REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

December 2006

- **In December, the average price of a standard type apartment in Riga was 1,526 EUR per sq.m. It increased for less than 4% in comparison with the previous month.**
- **In November, the number of registered transactions with apartments in Riga was less than in the previous months – ca. 1500 transactions.**
- **Starting with January 1, 2007 changes in legislation will come into force – from the next year on, building tax will have to be paid according to their cadastral value determined by the State Land Service, instead of their average balance value or inventory value as it is now.**
- **In December 14 new housing projects were presented – 7 in Riga, 5 in Riga district, 1 in Jurmala and 1 in Kuldiga.**
- **Supply of new office buildings was supplemented with the project on 1 Miera Street.**

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GENERAL ECONOMIC SITUATION

Starting with January 1, 2007 changes will come into force regarding objects subject to property tax and regarding property tax calculation order. The law states that from the next year on property tax on building will have to be paid according to their cadastral value determined by the State Land Service instead of their average balance value or inventory value as it is now. These changes in the law are indicative of increase of property tax.

International rating agency "Moody's Investors Service" ("Moody's") preserved credit rating of Latvia and further on any issuer of debenture in foreign currency from our country may be given the highest rating on "Aa1" level. The agency has approved of the low rate of debts as well as the sound bank system of Latvia that on the whole helped strengthening endurance of this country against external concussions. The rating agency mentioned also the possible risk factors of Latvian economy – its unbalance, high deficiency of current account, high rates of inflation as well as possible affection of external concussions (Nozare.lv).

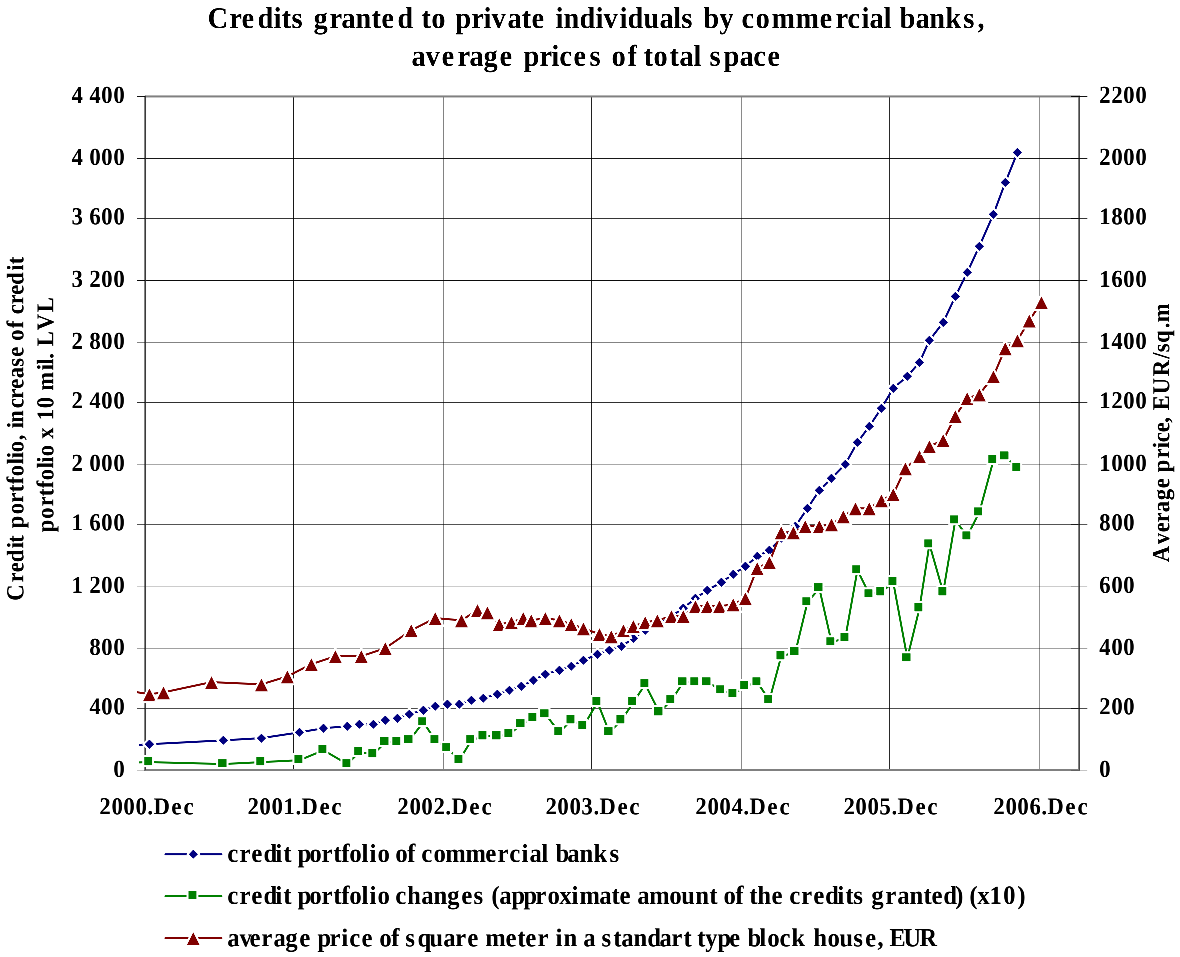
Though costs of labour force in Latvia were among the lowest ones in European Union (EU), construction costs rose sharply during the last few years, mostly due to soaring prices of materials – this was concluded in construction market study by Competition Council (CC). Volume of construction branch has sustained growth rates. This tendency will strengthen during next years. Growth of construction volume in this country is expected also next year – amount of production in actual prices will make together more than a billion lats (Nozare.lv).

