
REAL ESTATE MARKET OVERVIEW - RIGA AND GREATER RIGA AREA

February 2005

The deal of the month is purchase of an exclusive apartment of almost 300 m² in a new apartment house in the Old Town overlooking the river Daugava for the price of 4800 EUR/m².

If compared with January when the real estate market experienced rapid price increase in various market segments, in February the price increase was not so notable. Price level in the majority of market segments was the same or the increase was insignificant.

Demand for apartments in some of the new residential development projects is so strong that developers increase price of the last apartments available for 30%.

Investors are buying detached houses in Mezaparks and nearby Pardaugava and converting them into offices.

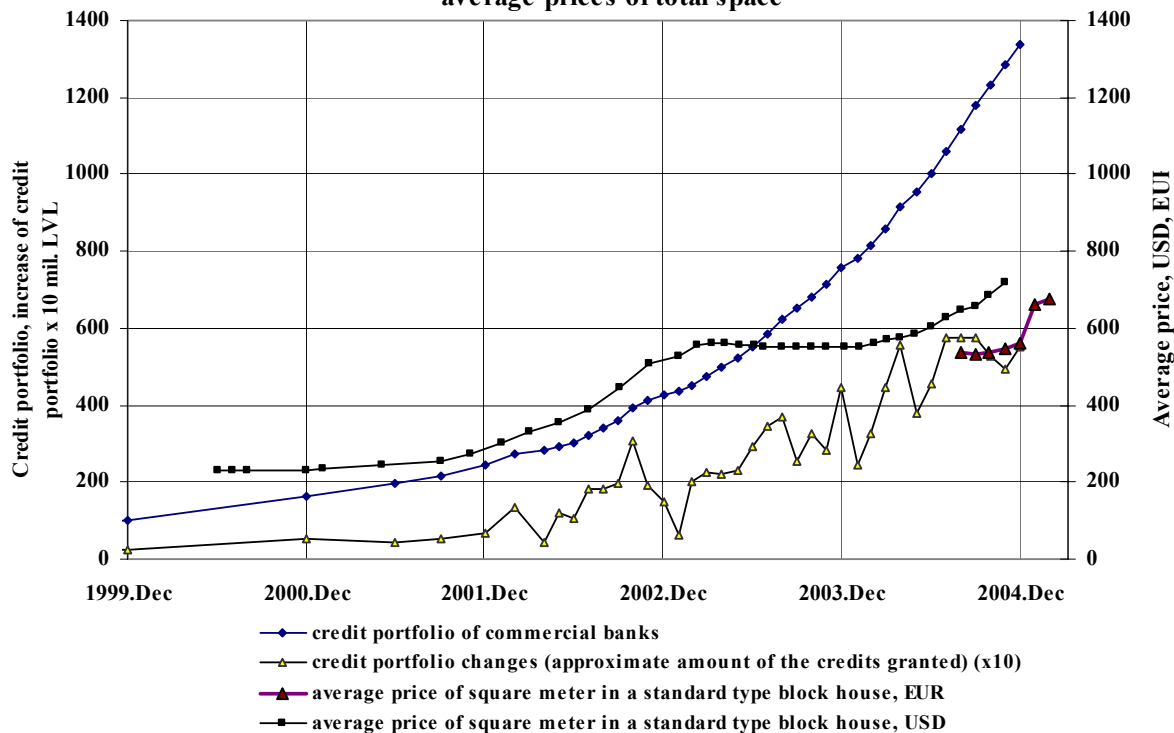
As a result of improper management a number of Class B office buildings owned by the state or some private individuals are turning into Class C buildings.

Up to now retail centres were owner occupied and only partially for lease. Lately there has appeared a tendency that investors are willing to purchase already existing and successfully functioning retail centres.

