REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

June 2005

In June the average standard type apartment price remains the same as in May, i.e. 800 EUR/m^2.

The biggest price rise in June, i.e. 3%, was witnessed for the standard type apartments in the buildings located in Kauguri, where the demand for residential area is steadily increasing.

A big demand has been witnessed for one-room apartments - the latest noteworthy deal in Bolderaja was the purchase of a small 28 m^2 one-room apartment without conveniences located in the first floor of the wooden building that has been purchased in one week's time for 24 000 EUR.

Offer of apartments for rent is growing. The standard type apartments are offered, as well as the new homes apartments. Demand stays robust, notwithstanding the fact that the average monthly rent equals to monthly mortgage repayments.

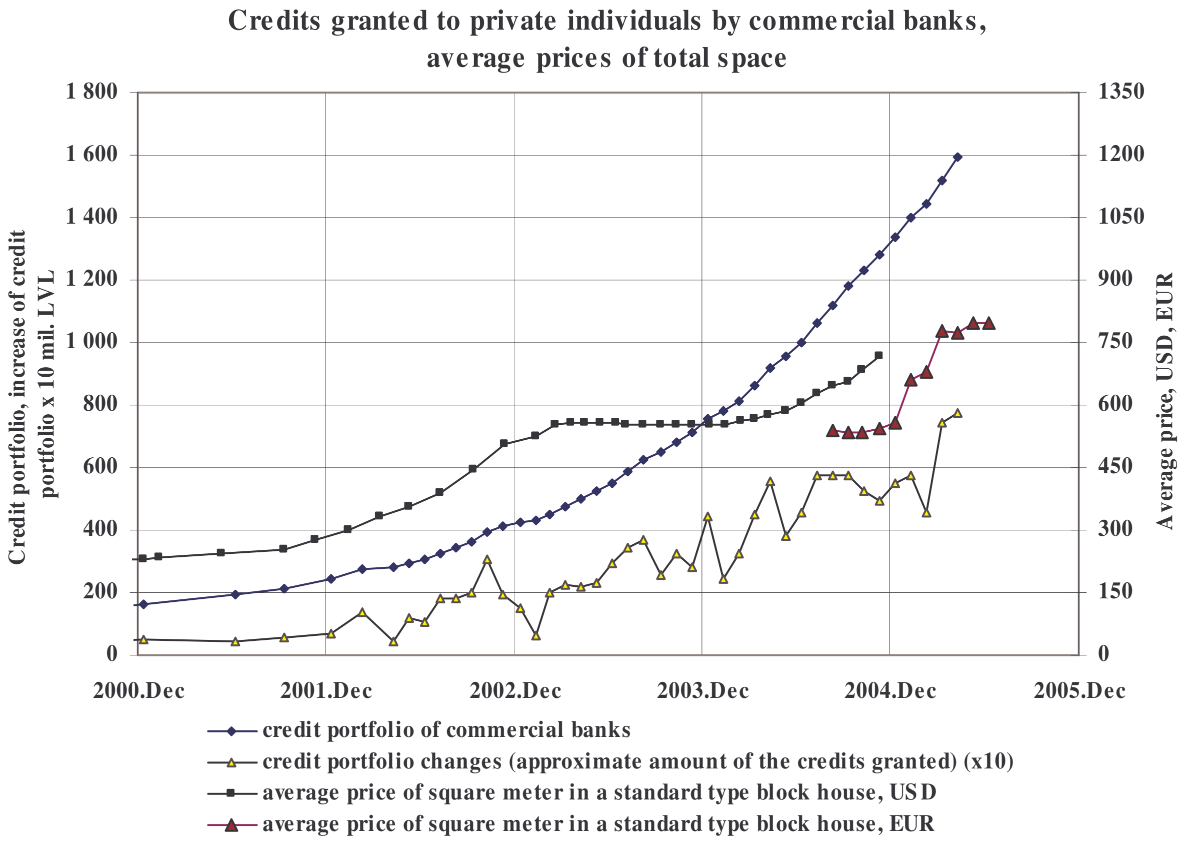
In Latvia trade and building develop, whereas manufacture remains idle. Furthermore, retail space and industrial space are in demand for purchase and not for rent, thus, at the same time they are being the investment objects.

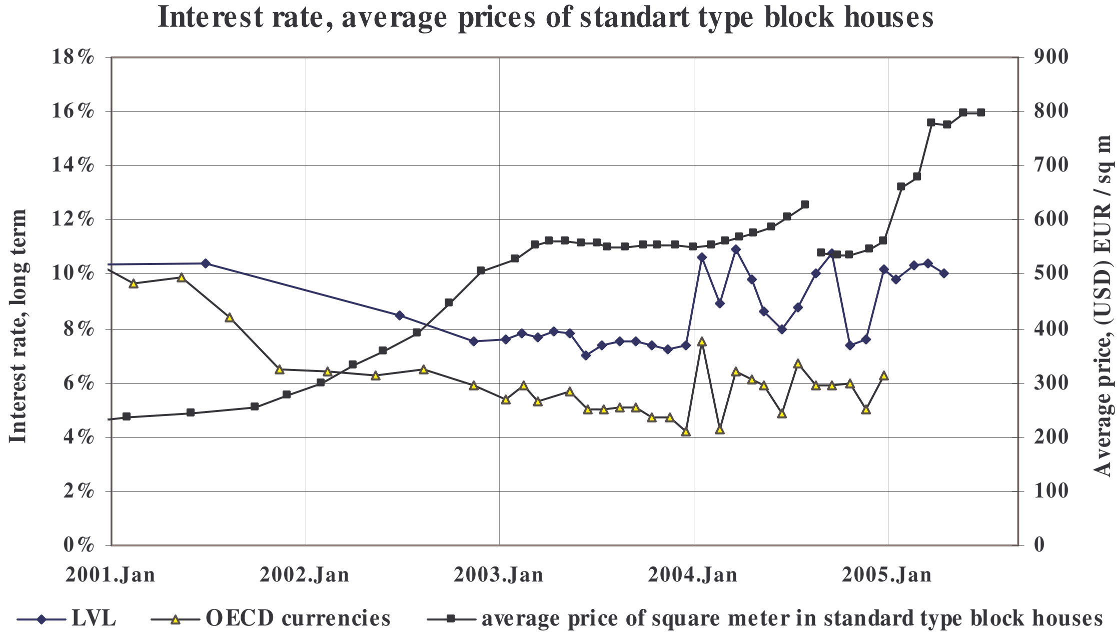
On the 16th June the new LATIO product has been presented - „iEvērtē". With its help on the official web site of LATIO Ltd. (www.latio.lv/ieverte) every purchaser or seller of the standard type apartment will be able to find out the price of the apartment he has chosen in any residential district of Riga. Up till now the users of the mentioned service have been particularly interested in determining the market value for two-room apartments in Purvciems.