Export from Latvia increased for 18% – up to 3.5 billion euros (2.5 billion lats) during the first nine months of this year in comparison with the respective time period in the last year. This is the tenth of the highest growth rates among the European Union (EU) member states but yet this growth is slower than that in Lithuania and Estonia, according to the last data of EU statistics bureau "Eurostat". Import into Latvia increased for 31% – up to 6.4 billion euros (4.5 billion lats) this year thus being the most rapid growth in EU. External trade deficiency of Latvia rose up to 2.9 billion euros (2 billion lats) respectively in comparison with the 1.9 billion euros (1.3 billion lats) in the respective time period a year ago (Nozare.lv).

HOUSING MARKET

STANDARD TYPE APARTMENTS

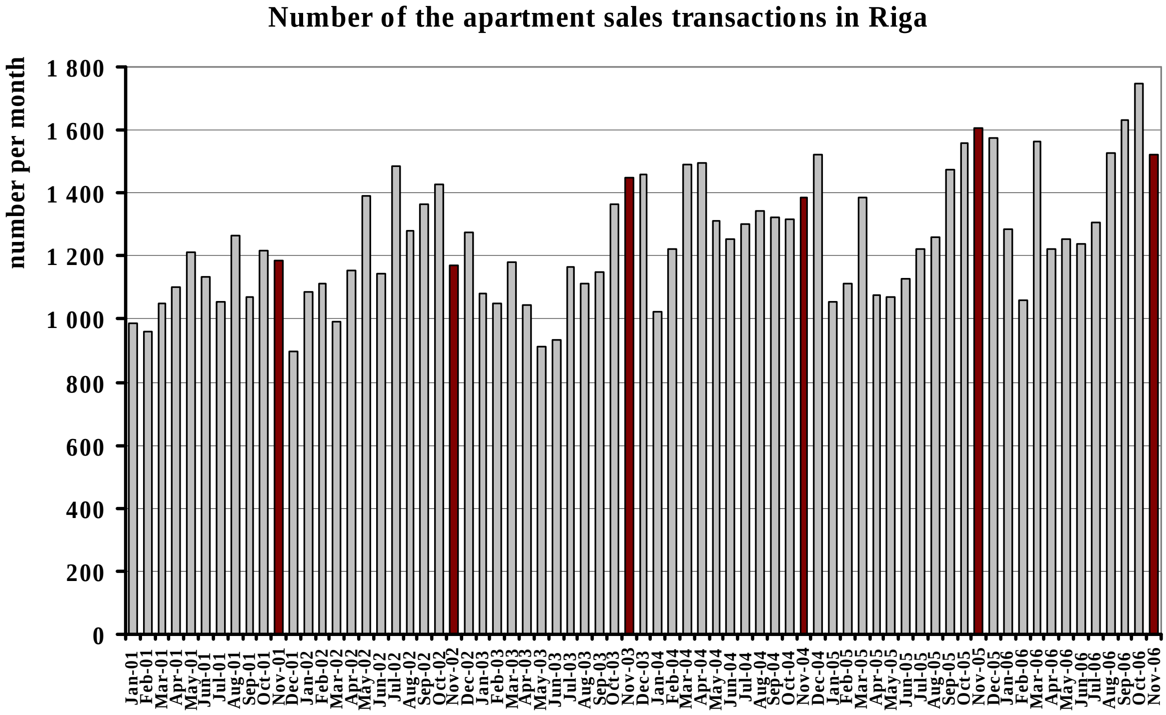
- **In December the average price was 1,526 EUR per sq.m. It increased for less than 4% in comparison with the previous month.**