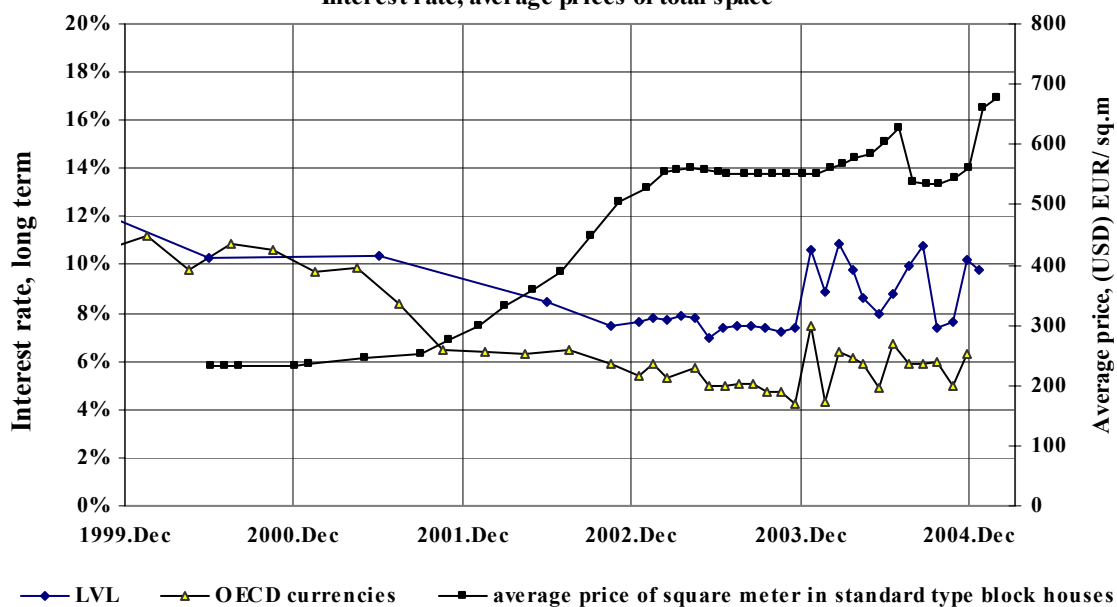
The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

RESIDENTIAL MARKET

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



Interest rate, average prices of total space



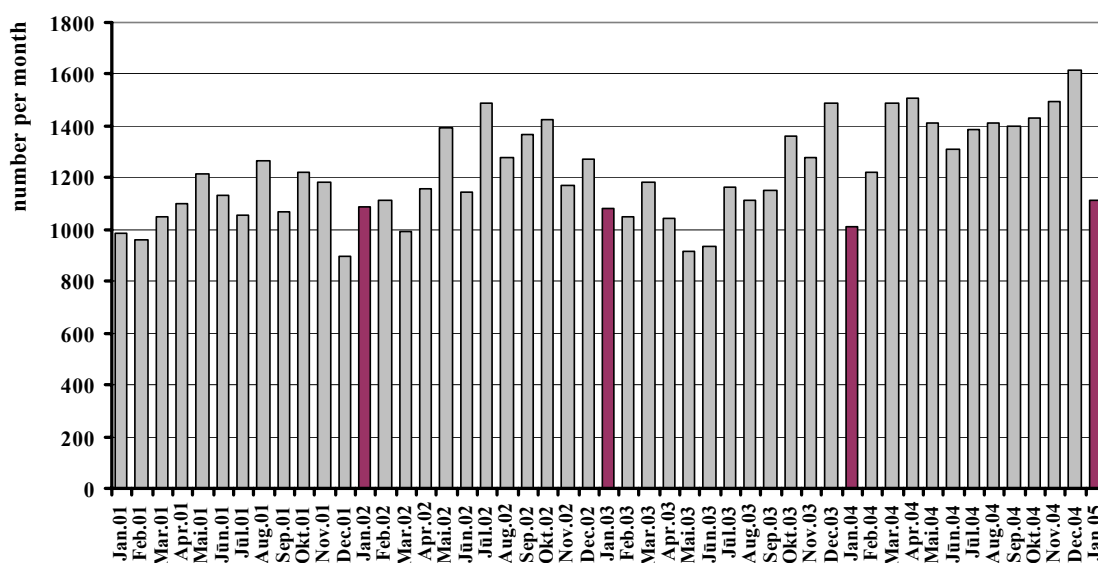
The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

