

REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

August 2007

- **In August, prices of standard type apartments continued falling. The average price of a standard type apartment decreased 3%, i.e., down to 1, 540 EUR per sqm, as compared to last August. Yet the price was ca. 20% higher than last August.**
- **The vast majority of sellers still does not realize decline of the market and hope that in autumn prices will level out and recommence climbing probably. Buyers, in their turn, anticipate further reduction of prices.**
- **Almost in all segments, there is a growing specific weight of those sellers who consider possibility of reducing their asked prices.**
- **On the market of new projects, buyers-up often ask lower prices of apartments than project developers.**
- **Supply and demand are growing on the market of apartments for rent. Market participants prefer short-term agreements - for a year.**
- **Stable activity of transactions with private houses is retained in Riga District.**
- **Some cases are observed when dwelling premises are offered on the lease market of offices.**
- **Entrepreneurs pay more attention to investments in principle business by resigning from investments in real estate that was popular until now, and prefer lease to purchase.**
- **Rentals of industrial space keep rising.**

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GENERAL ECONOMIC SITUATION

According to currently available statistical data over the second quarter characterizing situation in national economy, measures for introducing more strict conditions of lending have not affected development of national economy yet; nevertheless, growth of national economy will slow down soon.

Provisory estimate is 11.3% for increase of volume of Gross Domestic Product (GDP) of the second quarter of 2007 as compared to the second quarter of 2006. This index is to be specified for September, but it may be said with certainty that national economy has not felt primary effect of the strengthened lending conditions that can stand out remarkably among the data over the third quarter.

Features of stagnancy are observed in building. Although volumes of building amounted to 602.4 million lats in the first half-year of 2007 that made 16.2% more than in the first half-year of 2006, this growth mainly implies increase of construction costs instead of growth of actual physical volumes of building.

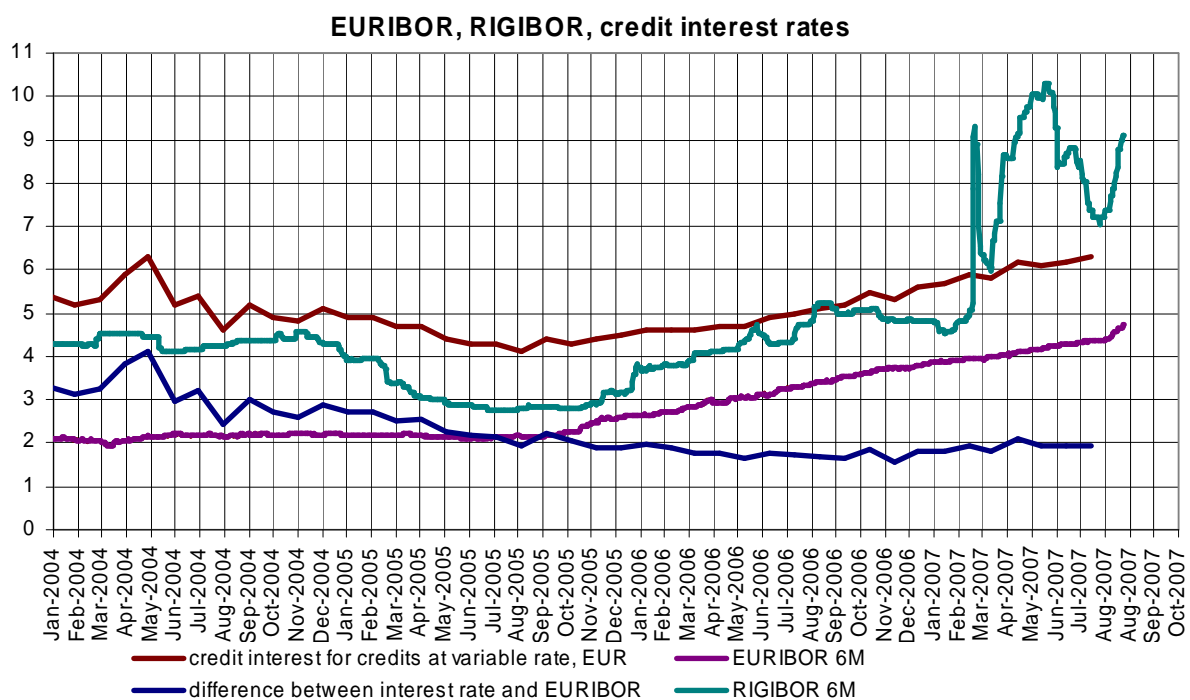
This June output of industrial production decreased 1% compared to the previous month. In June 2007, as compared to last June, output of industrial production increased 1.2%. This slight change cannot give rise to optimism that adequate income from industry will substitute decreased bank financing and the respective income on real estate market in foreseeable future.

Inquiries of entrepreneurs indicate that the rapid economic growth is coming to an end. In Latvia – negative mood of entrepreneurs has been found to have become more pronounced in construction and retail trade during the last few months. Consumers still retain an optimistic view, yet they plan large purchases more seldom and buy less than last year.

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In the report of the international ratings agency "Standard & Poor's" where probability of heavy and soft landing has been assessed for Latvia, Lithuania and Estonia, rather „soft landing” has been forecast for Latvia. Nevertheless, representatives of the agency consider that economic problems are inevitable due to manpower shortage.