Source The Finance and Capital Market Commission, LATIO

Credit portfolio has grown sharply during the year 2006 in comparison to the pervious years. However, there was no such sharp speed-up observed during the last month of the year as it was in the previous months.

This month banks granted about twice as much volume of loans as in the same period last year.



Source: Land Book Register, State Land Service

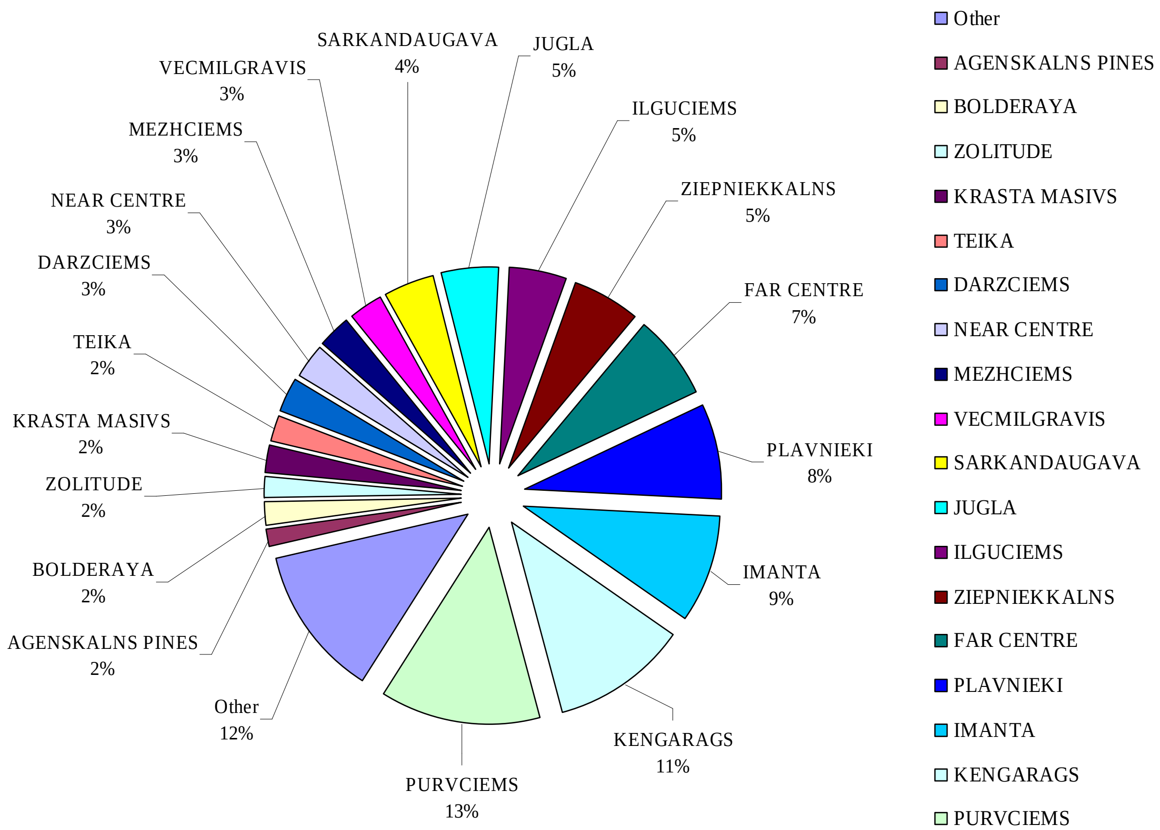
The number of registered transactions with apartments in Riga decreased in comparison with October – there were ca.1,500 transactions in November. Such decrease in the number of registered transactions with apartments in Riga is explained by the held NATO summit in the course of which there were no transactions registered in the National Land Book Register and they would appear only in records of the next month.

