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

JULY 2005

The average standard type apartment price remains fairly stable for several months in a row, i.e. about 800 EUR/m<sup>2</sup>.

There is a tendency witnessed to renovate blockhouses and to build above them additional floors. The first such project just completed is the newly renovated building in Burtnieku street, besides there is a number of other projects submitted for approval.

Considering the high apartment prices, as well as the risks when purchasing rights to rent, market growth of apartments for rent is expected. Demand for furnished apartments for rent is increasing in the new homes projects as well.

Demand for short-term rental apartments has considerably increased, and if compared with the previous years not being of seasonal character any longer. Investors are actively looking for and are purchasing residential properties with the purpose of renovating and turning them into hotels or rental apartment buildings.

If compared with the previous years, in 2005 a considerable price increase was witnessed in the real estate market of Vidzeme. Apartment prices in Valmiera have reached as high as about 300 LVL/m<sup>2</sup> (425 EUR/m<sup>2</sup>).

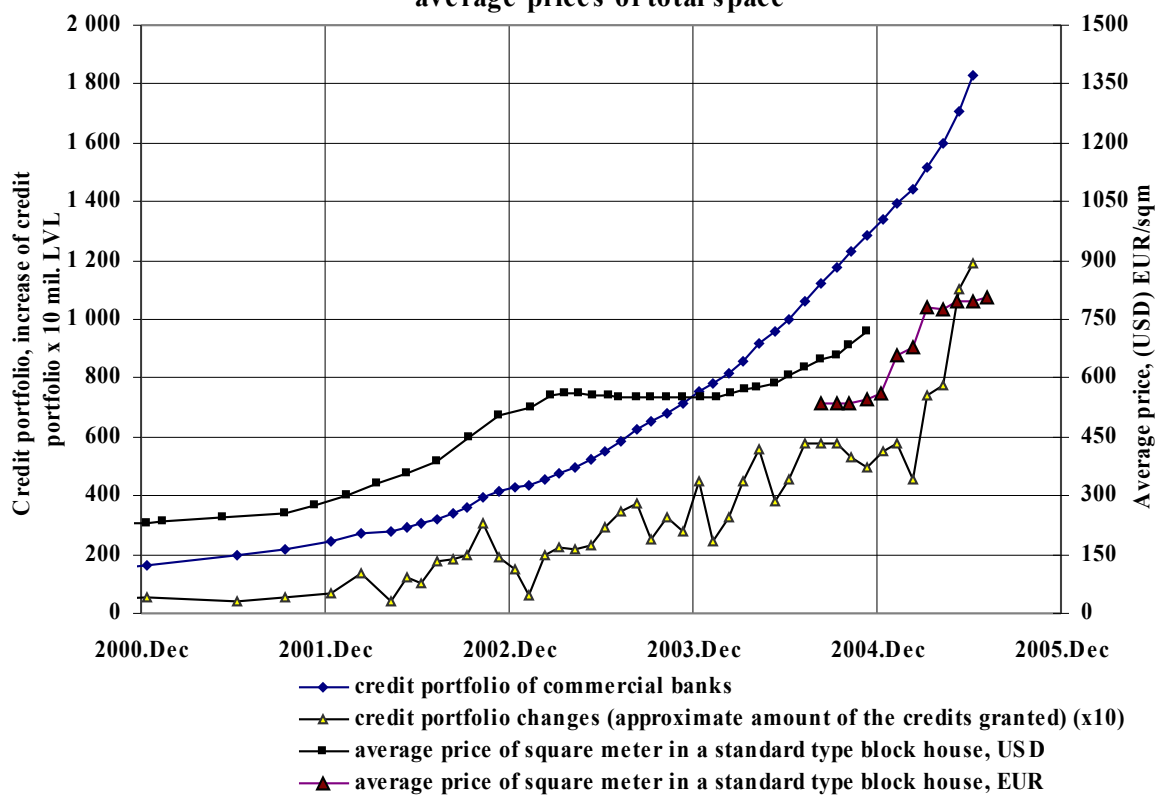
There is a new tendency witnessed in the market – office space lease becomes a competitor to the retail space lease. Outside the centre of the city previously unknown and non-rentable retail space is leased out as office space.

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## RESIDENTIAL MARKET

Banks are starting to evaluate their risks more carefully; alongside with that some crediting institutions are starting to sort out homes according to their quality, and stemming from that they decide either to grant or not to grant credits for purchase or repairs of properties. The risk group comprises “Hruschov” type panel houses, houses located in parceled meadows of some residential villages, as well as residential buildings located in gardening societies where the necessary infrastructure and communications are not provided.

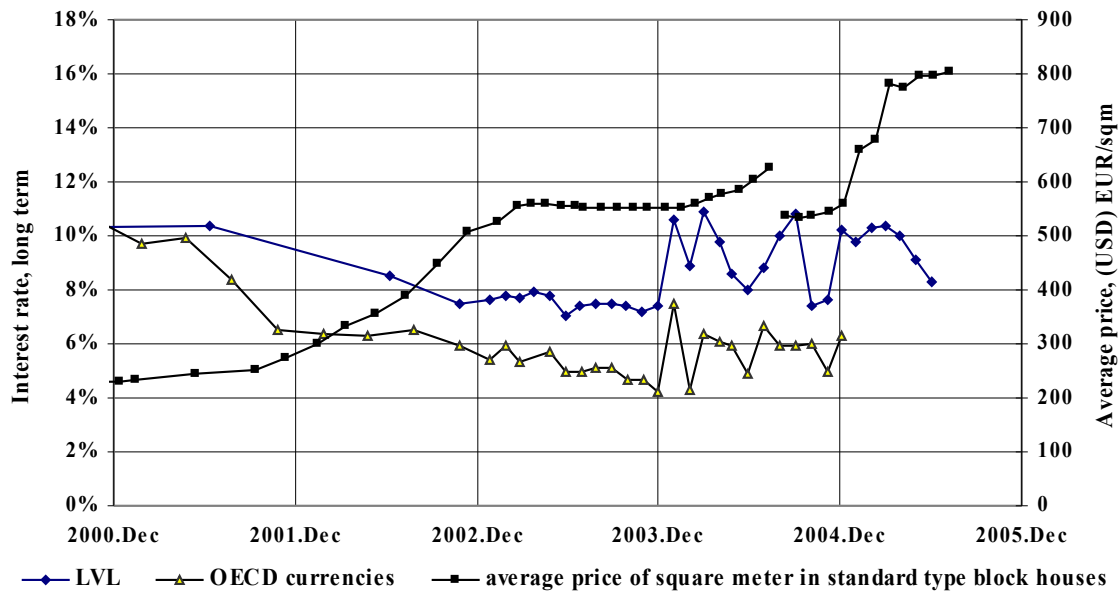
Credits granted to private individuals by commercial banks,  
average prices of total space



About 70% from the total credit portfolio are taken for apartment purchase and repairs, the rest 30% are taken for other needs. Lately there is witnessed an increase in granting credits to non-residents.

