REAL ESTATE MARKET OVERVIEW -
RIGA AND GREATER RIGA AREA

March 2005

This March some apartments in the exclusive centre purchased only at the end of the previous year were already put on the market.

Lately private companies have been showing an interest to build some more floors above the residential buildings of "Hruschov" and Lithuanian project type urging residents of these apartment houses to refuse from the services of the house-management offices under the local authorities and to use services of the newly established limited liability companies.

Developers are showing an active interest in the possibilities to build new multi-storey office centres.

There are two main tendencies predominating in the industrial space market – moving of the industrial objects outside the city centre and commencement of building new centres of logistics.

At the end of February land of the former warehouse territory near the freight yard "Rigas – Krasta ganibu parks" at Hanzas street was sold for a price 50 times exceeding its cadastral value.

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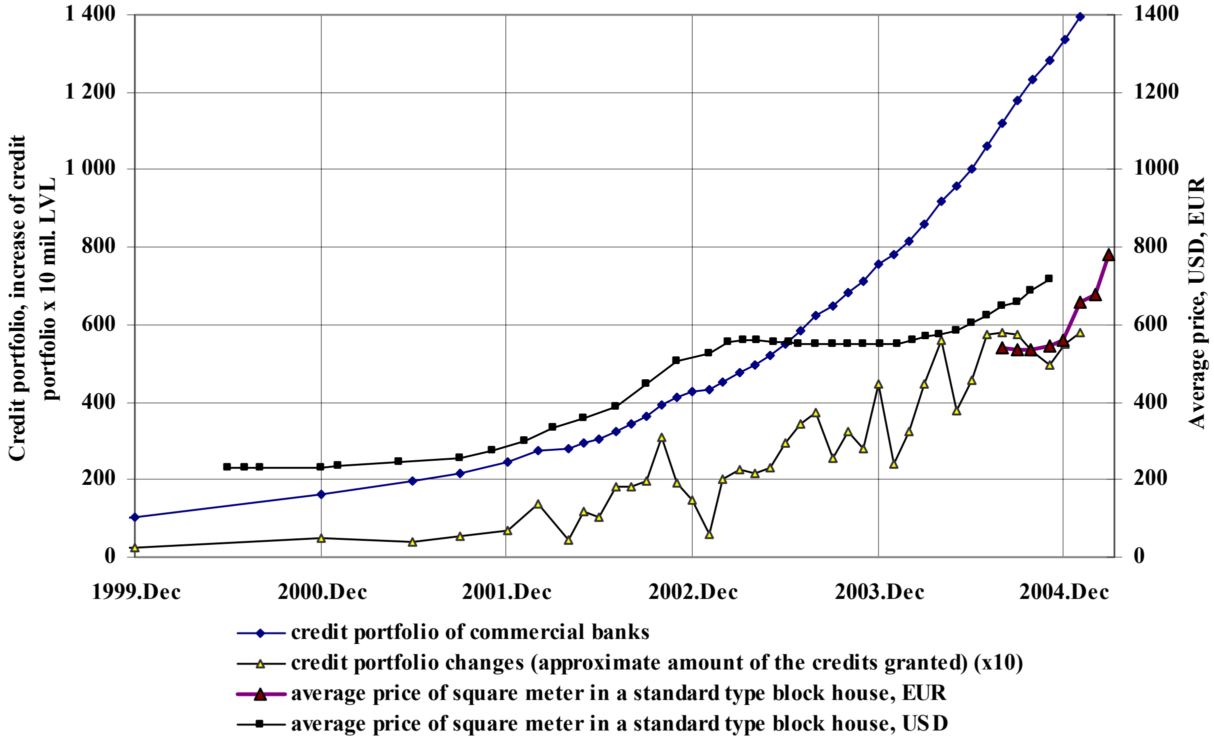
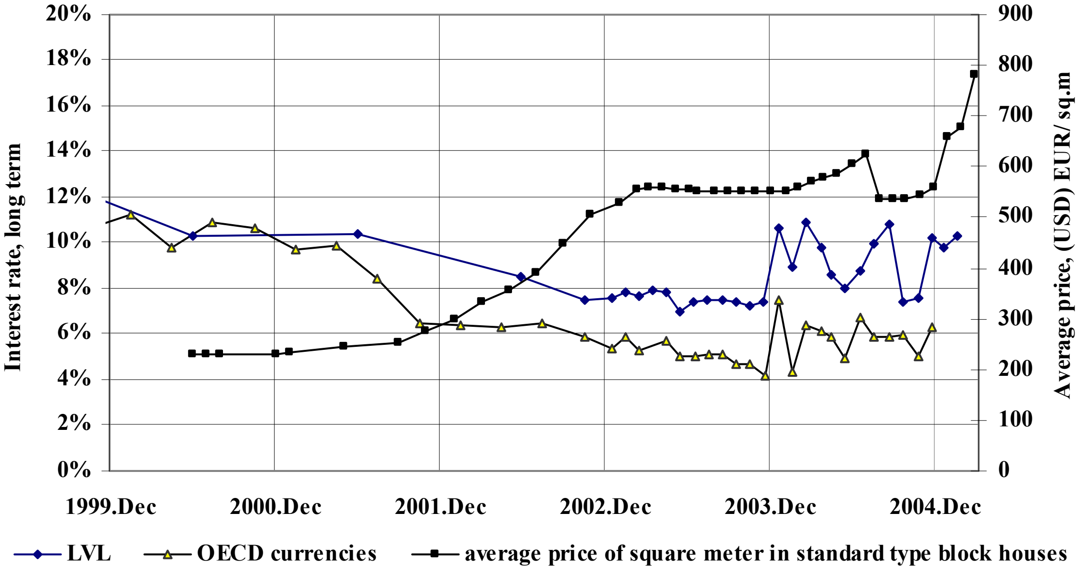
RESIDENTIAL MARKET