STANDARD TYPE APARTMENTS

In the beginning of January standard type apartment market experienced a rapid price increase. Now the process is leveling out and certain stability has set in. In the market segment where within one month's time price increase reached some 30%, lately the price increase rate has slowed down, i.e., prices of apartments of the most demanded series apartments in the most prestigious residential districts are experiencing an increase not as considerable as for the apartments of the not so prestigious series. Thus in the standard type apartment houses where the price increase was not so considerable, prices are climbing faster.

The average price of a standard type apartment being the arithmetical mean of all the standard apartment types in all the residential districts is 678 EUR/m², i.e., 2,5% higher than during the previous month. Due to the ever increasing polarization of apartment prices, it is more and more difficult to describe this market by one indicator only. The index increase does not necessarily mean price increase of all the apartment types implied by the index.

Dynamics of apartment transactions in Riga



The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

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

District/Series		Purvciems	Mezciems	Ziepniekalns	Imanta	Zolitūde	Plāvnieki	Agenskalns	Jugla	Kengarags	Bolderaja
Series 119	1-room	29000 - 38000	23000 - 33000	-	-	28000 - 34000	27000 - 37000	-	-	-	-
	2-rooms	40000 - 45000	33000 - 46000	-	-	35000 - 42000	37000 - 44000	-	-	-	-
	3-rooms	45000 - 55000	40000 - 53000	-	-	42000 - 52000	43000 - 56000	-	-	-	-
	4-rooms	50000 - 65000	45000 - 60000	-	-	50000 - 60000	50000 - 65000	-	-	-	-
Series 104	1-room	22000 - 27000	25000 - 27000	-	20000 - 30000	-	21000 - 28000	24000 - 25000	-	-	-
	2-rooms	32000 - 40000	30000 - 42000	-	30000 - 38000	-	30000 - 40000	33000 - 40000	-	-	-
	3-rooms	40000 - 46000	35000 - 48000	-	36000 - 46000	-	40000 - 50000	43000 - 47000	-	-	-
Series 103	1-room	40000 - 55000	45000 - 55000	-	40000 - 51000	-	42000 - 54000	50000 - 63000	-	-	-
	2-rooms	22000 - 35000	-	25000 - 26000	-	-	24000 - 27000	-	-	-	17000 - 19000
	3-rooms	38000 - 46000	-	32000 - 43000	-	-	33000 - 40000	-	-	-	20000 - 23000
Series 602	1-room	42000 - 48000	-	40000 - 52000	-	-	40000 - 50000	-	-	-	25000 - 27000
	2-rooms	28000 - 38000	24000 - 34000	-	25000 - 32000	25000 - 30000	28000 - 35000	30000 - 35000	-	-	-
	3-rooms	36000 - 45000	32000 - 42000	-	34000 - 35000	35000 - 38000	36000 - 40000	36000 - 43000	-	-	-
	4-rooms	47000 - 55000	36000 - 52000	-	40000 - 45000	42000 - 48000	44000 - 53000	45000 - 52000	-	-	-
type "Lithuanian" proj.	1-room	22000 - 27000	20000 - 23000	20000 - 25000	20000 - 25000	-	-	21000 - 27000	-	20000 - 24000	16000 - 19000
	2-rooms	30000 - 35000	27000 - 33000	27000 - 33000	27000 - 35000	-	-	32000 - 37000	-	26000 - 37000	22000 - 26000
	3-rooms	40000 - 43000	30000 - 42000	35000 - 43000	32000 - 51000	-	-	37000 - 50000	-	33000 - 40000	25000 - 31000
"Hruschov" houses	1-room	20000 - 25000	18000 - 23000	19000 - 24000	-	-	-	21000 - 22000	21000 - 24000	-	-
	2-rooms	28000 - 32000	26000 - 31000	27000 - 34000	-	-	-	27000 - 35000	25000 - 31000	-	-
	3-rooms	33000 - 38000	30000 - 42000	30000 - 44000	-	-	-	30000 - 38000	30000 - 40000	-	-

