
REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

December 2005

If compared with the end of the previous years, traditionally dead season in the real estate market, at the end of the year 2005 number of transactions with property – apartments, detached houses, land - is stable and in some market segments even increasing.

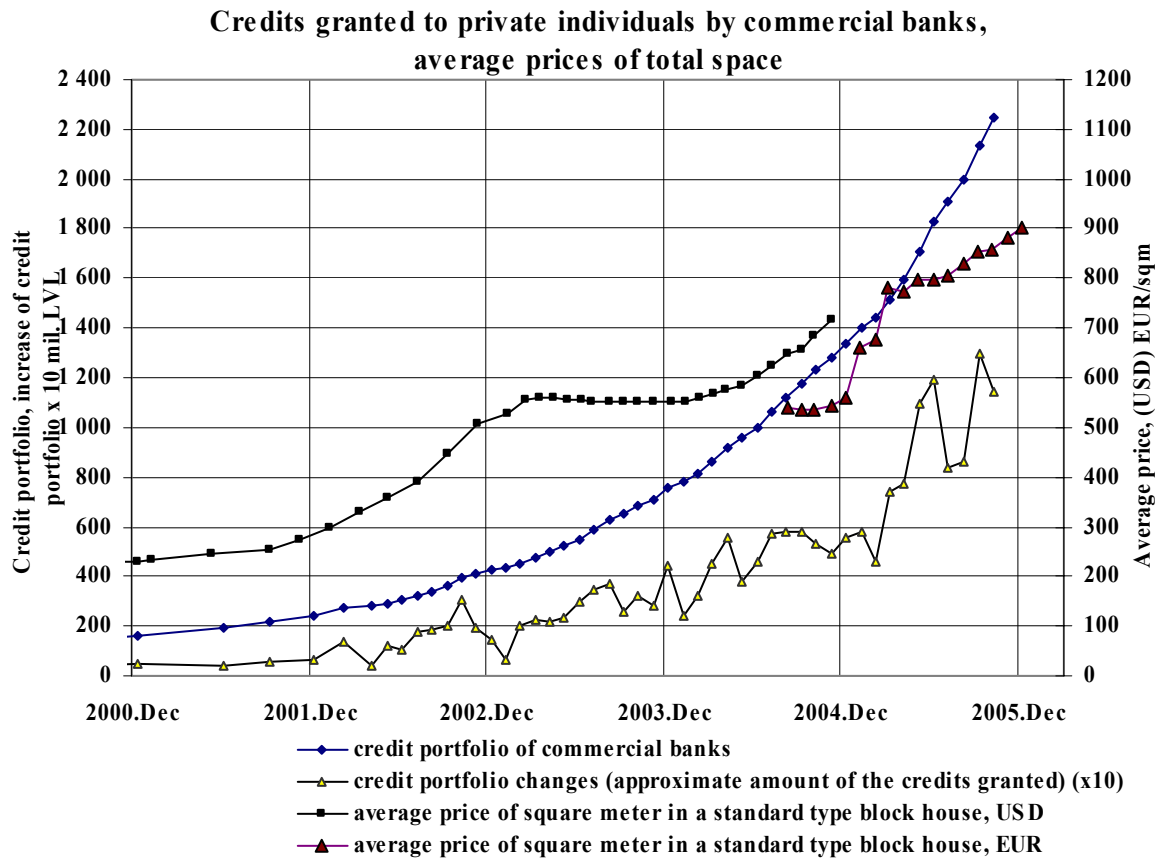
The average price of a standard type apartment has reached 903 EUR/m². Prices of apartments in the new projects continue to climb, too.

If compared with the previous year when the majority of apartments were offered in the market unfinished, this year is marked by a stable trend that more and more apartments in the residential districts are offered for sales fully finished, whereas in the city centre, Old Town and Jurmala partially finished.

Regardless of the ten new office buildings of the space total of 35,545 m² that entered market in year 2005, office vacancy rate is constantly decreasing. In December Class A office vacancy rate reached 5%, but that of Class B – 6%.

The most noteworthy event in the retail space market this December was opening of the second phase of the trade centre “Spice”.

HOUSING MARKET



Source: Finance and Capital Market Commission, Latio

At the end of 2005 the general trends of the year – increase of apartment prices and number of transactions - was still very much in force. Demand was determined by several factors – growth of disposable income, fall of credit interest rates, notwithstanding their stability or even slight rise in the world financial markets, as well as the optimistic outlook of people regarding future price growth. Due to the fact that monthly payments are almost identical, the majority of people do prefer purchasing of a dwelling to renting one. Credit portfolio granted by commercial banks to private individuals has almost doubled. Notwithstanding the huge offer of apartments in the new homes and their extensive publicity, standard type apartments are still prevailing in the market. Increase of the number of transactions can be explained both by development of the secondary market and by the new projects entering the market. Nevertheless, it should be noted that the impact of the new projects is not that strong as it would be if apartments in the new projects were purchased for living only and not so much as investment objects where a further price rise is expected.