Rental increase ratio of one-room and two-room apartments in December grew more rapidly than their asking prices.

Supply of apartments decreased in all residential districts in December. It can be partly explained by Christmas and New Year drawing closer.

Renting market is still active. As always, there is a high demand for flat renting in standard type houses in residential districts at rental level under 300 LVL a month. But volume of supply has not grown during the last month whereas supply of renting at rental level above 300 LVL per month exceeds demand.

Apartment purchase transactions ratio among residential districts in Riga, November 2006



Source: Land Book Register, State Address Register

Without regard that total number of registered transactions in November decreased and thus it decreased in most part of residential districts, there was registered increased number of transactions in the cheapest residential districts such as Kengarags, Sarkandaugava and Vecmilgravis. It was remarkably pronounced in Kengarags – there was increase for 16% when comparing number of transactions in November with number of transactions in the previous month. It is explained by the fact that a purchaser chooses cheaper residential districts when searching for an object that would be in line with one's purchasing capacity.

Typical prices of standard type apartments in Riga residential districts in December, 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	71 000			72 000			71 000				
	2-rooms	92 000	91 000			87 000			85 000				
	3-rooms	109 000	110 000			108 000			105 000				
	4-rooms	120 000	120 000			120 000			120 000				
Series 602	1-room	57 000	59 000	59 000			58 000		57 000		54 000	53 000	
	2-rooms	82 000	80 000	80 000			78 000		77 000		68 000	66 000	
	3-rooms	97 000	94 000	92 000			92 000		92 000		78 000	78 000	
	4-rooms	108 000	106 000	106 000			107 000		107 000		100 000	100 000	
Series 103	1-room	63 000	61 000		59 000						56 000	56 000	52 000
	2-rooms	88 000	86 000		85 000						73 000	72 000	70 000
	3-rooms	104 000	103 000		100 000						89 000	86 000	80 000
Series 104	1-room	72 000		72 000		73 000	73 000		72 000				
	2-rooms	91 000		91 000		88 000	87 000		86 000				
	3-rooms	116 000		115 000		110 000	105 000		88 000				
„Lithuanian" proj.	1-room	56 000		55 000	55 000		55 000	55 000	52 000	52 000		52 000	49 000
	2-rooms	78 000		80 000	75 000		75 000	72 000	71 000	70 000		63 000	65 000
	3-rooms	90 000		90 000	84 000		88 000	88 000	87 000	81 000		79 000	75 000
„Hruschov" type houses	1-room	55 000			54 000			55 000	51 000	52 000	53 000	50 000	
	2-rooms	77 000			72 000			70 000	67 000	67 000	67 000	61 000	
	3-rooms	85 000			83 000			83 000	80 000	80 000	78 000	77 000	

