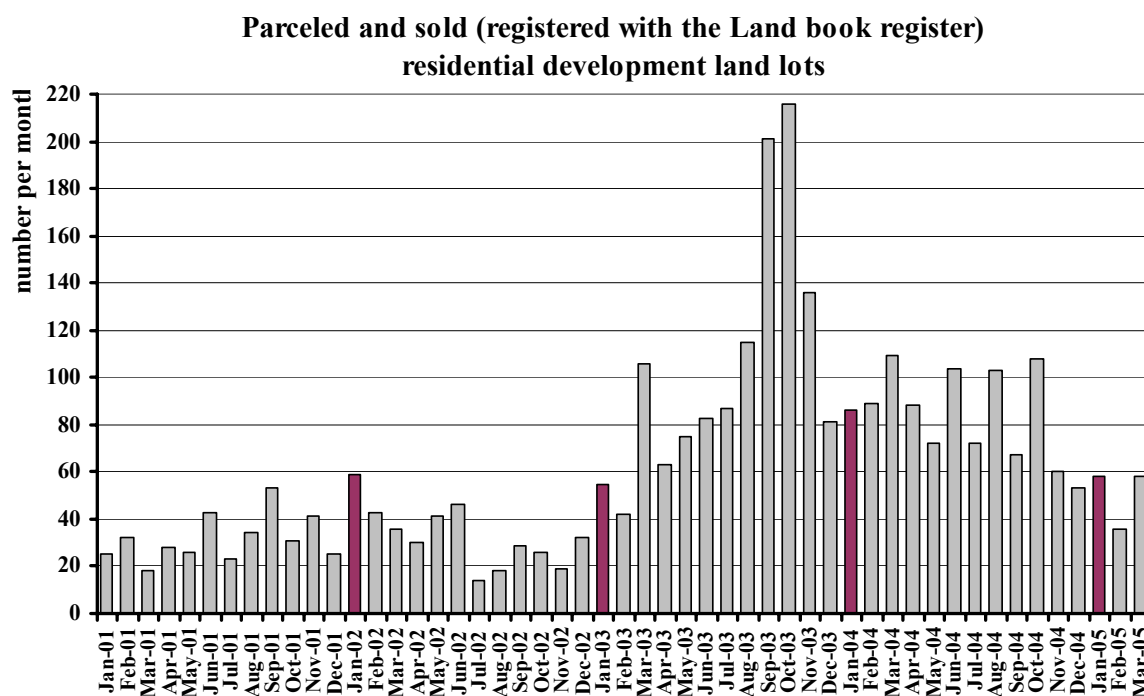
The strongest demand is for detached houses costing 150 000 EUR, but the supply of such newly built houses is limited.

Due to the increase of land prices as well as construction costs caused by the price growth of construction materials, prices of detached houses have a tendency to climb.

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RESIDENTIAL DEVELOPMENT LAND MARKET