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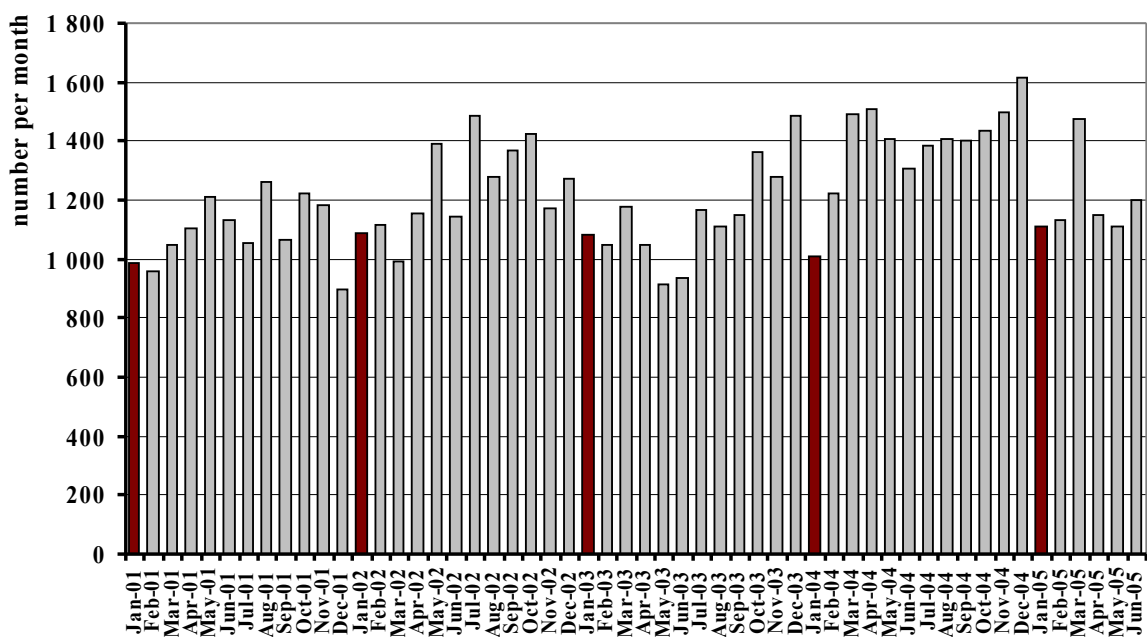
### Interest rate, average prices of standart type block houses



### STANDARD TYPE APARTMENTS

If compared with the previous months, this month, like every July, demand for apartments has slowed down. At the same time there was witnessed an increase in the demand for residential development land and detached housing. More and more apartments are mortgaged not only with the intention of purchasing a new home, but also for the use of the credit for other purposes.

#### Dynamics of apartment transactions in Riga



The average standard type apartment price remains fairly stable for several months in a row, i.e. about 800 EUR/m<sup>2</sup>.

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In LATIO market overview dated March we mentioned the builders' interest in building additional floors on the existing blockhouses. The first project of this type is completed – the blockhouse in Burtņieku Street has undergone capital renovation and one additional floor has been built. A number of similar projects are submitted for approval.

The above mentioned tendency testifies that attitude towards the “old” standard type apartment projects is not and just cannot be the same. Some of these projects surpass and will be surpassing the new homes projects in terms of their price level.

In July the biggest price rise was witnessed in the segment of the cheaper apartments, particularly for two-room apartments in series 602 apartment buildings located in Purvciems, as well as for three and four-room apartments in the same series buildings located in Mezciems. A rapid price increase was witnessed for three-room apartments in series 104 apartment buildings located in Zolitude. At the same time a number of expensive projects became cheaper. The most noteworthy price drop in July was witnessed for three-room apartments in 119 series buildings located in Purvciems and three-room apartments in 103 series buildings located in Aģenskalns. Prices have fallen significantly in the segment of big – three and four-room apartments located in Ziepniekkalns.

Considering the high apartment prices, as well as the risks when purchasing the rights to rent, market growth for apartments for rent is expected.

**Prices of standard type apartments in residential districts of Riga in July, EUR**

District/ series	Purv- ciems	Ziepniek- kalns	Agens- kalns	Imanta	Zolitude	Plavnieki	Mezciems	Jugla	Kenga- rags	Bolderaja
Series 119	1- room	35000 - 50000	32000 - 50000	-	-	33000 - 50000	35000 - 52000	-	-	-
	2- rooms	46000 - 64000	39000 - 60000	-	-	42000 - 65000	45000 - 64000	-	-	-
	3- rooms	57000 - 79000	48000 - 70000	-	-	50000 - 78000	55000 - 80000	-	-	-
	4- rooms	64000 - 90000	58000 - 80000	-	-	57000 - 87000	59000 - 91000	-	-	-
Series 602	1- room	29000 - 39000	27000 - 37000	-	27000 - 39000	-	29000 - 39000	29000 - 38000	-	-
	2- rooms	39000 - 55000	38000 - 52000	-	36000 - 49000	-	41000 - 55000	43000 - 54000	-	-
	3- rooms	53000 - 67000	44000 - 60000	-	43000 - 63000	-	47000 - 69000	54000 - 67000	-	-
	4- rooms	58000 - 79000	52000 - 71000	-	51000 - 81000	-	59000 - 83000	60000 - 82000	-	-
Series 103	1- room	32000 - 41000	-	27000 - 40000	-	-	32000 - 44000	-	-	24000 - 31000
	2- rooms	45000 - 61000	-	38000 - 53000	-	-	45000 - 59000	-	-	32000 - 42000
	3- rooms	57000 - 72000	-	47000 - 70000	-	-	55000 - 73000	-	-	38000 - 48000
Series 104	1- room	37000 - 49000	32000 - 46000	-	33000 - 44000	34000 - 46000	39000 - 49000	39000 - 47000	-	-
	2- rooms	50000 - 65000	41000 - 55000	-	44000 - 54000	39000 - 54000	51000 - 65000	50000 - 61000	-	-
	3- rooms	61000 - 82000	51000 - 64000	-	47000 - 66000	55000 - 74000	62000 - 80000	61000 - 78000	-	-
„Lithuanian” proj.	1- room	28000 - 35000	26000 - 32000	23000 - 34000	27000 - 36000	-	-	27000 - 35000	-	26000 - 33000
	2- rooms	40000 - 51000	34000 - 44000	34000 - 46000	35000 - 47000	-	-	39000 - 49000	-	31000 - 40000
	3- rooms	49000 - 62000	40000 - 53000	40000 - 54000	41000 - 59000	-	-	47000 - 62000	-	36000 - 49000
„Hrusčov” type houses	1- room	28000 - 33000	24000 - 31000	24000 - 31000	-	-	-	-	26000 - 35000	25000 - 32000
	2- rooms	38000 - 44000	33000 - 42000	32000 - 42000	-	-	-	-	32000 - 44000	30000 - 40000
	3- rooms	47000 - 58000	38000 - 50000	38000 - 52000	-	-	-	-	42000 - 53000	37000 - 53000

**THE NEW HOMES MARKET**

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In all the segments of the real estate market the issue of quality is getting more and more essential. Apartments in the new homes projects are reserved some time before the construction works are finished or before they have even started. As a result, the purchasers discover that the apartment quality is not the same as promised. A number of purchasers envisage this situation and they hire their own supervisor, whereas others are trying to sell the apartment. Thereby in the new homes market there is a tendency witnessed to purchase the apartments in the secondary market, as it is possible to visit and evaluate them when the construction works are completed. On the other hand, in order to slow down this tendency of purchasing apartments with the purpose of their further resale to profit, i.e. in order to cut down the activity of the secondary market, as it hinders proper final arrangements of the projects, the developers are starting to increase the first deposit from 10% to 20%.

There is witnessed a tendency toward signing individual agreements about reservation of an apartment by paying reservation fee to the amount of about 10% from the total purchase sum, which at the moment is not known precisely. When making a reservation only a rough price amplitude is known. This service is offered by the experienced developers, and to make sure about the quality of their work it is enough to evaluate their previously constructed buildings. In July reservation services have been offered in seven similar projects. If the actual price of the apartment does not satisfy the potential purchasers, a reservation fee will be reimbursed to the full amount. In case the price satisfies the purchaser, the pre-agreement will be signed.

Lately construction of several projects has been delayed, besides there is a lack of skilled builders, architects, moreover, construction costs are growing.

In July there is witnessed an increase in demand for furnished apartments for rent in the new homes projects. The main demand drivers are the Latvian residents who had left their homeland and now have decided to come back and stay.

## APARTMENTS IN THE CENTRE OF THE CITY

Purchase and sales transactions of apartments in the Old Town take place for the average price of 3 500 EUR/m<sup>2</sup>, provided the apartment is located in the façade building. The number of transactions with sums exceeding 4500 EUR/m<sup>2</sup> is small. Furthermore, the average period of apartment's sales has increased – it takes up to 6 – 12 months instead of 3 – 6 months.

