

## **REAL ESTATE MARKET OVERVIEW - RIGA AND GREATER RIGA AREA**

**August 2006**

- **In August, the average price of a standard type apartment in Riga was 1,289 EUR per sqm**
- **Silent centre becomes more demanded than the Old Town**
- **Inhabitants of Riga more actively purchase apartments in towns close to Riga**
  
- **In August, 11 new housing projects entered the market of new homes**
- **Market of new homes becomes more intensive in less demanded areas in Jurmala**
  
- **More and more land plots bought as investment objects are entering the market**
- **Agricultural land 1-2 ha large is purchased to construct detached houses on it**
  
- **Along with commissioning of four office buildings – 3 Valņu street, 41 Mūkusalas street, 36 Dzirnavu street and 32a Lielirbes street – the total volume of office space in Riga increased for 5,520 sqm more**
  
- **Along with opening of two new trade centres „Galerija Azur” and „Galerija Centrs”, the total volume of retail space in Riga increased for 42,000 sqm**
- **There is a marked demand for rent possibilities of premises in the new trade block attached to the hotel „Reval Hotel Latvia”**

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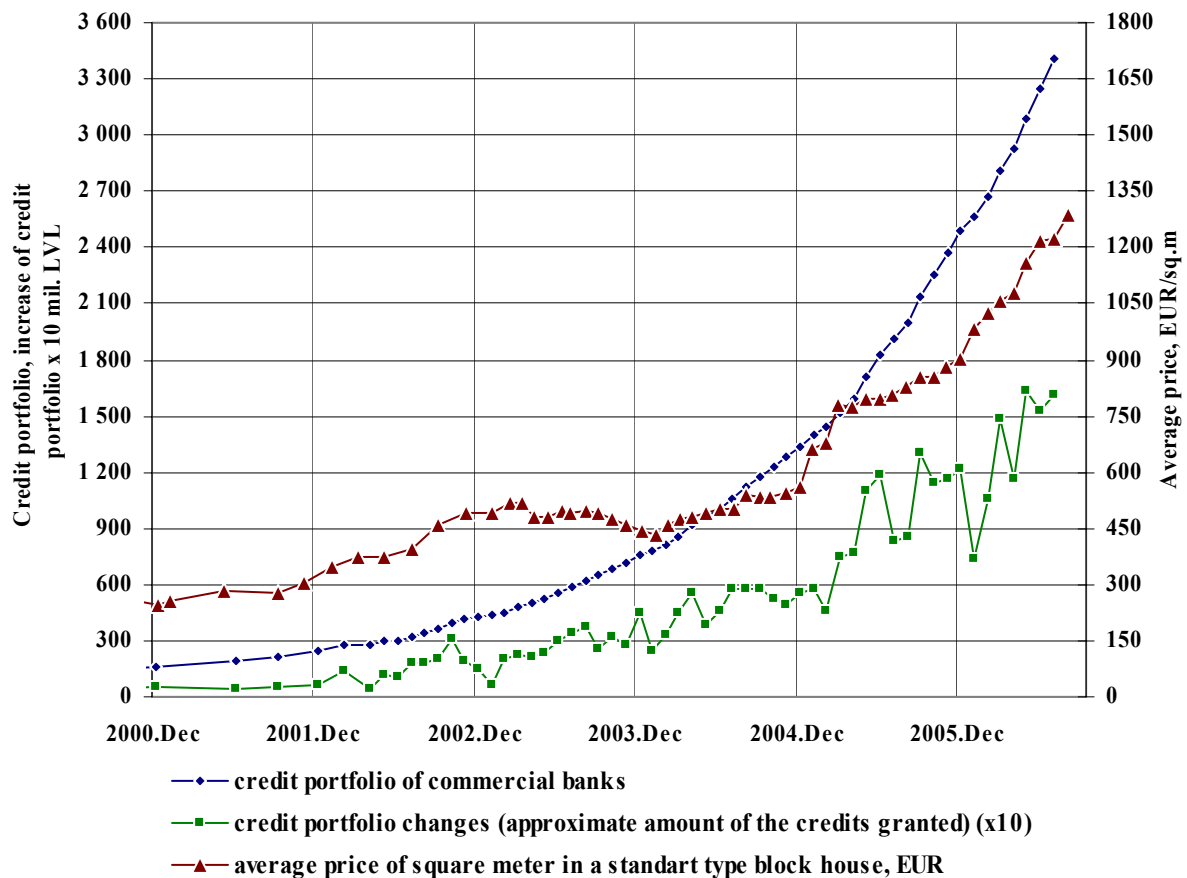
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# HOUSING MARKET

## GENERAL ECONOMIC SITUATION

On August 9th, there came into force a resolution of the Central European Bank to increase refinancing rate – it was increased for 0.25 percent points thus reaching 3% for main refinancing operations. Since majority of loans are granted in euro currency, increasing of euro refinancing rates will influence the market at a greater extent than increasing of lat refinancing rates. Loan interest rates keep their growing trend. Expanding credit portfolio retains the previous level – approximately 150 mln lats per month. Demand for loans maintains a high level, because there are many cases when consumer credit covers the front money of a dwelling purchase.