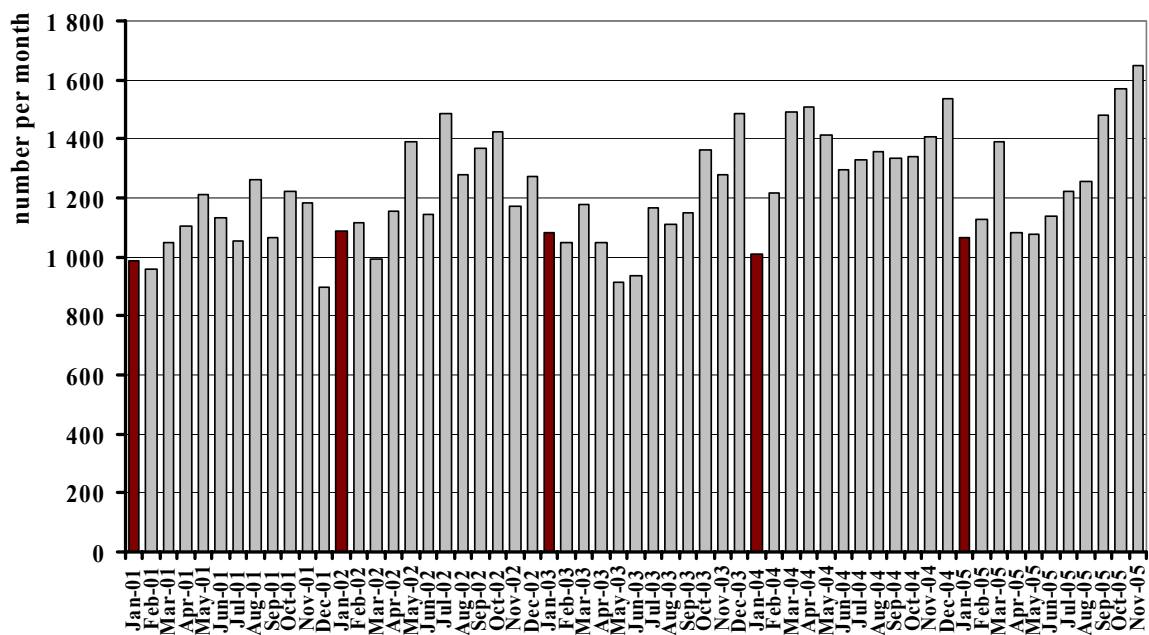
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STANDARD TYPE APARTMENTS

In December, notwithstanding the traditionally dead season in the real estate market, prices of standard type apartments continued to climb reaching 903 EUR/m².

It should be noted that if compared with the beginning of 2005, this autumn starting from September market activity in the segment of standard type apartments has increased with every coming month. In November there was witnessed the so far the biggest number of apartment purchasing transactions, i.e., more than 1 600 deals altogether. Growth in the number of transactions can be explained by commissioning of new projects and registration of these apartments with the Land Book register. Usually in December, the final month of the year, market activity slows down as new transactions are not commenced, but the ones in process are finished.