The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

THE NEW HOMES MARKET

In February interest of purchasers for apartments in some of the new homes was so great that the developers increased prices for the last unsold apartments even for some 30%. Customers have become generally more aware and demanding. Thus prices have climbed more rapidly for the projects implemented by developers who have won confidence of the customers. For example, in December 2004 an apartment in the new homes project “MezaCiems” could be booked for about 970 EUR/m², but in February 2005 it cost already 1200 EUR/m². When construction of the new homes project “Dienvidu parks” was just started, apartment prices were around 800 EUR/m², but in February prices of the same apartments exceeded 1200 EUR/m².

Due to a number of reasons the majority of purchasers still do prefer purchasing apartments in standard type block houses in residential districts and not so much in the new homes. One of the main reasons is the price difference notwithstanding the fact that lately the said difference is not so considerable. Purchasing an apartment in the new homes project takes more risk due to several reasons.

First of all apartments in the new projects are offered for sales before construction of the house has been even started, thus the final result, namely, quality of the apartment and the time when it will be possible to move into the apartment are fairly vague at that stage. Moreover, quite often the initial price quoted differs from the real price of the deal. In order to make a reservation of a concrete apartment a safety deposit is paid. Due to the fact that apartment prices in the residential market are climbing rapidly, more often than not when the building is finished the developer increases the initially quoted apartment prices. In case the customer is not ready to pay more than the initial price quoted, the developer returns the safety deposit and penalty as by selling the apartment to another customer for a higher price the profit is bigger.

Secondly, management costs that are quite high, have to be taken into consideration. Monthly management costs of the new homes in Riga are in average about 0,30 – 0,40 lats per square meter. On separate occasions even 0,50 lats. In some projects, for example, “Taureni” in Babite parish the monthly management costs are 0,90 lats per square meter, but in 64 Dzintaru boulevard, Jurmala these costs are 1,10 lats. Thus, in addition to the monthly credit payments, another almost equal sum to the first has to be paid for the house management.

Thirdly, on many occasions a customer becomes an apartment owner, while the land the building is built on still remains property of the developer. And this may not comply with the long-term interests of purchasers.

A number of apartments are bought speculatively aiming at their re-sales with profit some time later. However, not always these investments justify themselves as to the expected amount. For example, if the initial price of an apartment was quoted 710 EUR/m² and in the end developers offer the remaining apartments for 810 EUR/m², intermediary buyers are ready to sell the apartments for about 730 – 780 EUR/m², thus not making the expected profit.

Great demand is witnessed for residential development land for building multifamily houses in residential districts. Developers are ready to pay up to 500 EUR/m² for an appropriate land plot. Construction of many new homes is planned to be started this spring.

The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

APARTMENTS IN THE CENTRE OF THE CITY

The price rise of centrally located apartments forecasted in January is continuing resulting in a great increase of the apartments offered for sales in the Old Town and the exclusive centre. Besides, apartments are offered for prices that exceed the market value of the apartments for at least 30%, i.e., 3500 – 4000 EUR/m². Floor space of the expensive apartments offered varies from 50 m² up to 250 m² and 300 m². Purchases take place, but no stir in the market is witnessed. Sellers are in no hurry, they are prepared to wait for the purchasers that are ready to pay the sum asked.

Basically sellers of the centrally located apartments can be divided into two categories. To the first category belong sellers who had purchased apartments in the centre and the Old Town in order to re-sell them later with profit. Now they consider the right time to sell has come. The other category are apartment lessors who, having taken into consideration specifics of the letting business and comparing the revenue generated by letting, i.e., in average 11 EUR/m² per month, with the current apartment sales prices, come to the conclusion that at the moment it is more profitable to sell. In this case capitalization rate is only 3 - 4%.