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



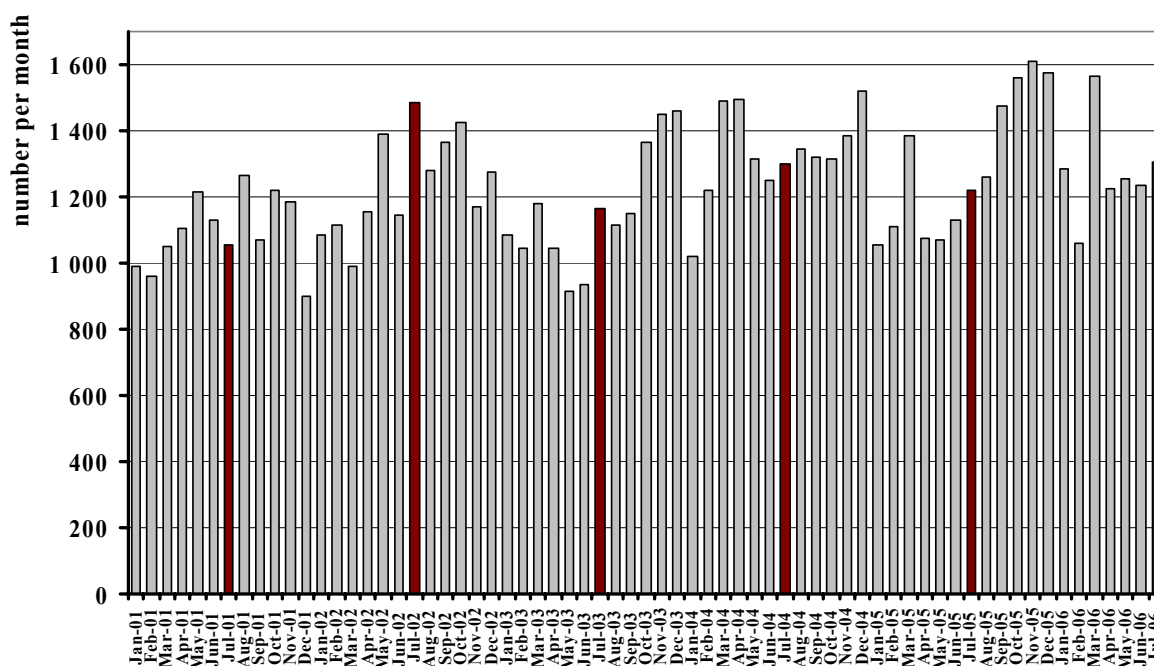
Source: The Finance and Capital Market Commission, LATIO

## STANDARD TYPE APARTMENTS

- In August, the average price of a standard type apartment in Riga was 1,289 EUR per sqm
- The silent centre becomes more demanded than the Old Town
- Inhabitants of Riga more actively purchase apartments in towns close to Riga

Amount of transactions with apartments in Riga in July was similar to that of the preceding months – from 1,200 to 1,300 transactions a month by maintaining the typical trend since this April.