In August, Euro rates of EURIBOR 6-months, continued climbing and came to 5% thus living up to the forecasts. This month the relatively rapid growth of Euro rates can be explained by instability on the global financial market, and the dynamics of rates would not be that rapid if uncertainty lessened. Rate of RIGIBOR 6-months that decreased to 7% in July jumped to 9% in August thus reaching the highest level in three months.



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

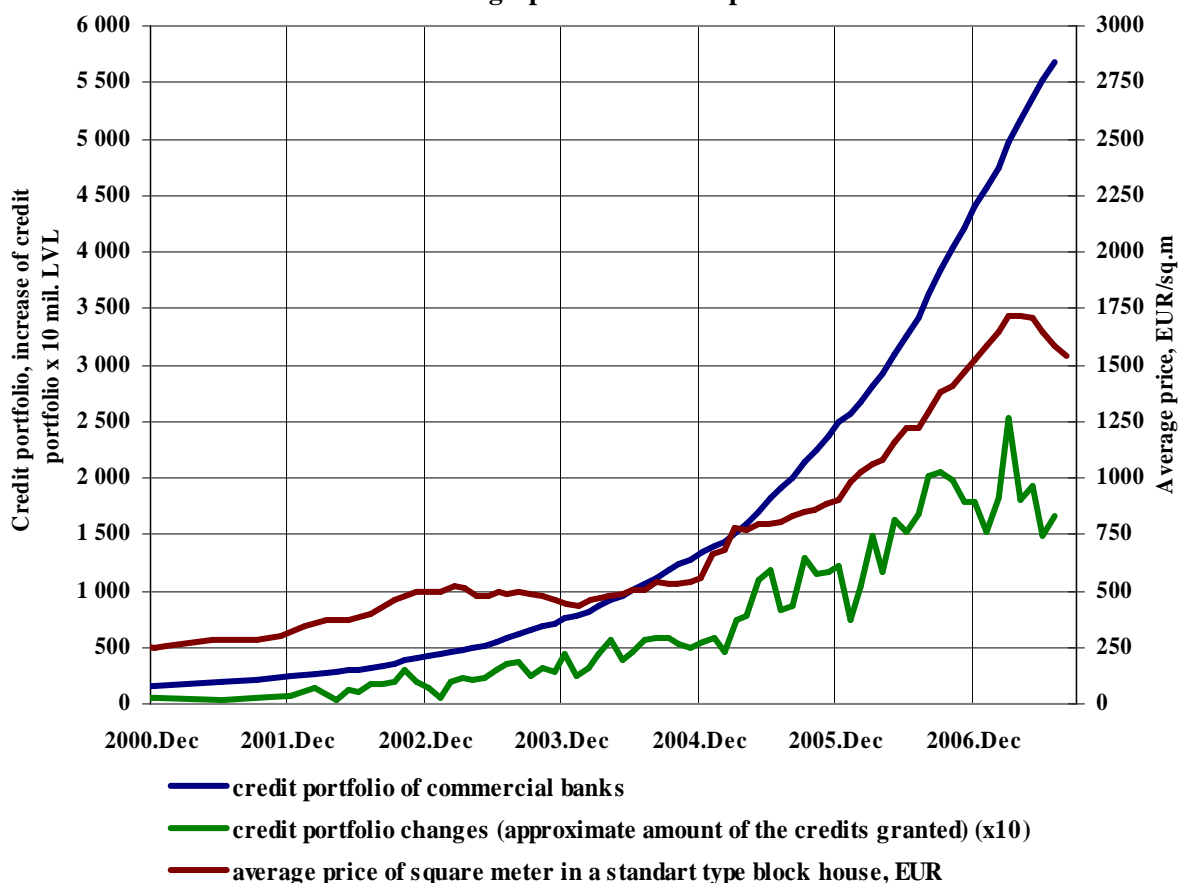
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HOUSING MARKET

STANDARD TYPE APARTMENTS

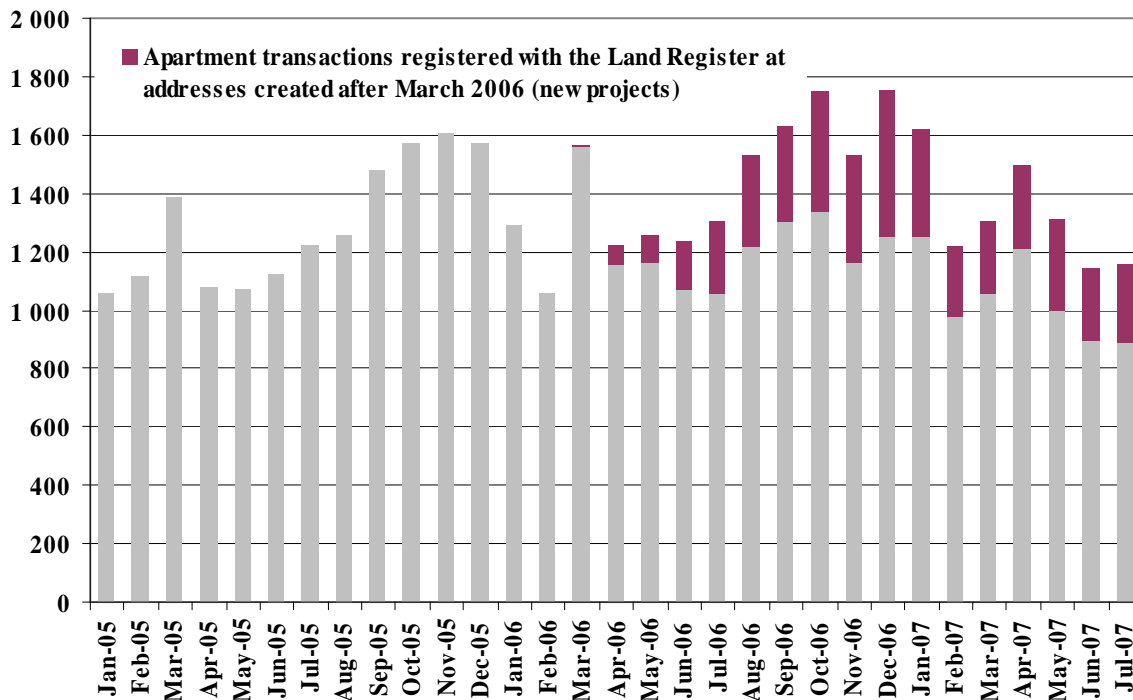
- In August, prices of standard type apartments continued falling. The average price of a standard type apartment was 1, 540 EUR per sqm in August, 3% less than in July. Yet the price was 20% higher than last August.