RESIDENTIAL MARKET

The interest rates of the credits granted to private individuals by commercial banks in 2005 practically remain the same, because the credits are taken mainly in EUR currency with the variable interest rate. In the world financial markets, EUR interest rates remain unchanged, e.g. the 6-Months LIBOR rates in 2005 fluctuate between 2,1 – 2,2%.

The major part of the credits granted by commercial banks is constituted by mortgage credits the total volume of which continues to grow – in comparison to the previous year, the credit portfolio growth in the first half of 2005 is by 1,8 times bigger than in the respective period of 2004. It happens irrespective of the fact that the volume of trade of both the standard type apartments and that of the detached houses during the first half of the year has been lower than during the previous year. As a result, it is possible to conclude that unlikely to the previous year, this year the bulk of the money enters the competitive markets – the new residential projects, building, reconstruction, repairs.





STANDARD TYPE APARTMENTS

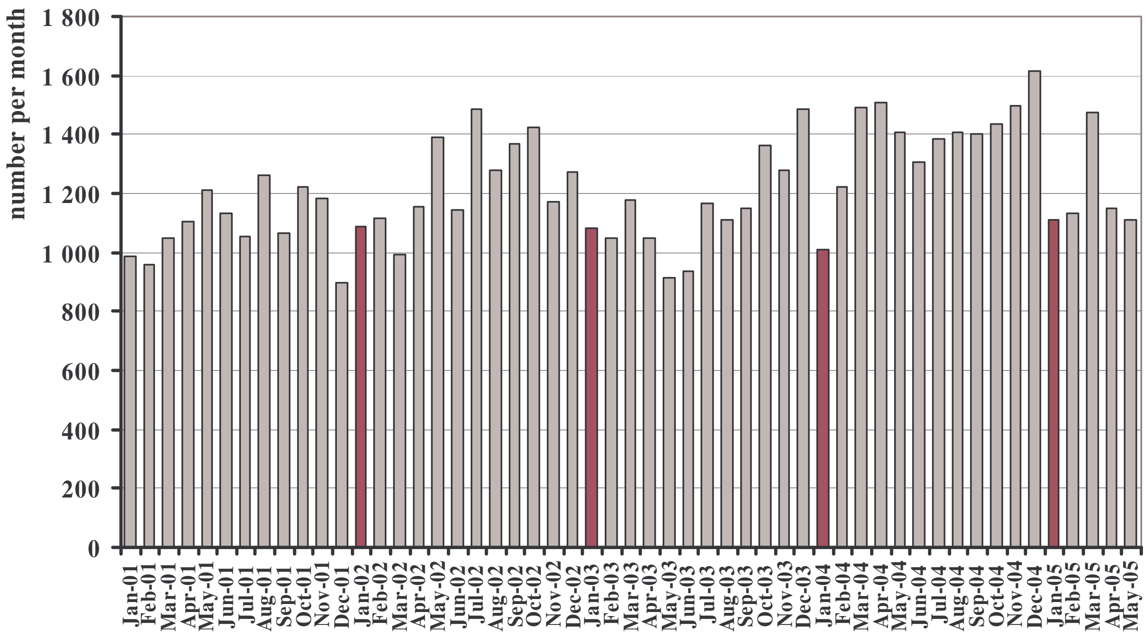
If compared with the previous month, in June the average standard type apartment price has not changed, i.e. the average price is 800 EUR/m^2. The minimal price has dropped by approximately 1%, whereas the maximal price has increased by almost 2%.

For example, in May the prices for the apartments in the 104 series buildings located in Purvciems dropped down, whereas in June the prices remain the same or they keep climbing. At the same time, in May the prices for the apartments in the same series buildings located in Plavnieki and Mezciems have reached their peak, whereas in June this tendency of price rise has considerably slowed down. The prices in Kengarags remain fairly stable for several months in a row. The prices for the apartments in the 602 series buildings located in Ziepniekkalns remain stable.

In June the biggest price rise was witnessed for the standard type apartments in the buildings located in Kauguri, where the demand for residential area is steadily increasing. In June the average apartment price has climbed by 3 %, reaching about 500 – 550 EUR/m^2.

One-room apartments are in demand. The latest noteworthy deal in Bolderaja was the purchase of a small 28 m^2 one-room apartment without conveniences located in the first floor of the wooden building that has been purchased in one week’s time for 24 000 EUR. The one-room apartments in Imanta, Bolderaja are being purchased out immediately after they have been offered; there is also the demand for apartments in Sarkandaugava and Purvciems, although they remain in the offer for a longer time.