Number of the apartment sales transactions in Riga

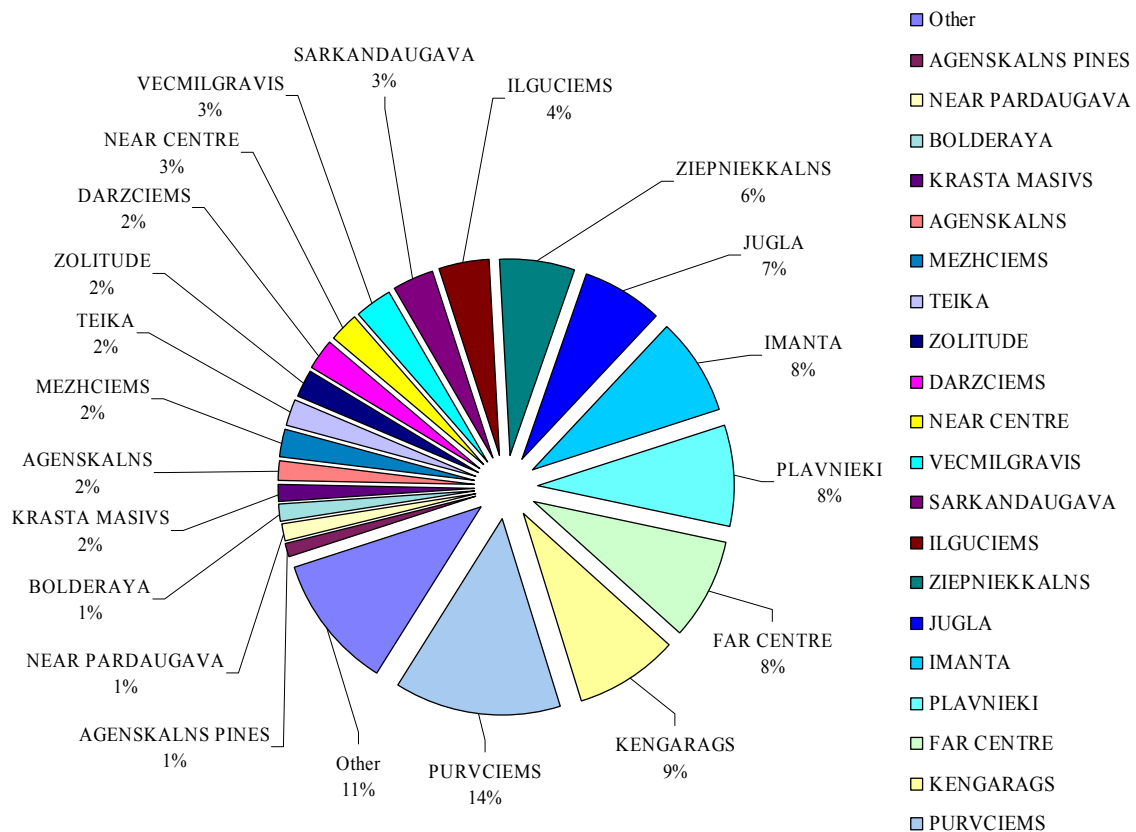


Source: Landbook Register & State Land Service

In the segment of standard type apartments most increasing prices were those of small apartments. This trend was witnessed to be most pronounced in Purvciems and Pļavnieki.

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### Apartment purchase transactions ratio among residential districts in Riga, July 2006



Source: Landbook Register , State Address Register

This July, compared to June, amount of real estate transactions grew in the remote centre. The remote centre scooped traditionally popular Pļavnieki and Imanta residential districts by its amount of transactions. Amount of transactions in the remote centre and Purvciems increased for 2%; in Pļavnieki for 1%.

Amount of transactions decreased for 2% in Ziepniekkalns; amount of transactions decreased for 1%, in its turn, in Jugla and Vecmīlgrāvis.

**Typical prices of standard type apartments in Riga residential districts in August, EUR**

District/ series	Purv- ciems	Plav- nieki	Mezh- ciems	Agens- kalns	Zolitude	Imanta	Jugla	Ziep- niek- kalns	Kenga- rags	Sar- kan- dau- gava	Vec- mil- gravis	Bolde- raja
Series 119	1- room	64 000	60 000					61 000				
	2- rooms	81 000	75 000					74 000				
	3- rooms	94 000	85 000					84 000				
	4- rooms	100 000	97 000					98 000				
Series 602	1- room	51 000	47 000	47 000			48 000	47 000		42 000	42 000	
	2- rooms	68 000	68 000	66 000			65 000	63 000		55 000	59 000	
	3- rooms	81 000	80 000	78 000			75 000	74 000		65 000	69 000	
	4- rooms	88 000	86 000	86 000			88 000	86 000		73 000	75 000	
Series 103	1- room	54 000	52 000		51 000					47 000	47 000	42 000
	2- rooms	75 000	74 000		72 000					63 000	65 000	59 000
	3- rooms	88 000	83 000		88 000					79 000	79 000	71 000
Series 104	1- room	64 000	64 000	60 000		60 000	60 000	60 000				
	2- rooms	81 000	81 000	75 000		74 000	73 000	75 000				
	3- rooms	95 000	95 000	95 000		89 000	88 000	86 000				
„Lithuanian” proj.	1- room	51 000		45 000	45 000		47 000	43 000	43 000		43 000	38 000
	2- rooms	68 000		62 000	63 000		63 000	60 000	58 000		58 000	56 000
	3- rooms	77 000		72 000	73 000		76 000	71 000	68 000		72 000	65 000
„Hruschov” type houses	1- room	49 000			45 000		45 000	44 000	43 000	43 000	44 000	
	2- rooms	66 000			64 000		61 000	55 000	58 000	56 000	57 000	
	3- rooms	75 000			68 000		68 000	66 000	68 000	74 000	70 000	

Source: LATIO data

The average price of a square metre of standard type apartments – a major apartment segment – increased for 5% in comparison with July. This increase cannot be attributed to all apartment segments. For example, there had been a typical price decrease in the Old Town for a longer period of time. Since there was no marked interest in property within the price category of 5,000 to 6,000 EUR per sqm in the Old Town in the previous months, there were no such offers made by sellers any more in August. Purchasers prefer buying properties in the silent centre to that in the Old Town recently, and this choice is based on the possibility of more convenient vehicle parking as well as the fact that the silent centre is not so noisy like the Old Town.