Source: LATIO data

THE CENTRE AND THE OLD RIGA

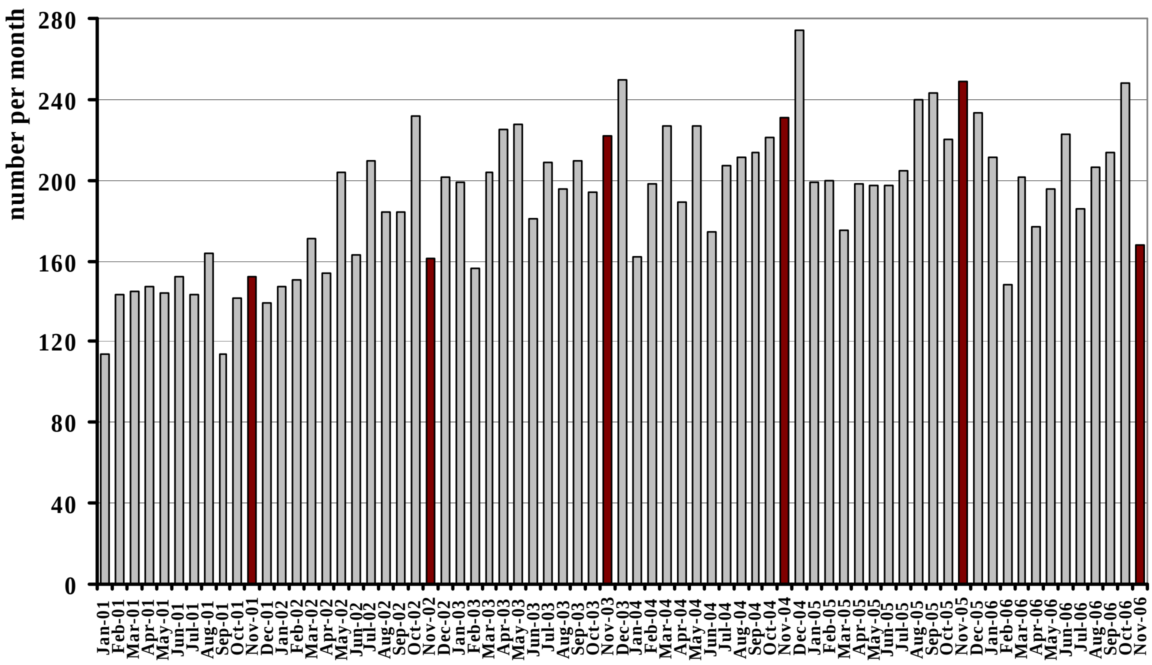
There was exceeding purchase supply over demand in the Near centre just like in the previous months. It is explained by the fact that both part of foreign and local investors sell their property that was purchased as investment objects.

The average price level of apartments in the Near centre and the Old Riga is ca. 4,000 EUR per sq.m. at present.

Supply of rent space in the centre of Riga has not decreased during the last month. Rentals in the Old Riga remained the same in comparison with the previous months.