Dynamics of apartment transactions in Riga



The majority of apartment transactions are carried out with the two-room apartments. It is quite difficult to sell big apartments that have been in demand before, i.e. three and four-room apartments, because there are competitive objects in the same price category – the detached houses in Greater Riga area. The main reason is the small price difference that is paid for the apartment and the small detached house. That is why it is not easy to sell the three-room apartments that are located in the not so prestigious residential districts, like Sarkandaugava, Vecmilgravis, for 750 – 800 EUR/ m^2. It should be noted that the majority of people prefer purchasing the new apartments in the standard type apartment residential districts in the vicinity of their previous place of residence.

Offer of apartments for rent is growing. The standard type apartments are offered, as well as the new homes apartments, however, the offer of apartments for rent still is not able to satisfy the growing demand. For one-room apartments in residential districts tenants pay rent of about 100 LVL (140 – 150 EUR), and for three and four-room apartments – about 150 LVL (215 EUR). The price does not depend on the residential district. It should be noted that the volume of the monthly rent practically equals to monthly mortgage repayments. Demand is created by the young people and country people who are working in Riga and during the week have to stay in the capital.

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

District/ series		Purv- ciems	Ziepniek- kalns	Agens- kalns	Imanta	Zolitude	Plavnieki	Mezciems	Jugla	Kenga- rags	Bolderaja
Series 119	1- room	29000 - 56000	29000 - 55000	-	-	30000 - 54000	35000 - 56000	-	-	-	-
	2- rooms	43000 - 68000	35000 - 63000	-	-	36000 - 70000	44000 - 65000	-	-	-	-
	3- rooms	53000 - 90000	45000 - 75000	-	-	45000 - 79000	54000 - 85000	-	-	-	-
	4- rooms	62000 - 95000	52000 - 86000	-	-	50000 - 90000	59000 - 94000	-	-	-	-
Series 602	1- room	28000 - 42000	23000 - 38000	-	23000 - 40000	-	28000 - 41000	28000 - 42000	-	-	-
	2- rooms	25000 - 58000	34000 - 55000	-	31000 - 50000	-	35000 - 58000	35000 - 58000	-	-	-
	3- rooms	45000 - 75000	40000 - 69000	-	35000 - 69000	-	44000 - 75000	43000 - 75000	-	-	-
	4- rooms	51000 - 88000	50000 - 84000	-	46000 - 88000	-	50000 - 85000	49000 - 90000	-	-	-
Series 103	1- room	30000 - 45000	-	27000 - 42000	-	-	30000 - 45000	-	-	-	21000 - 35000
	2- rooms	42500 - 65000	-	37000 - 60000	-	-	44000 - 63000	-	-	-	30000 - 42000
	3- rooms	58000 - 78000	-	45000 - 80000	-	-	57000 - 76000	-	-	-	37000 - 50000
Series 104	1- room	29000 - 56000	30000 - 48000	-	26000 - 48000	31000 - 47000	38000 - 54000	38000 - 50000	-	-	-
	2- rooms	48000 - 68000	37000 - 63000	-	35000 - 58000	37000 - 59000	48000 - 64000	48000 - 65000	-	-	-
	3- rooms	59000 - 88500	46000 - 75000	-	44000 - 70000	45000 - 73000	57000 - 84000	53000 - 85000	-	-	-
„Lithuanian” proj.	1- room	25000 - 38000	20000 - 32000	22000 - 35000	20000 - 42000	-	-	24000 - 38000	-	20000 - 33000	18000 - 30000
	2- rooms	34000 - 58000	30000 - 45000	29000 - 50000	30000 - 55000	-	-	33000 - 56000	-	28000 - 48000	25000 - 37000
	3- rooms	40000 - 69000	39000 - 53000	37000 - 55000	38000 - 65000	-	-	38000 - 67000	-	35000 - 54000	33000 - 45000
„Hruschov” type houses	1- room	25000 - 35000	20000 - 36000	23000 - 33000	-	-	-	-	22000 - 35000	20000 - 32000	-
	2- rooms	34000 - 52000	30000 - 43000	30000 - 47000	-	-	-	-	30000 - 46000	29000 - 43000	-
	3- rooms	42000 - 63000	38000 - 52000	37000 - 55000	-	-	-	-	38000 - 50000	36000 - 55000	-

THE NEW HOMES MARKET

Part of the new homes projects are offered for rent, another part goes to the secondary market, and only the small part of the new homes projects passes into ownership of consumers. Some of the customers have purchased two apartments – one for living and another one for renting out, with the purpose of gaining profit. However, a demand for expensive apartments in the residential areas, even for the new homes projects, is not great. Alongside, it is quite unlikely to rent out the apartment for 550 LVL (780 EUR) + the sum that has to be paid for the house management, but it is possible to find tenants who are ready to pay 500 EUR. In reality, the rent only just covers mortgage repayments and does not give much profit.

Demand for the new homes apartments is not the same planned by the developers: purchasers are evaluating the project more carefully, as well as they are paying attention to its quality and the construction company. Hence the construction start of a number of new homes is delayed, and the developers are not sure that all the apartments are going to be sold out.