Apartment market is influenced by high asking prices in general, because sellers' priority is not to sell their property as soon as possible, but to sell the property for as high price as possible. Vacant apartments, owners of which purchased new dwellings, are not offered for sale because these apartments usually are hired out. Such activities with short term rent agreements do not foster rent market since the expected capital growth only is in the interest of the owners instead of a long term cash flow. Due to high prices in Riga centre purchasers choose to buy dwelling space in remote Riga residential districts and even towns in the vicinity of Riga more often. This is the reason for growing prices in towns situated in Greater Riga area.

## NEW HOUSING PROJECTS

- **In August, 11 new housing projects entered the market of new homes**
- **Market of new homes became more intensive in less demanded areas in Jurmala**

In August, three large new projects were offered in Riga. The largest one is „Skanstes Virsotnes” offered by „Merks” Ltd.. In this project, it is planned to erect four multi-family houses with 24 floors containing 520 dwellings in total. The project launched in Skanstes street area is at the initial stage of its construction, and selling of dwellings in this project will be started already in the beginning of this September. The apartments will be offered for sale with full interior design.

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In August, selling of the first round of the housing project „Dzimtā sēta VII” was begun. This is the largest project among the previous ones of „Dzimtā sēta”, and it is planned to erect 5 many-storeid multi-family houses containing 630 dwellings in total within this project. Dwellings of the first round are made reservations for or sold already, and apartments only with large space are offered on the market at present.

In Purvciems, construction and sales of „Purvciema Projekts”, the largest new housing project of late in this residential district, was begun. Within this project, it is planned to construct 4 many-storeid multi-family buildings containing 322 dwellings ranging from 51 to 144 sqm in space. The dwellings offered on the market are partially finished.

Market of new homes became more intensive also in remote areas of Jurmala town. A new project „Summertime” and a project on 5 Grīšļa street was offered there in August. For the project „Summertime”, construction of which has already begun, it was planned to erect 4 few-storeid multi-family buildings comprising 90 dwellings. The dwellings are sold fully finished for 1,550 LVL per sqm.

In the last few months, more and more dwellings in renovated multi-family houses were offered on the market of new homes, for instance, 5 Ludzas street, 13 Mazā Kalna street, 139 Brīvības street and others.

Overall tendency of the present year on the market of new homes is indicative of rapidly developing new projects also in other towns of Latvia. New multi-family houses also remarkably prevail over detached houses.