MARKET OF DETACHED HOUSES

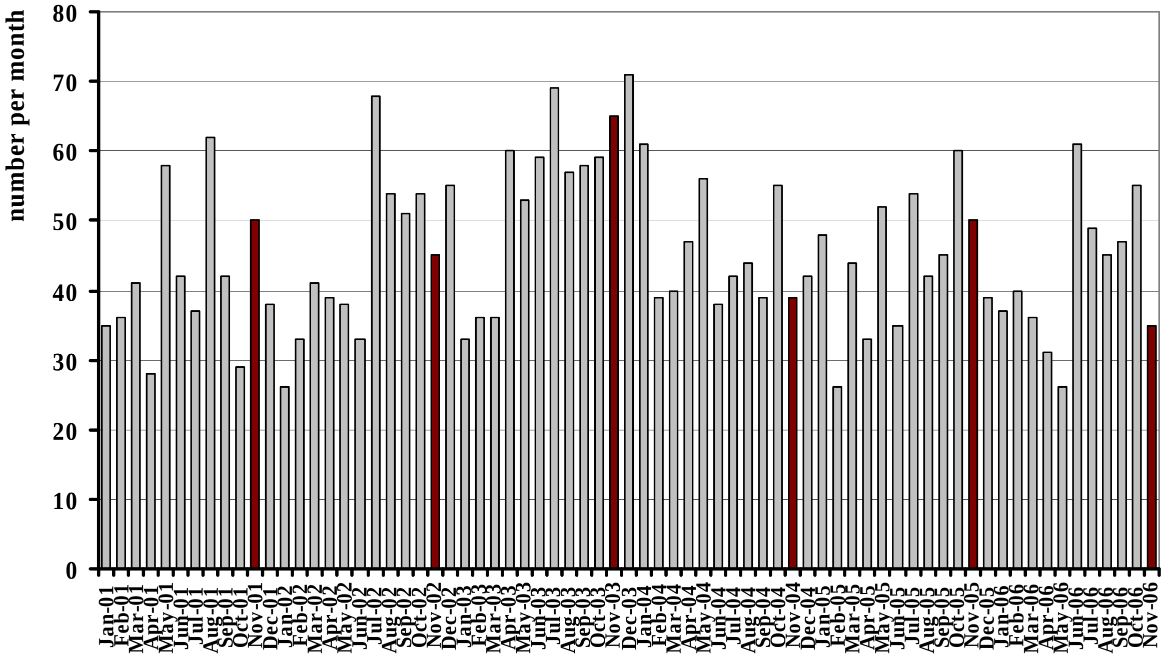
Number of the detached housing sales transactions in Riga



Source: Land Book Register

The number of transactions with detached houses decreased in November in comparison with October and also the respective time period last year. An explanation could be the increasing activity of building of detached houses.

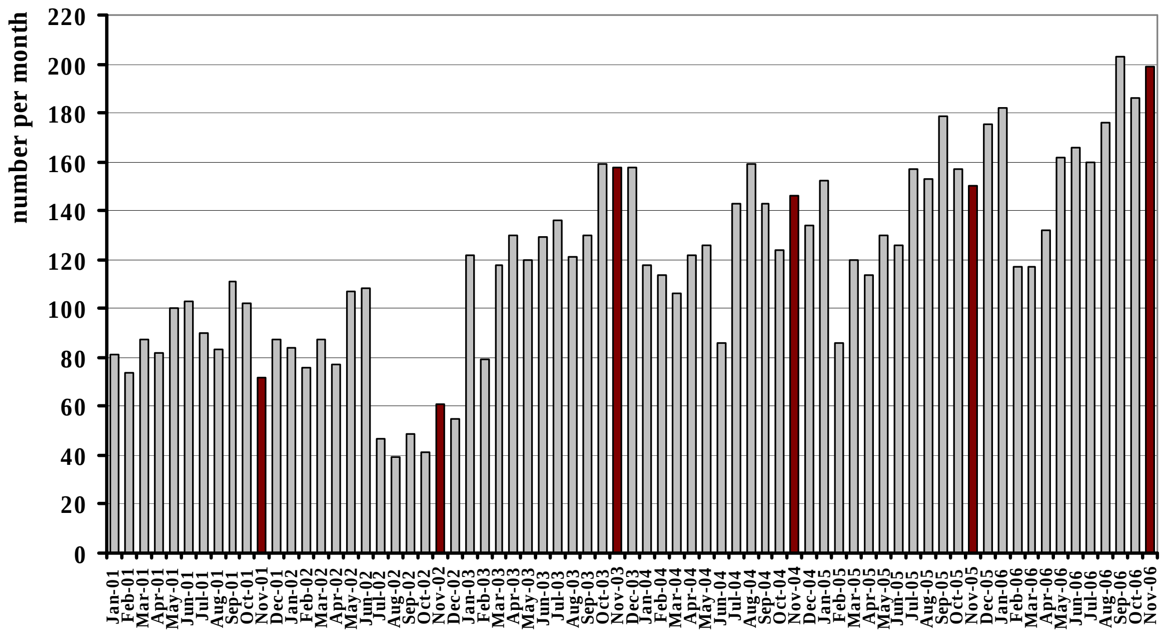
Number of the detached housing sales transactions in Jurmala