Number of the apartment sales transactions in Riga



source: Land Book register

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

District/ series	Purv- ciems	Ziepniek- kalns	Agens- kalns	Imanta	Zolitude	Plavnieki	Mezciems	Jugla	Kenga- rags	Bolderaja
Series 119	1- room	41000 - 53000	40000 - 48000	-	-	41000 - 50000	43000 - 55000	-	-	-
	2- rooms	55000 - 70000	47000 - 64000	-	-	50000 - 65000	54000 - 71000	-	-	-
	3- rooms	62000 - 86000	60000 - 77000	-	-	63000 - 83000	60000 - 86000	-	-	-
	4- rooms	67000 - 100000	69000 - 86000	-	-	69000 - 88000	66000 - 106000	-	-	-
Series 602	1- room	33000 - 40000	33000 - 39000	-	33000 - 42000	-	33000 - 41000	32000 - 39000	-	-
	2- rooms	47000 - 60000	43000 - 56000	-	44000 - 56000	-	46000 - 57000	45000 - 60000	-	-
	3- rooms	55000 - 68000	50000 - 50000	-	50000 - 64000	-	53000 - 67000	56000 - 71000	-	-
	4- rooms	60000 - 81000	61000 - 76000	-	59000 - 77000	-	58000 - 85000	60000 - 77000	-	-
Series 103	1- room	35000 - 44000	-	32000 - 41000	-	-	35000 - 43000	-	-	27000 - 36000
	2- rooms	51000 - 66000	-	45000 - 58000	-	-	47000 - 64000	-	-	38000 - 49000
	3- rooms	57000 - 75000	-	54000 - 68000	-	-	56000 - 75000	-	-	43000 - 58000
Series 104	1- room	42000 - 54000	39000 - 48000	-	39000 - 49000	40000 - 50000	41000 - 54000	37000 - 50000	-	-
	2- rooms	53000 - 72000	48000 - 61000	-	49000 - 61000	51000 - 61000	51000 - 72000	46000 - 62000	-	-
	3- rooms	62000 - 85000	58000 - 76000	-	60000 - 78000	60000 - 79000	59000 - 86000	54000 - 71000	-	-
„Lithuanian” proj.	1- room	32000 - 38000	30000 - 36000	30000 - 36000	31000 - 37000	-	-	31000 - 39000	-	31000 - 35000
	2- rooms	44000 - 53000	40000 - 49000	40000 - 48000	42000 - 51000	-	-	44000 - 65000	-	39000 - 43000
	3- rooms	50000 - 62000	46000 - 61000	46000 - 57000	48000 - 60000	-	-	49000 - 62000	-	38000 - 47000
„Hruschov” type houses	1- room	32000 - 38000	30000 - 36000	31000 - 36000	-	-	-	-	31000 - 34000	26000 - 35000
	2- rooms	43000 - 54000	39000 - 46000	39000 - 45000	-	-	-	-	39000 - 46000	32000 - 38000
	3- rooms	50000 - 62000	47000 - 56000	46000 - 56000	-	-	-	-	45000 - 52000	40000 - 53000

source: Latio

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NEW PROJECTS

In December the new project “Saules tornis” was commissioned, 26 apartments already being reserved and only one apartment left for sales. Altogether 10 new projects were commissioned in 2005. In December “Solaris” construction works were finalised, but it is envisaged to commission the building only in the middle of the year 2006. The majority of the new projects are being constructed in Purvciems, the so called “far centre”, Imanta, Shampeteris and Ziepniekkalns. In Purvciems new apartments are in the market for about one month. However, part of the apartments is still purchased by investment buyers.

Average prices of apartments in the new projects continue to climb. If compared with the previous year when most of the apartments were offered in the market without finish, this year a stable trend has set in, i.e., more and more apartments in the residential districts are offered fully finished, but in the city centre, Old Town and Jurmala with partial finish. This trend facilitates further price rise.

APARTMENTS IN THE CENTRE OF THE CITY

Average apartment prices in the Old Town range from 3,500 to 5,000 EUR/m². In December the greatest activity was witnessed in the centre and near centre market segment. The main demand drivers were legal bodies investing in house properties and land.

Due to the high prices rental market is becoming stronger in the Old Town and centre as it turns out cheaper to rent than to buy. Rental market is not regulated properly, there are almost no rental agreements exceeding five year rental period. The majority of rental agreements for the centrally located apartments are concluded in the name of legal bodies for their employees. Rents of exclusive apartments are stably ranging between 11 and 12 EUR/m².

DETACHED HOUSING

In the detached housing market there is witnessed a trend when part of the purchasers initially willing to buy an apartment in the new homes project end by building a house of their own. In this market segment prefabricated houses are more and more in demand. Such houses are quickly mounted and the clients do not have to face construction problems so acute lately.