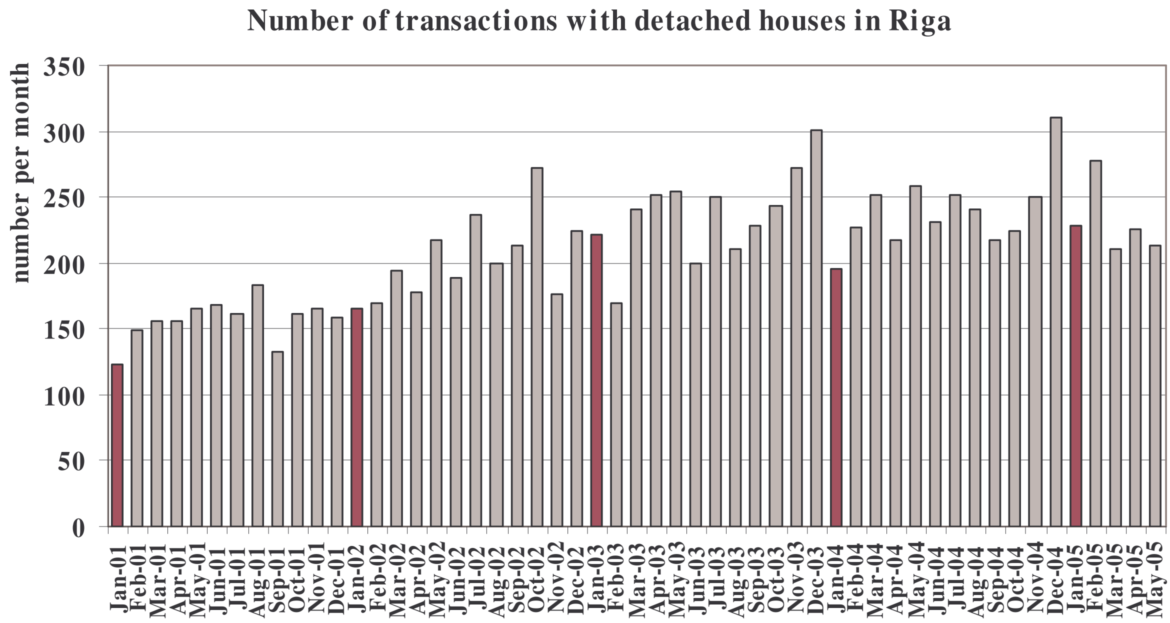
APARTMENTS IN THE CENTRE OF THE CITY

Market activity in the segment of apartments in the centre of the city is stable, prices remain unchanged. There are new offers of real estate in the market, also inherited. Owners carefully estimate their property, and if the expenses exceed the profit, the property is being offered in the market. It is quite problematic to trace the change of actual owners of the property, as in many cases ownership is being legalized by the specially created enterprises rendering housing and communal services. As a result, formally the parts of the enterprise are sold, and not the property itself.

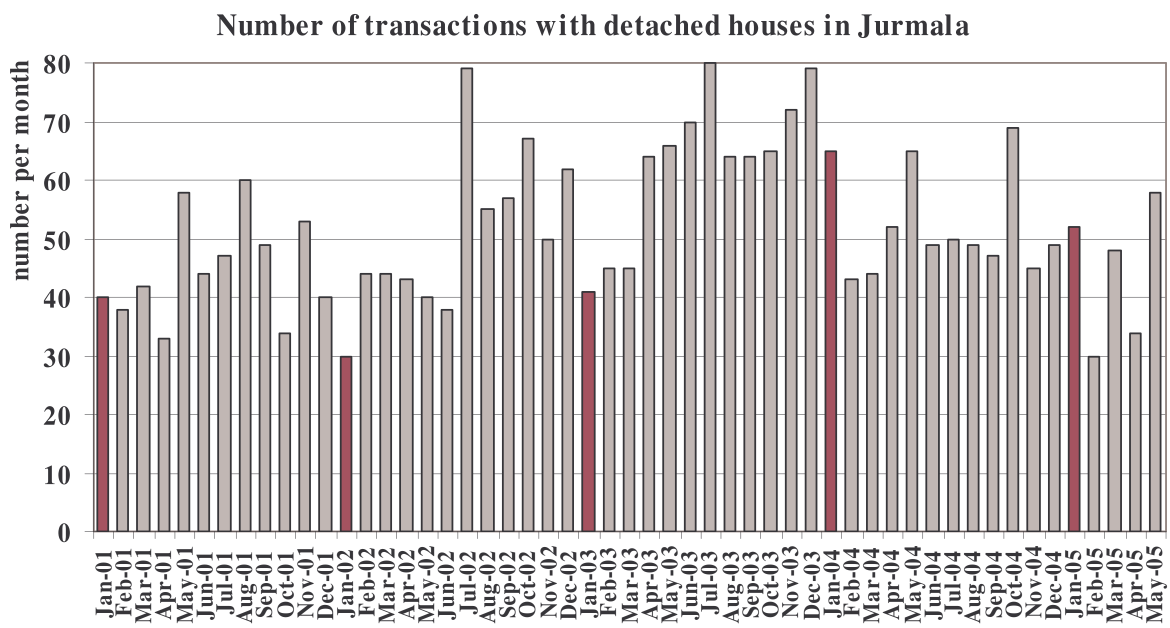
The property that is located in the vicinity of the new building project of the National Library of Latvia is offered for sale at the prices of Old Town's apartments, i.e. the prices exceed the market value of the apartments by 2 – 3 times. Owners are inclined to believe that it is the vicinity of the future library that increases the value of the nearby property.