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

In July, amount of transactions with apartments registered with the Land Register in Riga increased slightly as compared to June. Since this growth was driven only by transactions in new projects, and the number has not changed for transactions with standard type apartments, we conclude that purchasers still show some interest in apartment purchase. Data on transactions in August will be available only in September.

According to a research made by Sociological Research Centre "Eurobarometer" of European Commission – inhabitants of Riga are among the most sceptical ones in Europe as to possibility of finding a dwelling at a reasonable price in this city. Just 10% of inhabitants of Riga think that it is possible to find a dwelling at an adequate price in the capital city of Latvia. This possibility is flatly not believed in by 68%, but rather not believed in by 10% of the respondents.

In August, the tendency was retained that the time span taken for banks to study applications for credit was much longer than some months ago. The minimum time taken to issue a guarantee letter was at least two weeks. It may take up to three months to accomplish transactions.

Judging by demand in property appraisals, there is a growing specific weight of purchasers who turn to creditors outside the banking field. The most essential obstacle for receiving credits in banks is lack of own capital in the amount of 10% of a transaction sum.

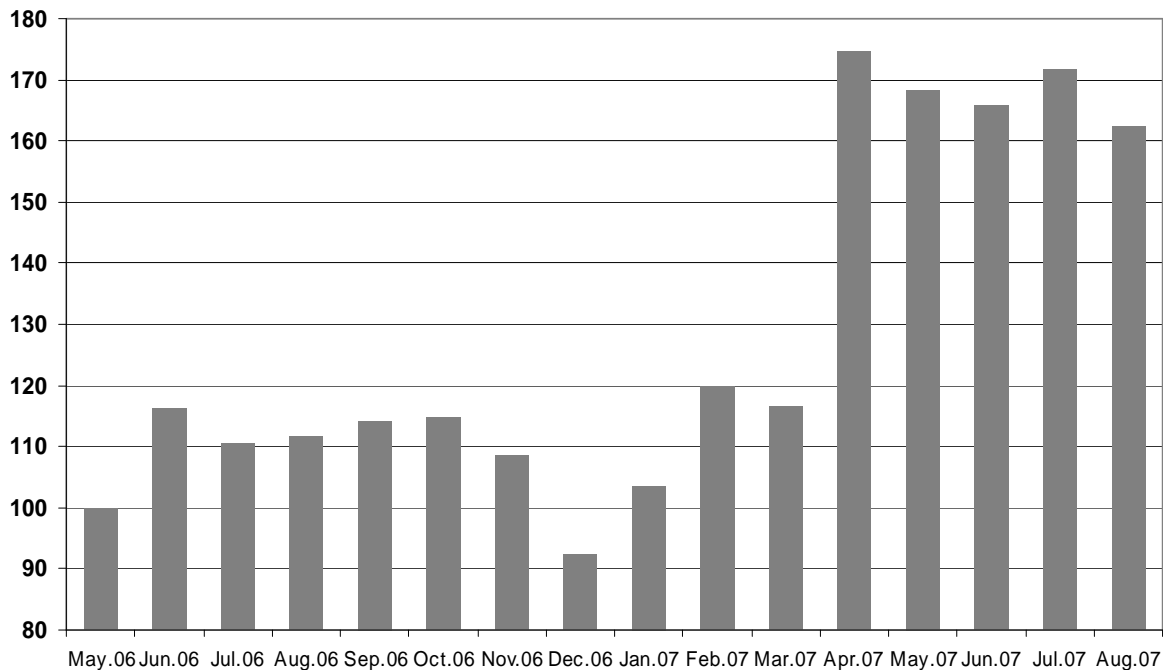
Some developers of new projects have started to credit purchasers themselves giving even a year's time for them to find some other creditor after conclusion of purchase agreement.

In new projects, apartment buyers-up sometimes ask 10-30 % lower price than the project developers.

This month no factors can be observed that could stop the process of price correction next month. Though percentage of price reduction has been slower in August than during the previous two summer months, it is still very much pronounced.