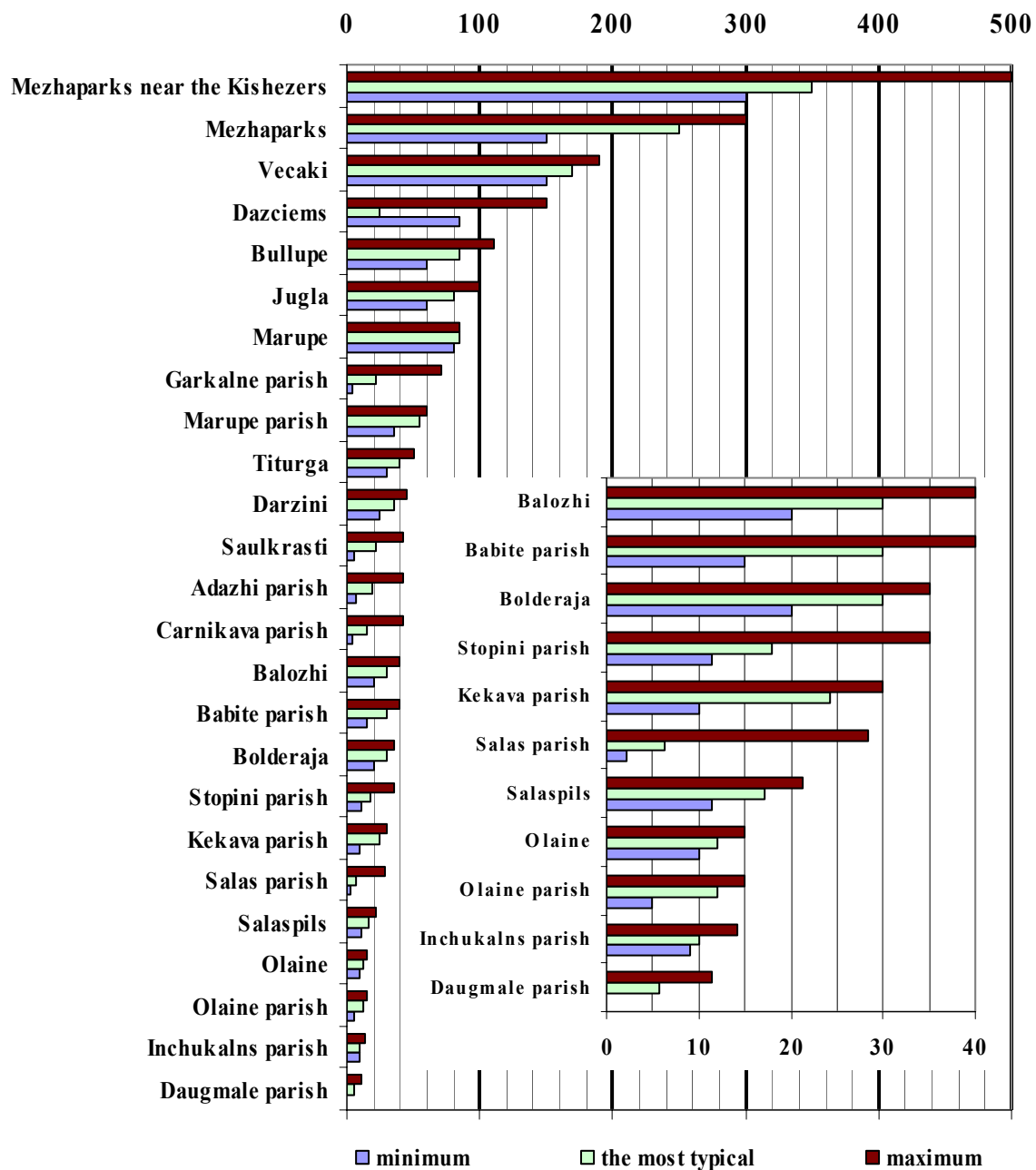
At the same time there are cases when families having started living in a detached house face problems connected with undeveloped infrastructure and thus decide to sell the house and move to an apartment in the city.

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RESIDENTIAL DEVELOPMENT LAND

Taking into consideration the vigorous property market activity, land market is also likely to have lost its seasonal character. Number of transactions is quite big for the winter season that previously used to be quiet.