Source: Land Book Register

The number of transactions with detached houses in Riga and Jurmala in November decreased just like on apartment market. It can be explained partly by the held NATO summit when no transactions were registered in National Land Book Register. But for all that the number of transactions in Riga district increased remarkably.

Number of the detached housing sales transactions in Riga region*



Source: Land Book Register

* - data reveal information excluding Riga and Jurmala town

The number of transactions with detached houses in Riga district increased in November. Purchasers show more pronounced interest in economic level detached houses in Riga district, within a radius of about 50 km from Riga centre.

After selling their apartments in residential districts inhabitants relocate to modest detached houses, inter alias they purchase cottages in gardening co-operatives that they reconstruct into winter houses in the course of time. Purchasers are especially interested in such houses within a radius of about 50 km from Riga costing from 80,000 to 100,000 LVL.

The tendency to sell apartments with a view to purchase houses outside the city where they would be cheaper occurred currently not only in Riga but also in such towns like Ogre and Sigulda.

The number of transactions with landed estate and detached houses in Ogre district increased this month whereas the number of transactions with apartments in Ogre district decreased.

NEW HOUSING PROJECTS

New projects announced in December

Title, address	Dwelling type	Developer	Price LVL/m^2	Finish	Number of dwellings	Number of buildings
Riga						
Far centre, 55/57 Miera Street	A	SIA "Viskars"	2870	Partial	38	1
Centre, 2 Raina bulvaris	A	SIA "Raiņa Bulvāra nams"	3230	Full	27	1
Mezaparks, 18 Mores Street	A	SIA "Viskars"	3097	Partial	14	1
Centre, 9 Alauksta Street	A	SIA "Viskars"	2585	Partial	41	1
Teika, 257 Brivibas gatve	A	SIA "Viskars"	2595	Partial	16	1
Centre, 7 Martas Street	A	SIA "Modern City"	2424	Partial	35	1
"Dzimtā sēta VIII", Purvciems, Madonas Street	A	SIA "Dzimtā sēta"	x	Partial	48	1
Riga district						
"Kalnliepas", Riga district, Daugmales Parish.	DH	SIA "EGO Invest"	1075	Full	38	38
"Exclusive terraced houses in Marupe", Riga district, Marupes Parish., 11 Ceplu Street	TH	SIA "Savibalts"	1100	Full	3	1
"Vētras", Riga district, Garkalnes Parish., Bukulti	TH	Jeļena Spila	795	Partial	62	14
"Gadalaiki", Riga district, Bergi, Bergu/Makonu Street area	A	SIA "Juglas Skati"	2050	Full	295	x
"Gadalaiki", Riga district, Bergi, Bergu/Makonu Street area	TH	SIA "Juglas Skati"	x	Full	42	10
Other districts						
"Hercoga sēta", Kuldiga, Veju Street	TH	SIA "Private Houses"	560	Partial	37	6
Jurmala						
"365", Riga district, Jurmala, Dzintari, 11 Edinburgas prospekts	A	X	x	Partial	x	x

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

Source: LATIO data

In December, 14 new housing projects (7 in Riga, 5 in Riga district, 1 in Jurmala and 1 in Kuldiga) were presented. More and more new projects are presented outside Riga and even Riga district lately.

There increases supply of new housing projects for secondary sale.