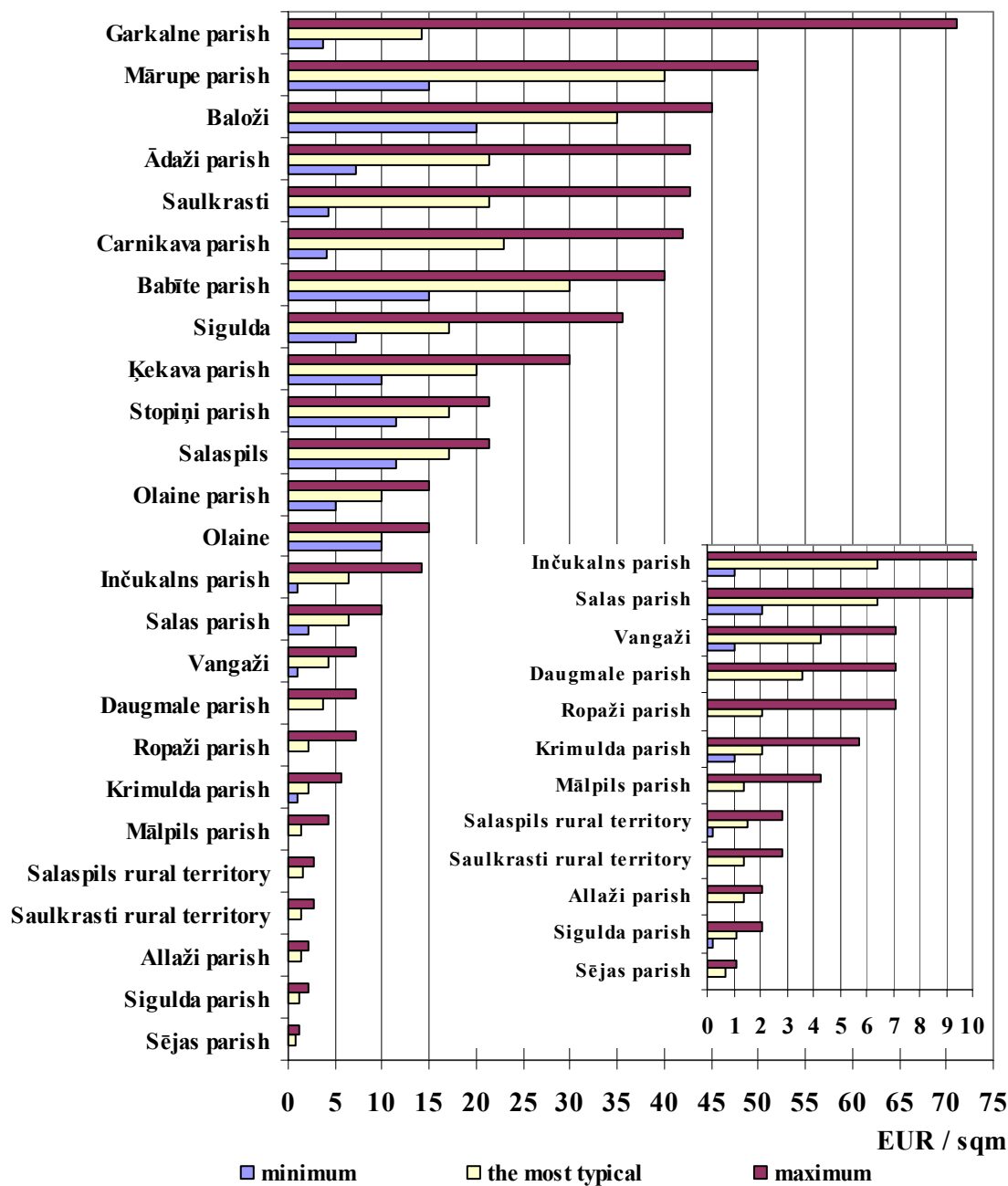
With spring setting in an increasing activity is witnessed in the residential development land market. Stronger demand is resulting in price increase. Residential land plots in Marupe, Pinki, Langstini, Darzini, Bergi for 30 EUR/m² are sold out quite fast, whereas plots for the price of 40 – 50 EUR/m² are purchased not so actively.



The main demand drivers for residential development land are developers. In demand there are residential land plots of 1,5 – 2 ha in Marupe, Pinki, Langstini for the construction of some 4 – 5 detached houses. However, the clients have become more demanding, therefore less demand is witnessed for the previous agricultural land without any infrastructure.

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Land prices in Greater Riga parishes



Note: The maximum price as well as the most typical price of land in the respective parish is determined by the residential development land price. In a number of cases the minimum land price actually is the price of agricultural land.

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COMMERCIAL SPACE

OFFICE SPACE

In April no changes in the Class A office space market was witnessed – prices were stable, vacancy rate about the same. For several months in the Hansabanka head office about 15% of the office space located on the 15th, 16th and 17th floors is vacant. The main reasons could be inflexible market policy offering for lease office space of not less than 350 m² as well as a very strict security system significantly hindering access to the offices to both – the potential employees and the clients. Whereas regarding the other Class A office – “Valdemara centrs” – lessees are actively interested in furnished 20 m² full – service office premises.

In the Class B office space market prices have been stable for several months, but with the growing demand a number of Class B offices have started a trend increasing the lease up to 15 EUR/m². Strong demand is witnessed for office space of about 200 m² in the centre of Riga. However, due to the high leases lately customers have started considering purchasing such premises instead of leasing.