In the centre of the city there are many transactions carried out with the apartments with the average price amplitude from 1 500 to 2 000 EUR/m<sup>2</sup>.

In 2005 demand for apartments for short-term rent has considerably increased. Previously this demand had a seasonal character, whereas now demand for apartments for short-term rent exceeds the supply, which speaks about shortage of hotels in Riga. In the Old Town one day's rent is 45 – 50 EUR, in the nearest centre – 25 – 30 EUR.

Considering the ever growing demand, investors are actively looking for and purchasing residential properties, often in bad technical condition, with the purpose of renovating and turning them into hotels or apartment houses for rent. The interest and competition in this

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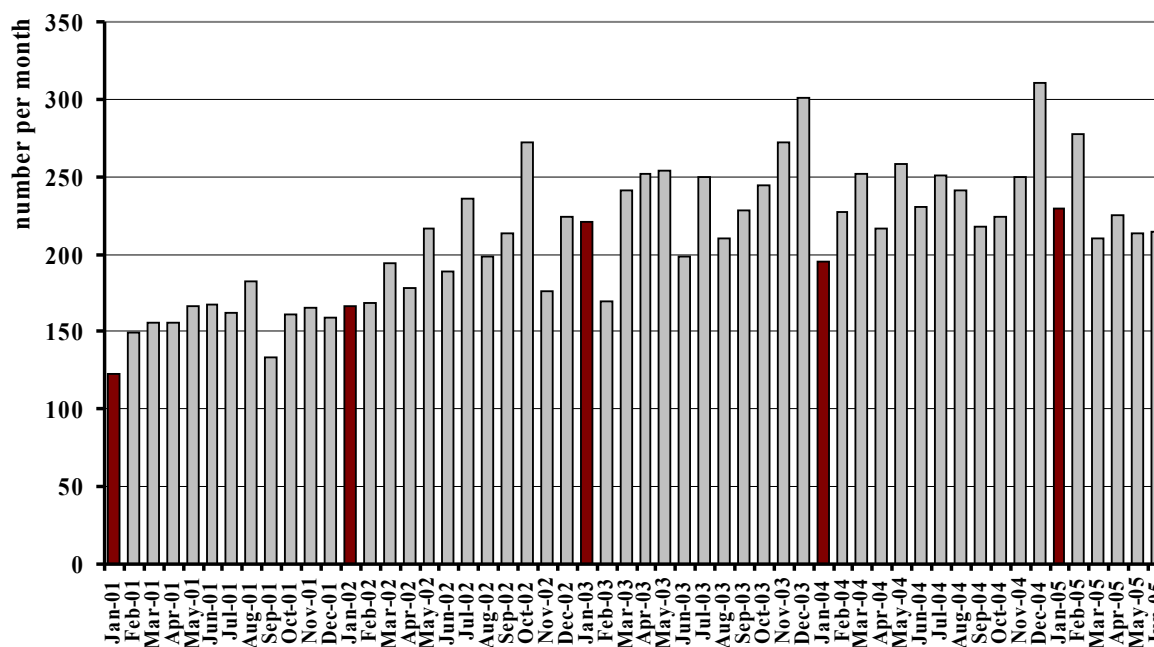
segment are big enough to consider all the offers. The factor that is boosting the activity in this segment is the forthcoming Hockey World Championship that will take place in Riga in the spring of 2006. There has been an interest witnessed from foreign and domestic investors to purchase residential properties. The most noteworthy purchases effected by the domestic investors in July have been the residential property located at 19 Skunu street (1 130 EUR/m<sup>2</sup>) and residential property located at 2 Raina boulevard. There is an increased interest witnessed for Art Nouveau buildings located in the vicinity of Alberta Street.

## DETACHED HOUSING

Interest in the purchase of detached houses is great; however, the number of transactions in Riga in the last few months has been more or less the same; the number of transactions with detached houses in Riga region parishes and in Jurmala has even dropped down. The robust trade activity was witnessed in Marupe. The most demanded still are detached houses of 150 – 200 m<sup>2</sup> for the price of about 100 000 EUR. The major criteria are location, infrastructure and communication supply, as well as quality. The supply of quality detached houses is still limited.

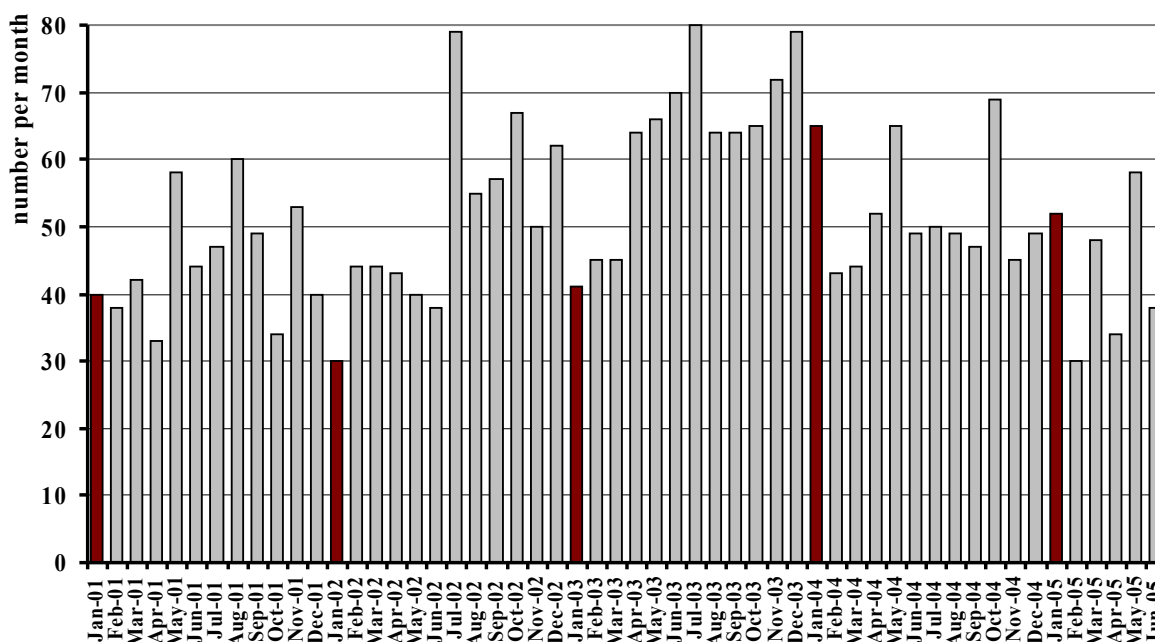
Supply of detached houses located in Teika is not big, mainly small houses or their parts are offered in bad technical condition that are in need of capital repairs, for the price of 1 000 LVL/m<sup>2</sup> (1 420 EUR/m<sup>2</sup>).