The deal of the month is purchase of an exclusive apartment of almost 300 m² in a new apartment building in the Old Town overlooking the river Daugava for the price of 4800 EUR/m².

DETACHED HOUSING

Price level in the detached housing market is more or less stable. The biggest demand is for detached houses of about 150 000 EUR, but their quality quite often does not correspond with the asking price. Thus purchasers are looking for detached houses the owners have built for their own needs, but due to a number of reasons are willing to sell.

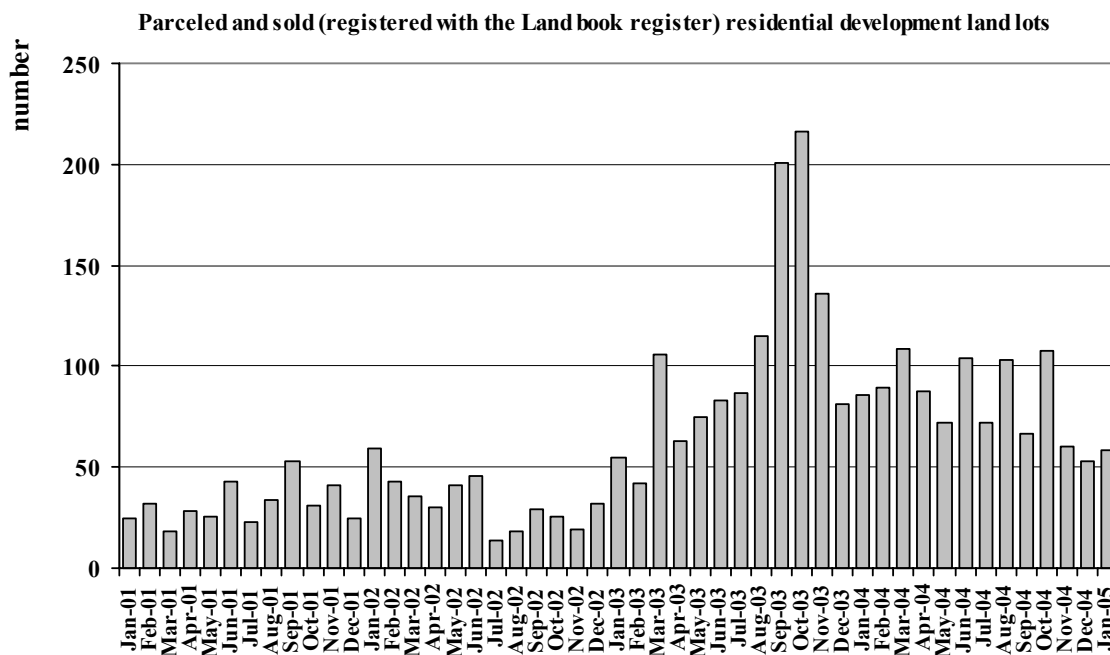
Lately there is a tendency that in the near Pardaugava in easily accessible locations near the main streets detached houses are bought to be converted into offices. The biggest demand is for detached houses with floor space exceeding 300 m². Thus space needed for entrepreneurship is obtained together with an attractive investment object. Quite often investors purchase a building like this, convert it and sell as a ready-made office.

RESIDENTIAL DEVELOPMENT LAND MARKET

This February the amount of deals in the residential development land market was the usual for the winter season. If compared with January land prices have remained relatively stable.

In February land parceling mostly took place in Kekava and Marupe parishes. Demand depends greatly on the location of the plot, accessibility of communications, development of infrastructure and price. Great demand was witnessed for land in Olaine with partial communications because of its relative inexpensiveness. Due to the growing demand price of parceled land in Olaine has climbed for about 1 EUR per month, amounting to about 10 EUR in February. This is a very good price, therefore more than 150 residential development land plots have been purchased in Olaine during last six months.