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



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

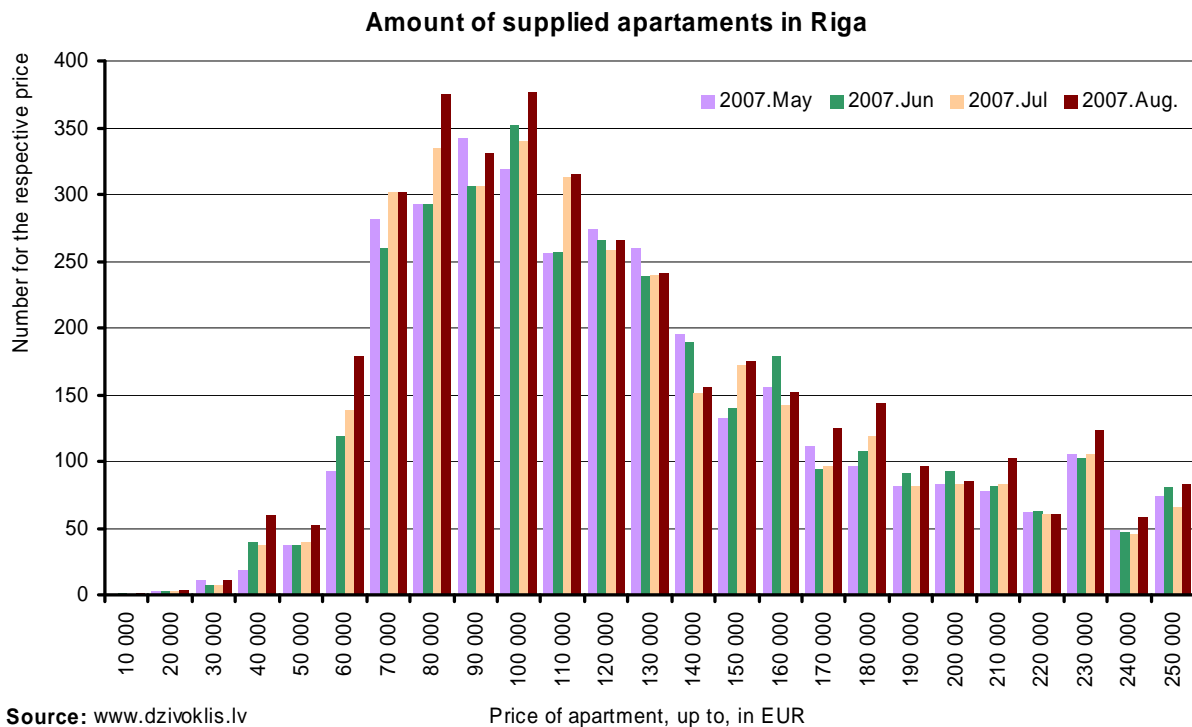
Based on the largest real estate portals, supply of apartments in Riga has slightly decreased in August as compared to July, yet it still retains the highest annual rates. Activity of sellers could retain the highest annual indices of supply also next month as end of holiday period marks seasonal activity growth.

Many sellers do not realize the market decline, they are of a prevailing opinion that in autumn the situation that was influenced by the more strict terms of lending by commercial banks, will become stable. To their opinion – banks will ensure availability of mortgage loans at least on the same level as it was a year ago, and housing prices will become stable on the market.

However, there is a growing specific weight of sellers who consider possibility to reduce their prices. Those are mainly short-term market participants who are aware of the expected future problems with credit repayment and wish to conclude sales transactions as soon as possible. Owners of housing suitable for living-in offer them for rent; owners of undecorated premises ask banks for prolongation of „credit holidays”.

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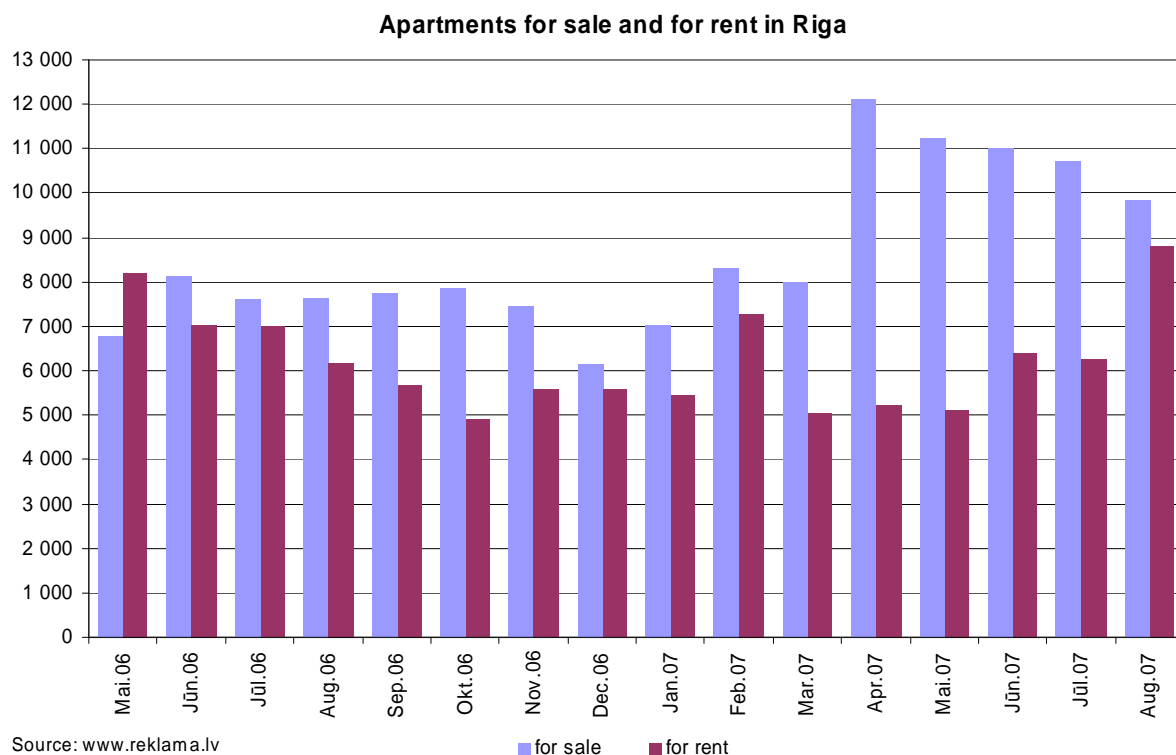
Purchasers, in their turn, who do not anticipate more freely available credits, wait for further drop of prices. The preferable reduction often is mentioned 15-20% of the current average price in a segment. There is a tendency retained that the active purchasers pay attention most to price-to-quality adequacy.