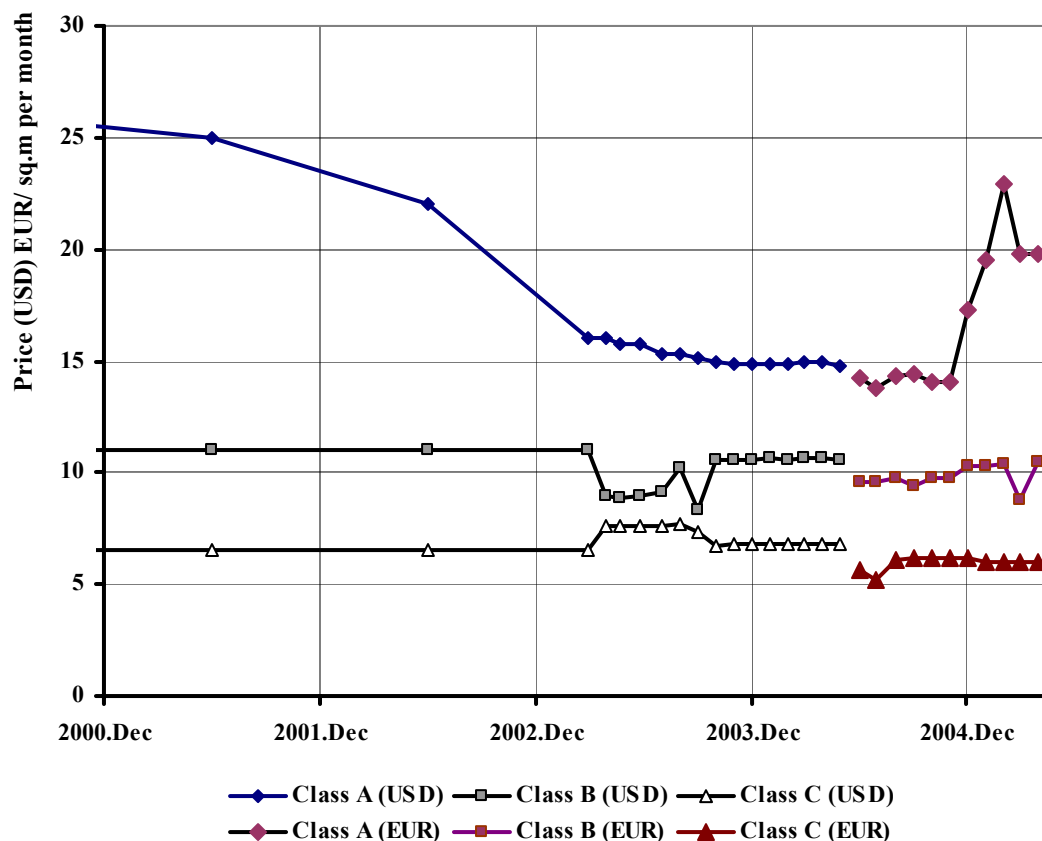
At the same time a number of enterprises, for example, “Re & Re” Ltd., “Ravus” Ltd., are constructing office buildings designated for owner – occupation. Moreover, they use construction possibilities of the site up to the limit. Thus at least some part of the initially not used office space they lease out to other companies for about 13 EUR/m². However, on these occasions the newly built office buildings have to be managed. Due to the high management costs professional managers usually are not contracted, enterprises are establishing daughter companies that take some time to start proper operation and step by step acquire specifics of the business, thus the vacant space usually is leased out at a delay.

With spring / summer season setting in the biggest demand drivers in Class C office space segment are hostel chains that are looking for premises of about 300 m² and more in the façade buildings solely in the near centre between the Central market and Dzirnavu street. Hostel operators are ready to pay 10 EUR/m² and more for the premises meeting their requirements, even if located in the upper floors and without an elevator. Nevertheless, many landlords do not wish to have such a client flow in their properties, especially clients that are spending nights in the premises.

Lessees of the LTV building in Zakusala and “Preses names” are keen for new office premises. Part of the present lessees are optimizing their operation, for example, the publishing house “Santa” is going to vacate its previously leased premises in “Preses names” and other leased buildings as in June all the construction works will be finalized in their new owner occupied building in Stabu street. Another part of the lessees are searching for new premises because of the disadvantageous lease terms stipulating that the landlord is authorized to terminate a lease agreement provided 2 months prior notice without giving any guaranteed minimum lease term.