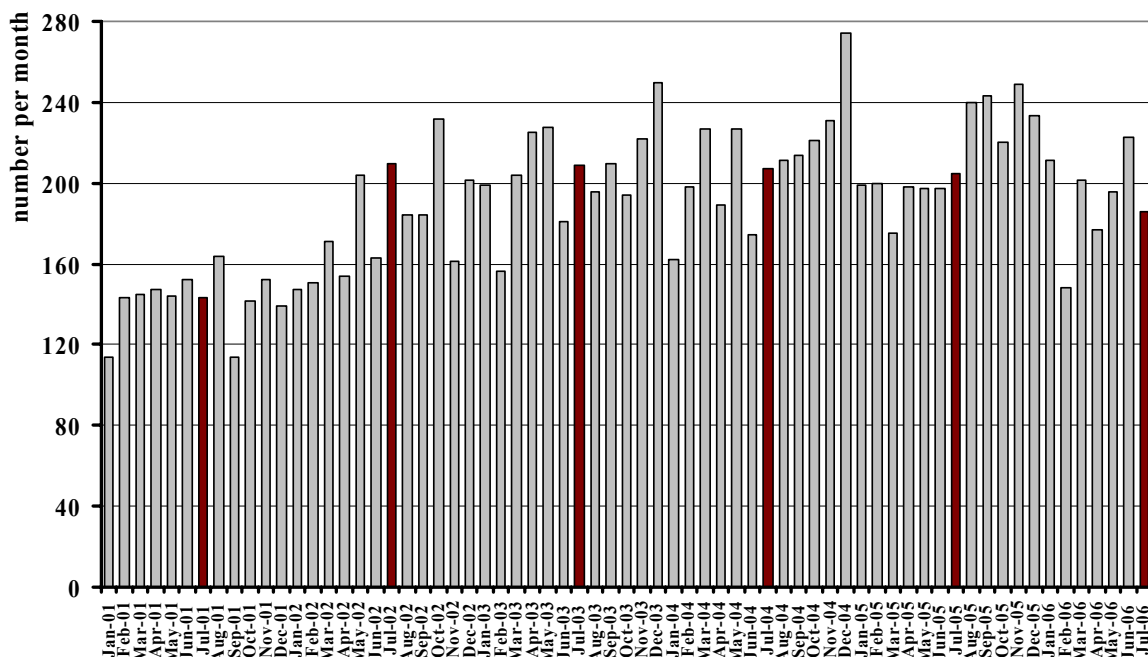
Address/Name	Type	Developer	Price LVL per sqm	Finish	Planned No. of dwellings	Planned No. of buildings
<b>Riga</b>						
"Dzimtā sēta VII", 1st round, Kaivas str.	A	SIA "Dzimtā sēta"	910	partial	238	2
"Purvciena projekts", Pūces street	A	SIA "Hanner Real estate"	1080	partial	322	4
"Skanstes Virsošnes"	A	SIA "Merks"	unknown	full	520	4
9 Purva street	A	SIA "Nekustamais īpašums"	unknown	full	11	1
12a Ūnijas street	A	SIA "Nekustamais īpašums"	1620	full	10	1
Vecāķi, Vabu street	A	Private persons	1540	partial	6	1
<b>Riga district</b>						
"Dienvidu iela", Salaspils	A	SIA "Daugava Būvserviss"	800	partial	85	1
12 Upeslejas street	A	Private persons	980	partial	48	1
<b>Jūrmala</b>						
5 Grīšļu street	A	SIA "Agruria"	1720	partial	30	1
Laipu street, 1st round	Dh	SIA "Nordeco"	1600	full	15	15
"Summertime"	A	SIA "Spēks A"	1550	full	90	4

Source: LATIO data

## DETACHED HOUSES

Number of transactions on purchasing detached houses in Riga was less in July than in the respective period in the preceding years, yet in Riga district number of transactions have a growing tendency. Number of transactions with detached houses in Riga and Riga district is almost the same.

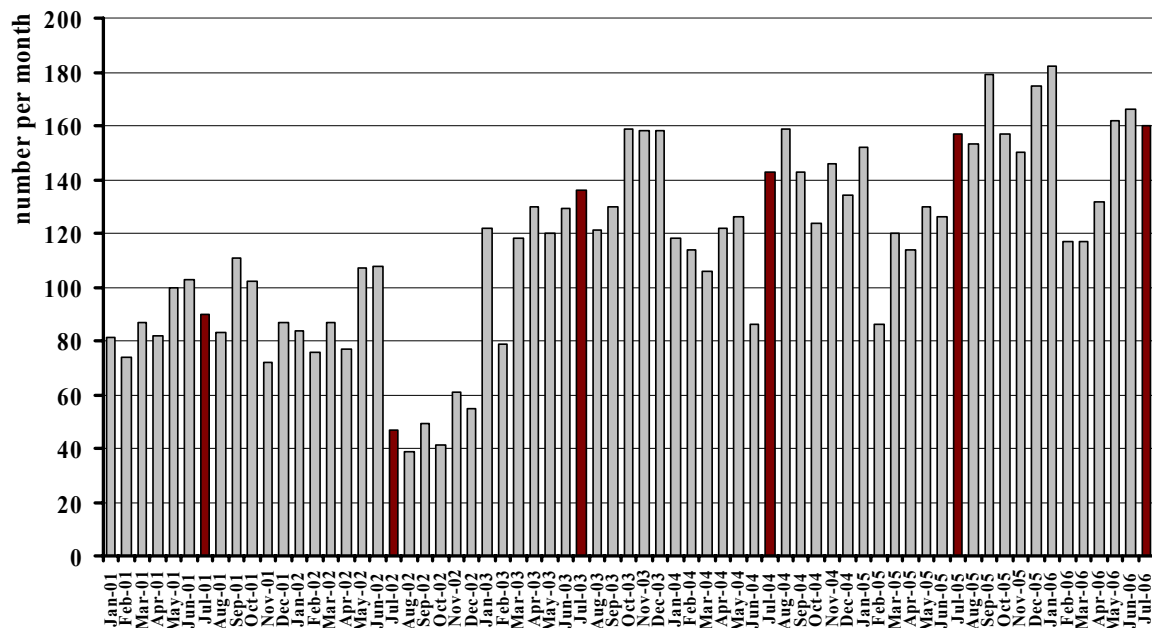
**Number of the detached housing sales transactions in Riga**