COMMERCIAL SPACE MARKET

OFFICE SPACE

- **Supply of new office buildings was supplemented by the project on 1, Miera Street.**
- **The number of premises lease transactions with public institutions has grown rapidly.**
- **Medical institutions actively search for office premises.**

In December, new office centre joined the market supply: office building on 1, Miera Street. It will be commissioned in autumn 2008. There are going to be offices for rent in the area of 2,400 sq.m, retail space – 320 sq.m, and 26 underground parking places. Supplied rental of offices starts with 15 EUR per sq.m, and for shops – 40 EUR per sq.m and more.

The number of premises lease transactions with governmental institutions increased rapidly; the Old Riga and the Calm centre were highly demanded. The most demanded space fluctuated between 350 sq.m and 1,000 sq.m. Among the lessees there can be mentioned departments of Ministry of Justice, Ministry for Children and Family Affairs, as well as State Income Service (SIS) and others. Generally location of buildings is more essential to this kind of lessees whereas prestige and technical supply (security, escalators, parking) are of less importance to them; therefore rentals of the chosen offices are not too high and fluctuate between 10 and 12 EUR per sq.m.

Large numbers of medical institutions both governmental and private (practice of family doctors, practice of gynaecologists, dentistry practice, etc.) actively search for premises. Space up to 1,000 sq.m is demanded. Compulsory requirement of such clients is ensured access to premises by people with special needs that, unfortunately, cannot be provided by all house owners, therefore rejections are received often. There is interest in both the centre and residential districts where there are looked through offers of premises on the ground floors in new housing projects with large numbers of apartments.

There is a big demand for offices 100 to 150 sq.m large in the centre or the Centre or the Calm centre. The supply of such space is very limited at present. Several clients actively study supply of apartments for rent (100-150 sq.m) in the Calm centre and the Centre with a view to use them as offices.

RETAIL SPACE

- **There increases supply of retail space along Brivibas Street, more remote from dynamic surge of people.**
- **Sublessees are willing to pay up to 150 LVL per sq.m for small space.**

In December, several vacant shop premises along Brivibas street, more remote from dynamic surge of people, occurred within the supply of retail space. It is due to successful business development of former lessees that search for new, larger shop premises closer to the Centre, or business development of the lessees were not successful in the place because of the shop location significance.

Though there is almost no vacant retail space in the Centre, practice shows that current lessees in good “top” places are sometimes displaced by other lessees willing to pay higher rental.

In December representatives of household goods trade branch search very actively for premises for lease. Potential lessees are dealers of enterprises from Lithuania, Estonia, USA and Russia – both those having retail space in Riga already and those just entering the market.

There are still demanded retail premises 30 to 70 sq.m large in the Near centre of Riga. Such sublessees like currency exchange bureaus require very small space (5 to 10 sq.m) in shops located in good places with dynamic surge of people. Sublessees are willing to pay up to 150 LVL per sq.m for such space.

Along Krasta Street as well as in Jugla, Teika and Sarkandaugava there is demand in retail space with a small stock up to 400 sq.m and parking place, with good display to the main street.

INDUSTRIAL SPACE

In November, there was less activity observed on the market of industrial space, and this tendency retained also in December. There was comparatively small number of interested persons searching for industrial space.

In December, the biggest interest was not in engineering premises but in warehouses, including non-heated ones.

The most demanded warehouse space was about 1,000 sq.m, but engineering premises 200 to 400 sq.m large.

The price level retains within the previous margins.

There is always increasing interest in newly-built industrial objects.

INVESTMENT TRANSACTIONS

In December, LLC “TKM Latvija”, being a daughter company of JSC “Tallinna Kaubamaja Kinnisvara” in Latvia, and LLC “Lidll Latvija” signed a contract on purchase of 22 real properties in Latvia. The total area of land plots located in ten different places is 80,609 sq.m.

Real estate Company “Latio” purchased five real properties owned by JSC “Parex banka” – on 3 and 5 Smilsu Street 5; 1b Kr.Valdemara Street; 8 Kr.Valdemara Street and 10 Kalpaka bulvaris. The total sum of these transactions were 24 million 750 thousand lats.