In August, supply of apartments for rent grew rapidly 30%. Like in June and July, this was brought about by circumstance that, in the face of purchasers' losing interest, more and more owners of apartments choose to gain income via letting out the apartments that initially were put for sale. Due to these considerations supply of apartments for rent suitable for living-in, respectively – fully decorated, increase in new projects. Also tenants for apartments with „white finish” are searched for by promising to reduce rentals at the expense of interior decoration carried out by the tenant.

In Riga strong demand in one-room and two-room apartments for rent is sustained. Their rentals depending on area and condition are 200-250 Ls per month, (in the centre 350-400 Ls per month) excluding residential services.

There is interest shown in apartments for rent in Riga District – Sigulda, Saulkrasti. Rentals are 150-200 Ls per month excluding residential services.

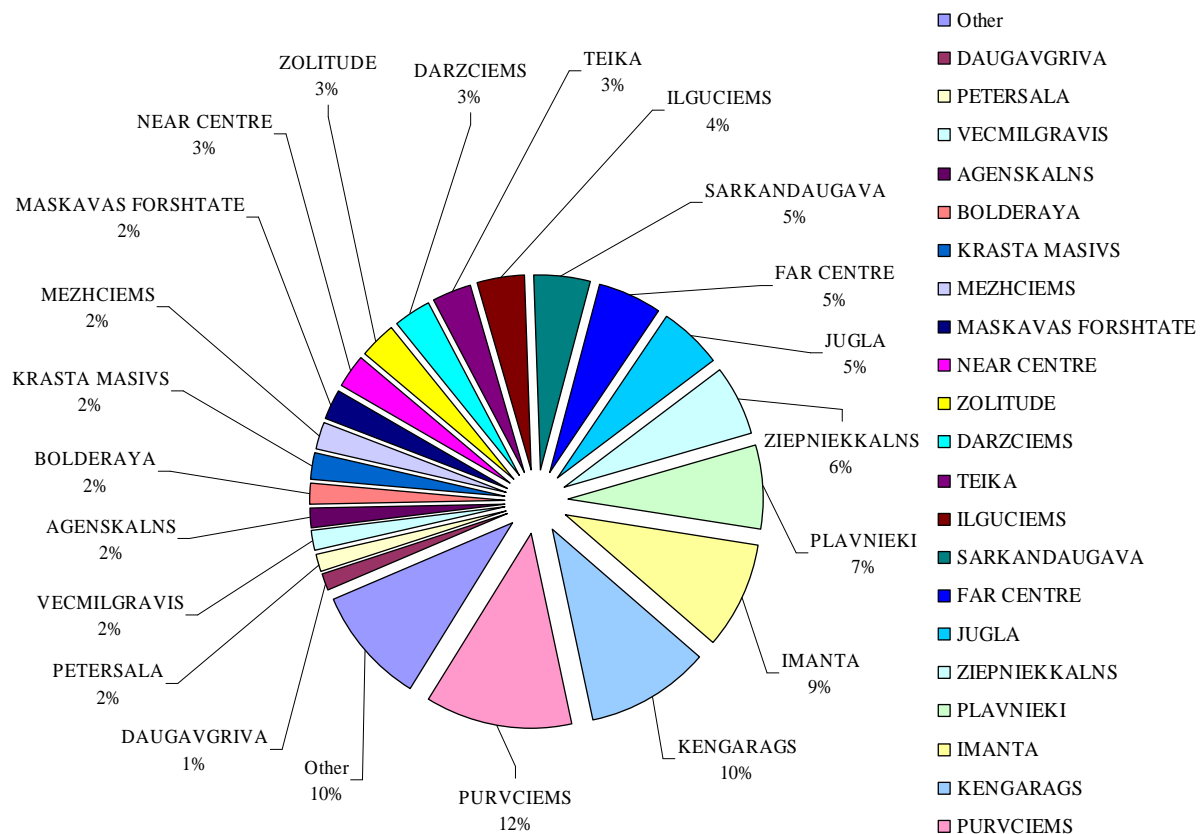


Though there is ever exceeding demand in rent market rentals are invariable. Unlike dwelling rentals, rapid growth of which was ensured by lending policy of banks, increase of average wages was not that fast to absorb further putting up of rentals. In Riga they have increased 50 to 70 % on average during last year.