Land prices in Riga and Riga region, EUR/sqm



source: Latio

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COMMERCIAL SPACE MARKET

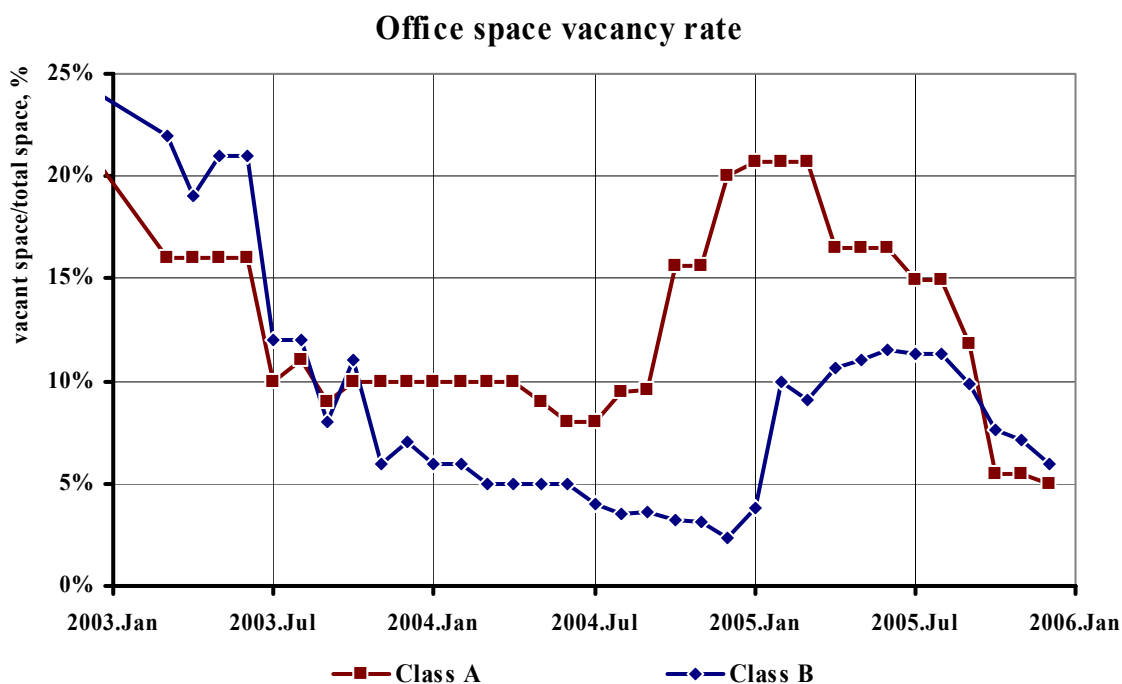
OFFICE SPACE

In December one building – the 2nd phase of the project “Baltais vējš” with the total space of 4,400 m² entered the office market. 90% of the total lease space, i.e., 3,607 m², is already reserved for the price of 15 EUR/m². Commissioning of two other projects – “Ravus” on 4 Pakalnīnu street and “Marine Business centre” on 17a Duntē street, has been postponed from the end of the year to the first quarter of 2006.

Commissioning	Total space, m ²	Office space, m ²	Reserved	Lease per 1 m ²
commissioned in December 2005	4 400	3 607	90%	15 EUR
Total year 2005:	35 545	26 441	86%	11.3 EUR

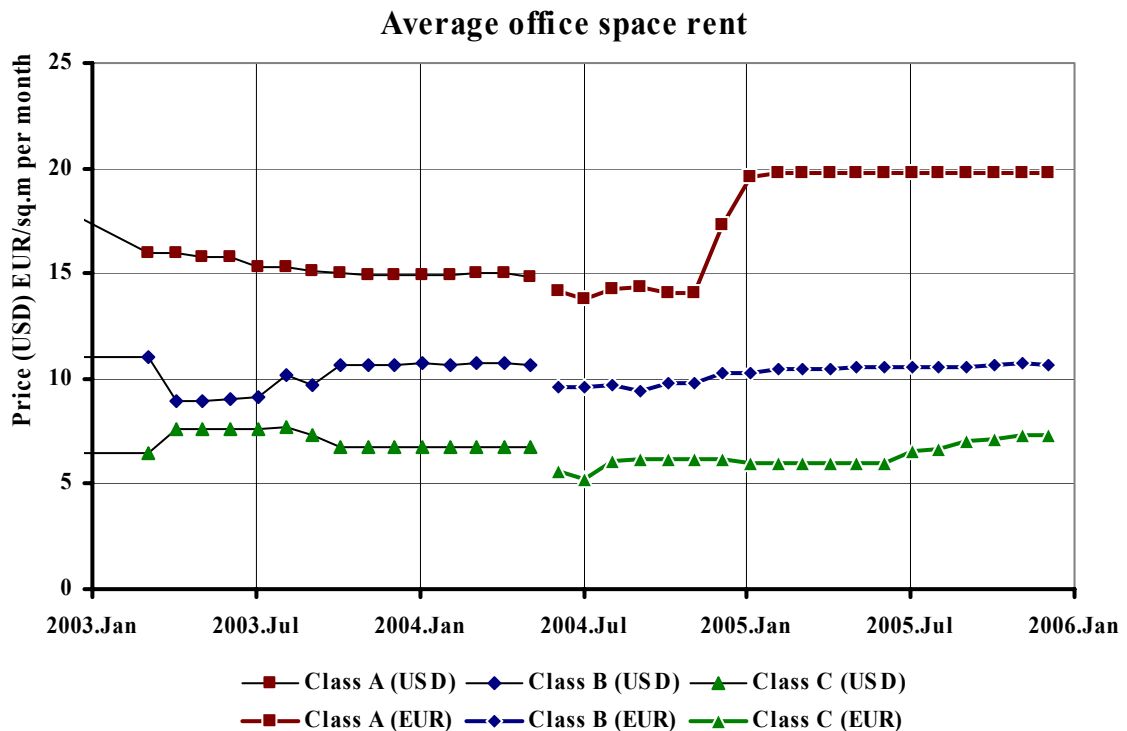
source: Latio

Notwithstanding regular launching of new office buildings, in 2005 the total stock was supplemented by 8 brand new office centres and 2 owner occupied office buildings, vacancy rate is continuously falling in December reaching 5% for Class A offices and 6% for Class B offices.