DETACHED HOUSING

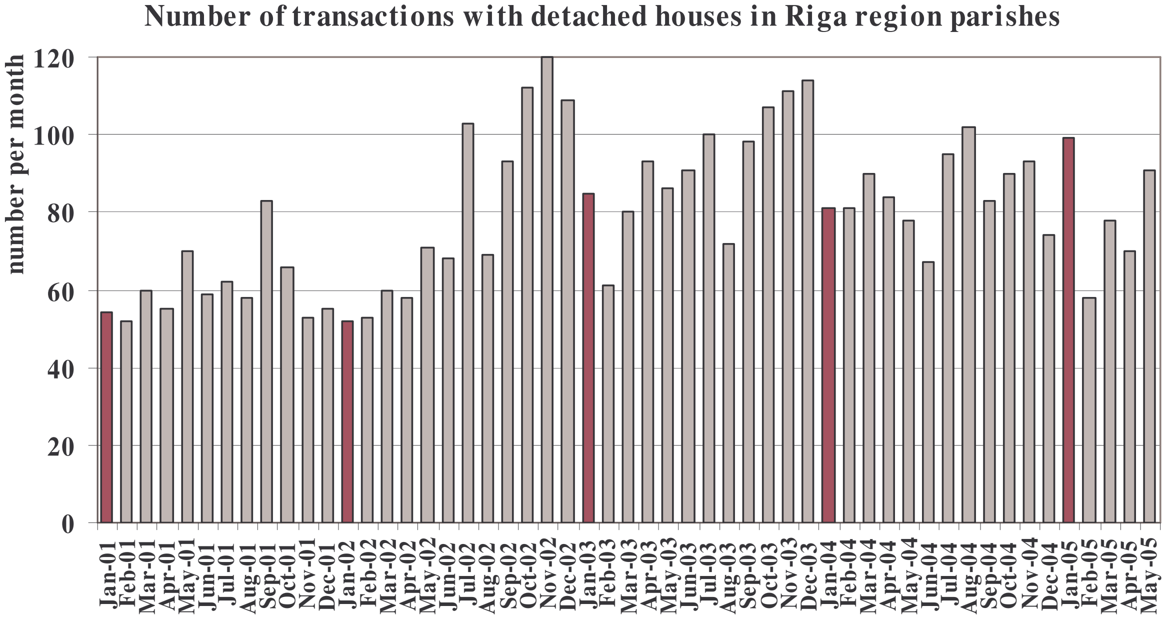
The number of transactions with detached houses in Riga in the first half of 2005 holds steady, the peak has been reached in February.



In Riga, in the neighbourhood of detached houses, an increase in demand for previously built detached houses with a plot of land is witnessed. As there is the shortage of the residential development land in Riga, besides it is expensive, purchasers are buying the old houses with the purpose of reconstructing them. In great demand are the detached houses with the floor space fluctuating from 60 – 100 m^2, plot area of approximately 600 m^2, the price reaching as high as 90 000 LVL (approximately 130 000 EUR).



In Sloka and Kauguri the previously built three and four-apartment wooden buildings are in demand.

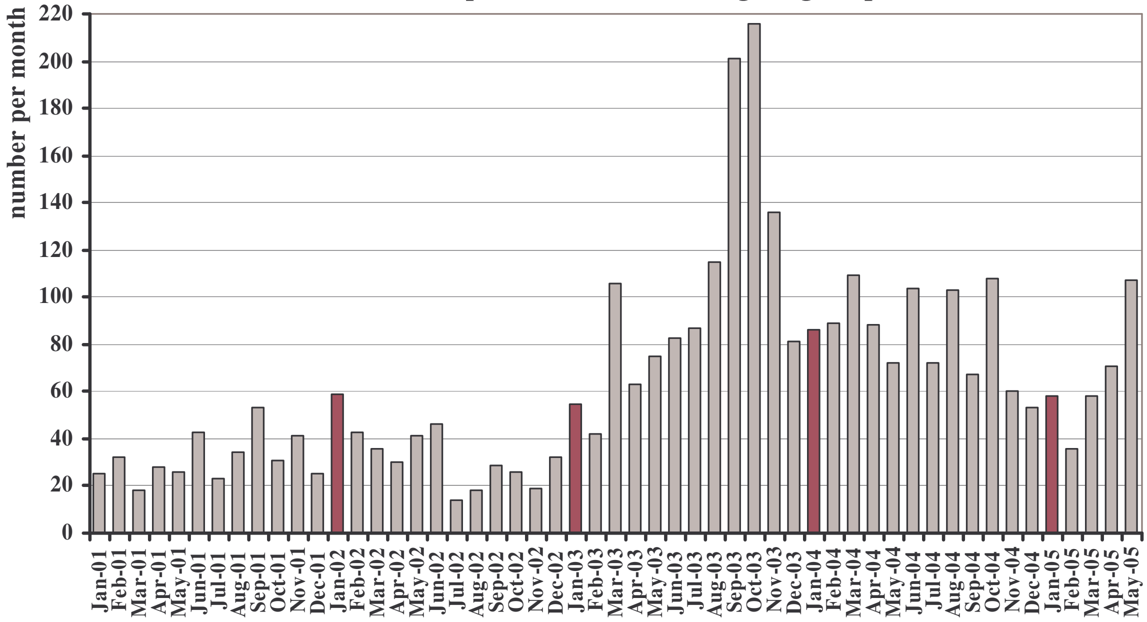


RESIDENTIAL DEVELOPMENT LAND MARKET

Residential development land market activity is increasing in the area of Bullusala and Kleisti. On the left bank of the River Bullupe and in Bullusala in general, where Vakarbullu and Daugavgrivas Nature Reserves are located with enhanced regulations for utilization, as well as Piejuras Nature Park, the wide residential development is not envisaged. The latest noteworthy deal in June was a plot of land without any communications or access road sold for 36 EUR/m^2, the total sum of 135 000 EUR. The land on the banks of the River Bullupe is twice as cheap as in Vecaki and five times cheaper than in Jurmala, notwithstanding the fact that it is located close to Riga in the vicinity of the sea.