The copying or reproduction of all or any part of the contents without reference to the source is prohibited.



COMMERCIAL SPACE

OFFICE SPACE

According to rough calculations the number of inhabitants in Riga is twice as much as in Tallinn, but the number of offices is almost two times less. Moreover, in Riga there are less offices than in Vilnius. Office construction takes place, but mainly for owner – occupier needs and not so much for letting. Lately there is witnessed a tendency to convert detached houses in locations with convenient transport connections into owner occupied offices.

Vacancy rate of class A offices in February was about 20%. In the office building “Saules akmens” vacancy is about 2300 m², but the minimum lease space 350 m². The price increase reflected in the diagram is mainly related to the change of office gradation and not to a considerable price increase. After completion of “Saules akmens” authors of this market overview adjusted Riga office gradation basing on the generally accepted office gradation.

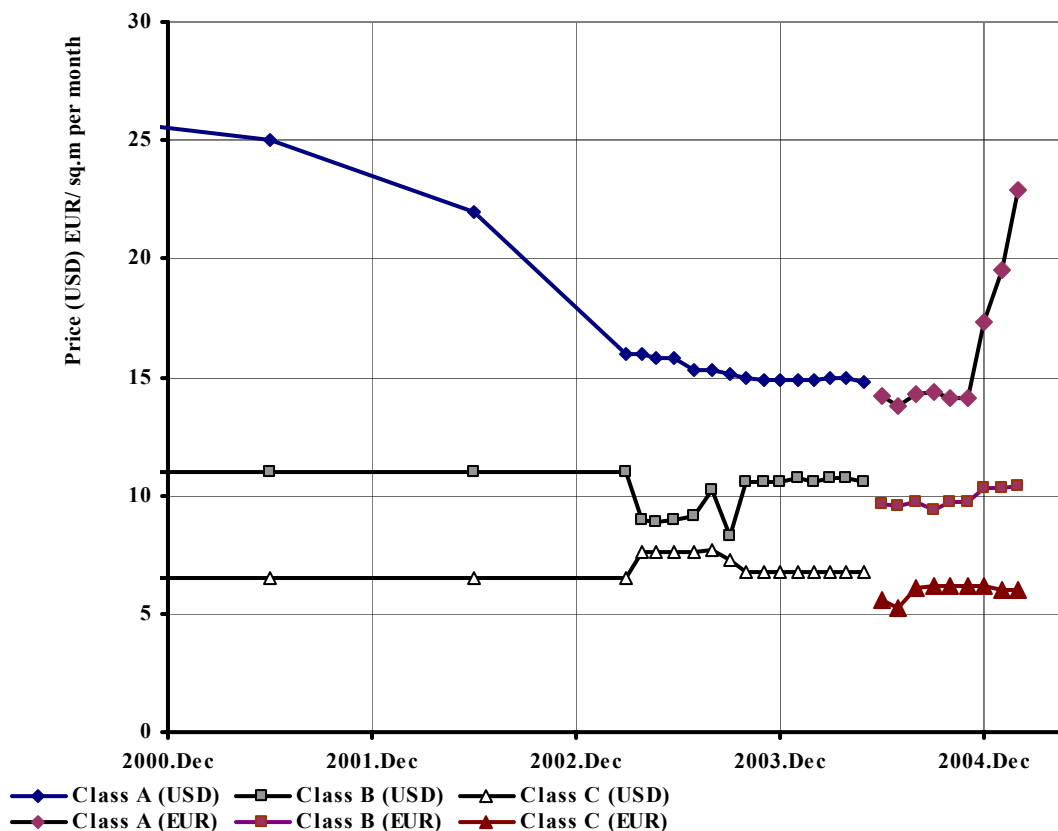
Take-up of class B office space is increasing, the average rent stands at about 11 EUR/m², but on separate occasions reaching 14 EUR/m². Publishing house “Diena” vacated 2 floors in their previous office building in 41 Mukusalas street after moving to the new premises “Mukusalas maja”.