Both owners and tenants are oriented to short-term rent agreements – one year. Sellers do not want long-term liabilities hoping to sell their apartment or put up price later. Tenants, in their turn, do not wish to take a risk and overpay in the event when rentals would be reduced in the future.

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



Source: the Land Register, the State Address Register

In July, Purvciems retrieved its leading position as to the number of transactions. Yet the difference from areas of lower rating like leader of June – Kengarags, remains less than it was in previous months. Amount of transactions has not decreased significantly in Imanta, too.

In June, like before, the bulk of transactions were executed with two-room apartments in the „Lithuanian” project houses.

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Typical prices of standard type apartments in Riga residential districts in August, 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	73 000	73 000					71 000				
	2- rooms	93 000	94 000					88 000				
	3- rooms	105 000	105 000					100 000				
	4- rooms	112 000	110 000					118 000				
Series 602	1- room	59 000	59 000	59 000			57 000			56 000	54 000	
	2- rooms	81 000	83 000	81 000			82 000			81 000	79 000	
	3- rooms	92 000	94 000	92 000			92 000			98 000	96 000	
	4- rooms	101 000	104 000	100 000			105 000			109 000	105 000	
Series 103	1- room	65 000	65 000		62 000					58 000	57 000	52 000
	2- rooms	86 000	85 000		83 000					83 000	78 000	73 000
	3- rooms	97 000	97 000		100 000					105 000	102 000	85 000
Series 104	1- room	73 000	71 000	68 000			72 000	72 000		71 000		
	2- rooms	92 000	92 000	90 000			90 000	90 000		91 000		
	3- rooms	105 000	105 000	101 000			103 000	101 000		101 000		
„Lithuanian” proj.	1- room	54 000		56 000	55 000		53 000		51 000	53 000	54 000	48 000
	2- rooms	73 000		77 000	70 000		74 000		71 000	74 000	70 000	63 000
	3- rooms	89 000		89 000	88 000		87 000		85 000	84 000	89 000	75 000
„Hruschov” type houses	1- room	54 000			54 000			53 000	53 000	53 000	51 000	51 000
	2- rooms	72 000			69 000			70 000	70 000	72 000	71 000	68 000
	3- rooms	85 000			87 000			85 000	84 000	82 000	83 000	83 000

Source: LATIO data

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DETACHED HOUSES

On the market of detached houses, sustained supply and stable high prices were retained in August like in July. Sellers agree to reduce them seldom, though specific weight of „compliant” sellers increases gradually.

In late August, growing interest of potential purchasers was observed, but inability to get financing reduced the actual demand. Most of financially independent clients, in their turn, wait for further price fall.

In Riga, number of transactions with private houses in July, as compared to June, decreased ca. 15%, in Riga District – ca. 20 %, but in Jurmala – more than 15%. Still in Riga District, unlike Riga and Jurmala, there were more transactions concluded this July than this period last year.

In Sigulda, there are demanded detached houses in good condition and good location at the price of 150,000 to 170,000 lats. Such properties are seldom supplied. Sellers cancel their offer and decide to wait for a year at least. Prices remain invariable in the current supply.

In Saulkrasti, buyers show interest in small summer cottages and are willing to pay 40,000 to 50,000 EUR. Such properties are offered for 70,000 to 80,000 EUR.

In Jurmala, purchasers express interest in detached houses close to the sea or the Lielupe River. The preferable price is mentioned between 350,000 and 400,000 EUR. Adequate supply is little. It is expected that next year when property tax payments will increase along with the raised cadastral values it can make reduce prices.

RESIDENTIAL DEVELOPMENT LAND

Supply of building plots in the market continued growing in August. In supply, specific weight of properties grows in local governments where there is no approved development plan or no detail plan, or there is land on flooding territories, etc. Land owners wish to sooner conclude transactions with such objects.

Demand in building plots decreases. The key factor slowing down demand is lending policy of banks. It is very difficult to finance a transaction with credit land plots if project of private house construction is not approved. It is also difficult to receive a loan in the amount that could fully ensure construction of a house.

Interest is shown in small building plots up to 1,500 sqm large with attractive environment and built engineering communications. This supply is little and prices mostly do not satisfy buyers. Besides price of land, decision of a potential purchaser is influenced by construction risk demanded by the increased construction costs.

In Saulkrasti, building plots over the area of 1,200 sqm are offered at 20 Ls per sqm. Yet there is observed no interest of purchasers.

Supply of building plots grows in Bergi, Adazhi and Baltezers. Those are mainly large land plots that are possible to divide and demand in them is not sufficient.