Number of transactions with detached houses in Riga



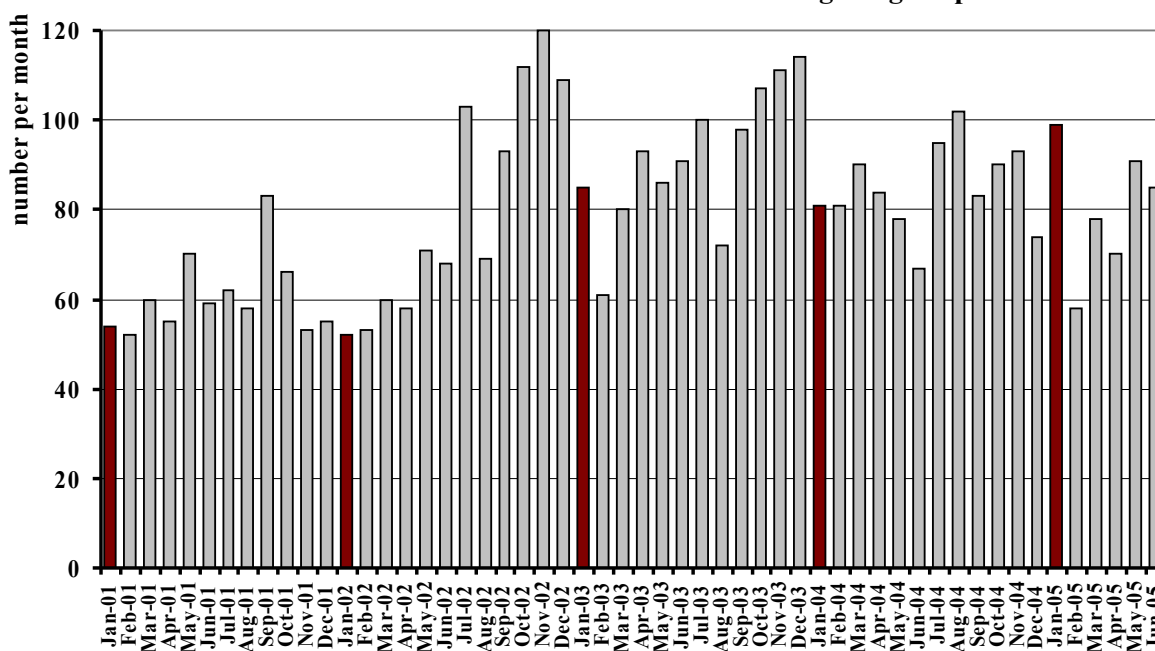
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### Number of transactions with detached houses in Jurmala



There is still witnessed a demand for summer houses in different gardening societies in Riga region parishes with the purpose of reconstructing them into winter houses. It should be noted that there are several gardening societies in Skulte, Saulkrasti, Kekava, Carnikava and other places, where the financial institutions are making careful assessment before granting credit for the purchase, construction, reconstruction or repairs of the property.

### Number of transactions with detached houses in Riga region parishes



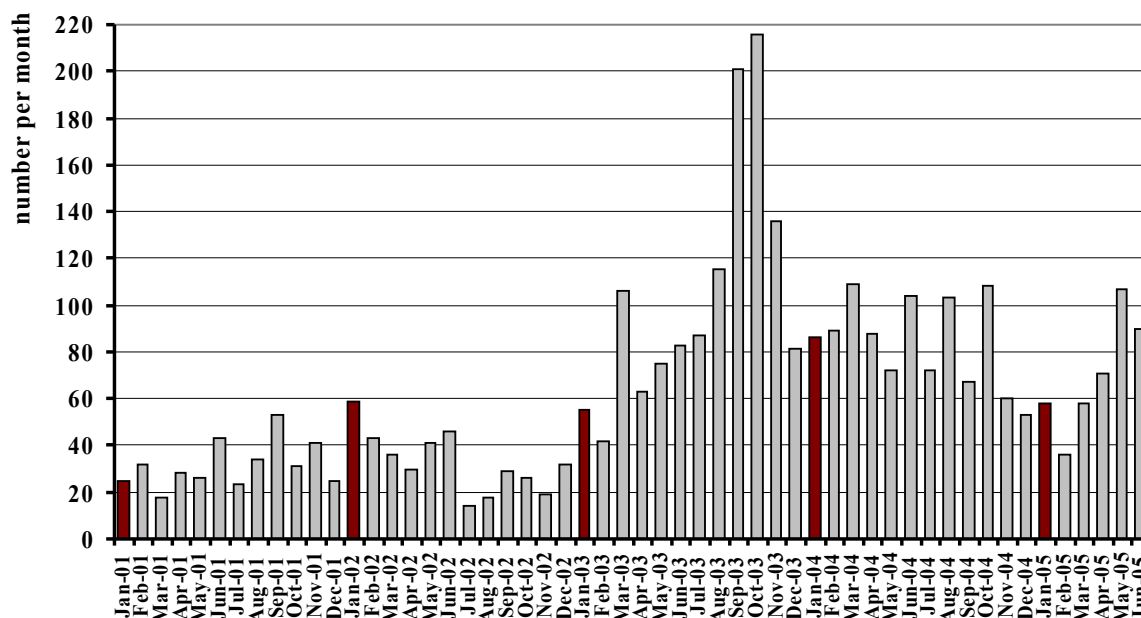
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## RESIDENTIAL DEVELOPMENT LAND MARKET

There is a sufficient supply of parceled land in Riga and its vicinity - Marupe, Bergi, Baltezers. The prices reach as high as 120 EUR/m<sup>2</sup>. The total number of transactions carried out during one month has slightly decreased.

The most noteworthy deal in June was a plot of land in Bullusala without any communications or access road sold for 36 EUR/m<sup>2</sup>, whereas in July for a similar plot of land 50 EUR/m<sup>2</sup> were demanded. There is witnessed a demand for properties located in Vecaki. Residential development plots located in the vicinity of the sand dunes cost 230 EUR/m<sup>2</sup>. At the same time there is a residential development plot of 500 m<sup>2</sup> in Kipsala that costs 190 EUR/m<sup>2</sup> and is in offer for quite a long time period.

**Parceled and sold (registered with the Land book register)  
residential development land lots in Riga region parishes**