source: Latio

Taking into consideration the ever increasing demand, lease of some Class B office premises is continuing to climb, for example, from the beginning of premise reservation in “Baltis vējš” until its commissioning the office lease price has increased by 50%. In “Astras biroji”, that are still under construction, the price growth if compared with the beginning of reservation has reached 20%. However, taking into consideration the proportion of Class B offices in the market, the below diagram does not reflect the actual price growth. In Class C market segment the price increase is highest – 7.3 EUR/m².



source: Latio

The main demand is focused on premises in newly built office centres. Clients have become choosy and they do not find premises in renovated houses satisfactory any more. Eventually the demand for modern quality office space with sufficient parking possibilities cannot be satisfied. The strongest demand is witnessed for centrally located office space of about 15 – 30 m² or 100 m², bigger premises are leased not so often.

In December the main demand drivers were advertising and marketing agencies as well as IT companies. These clients are interested in premises with non-standard interior decoration with brick walls, mansards etc. Premises are sought by pharmacy companies, real estate developers.

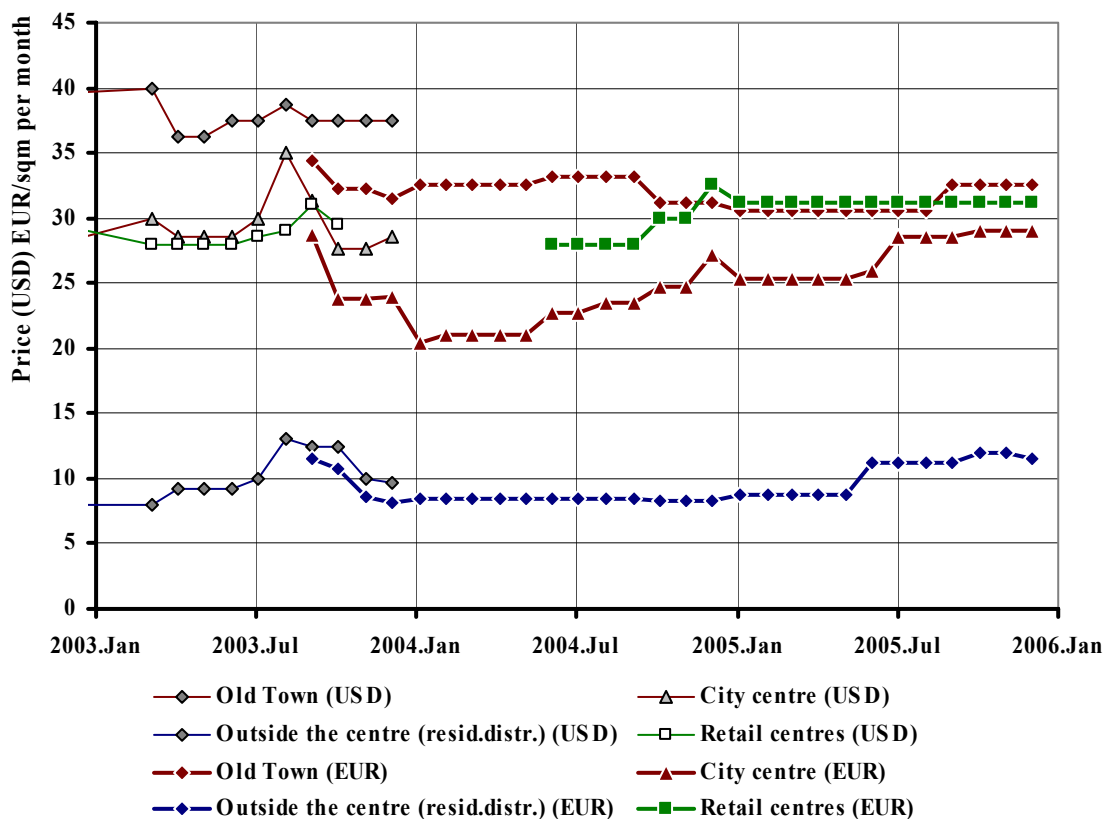
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RETAIL SPACE

In December the most important event in the retail market was opening of the 2nd phase of the trade centre “Spice”. It is becoming the largest trade and leisure centre in Pardaugava, there is already opened children amusement town, Bistro complex “Lido”, a number of public catering places etc. Now the space total of the trade centre is 50,000 m², out of which lease space takes up 40,000 m² instead of the previous 18,500 m².

The main demand drivers in December were exclusive clothing brands, public catering companies looking for lease space in prime streets, food-stuff chains. There is stable demand to purchase retail space both – in the centre and in residential districts. In residential districts retail space price ranges between 700 – 1000 EUR/m².