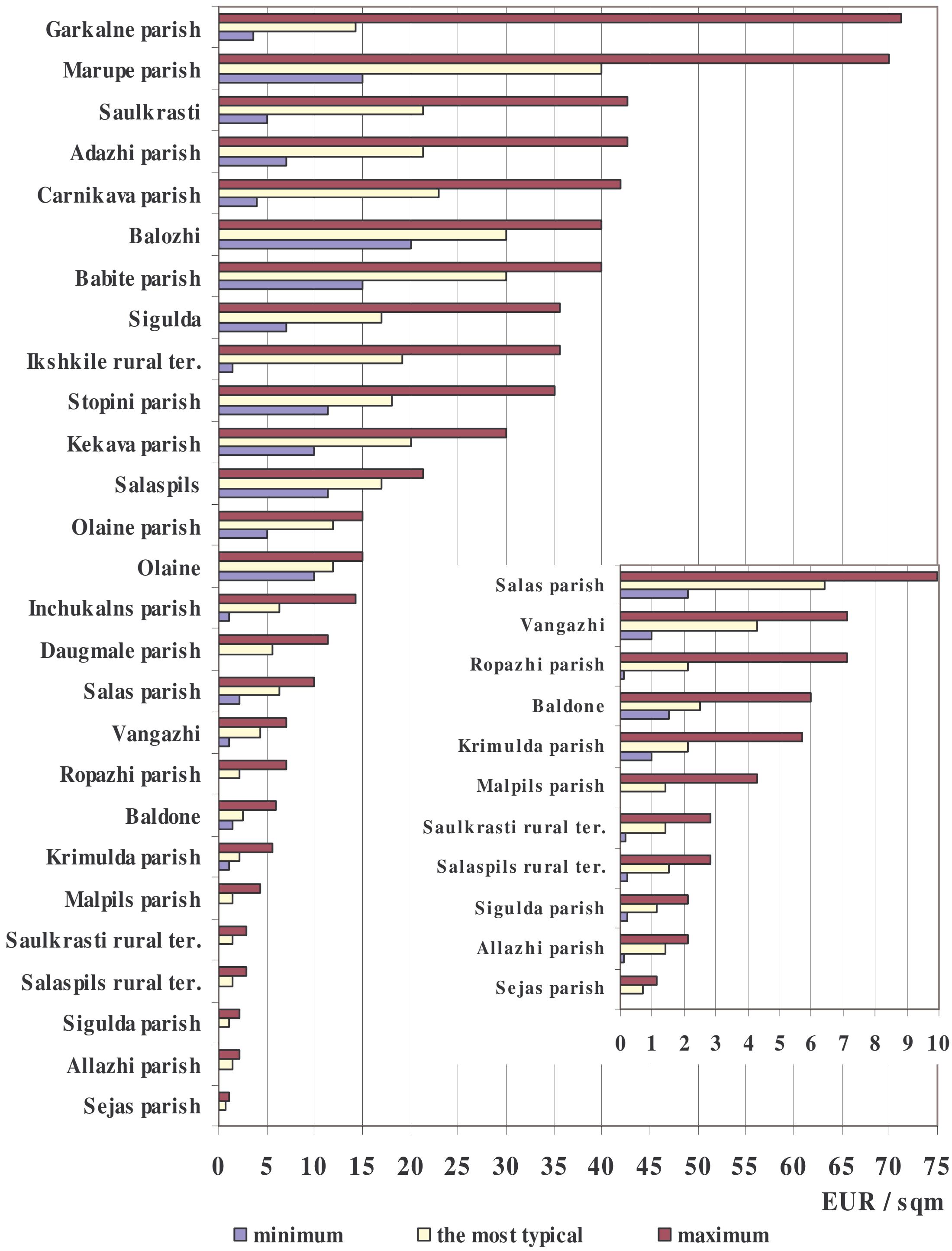
Land prices continue to climb in Marupe, in some places reaching as high as 20 EUR/m^2. Residential development plots located by the River Dauguva with picturesque view have reached the price of 25 LVL/m^2 (35 EUR/m^2). The residential plots of land located in the neighbourhood of Ikskile are sold for nearly twice as low, i.e. 12 - 15 LVL/m^2 (17 – 21 EUR/m^2). Residential development plots in the centre of Daugmale are sold for about 8 LVL/m^2 (11 EUR/m^2).

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



At the present moment in Latvia from 530 local authorities only 29%, or 156 local authorities have the valid territory planning and land management. Only six local authorities in Riga region have the Development Plans approved – the towns of Olaine, Saulkrasti, Salaspils, as well as Ropazu, Marupes and Stopinu parishes. A major part of land of Greater Riga has not been converted to residential development plots, even though there is a great demand for residential plots of land, or parcellation. The state, banks and real estate enterprises suggest to the potential customers they should carefully study the documentation of the respective plot of land and make sure that it has been converted to the residential plot of land.