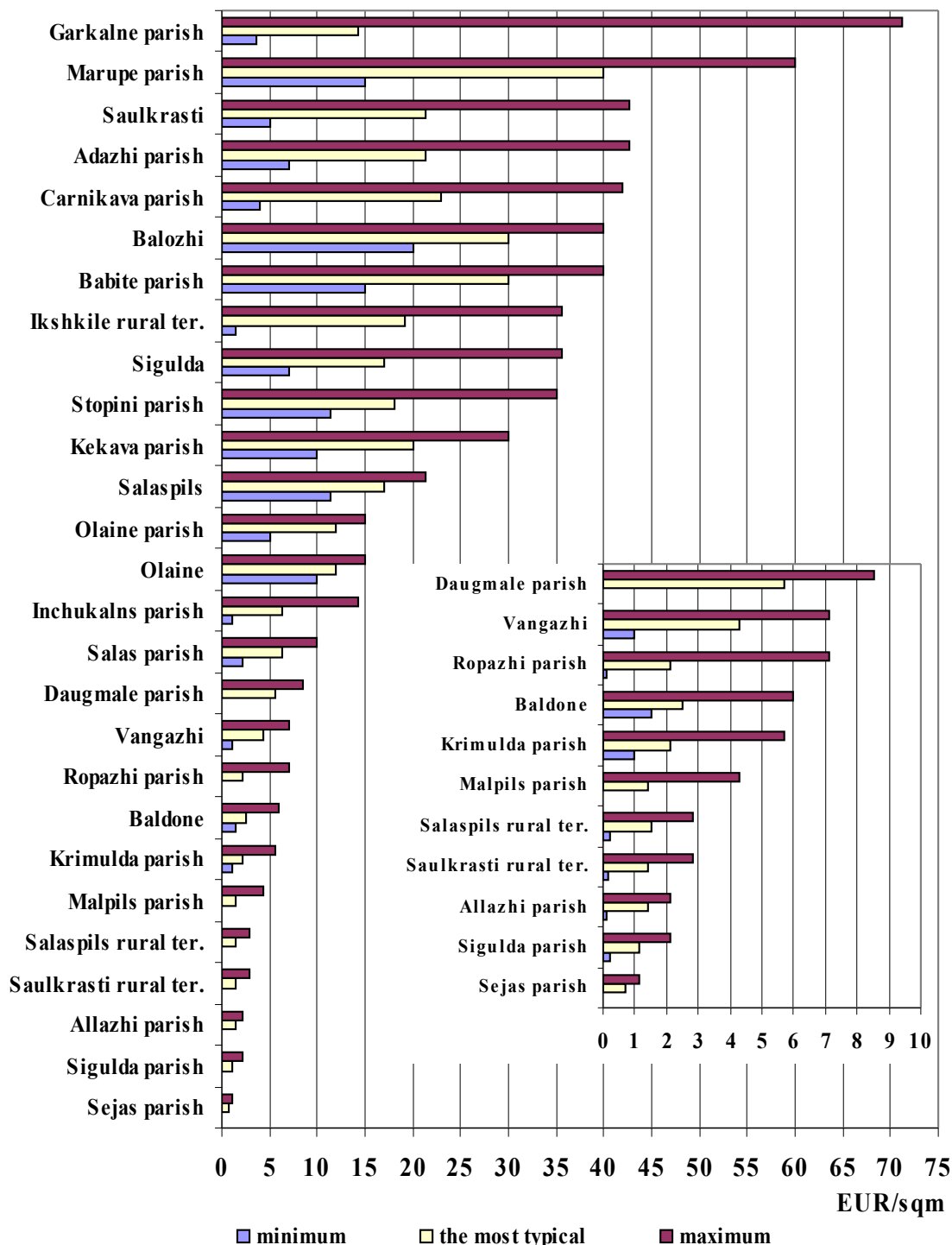


Generally the price level on the residential development land market is fairly stable. The biggest price fluctuations in July have been witnessed in Daugmale and Marupe parishes. The highest price level in Daugmale parish has decreased from 11,4 to 8,5 EUR/m<sup>2</sup>, thereby it reached the land prices witnessed in May. Also in Marupe parish the highest price level has slightly decreased – from 70 to 60 EUR/m<sup>2</sup>.

In other Riga region parishes land prices have not experienced considerable changes.

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### Land prices in Greater Riga parishes

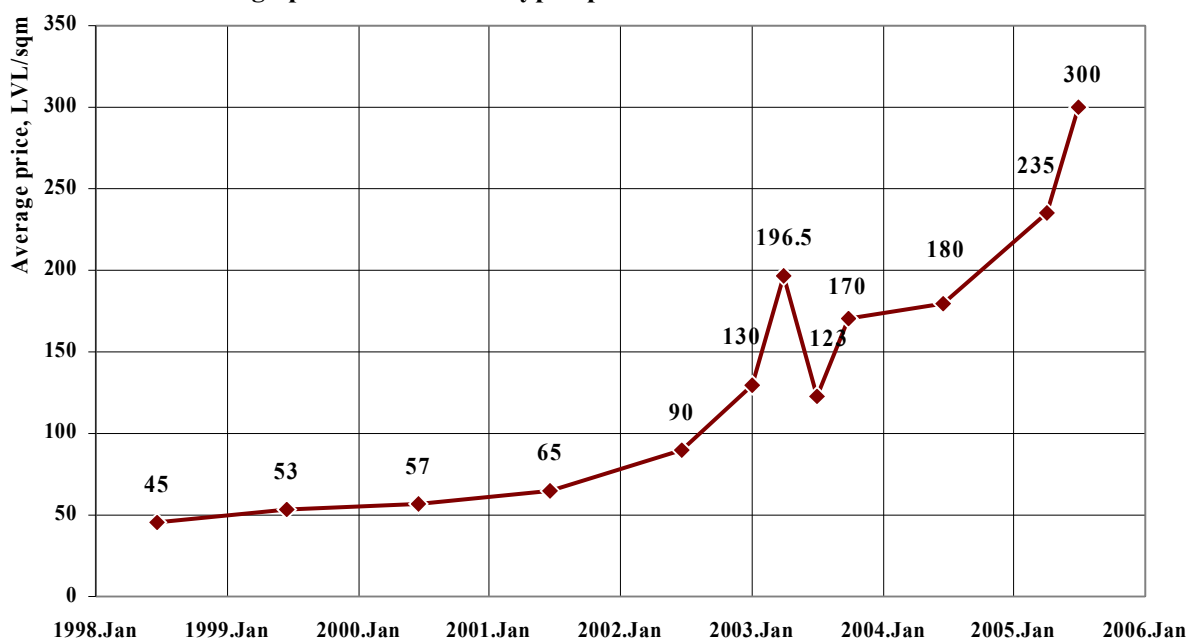


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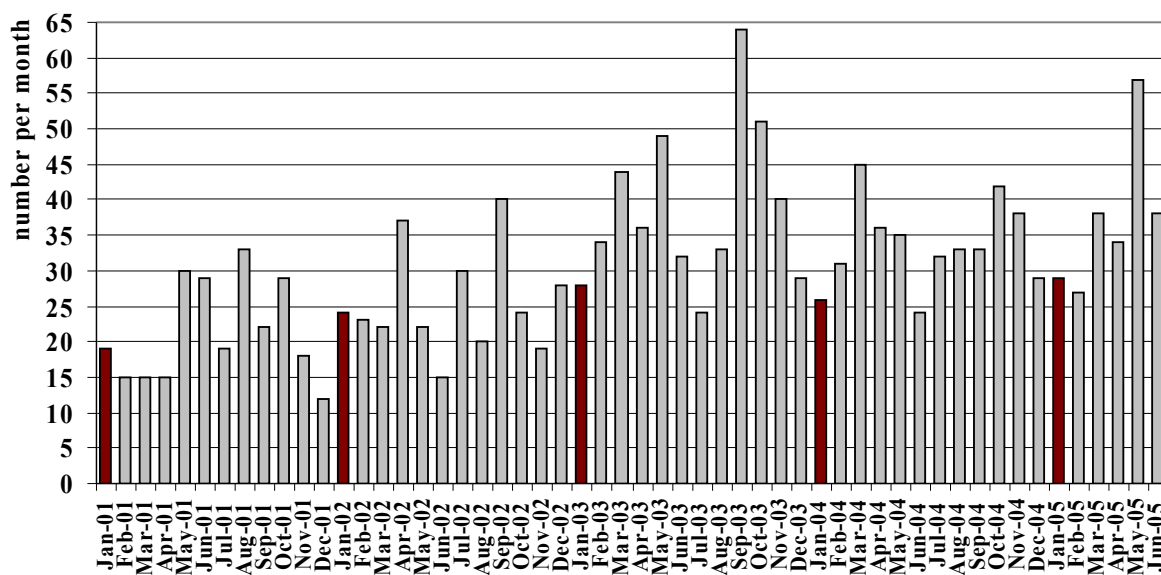
## Vidzeme

If compared with the previous years, in 2005 a drastic price increase was witnessed in the real estate market of Vidzeme. This July the average standard type apartment prices in Valmiera, which is the administrative, economic and manufacturing centre of Vidzeme, have reached about 300 LVL/m<sup>2</sup> (425 EUR/m<sup>2</sup>). Until recently the apartment prices in Cesis had been higher than in Valmiera, as the supply there was limited. If to compare three most economically active towns in 2005, as a result of the ever growing demand in Valmiera the prices have reached their highest peak, whereas in Limbazi - the lowest. The biggest demand was witnessed for two and three-room apartments; four-room apartments are not demanded often.