NEW HOUSING PROJECTS

New projects announced in August

Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
Riga						
Riga, Far centre, 5 Lacu Street	A	-	2,460	Full	27	1
Riga, Dzirciems, 20 Darza Street	A	SIA "Forburga"	2,245	Full	24	2
Riga, Pardaugava, 31 Zasulauka Street	A	SIA "HANZA OB BŪVE"	1,145	Partial	110	1
Riga, Pardaugava, 3 Nometnu Street	A	SIA "Terra Sofia"	2,180	Partial	13	1
Riga District						
Riga District, Vangazhi	A	SIA "Vangažu Nami"	900	Partial	33	1
Riga District, Vangazhi, 17 Parka Street	TH	SIA "Vangažu Nami"	855	Partial	75	1
Riga District, Marupe, 56 Kronas Street	A	SIA "Avetrs"	-	Partial	108	1
Riga District, Marupe Parish, Marupe, Liela Str. between Daugavas and Pededzes Str.	TH	-	-	Partial	24	12
Riga District, Inchukalna Parish, 2 Atputas Street	A	SIA "Gaujas nams"	1,190	Partial	24	1
Riga District, Garkalne Parish, 3 Sudraba Street	TH	SIA "Gordon projekti"	1,595	Partial	2	1
Jurmala						
Riga District, Jurmala, Dzintari 42 Dzintaru Prospect	A	-	3,095	Partial	15	1
Riga District, Jurmala, Vaivari, 3 Spidolas Street	TH	-	1,970	Partial	4	1
Riga District, Jurmala, Jaundubulti, 18 Lielupes Str.	A	SIA "Baltijas Investīciju Sabiedrība (BIS)"	1,950	Partial	17	1
Other regions						
Talsu District, Rojas Parish, Roja, 6 Kapu Street	A	SIA "Senču nami"	985	Partial	44	1
Liepāja District, Grobina	DH	SIA "Ālande 1"	1,350	Partial	11	11
Jelgava, 35 Zirgu Street	TH	SIA "JAF"	730	Partial	12	2

Avots: LATIO

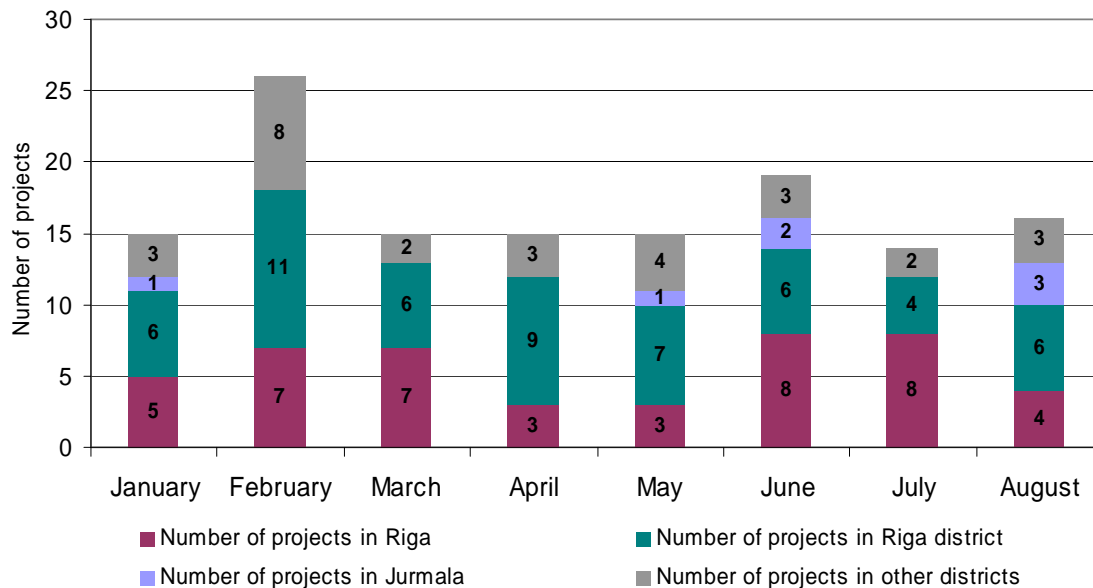
A – apartments, DH – detached houses, TH – terrace houses

In August, 16 new projects were announced. There is a sustained tendency of new projects being developed mostly in Riga and Riga District. But now there is doubt that most of the announced projects will enter housing market or will be commissioned if at all in the time taken for their construction.

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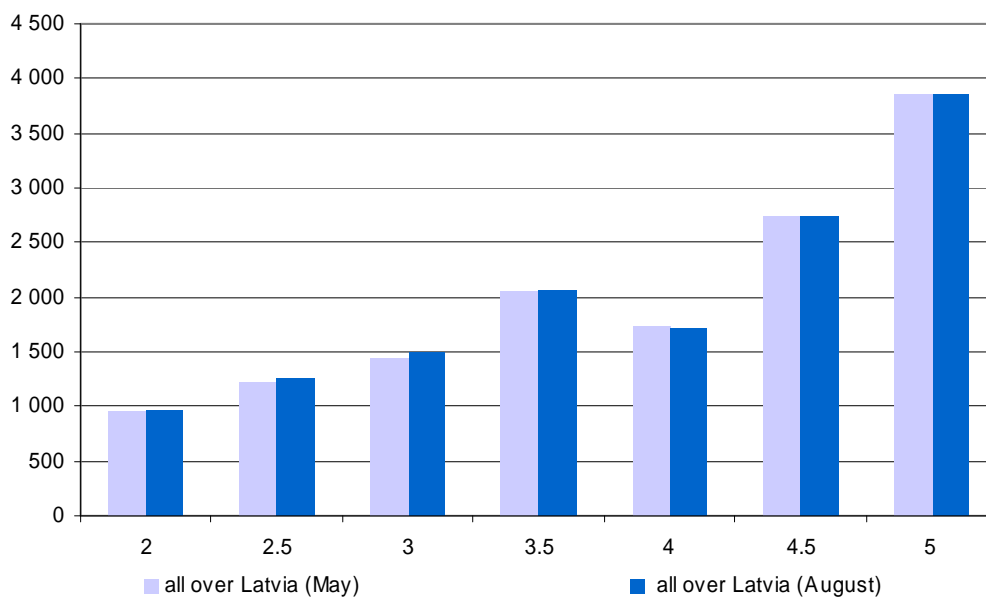
Several developers have postponed implementation of previous plans with reference to saturated market and the predictable difficulties of selling of the object. There is quite a real possibility that some projects will be „preserved” or adjusted and transformed into objects that could be offered on the commercial space market.