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Average office space rent



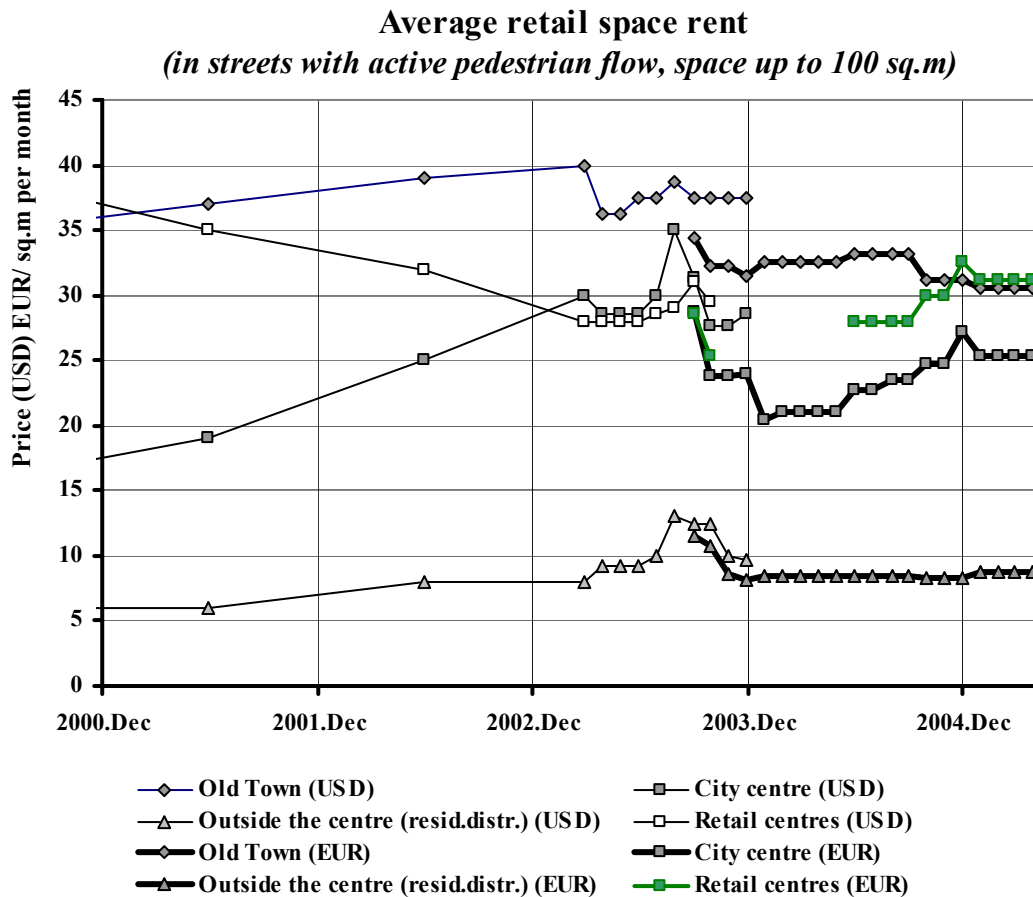
RETAIL SPACE

Prices of retail space remain stable. A new trend is witnessed in the popular shopping centres, for example, “Olimpija”, where for comparatively low prices, i.e., 10 EUR/m², small premises of 10 – 20 m², located in non-functional places like near the exit or the escalator are adjusted for retail needs and offered for lease. For comparison, the average monthly lease in trade centres is 35 – 40 EUR/m², depending on the space leased, plus additional costs for cleaning, marketing services etc.

Like any other year with spring setting in the demand for café premises in the historical centre of Riga has become stronger.

Great demand both, to buy and to lease, is witnessed for retail space of 20 – 30 m² in the popular Riga shopping district. The main demand drivers are clothes’ retailers. On the other hand, retail space of 800 EUR/m² has been vacant for a longer period of time. And the demanded price is quite high – 23-25 EUR/m², plus maintenance costs – about 1,5 EUR/m².

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Along with the development of manufacturing, a number of local food-stuff and alcoholic drink producers are expanding their brand shop chains. Producers of alcoholic drinks are looking for retail space of 20 – 200 m², while food-stuff manufacturers are interested in retail premises of 400 – 600 m², preferably, together with warehouses, both, located in the centre and in residential districts.

Beginning with mid April when the new mayor of Riga abolished the regulations prohibiting organization of gambling in the historical centre of Riga, Mezaparks, residential districts, the demand has become stronger to buy and to lease premises for gaming-house needs. There are two tendencies – some are looking for premises in the historical centre of Riga, others, understanding that sooner or later the gaming business will be prohibited in the historical centre, are searching for premises in the residential districts, yet in much populated areas. Gaming companies are very much interested in purchasing buildings and land for their needs.

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INDUSTRIAL MARKET

Stable demand for heated quality warehouses for mainly food-stuff storage of about 50 – 250 m² together with office premises is witnessed. Moreover, due to the expansion of some of the shop chains, small warehouses for food-stuff storage in various Riga districts are in demand. Due to the shortage of such warehouse premises, clients are ready to consider any offer. The preferable price is 3 – 4 EUR/m², but premises are offered for the prices beginning with 6 EUR/m². For the price 2 -3 EUR/m² there are offered large non-heated warehouses of 2000 – 5000 m². Many previously built warehouses do not correspond to the requirements of the clients and the EU standards. Quite often the client is repairing the premises by itself and, in return, is granted a lease discount.

In April there was a demand for easily accessible warehouses of 200 – 400 m² together with retail space for trading spare parts, construction materials and furniture located near the highways.

Lately manufacturing in Latvia is experiencing a period of more active growth stimulating demand for manufacturing premises. In April the biggest demand driver was the metal processing industry. As further increase of manufacturing is expected, construction of new centres of logistics is forecasted.

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