Average retail space rent
(in streets with active pedestrian flow, space up to 100 sqm)



source: Latio

The majority of clients – shops and service companies, ask for retail space on the ground floors, but the usual practice is to lease out premises on the first floor together with space in the basement. Retailers may find way of use of the basement, but the vast majority of lessees, shops including, find these premises troublesome. Typically basement is damp and dark, without communications, ventilation, heating, it is frequently over flooded. Besides, the lease

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is disproportionately high – from 5 up to 26 EUR/m². The access by car and discharging of goods is difficult or even impossible. The majority of street retailers do not stock up, thus storerooms are not needed. Service companies – banks, tourism and real estate companies, cannot find any use to basement premises at all. Moreover, it is very complicated and expensive to arrange work stations in the basement that would correspond with the requirements of the regulations “Requirements regarding work stations” issued by the Cabinet of Ministers of Latvia Republic, the execution of which is controlled by the Labour Inspection. Consequently some clients are looking for subtenants, some are ready to break agreements and are already looking for new premises.

One of the possible solutions for the use of basements could be public catering companies that are not enough in the prime shopping streets like Terbatas and Kr.Barona streets. They could make good use not only of the ground floor and basement, but also of the first floor that normally is cheaper. However, many landlords, especially apartment owners, do not like this type of tenants.

On the other hand solariums and beauty parlours are very much willing to lease ground floor and basement premises.

INDUSTRIAL SPACE

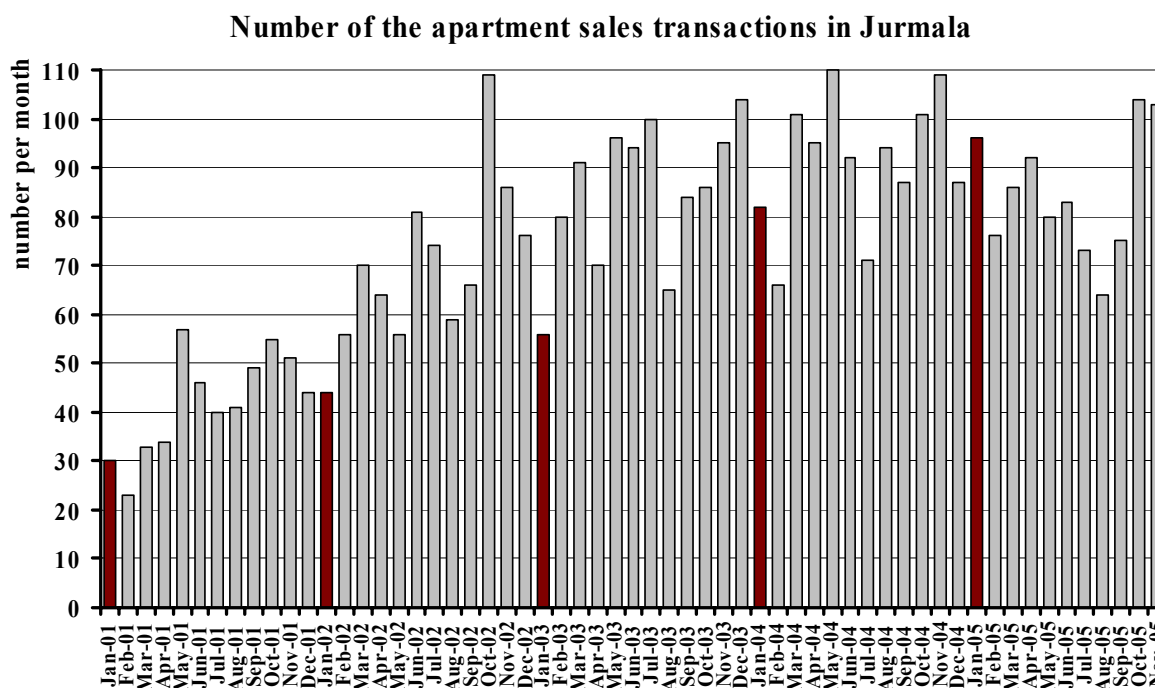
In the Riga warehouse market lease prices have climbed by approximately 1 EUR/m² during the last few months. Outside Riga lease prices have remained stable, with the exception of “Nordic Industrial park” in Olaine where the lease increase corresponds with the respective increase in Riga.

Local entrepreneurs show keen interest in purchasing industrial properties, but the asking price is so high that clients change their mind and continue lease of the premises. At the same time quite a number of enterprises continue with lease until they build premises of their own.