Source: Landbook Register

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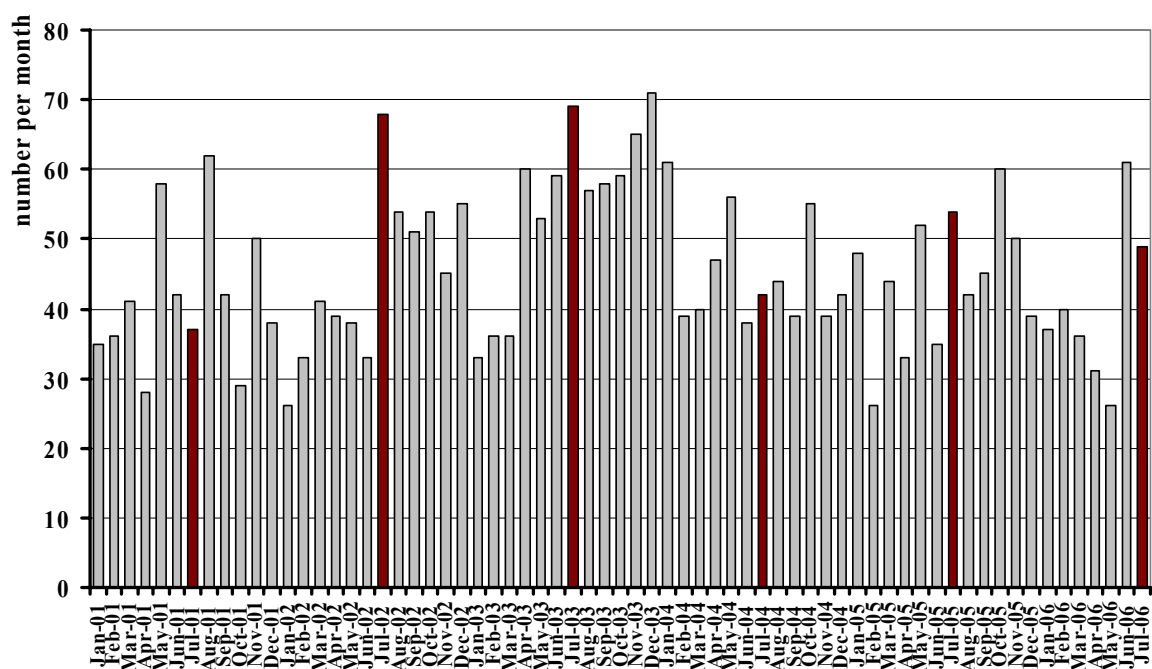
### Number of the detached housing sales transactions in Riga region



Source: Landbook Register

\* data reveal information with Riga and Jurmala town excluded

### Number of the detached housing sales transactions in Jurmala



Source: Landbook Register

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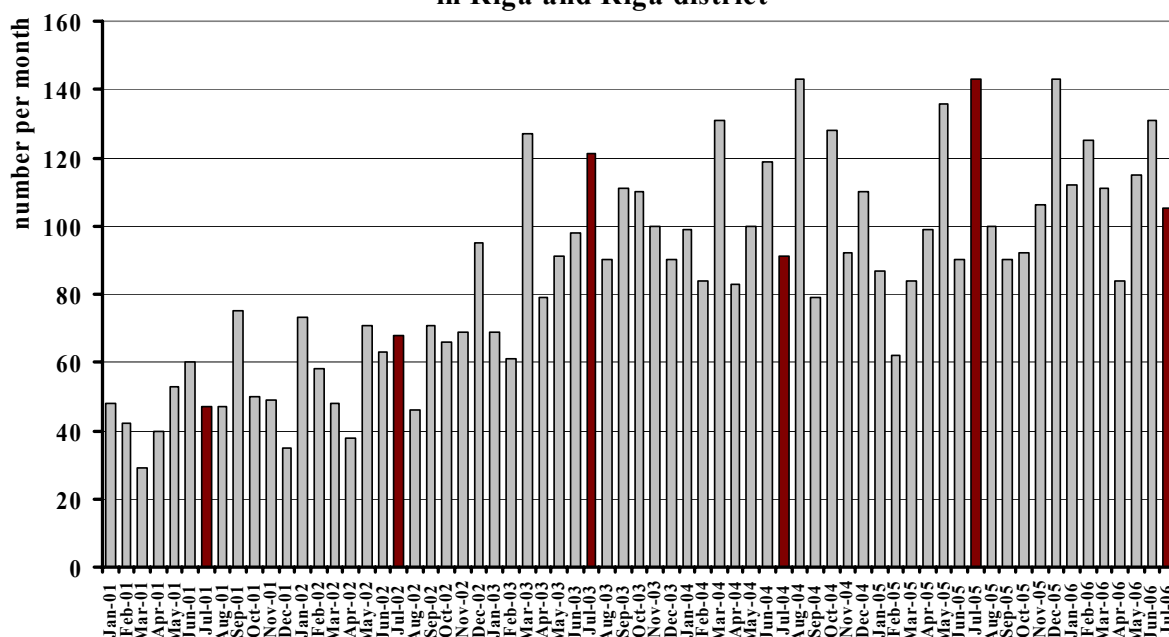
## RESIDENTIAL DEVELOPMENT LAND