Average prices of standart type apartment in block houses in Valmiera



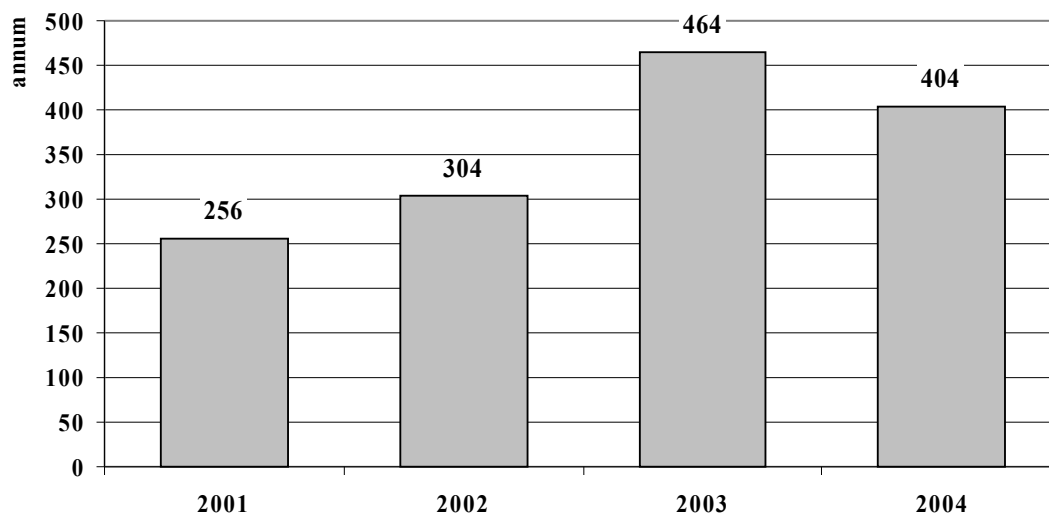
Dynamics of apartment transactions in Valmiera



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The first new homes project has been launched in Valmiera in 2003, two are being renovated, and several projects are submitted for approval. Two new homes projects, i.e. renewed buildings, have been handed over in Cesis in 2004. Prices of the apartments with white finish fluctuate between 246 – 300 LVL/m<sup>2</sup> (350 – 427 EUR/m<sup>2</sup>), besides not all the apartments have been sold out yet.

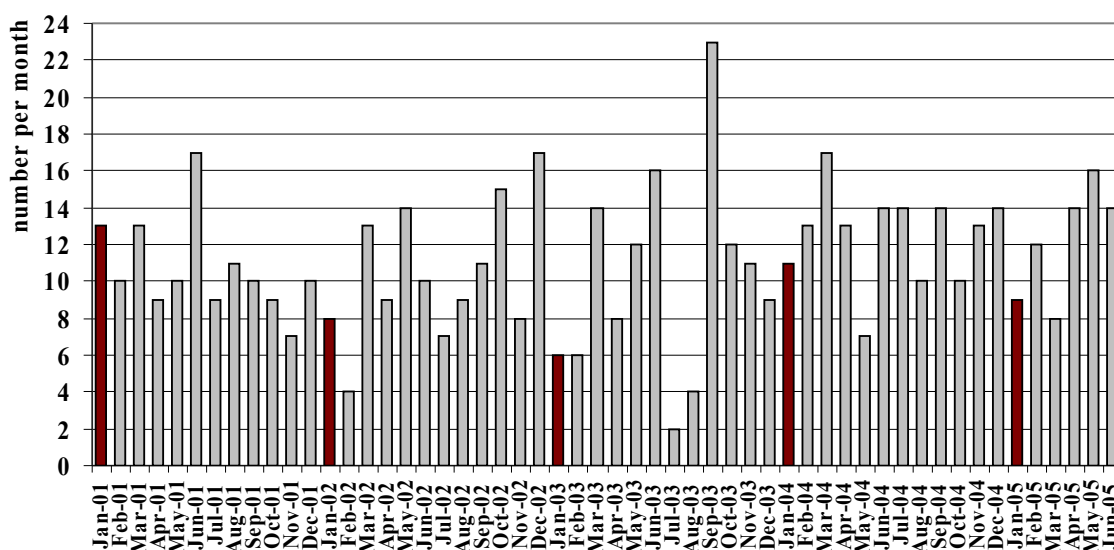
**Dynamics of apartment transactions in Valmiera**



In the last few years there was witnessed a stable demand for apartments for rent in Valmiera. The main demand drivers are the students of Vidzeme University College and employees of the regional institutions. The average price of two-room apartment for rent is about 50 LVL (71 EUR).

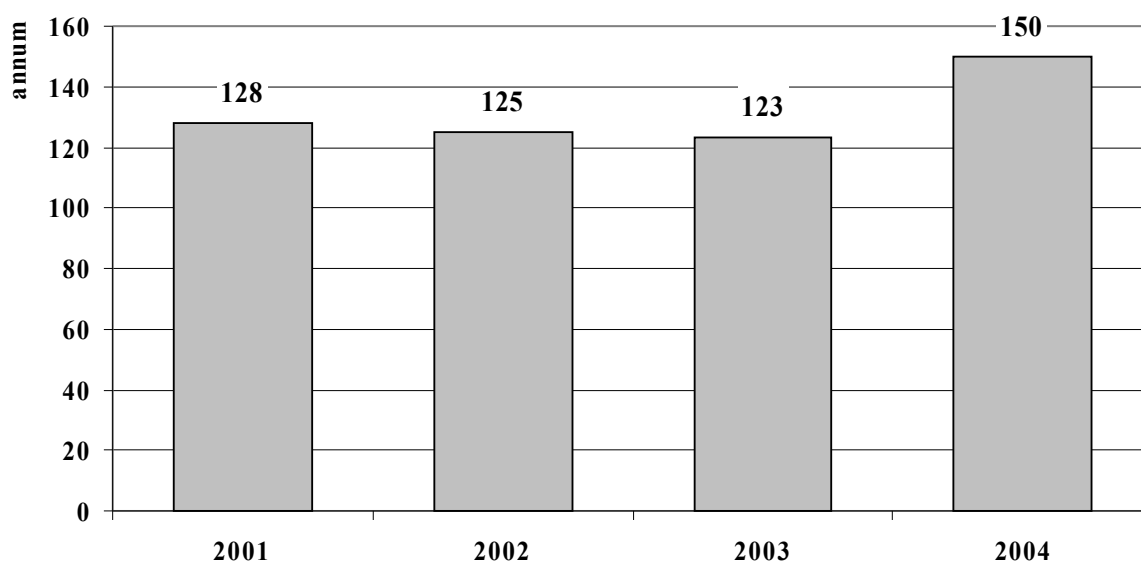
Historically there is a big rate of detached houses in Valmiera. Thereby the biggest number of transactions with detached houses in Vidzeme is witnessed in Valmiera. The average prices of detached houses in Valmiera are 45 000 LVL (64 300 EUR), the maximum prices reaching about 120 000 LVL (171 400 EUR). The latest noteworthy and expensive purchase this spring was a detached house of 450 m<sup>2</sup> for 294 000 LVL (420 000 EUR). The supply of detached houses in Cesis is not big. The most typical detached houses purchased have the floor space of 100 – 150 m<sup>2</sup>.

**Number of transactions with detached houses in Valmiera**



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Number of transactions with detached houses in Valmiera



Residential development land in Valmiera costs 6 – 10 LVL/m<sup>2</sup> (8 – 14 EUR/m<sup>2</sup>). The average price of residential development plots in Vidzeme fluctuates between 3 – 8 LVL/m<sup>2</sup> (4 – 11 EUR/m<sup>2</sup>). There is witnessed an increase in land parcellation, particularly in the vicinity of the sea. Price of land in the parceled meadows fluctuate between 0,50 EUR/m<sup>2</sup> and 20 EUR/m<sup>2</sup>, depending on picturesqueness of the landscape, infrastructure development and communications. The most typical purchase area is 600 – 800 m<sup>2</sup>; in Zvirgzdu kalns, which is easily accessible by car and with good infrastructure, there is a demand for land of 1 500 – 2 500 m<sup>2</sup>. The supply is sufficient, but infrastructure not good enough.

In the coastal area of Vidzeme the number of property sales and purchase transactions is not big - the average number is 5-10 deals per year. The market is not active mainly due to two reasons – some people wish to live in their properties themselves, and others are waiting for price increase which is encouraged by the construction of the highway Via Baltica (E67). Properties practically do not enter the secondary market. Land parcellation in the vicinity of the sea is limited. Furthermore, in Liepupe parish, for example in Tuja, after the land reform has been carried out, there are left only 5 legal access ways to the sea. For example, the purchased property can be located within 200 m from the sea and at the same time having no access to the sea. Sometimes it is necessary to cover 6 km to reach the sea. However, in the last few months there is witnessed an increased demand for the properties without direct access to the sea.