JURMALA

After the vigorous market activity witnessed in 2003, in year 2004 number of detached house purchasing transactions returned to its previous level. In 2004 the total number of transactions decreased by 20% if compared with 2003. In 2005 number of transactions decreased even more, mainly due to the limited supply. Winter period is traditionally very quiet in the Jurmala detached housing market, whereas each autumn vigorous market activity is witnessed in the apartment market – this October and November there were more than 100 apartment purchases registered per month. However, growth of transactions characteristic to autumn can be explained not so much by the growing housing activity than by registration of all the transactions as during summer period people are enjoying holidays and prefer not to waste their time registering property rights.

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source: Land Book register

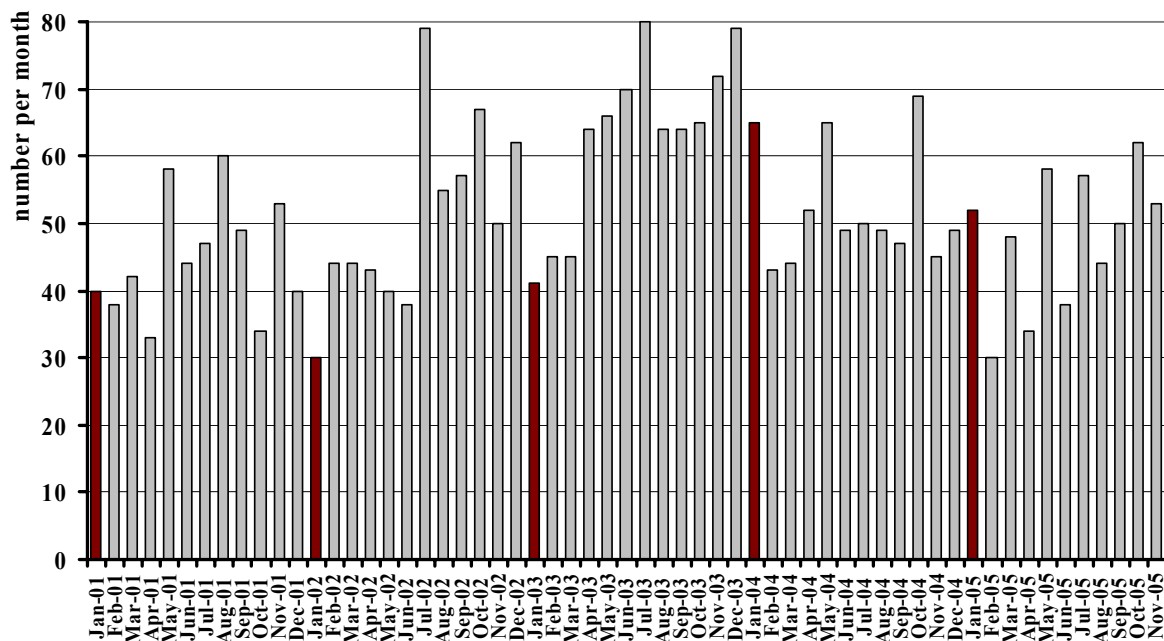
In Jurmala the biggest offer of standard type apartments is in Kauguri. Market activity is stable all the year round, prices are growing. Greatest demand is witnessed for one and two room apartments, the average price range in Kauguri being 500 - 600 EUR/m². The smaller apartment, the more expensive it is. It should be noted that the biggest price rise in 2005 was witnessed in Kauguri that is becoming a popular residential district. In Lielupe and Bulduri where there is shortage of apartments, price for a non-renovated apartment has reached 1,700 EUR/m².

In 2005 there was started construction of a number of new housing projects – the first one – “Kauguru names” was commissioned this summer, 15 are under various phases of construction. Demand for residential development land, especially for construction of multi-apartment buildings, is great. In Dzintari, Bulduri land price has reached 400 – 600 EUR/m². As beginning with August 17th, 2005 in Jurmala there is permitted multi-storey house building in a number of Jurmala regions, land price there is expected to climb.

The average apartment prices with white finish in the new homes in Jurmala fluctuate between 1,200 – 3,500 EUR/m². In Bulduri, Dzintari, Lielupe apartment prices range between 2,500 – 4,000 EUR/m², actually identical to the apartment prices in the Old Town or Riga quiet centre. Apartment prices are mainly determined by the location of the building, especially vicinity of the sea, as well as exclusiveness of the project.

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Number of the detached housing sales transactions in Jurmala



source: Land Book register

In Jurmala there are offered for sales various types of detached houses – for 100 000 EUR and for 1 – 3 mio EUR. Demand is stable, transactions take place. The highest demand is for detached houses near the sea, usually they are in the market for a few days only. Whereas on the other side of the railroad in Asari, Vaivari detached houses are in the market for more than half a year. Latvian residents are purchasing properties more carefully, whereas for foreign people the main point in buying is to have a liking for the property.

Lately there has established a trend that building of luxury detached houses for sales is not so profitable any more due to the increasing construction costs.