- **More and more land plots bought as investment objects are entering the market**
- **Agricultural land 1-2 ha large is purchased to construct detached houses on it**

Recently, offer to buy land for residential development from owners, who bought it in some last years by cutting a small plot from a large one, became more pronounced. During the previous years many such land plots were bought as investment objects, and today they enter the consumer market. Land division for residential development retains the previous level, and there had been no significant changes witnessed since 2004.

Increasingly, agricultural land 1-2 ha large is purchased to construct detached houses on it, in areas with beautiful landscape and with developed infrastructure at the same time. Part of such transactions is characterised as investments with a view to sell the land in the future.

**Amount of parcelled and sold residential development land lots  
in Riga and Riga district**



Source: Landbook Register

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## COMMERCIAL SPACE

### OFFICE SPACE

- **Along with commissioning of four office buildings — 3 Vaļņu street, 41 Mūkusalas street, 36 Dzirnavu street and 32a Lielirbes street – the total volume of office space in Riga increased for 5,520 sqm more**
- **A slight increase in rent prices in projects of new office premises retains**

In August, along with closure of vacationing period, commercial space market became more intensive, though demand for office space still exceeded supply significantly. This determined the great interest in new office projects largely, including purchase of office premises in new projects. In August, four office buildings were commissioned: 3 Vaļņu street, 41 Mūkusalas street, 36 Dzirnavu street and 32a Lielirbes street. Along with commissioning of these four office buildings, the total office space volume in Riga increased for 5,520 sqm more, this, however, counts for only ca.2% from the present office space and does not change the high level of demand significantly.

In 3 Vaļņu street, there is a completely renovated building that was replanned into an office building and a gallery with retail space, covering 3,220 sqm in total. In the building, there is a separate entrance to 12 apartments 50 - 60 sqm large, with full finish and equipped with built-in kitchen units. But the major part of these apartments are leased out as small offices. At the moment of the building commissioning it was occupied for 95%, and there were only two offices 50 sqm large available. Though the building is situated in the Old Town, demand for the premises was remarkably high. In August, „Latio” concluded 11 transactions on lease of office premises 40 - 300 sqm large for the price of 15 to 17 EUR per sqm in this building, several offices were made reservations for. The general lessees of this project are a group of enterprises from Ventspils, one of them being the company „Ventspils nafta”.

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A new administrative building with rent space of 560 sqm in 36 Dzirnavu street was also commissioned, and office lease transactions in this building were concluded for the price of 13 EUR per sqm.

An administrative building in 41 Mūkusalas street was also commissioned after its reconstruction, where premises covering 1,800 sqm were offered for rent. Only offices on the ground floor are still vacant. The main lessee of this building is „Mediju grupa TOPS”.

A new office building with offices in total space of 900 sqm was commissioned also in 32a Lielirbes street. The building is partially occupied by its owner „Baltic Auto Parts”, but an office 450 sqm large was leased out to „Kemira GrowHow”.

The greatest interest is in offices approximately 400 sqm large, though offices covering 200 sqm to 1,500 sqm are usually demanded.

Several state and local government institutions have already started searching for administrative premises that they wish to rent from January of the next year in good time. Premises in the close centre 300 to 700 sqm large or covering ca.2,000 sqm are demanded in this category.

In August, office rent prices kept growing. In the new office project in 66 Krasta street, rent price reached 16 EUR per sqm, with management expenses 2 EUR per sqm, excluding VAT and expenses for public utilities.

In general there is a tendency that, along with market changes and boosting supply, lessees become more fastidious and draw a special attention to interior design materials, their quality and specification.

By granting loans for construction of office centres, commercial banks stipulate for preliminary rent agreements for 20-30% of total space to be signed. Therefore every project developer wish to find a sound general lessee of his/her project thus raising also total value of the building.