Similarly to other Latvian regions lately there is a witnessed price increase for agricultural land. It should be noted that before Latvia's accession to the EU the average price of agricultural land was by 10-15 times lower than in Europe. Furthermore, starting with 2004 the European Fund's resources have become accessible. The price amplitude of agricultural land in Valmiera region depends on location, infrastructure availability, and it fluctuates between 250 LVL/m<sup>2</sup> (360 EUR/m<sup>2</sup>) and 1 000 LVL/m<sup>2</sup> (1 430 EUR/m<sup>2</sup>).

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## COMMERCIAL SPACE

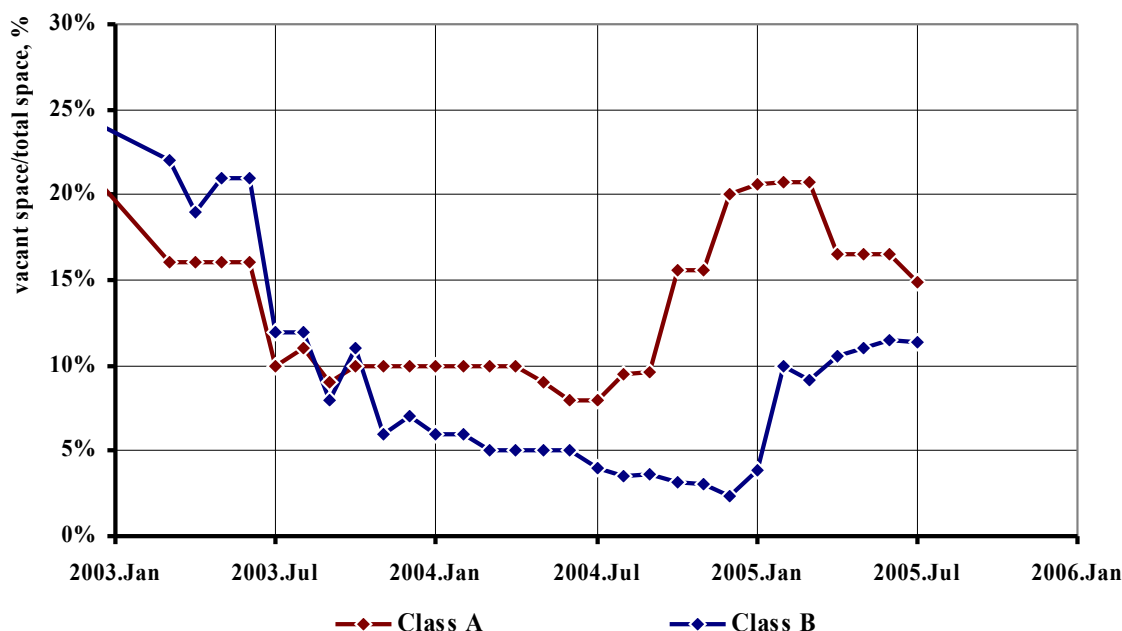
### OFFICE SPACE

If compared with June, the number of transactions in July has slightly decreased. There is witnessed an increased demand for Class C office premises located outside the centre of Riga, with a small lease space of about 160 m<sup>2</sup> for 6 – 9 EUR/ m<sup>2</sup>. The main demand drivers in July were foreign enterprises – Finnish, Estonian, as well as several Lithuanian companies specializing in transport services, agricultural machinery, sporting goods wholesale and real estate. There was witnessed a demand for more spacious premises from companies offering language and computer courses.

In the segment of Class B office space market the new office centre has been handed over, which means that the total office space market has grown by 3 100 m<sup>2</sup>.

There have not been notable changes in prices witnessed in Class A office space market, however, office space vacancy rate has decreased. Joint stock company “Hansabanka” have decreased lease space in their central bureau by leasing out one floor to “Hansabank” group enterprise “Hansa Līzings”.

Office space vacancy rate



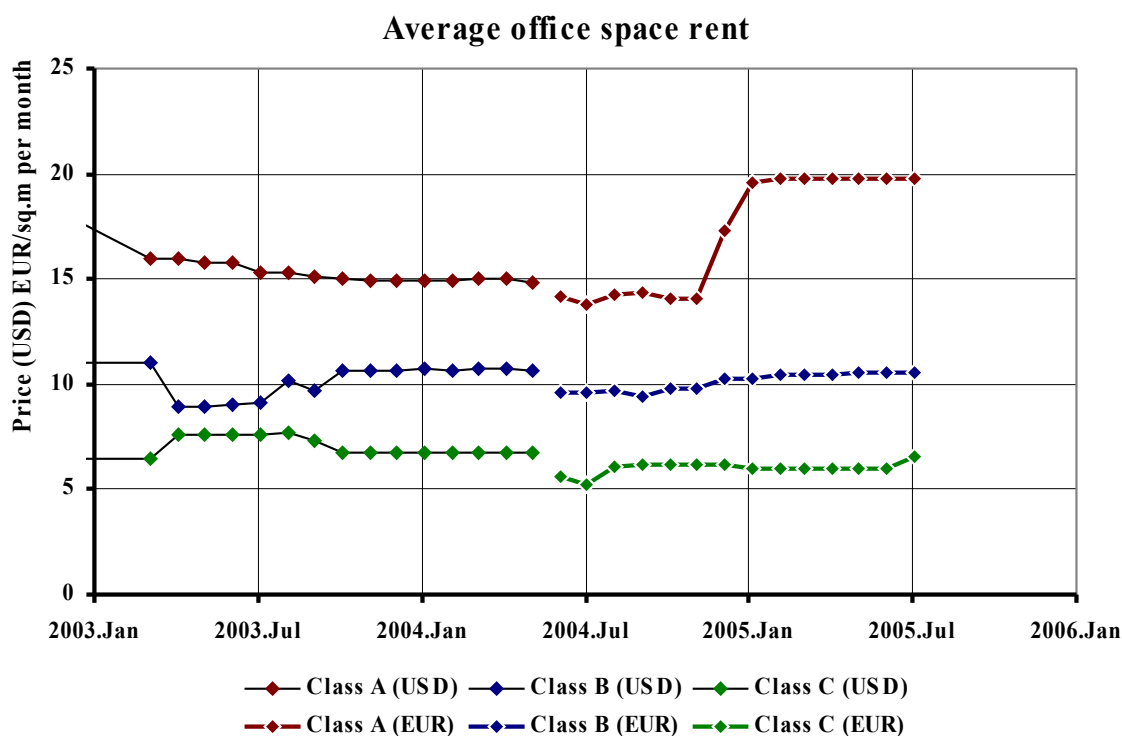
There is still witnessed an expansion of different state institutions, including Ministry for Children and Family Affairs, Ministry of the Interior, Ministry of Education. Baltic Business College is getting expanded as well. In this segment Class B office premises are demanded, competitions are organized, office space of 300 m<sup>2</sup> – 600 m<sup>2</sup> is demanded. The average price of Class B office space remains fairly stable for several months in a row – about 11 EUR/m<sup>2</sup>.

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Demand for office premises in Pardaugava considerably exceeds the supply. The latest noteworthy transaction carried out within twelve days was the lease of the detached house as office building with the swimming-pool, garages, bath-house, sentry-box and the nearby plot of land. There was a particular demand witnessed in July for 30 – 50 m<sup>2</sup> office premises with the possibility to park 5 trucks.

Lately there is witnessed an increased interest among customers intending to purchase small office premises with the space of 30 – 80 m<sup>2</sup> in the centre of Riga. Provided there is the shop-window, the premises with the space of 5, 11 and 13 m<sup>2</sup> are demanded.

As a result there is a new tendency appearing on the market – office lease market becomes competitive to retail lease market. Small and previously non-rentable retail space located outside the city centre in Brivibas Street, as well as in Pardaugava, for example in Kalnciema Street, is leased out as office space. There is a big demand witnessed for these premises, including space on the first floors.