Land prices in Greater Riga parishes



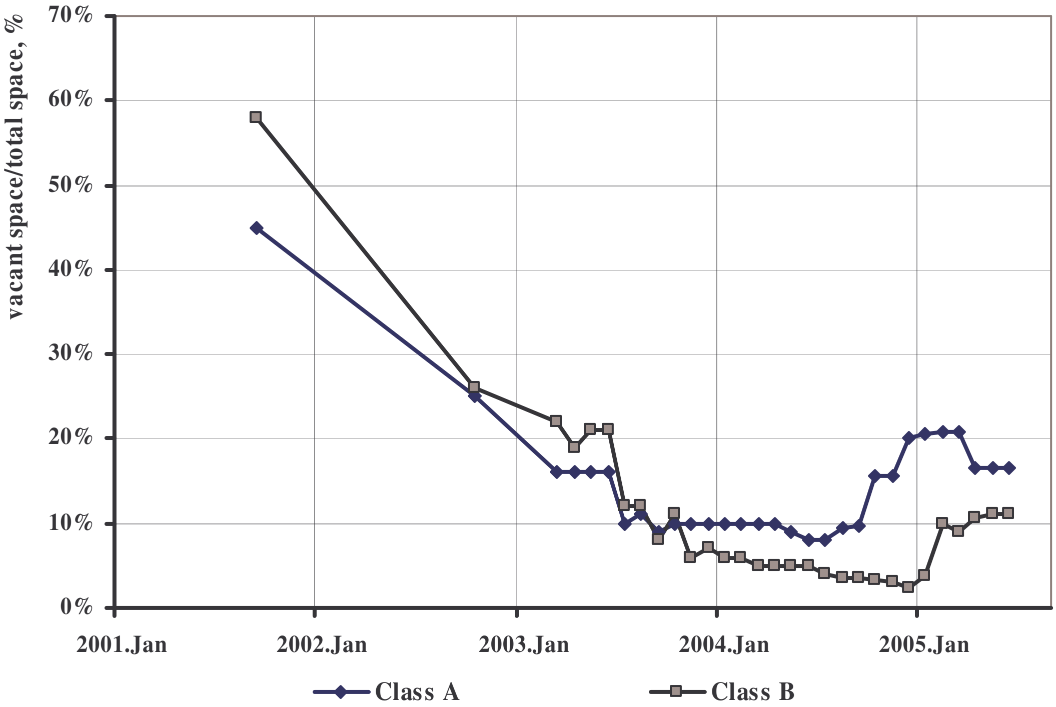
COMMERCIAL SPACE

OFFICE SPACE

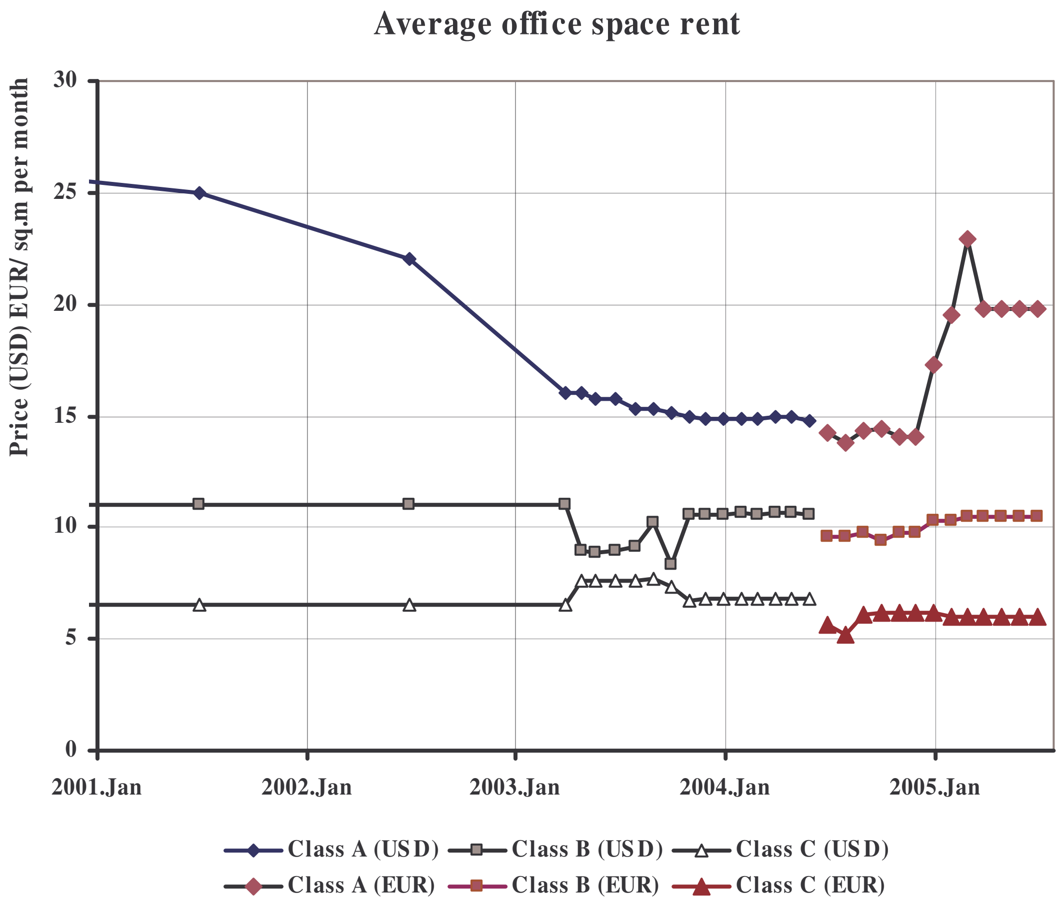
Activity in the segment of office space market remains robust; the bulk of tenants are constituted by the IT, advertisement and public relations service providers. A number of new embassies are intending to lease the complex of premises – the prestigious bureau in the downtown, the exclusive residence with a large plot of land and the apartments for the employees. There is witnessed an increased demand for Class B office premises, with the lease space of about 300 – 500 m^2, as well as for modest-sized office premises, that are leased mainly by the foreign companies or their representatives. 11% of the total Class B space is vacant. There is a big demand by the domestic enterprises for Class C office space up to 700 m^2 for 3 – 6 EUR/m^2.

There have not been notable changes witnessed in Class A office space market, even though there could be a big demand for Class A offices. Lately there is a trend of the customers intending to lease the qualitative office space in the downtown which is easy to reach by car. As a result, Class B office space is leased and the prices are the same as the lease rates of Class A office premises, i.e. 20 – 30 EUR/ m^2. At this price fully equipped and furnished upscale offices are available to lease.