The highest market activity in February was in class C segment. The strongest demand was for 100 – 400 m² space for 4 – 7 EUR/m².

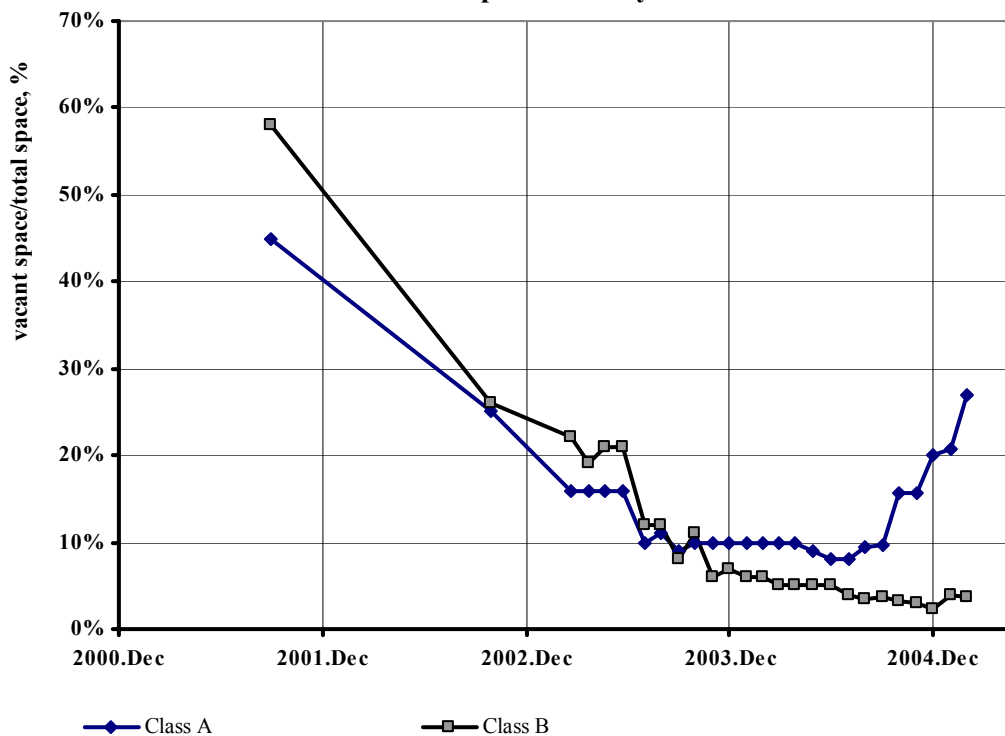
A tendency is witnessed for tenants to move out of state or privately owned buildings, for example, Riga TV tower in Zakusala, Land Cultivation ministry, “Preses nams” because of their deteriorating quality. The buildings are not properly managed, their condition is deteriorating. Consequently a number of class B buildings become class C buildings. However, the tenants do not wish to loose quality of their offices and move out.