In the end of June a new office building has been launched in Sadovnikova Street with the total space of 3 100 m<sup>2</sup>, from which office space takes 2 500 m<sup>2</sup>. About 10%, i.e. 388 m<sup>2</sup> are already leased, and the rent payment corresponds to the average Class B office space rent payment – from 9 to 11 EUR/m<sup>2</sup>, and 400 m<sup>2</sup> are sold. The selling price of office premises is 1 500 EUR/m<sup>2</sup>. The proprietor of the building occupies 10% from the total office space; the rest space so far remains vacant. The building is appealing as it offers office space for purchase and office space for lease. Capitalization rate – 8%.

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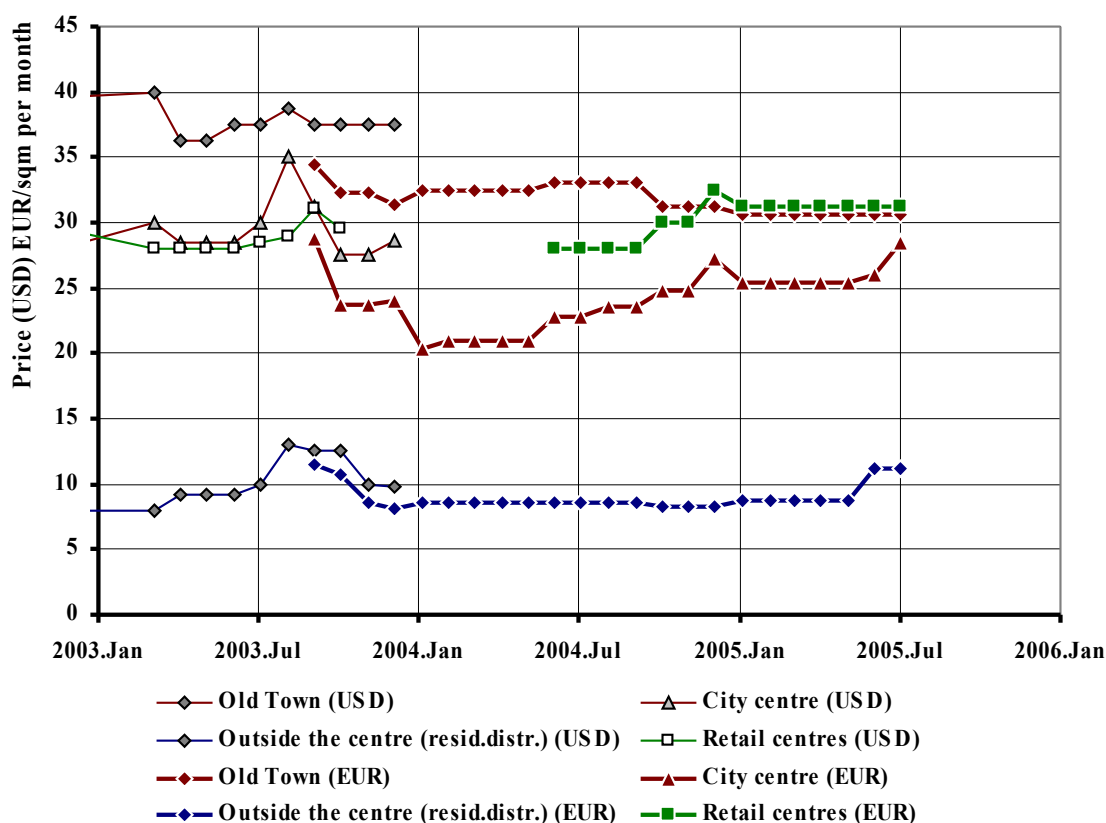
## RETAIL SPACE

In July there is witnessed a decrease in the activity of the retail space market. There is witnessed an increased demand for shopping premises in the centre.

The biggest demand for small retail space was witnessed in the centre, and its owners are starting to lease out premises for increased rent payment as demand continues to grow. For example, 40 – 45 EUR/m<sup>2</sup> are asked instead of the present 25 – 30 EUR/m<sup>2</sup>, besides the valid rental contracts are cancelled. It should be noted that the average period of retail space lease is 3 – 5 years, the maximal period – 10 years. Instead of the previous rent payment in the amount of 30 – 35 EUR/m<sup>2</sup> for leasing shopping premises in Kalku Street, the new rent payment has been defined in the amount of 50 EUR/m<sup>2</sup>. As demand exceeds the supply, retail space rent in this market segment is getting nearly twice as big.

The price increase mentioned above is not distinctly noticeable in the diagram, as there are the average market prices reflected.

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



Small retail space of about 50 m<sup>2</sup> is still in demand in the near centre where the pedestrian flow is active. Demand is witnessed for bigger retail space of 200 – 500 m<sup>2</sup> in the streets with the active pedestrian flow and busy traffic.

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Lately there has been witnessed an increase in demand for purchase and not for lease of the retail space located in the centre and in the nearest centre. At the same time the supply of retail space for purchase in the centre and residential districts is growing. Retail space is offered for purchase in the Old Town for 4 000 – 7 000 EUR/m<sup>2</sup>, and the rent of the same retail space would amount to about 50 EUR/m<sup>2</sup> plus the sum that has to be paid for the house management. Capitalization rate of this retail space is 9%. Retail space sales transactions take place under condition the demanded price corresponds to the actual value of the project. The total number of these transactions is not big, as in the majority of cases the quoted price is too high. The main demand drivers for retail space purchase are wine retailers, as well as exclusive stationery, clothing and watch retailers.

Retail space that was being vacated outside the centre of the city during the previous few months is gradually being occupied by the providers of different services, as well as beauty saloons. Retail space is getting vacated in Kalnciema Street quite fast, as retail activity is not rentable there. Some retail space is leased out as office space.

## INDUSTRIAL MARKET

The same tendencies are characteristic for the industrial space market of July that have been witnessed there before. Demand remains particularly robust for land purchase with the intention of constructing logistics and distribution centres, as well as manufacture plants.

As there is still witnessed lack of small and qualitative warehouses, distribution centres are experiencing increase in development, and for many enterprises it is profitable to use their services. In Lithuania and Estonia this market segment is more developed, and there are some of the enterprises who are looking for possibilities to enter the Latvian market, as they are already familiar with their own markets, as well as they have occupied their own positions there. As a result, in order to withhold positions on the Latvian market the domestic enterprises are forced to develop faster. Real estate companies are helping to the distributive enterprises to find bigger warehouses, as well as new customers. It is the task of the real estate companies to find the most suitable premises, besides, in order to provide with the tenants, the information is compiled about the companies that are looking for the small warehouses with the purpose of attracting these enterprises as the potential tenants.

A big potential is expected in the future logistics centre of Jelgava with the total industrial space of 50 000 m<sup>2</sup>, which is expected to turn into the logistics centre of the Baltics.

The company „Courier” providing logistics services is entering the market, that similarly to „Schenker” Ltd will be offering a range of warehousing services and will be employed with the inland delivery of freights for lower prices in comparison to those that would be in case they would be using their own or leased warehouses, as well as transport.

The construction of warehouses for private purposes is still going on. The biggest supply so far has been witnessed in the segment of construction of warehouses for lease in order to make profit from the rental payments. There is a tendency witnessed that potential tenants are searched in order to sign contracts even before the land for warehouse construction is purchased. It should be noted that there is also demand from tenants. Thereby in the nearest

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future there is expected that more and more warehouses will come to the market with small industrial space meeting the requirements of one or two companies.

The commercial enterprise of household appliances „Jysk” is looking for warehouse premises and land for construction of the centre of logistics. The German discount chain „Lidl” is planning to build logistics centre in Olaine.

There are witnessed some changes in the usage purposes of the warehouses located in the centre. For example, warehouses located in Skanstes and Hanzas Streets that are leased out for 5 – 6 EUR/m<sup>2</sup>, in the perspective are planned to be transformed into office buildings.