## RETAIL SPACE

- **Along with opening of two new trade centres „Galerija Azur” and „Galerija Centrs”, the total volume of retail space in Riga increased for 42,000 sqm.**
- **Rotation of lessees in trade centres take place.**
- **New shopping gallery in the Old Town in 3 Valņu street was commissioned.**
- **There is an augmented demand for space rent in new trade block area at the hotel „Reval Hotel Latvia”.**

On August 23, new trade centre „Galerija Azur” was opened in Riga, Rencēnu street at Slāvu circle. This trade centre has become the first project of Danish commercial estate developing company „TK Development” in Baltics. In the trade centre, there are 80 shops, the total space of the centre is 30,000 sqm. Volume of investments comprised 35 mln EUR. During the first days after opening the centre there were remarkably many people, and it caused problems with car parking (there are 960 parking places).

On August 31, after reconstruction of the department store „Centrs”, a trade centre „Galerija Centrs” was opened. During reconstruction, its space was enlarged more than twice thus reaching 32,000 sqm. Volume of investments comprised 32 mln EUR, the project was developed by the largest Latvian trade centre development and management company „Linstow Center Management”. The trade centre hosts 130 shops, and also entertainment area was extended – SPA, beauty and fitness centre.

The general lessee of the new trade centres is „Rimi”. Trade centres entering the market are classified as traditional average trade centres.

Despite newly opened trade centres and the expected ones „Riga Plaza”, „Galerija Patollo”, „Akropole” and a trade park in Babite parish, there is witnessed an intensive rotation of lessees in several trade centres. Partly it could be explained by both the fact that not all of lessees have successful trade and that policy of rent space prices is not flexible.

There is a vacant space of 1,000 sqm that rented by the shop „Elkor” in the trade centre „Mols”. These changes are related to the near „Krasta Centrs”, where there is a shop „Elkor” located. Rotation of lessees is explained also by growing competition among trade centres – boosting supply causes severe competition.

In August, a fashion gallery in 3 Vaļņu street was commissioned; one can find there several boutiques of exclusive brands – Versace, Escada, Gucci, Prada, Marina Rinaldi etc. The architect has covered patio of the office building by glass ceiling thus creating an atrium. Despite rent price of this gallery being the third among the highest shopping streets in Riga by reaching 55 EUR per sqm, lease agreements on premises in this gallery were concluded already in spring 2006.

In August, retail space was searched mainly by stores dealing with trading of clothes, and premises for clients’ service by enterprises providing telecommunications. Most demanded space still is 50-100 sqm in the active centre of Riga. Significantly that interest in remote areas of Kr.Barona street and Tērbatas street up to Matīsa street increased. Only 15% out of total number of demand builders search for premises in residential districts.

Premises in the close centre of Riga still are offered only for rent – there is almost no offer to purchase premises.

Banks having occupied with their departments the Old Town and the close centre began to look for additional premises also outside the centre and in residential districts.

In August, there was witnessed increased interest of lessees in retail space around „Reval Hotel Latvia”, especially premises in Baznīcas street from Elizabetes street by Dzirnavu street. It is explained by augmenting flow of pedestrians that affected also rent prices that increased already in June in this area. The trade gallery opened in June in the hotel „Reval Hotel Latvia” found out to be a successful and demanded project (especially due to a delicacies store and restaurant of the general lessee „Reaton”) that awakened also reinforced interest of potential lessees about this area.

A new feature occurred on the market of retail space – new complexes of offices and warehouses cause demand for public catering enterprises on the territory of these complexes. Number of enterprises providing public catering service also grows. But owners of the complexes give preference to those enterprises that already have experience of successful business also in other similar projects.

There is a marked interest also in retail space in new housing projects, yet transactions are not concluded because planning of the offered premises often does not meet requirements of traders, moreover number of attenders of such trade places is limited – generally those are inhabitants of the new dwelling project.

Enterprises within the gambling branch are not active at present and do not search for additional space, as they are waiting for resolution of Riga City Council on the order of considering applications by Riga City Local Government regarding opening gaming halls and organizing gambling within specified premises.

There are several enterprises dealing with goods for kids and wishing to start their business in Latvia and create trade centres of these goods that would cover 1,500-2,000 sqm.

## INDUSTRIAL SPACE

In August, the greatest interest in industrial objects was shown by car services, food enterprises and construction companies. There were demanded both small premises around 200 sqm large and larger ones up to 10,000 sqm that mainly would be intended as food warehouses. Several clients search for premises around 1000 sqm large for trade of construction materials in Krasta street and other demanded places.

An offer of warehouse premises in a new project in Čiekurkalns came to the market. Its total space is 2,500 sqm (1,500 sqm with heating, 1,000 sqm without heating), and this project is planned to be commissioned in December 2006. Part of the premises will be leased out but part of them will be occupied by the owner himself.

Rent prices retain the previous level; selling prices still are persistently high but sales offer decreases.

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