**New projects announced in the 2007
in distribution among districts**



Source: LATIO

**Average price of a square meter in new projects
according to their category of rating LVL (May-August)**



Source: LATIO

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Both in Riga and all over Latvia, average asked prices have not increased in new projects as compared to May. Last year they grew 5% on average quarterly.

Supply of apartments in new housing projects has increased since part of the reserved apartments had been returned to the seller.

Supply of new housing has grown also on the secondary market.

These circumstances make a pressure on the asked prices in the direction of their reduction. Therefore price correction is expected also in the segment of new projects. In some cases prices have already been reduced.

COMMERCIAL SPACE MARKET

OFFICE SPACE

In August, activity was retained both in supply and demand on the lease market of office premises. Latest indices of national economy growth are still positive and current increase of inflation does not lessen interest of entrepreneurs in seeking for new office premises.

In August, companies searched actively for premises up to 150 - 170 square meters large in new office centres. But at the same time some office centres that offer such premises and had been commissioned in spring, are taken only partially. The main complaints of the clients are difficult access by car, shortage of parking places or expensive to rent them – 70 EUR per space a month. Irrespective of the fact that most employees have their own transport, it is demanded for an office to have easy access by public transport, too.

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There remains a tendency that offices are 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. Due to concentration of new private houses on the left side of the Daugava River, there is increasing demand in offices in Pārdaugava where this supply is less than on the right side.

In August, large office premises over the space of 800 to 1,500 square metres were also actively searched for in Riga centre.

Interests of clients are polarized depending on their business peculiarities. Agencies of large foreign IT companies, for instance, demand for premises to meet Class A office standards. International auditing company, in its turn, will seek premises in a reconstructed pre-war building as they relate their business with clients' trust and respect that is easier to win when office is located in a building having history and traditions. For this reason even lack of air-conditioners can be tolerated. Because of prestige remarkably cheaper and prime premises outside the centre will not be taken.

Rentals in office centres located within the limits of historical centre are offered between 14 and 16.5 EUR per sqm a month excluding maintenance costs up to 2 Ls per sqm. Lessees are willing to pay 25 to 30 EUR per sqm for Class A offices in the very centre.

RETAIL SPACE

The latest data on retail trade turnover show remarkable growth and this is confirmed also by activity in the market segment of retail space in August. In August, there was strong demand in small space in areas with intensive surge of people, mainly in the city centre.

In opposition to the previous months when the poor supply stimulated putting up rentals and they reached even 120 EUR per sqm on the corners of the most demanded shopping streets, transactions at 60 to 70 EUR per sqm dominated in August. In some cases lessees want to move out from the premises taken on lease at 80 EUR per sqm or to take on lease smaller premises at such price.

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There are still problems with basement premises which owner of the ground floor obliges to take on lease but they are not needed.

Demand in retail space for sale also is retained. Such transactions form a significant part of retail space market.

In August, several transactions with premises more than 100 sqm large and suitable for retail trade have been executed by entrepreneurs that used their own capital.

Price of premises depending on their location within the Riga centre fluctuates between 5,000 and 10,000 EUR per sqm, outside the limits of historical centre retail space is offered at 3,000 to 4,000 EUR per sqm.

WAREHOUSE AND INDUSTRIAL SPACE

Comparative stagnancy of production sector of Latvia's national economy against the background of service sector is not reflected in the respective real estate market segment. Market is active both in selling and lease of space. On the lease market of warehouse and industrial space the most demanded premises in August were those up to 1, 000 sqm large including an office over ca.50 sqm and heating, or possibility to install it.

Lessees give great weight to space of premises for lease; in some cases they reject an offer to take 1, 200 sqm instead of the 1, 000 sqm they searched for because they are not willing to pay for premise they do not use for business.

There is exceeding supply in terms of quantity, but it does not meet demand in terms of quality. There is sufficiency of vacant warehouse and industrial space. But more structuralized demand as to space of premises, equipment, location, access by car, etc. does not encounter appropriate supply. Therefore there is observed increase of rentals for premises meeting the most essential priorities of clients, but being of low quality in other aspects. Hence, cases occur when a lessee agrees to pay for undecorated and unheated premises as much as for decorated and heated ones. Rentals range between 4 EUR per sqm and 6.5 EUR per sqm.

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In August, several large objects 5,000 to 10,000 sqm large emerged for sale in Riga where the premises could be used for both warehouse and production shop. The owners ask price that is at least 50% higher than that searched for by the potential buyers.

Demand is getting stronger in premises available together in one place for a warehouse, retail trade and an office over total area of up to 1,000 sq.m. Currently, there is no sufficient supply.

COMMERCIAL DEVELOPMENT LAND

In August, there was sustained high supply of commercial development land on the market, but also prices were high and sellers still were not likely to reduce them. However, decreasing interest in this market segment can be considered as indicative of future slow down of construction volumes and, in the face of the less optimistic mood revealed in the inquiries of builders, such a development scenario is feasible.