The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

Average office space rent



Office space vacancy rate



The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

RETAIL SPACE

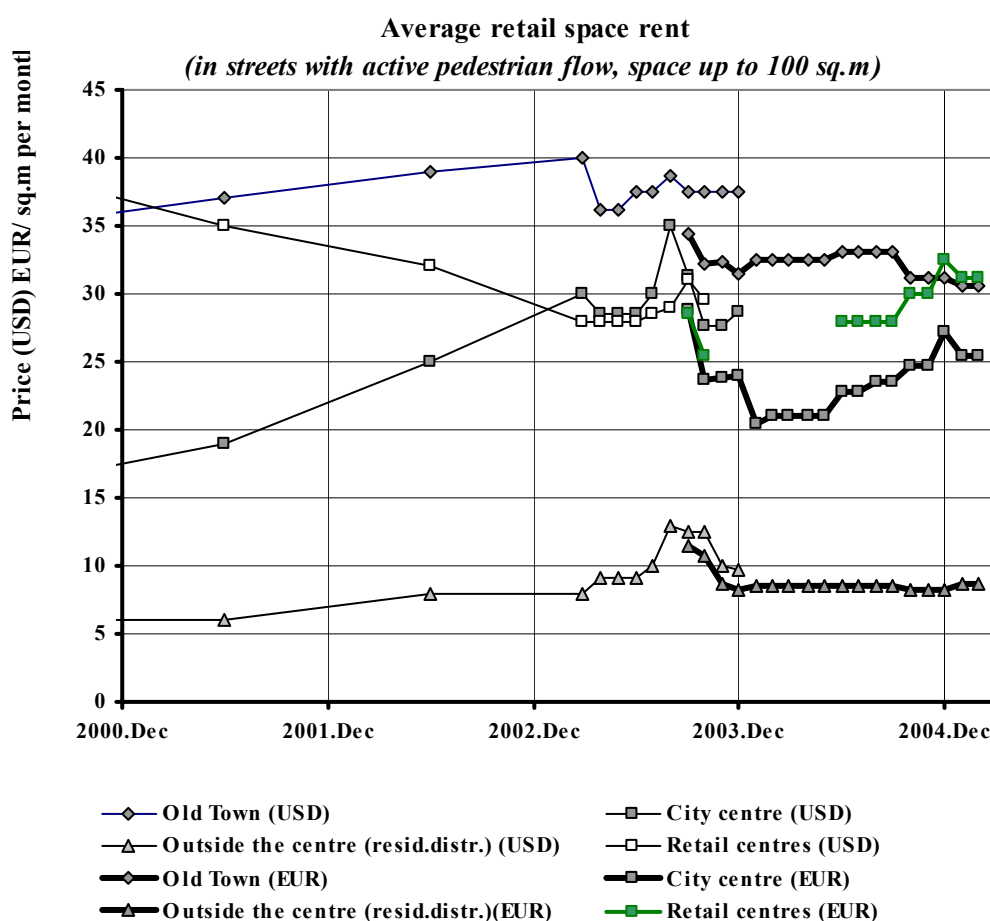
Retail space market is one of the most stable real estate segments – price level is remaining stable for several months. Demand for quality retail space is unchangeably high, but there is no adequate supply.

Up to recently retail space was built for owner occupier needs and only partially for lease. Lately there is a tendency that more and more investors are willing to purchase already existing and successfully functioning retail centres.

The biggest demand drivers are the so called discount chain shops mostly interested in retail space in the various residential districts.

“T-Market” or lately renamed as “Saulite” chain shops of “VP Market” group are expanding and searching for new premises for 6 - 10 EUR/m² + utilities + VAT.

One of the biggest European discount chains “Lidl” is actively seeking for possibilities to establish their chain of shops in various regional cities. “Lidl” is interested in land plots of at least 6500 m², as well as in properties with retail and warehouse space on the first floor, retail space from 1200 up to 1400 m² and parking for some 130 – 200 cars.



The copying or reproduction of all or any part of the contents without reference to the source is prohibited.

INDUSTRIAL MARKET

Industrial space market is stable, the market tendencies initiated previously are retained in February. Besides, industrial market is not big in Latvia therefore generally no considerable changes are witnessed. As always there is stable demand for medium sized – up to 5000 m², class A warehouses.

Manufacturers are looking for industrial land for the price of about 15 EUR/m². There is demand for 10 – 20 ha land for construction of centres of logistics near the highways – in Ogre, near detour road to Tallinn, around Salaspils.

The big manufacturers are gradually moving plants from the centre of Riga and nearby locations to Greater Riga territory. More and more industrial objects come to the market as the present use of the location and the building become economically unjustified. Buildings like that can be used at a greater profit by changing their use, i.e., by renovating and converting into offices, retail space and alike. On many occasions industrial facilities are dismantled and relocated, manufacturing premises demolished and new buildings constructed instead.