Office space vacancy rate



As the demand for Class B office space is rapidly increasing, the new office buildings are being constructed. The office space is classified according to Class B for several reasons – one of them is the location, and another one is that the first two floors are mainly leased as the double level retail space. Lease space in the sporting goods, clothing and the like stores does not meet the requirements of Class A office building standard. Class A space in the office building can be leased out to flower vendors, bank braches and to the tenants rendering similar services, as well as cafés. One of the major requirements of the potential tenants is for the newly constructed office buildings to be easily reached by car and have convenient parking nearby. A number of enterprises provide their employees with the possibility of reaching their working place and home with the shuttle bus, as well as there can be an option of public catering in the same office building.



RETAIL SPACE

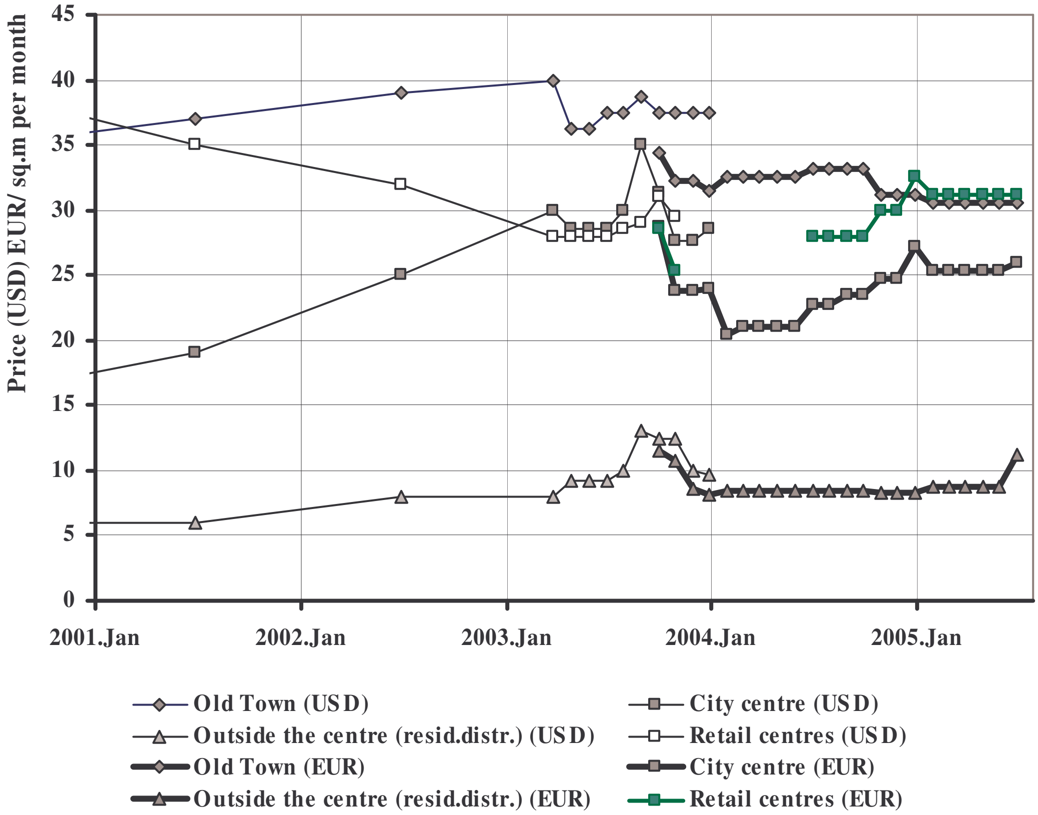
In June the biggest demand in the retail space market has been witnessed for particular stores with the retail space of about 200 – 500 m^2, and this month the main demand drivers are retailers of the sporting goods, clothing, interior articles, etc. Small retail space of about 50 m^2 is still in demand in the downtown where the pedestrian flow is active.

Retail space of 50 - 100m^2 is vacated in the direction uptown from Gertudes street, however, the average retail space rent practically remains the same as it does not take a long time the vacant retail space to be leased again. At the same time, there is no big demand witnessed for retail space located uptown, and this explains a slight price drop for retail space rent there.

Lately there has been witnessed a demand for lease and purchase of the retail space located in the residential districts with 10 - 15 thousands inhabitants. The increase in demand explains the adequate price rise for retail space rent in the residential districts. The new hypermarket chain from Germany is entering the market, and the retail and warehouse premises are needed with the retail space of approximately 1500 m^2, parking for at least 100 cars in Riga and other Latvian towns. Besides, this hypermarket chain is planning to purchase the suitable objects. The second biggest Lithuanian retail chain IKI that has opened its first grocery store in Latvia is looking for the retail space of at least 300 m^2 that would be easily reached by car in the residential districts, and the desired period of tenancy is 6 years.

Average retail space rent

(in streets with active pedestrian flow, space up to 100 sq.m)



INDUSTRIAL MARKET

Industrial space market is stable. The most expensive warehouses, i.e. 6 EUR/m^2, are not in demand. At the same time big warehouses premises with the space of 2000 m^2 are divided into smaller, i.e. into space of 500 m^2, and are leased for 2 – 4,5 EUR/m^2 .

In June the biggest demand has been witnessed for warehouses with the industrial space of about 1000 m^2 with the office premises with the space of 100 – 200 m^2, and it should be mentioned that this demand has been witnessed for purchase and not for lease. Industrial space has been demanded not far from the reach of the public transport and in the vicinity of the public catering places. The land in the business area is in demand with the space of 6000 – 10 000 m^2 for construction the industrial objects.

This month the main demand drivers for industrial space are the enterprises providing building and construction materials and services, as well as stone processing enterprise. The analysis of the industrial space market enables to conclude that trade and building develop in Latvia, whereas manufacture remains idle. Besides, the industrial objects are searched for with the intention to be purchased, thus, at the same time they are being the investment objects.