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



Interest rate, average prices of total space



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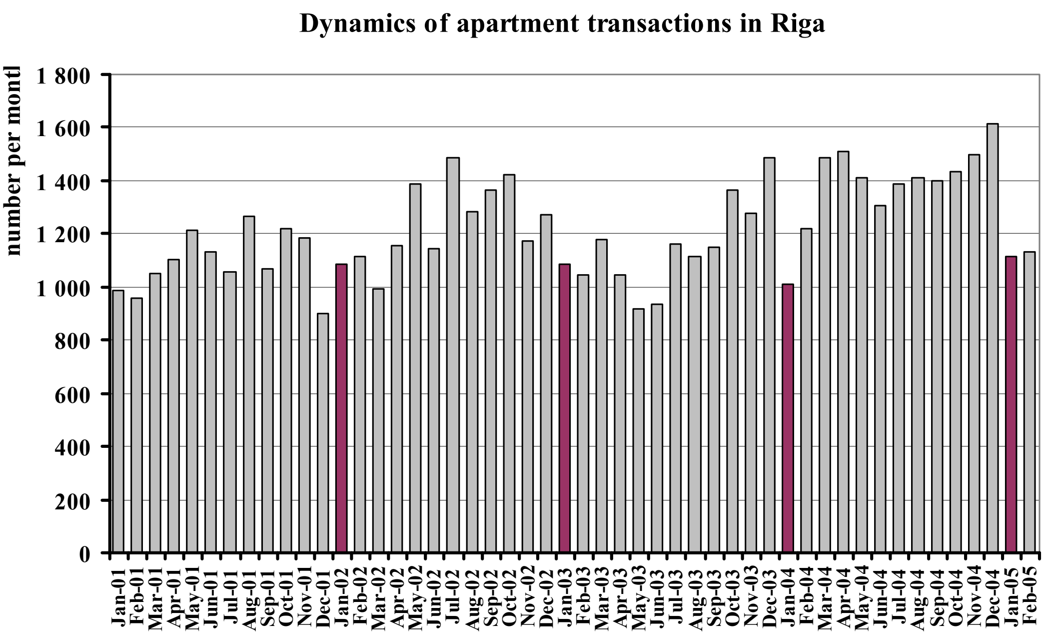
STANDARD TYPE APARTMENTS

Prices of standard type apartments in residential buildings are continuing to climb, in March in average prices have gone up for 15%. The biggest rise was witnessed for the apartments in the 602. series buildings located in Imanta, Plavnieki, Zolitude. The lowest price increase took place in Kengarags. Polarization of apartment prices is still increasing, the highest apartment prices experiencing bigger rate of price increase than the lower prices. Due to this reason the average price calculated as the mean average of all the standard type apartment prices in residential districts has climbed in one month's time for 15%.

Accessibility of credits is encouraging people to purchase apartments. Changes in the credit portfolio that reflects the amount of the credits granted has been keeping stable for several months - about 55 mio. LVL per month. Due to the fact that the majority of purchasers do not have enough money for the down payment, normally two apartments are mortgaged at one time – the one to be purchased and the other for paying the down payment. It should be noted that apartments in residential districts are purchased for living and not as investment objects, as it is with apartments in the centre of the city.



Lately a growing trend can be witnessed that private companies are urging tenants of apartment buildings located in residential districts to refuse from the services of the house-management offices under the local authorities and to start using services of the newly established limited liability companies. Besides, these companies are asking consent of the tenants of "Hruschov" type and Lithuanian project apartment buildings to build additional floors above the existing buildings.

The most rapid price increase in March was witnessed in Kauguri, Jurmala, where prices of standard type apartments in residential buildings in one month's time have climbed from 500 – 600 USD/m^2 to 500 – 600 EUR/m^2.

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

District/ series		Purv-ciems	Ziepniek-kalns	Āgens-kalns	Imanta	Zolitude	Plavnieki	Mezciems	Jugla	Kenga-rags	Bolde-raja
Series 119	1-room	32000 - 55000	29000 - 60000	-	-	30000 - 38000	38000 - 54000	-	-	-	-
	2-rooms	41000 - 63000	36000 - 60000	-	-	37000 - 53000	52000 - 62000	-	-	-	-
	3-rooms	53000 - 80000	48000 - 75000	-	-	49000 - 79000	57000 - 79000	-	-	-	-
	4-rooms	63000 - 90000	55000 - 85000	-	-	57000 - 85000	60000 - 89000	-	-	-	-
Series 602	1-room	27000 - 36000	24000 - 35000	-	23000 - 37000	-	26500 - 35000	25000 - 34000	-	-	-
	2-rooms	32000 - 50000	33000 - 55000	-	31000 - 53000	-	30000 - 49000	37000 - 49000	-	-	-
	3-rooms	46000 - 70000	44000 - 68000	-	42000 - 65000	-	41500 - 69000	46000 - 69000	-	-	-
	4-rooms	50000 - 90000	53000 - 75000	-	47000 - 70000	-	50000 - 85000	56000 - 85000	-	-	-
Series 103	1-room	30000 - 45000	-	22000 - 37000	-	-	29000 - 44000	-	-	-	21000 - 25000
	2-rooms	43000 - 64000	-	33000 - 60000	-	-	42000 - 63000	-	-	-	29000 - 34000
	3-rooms	57000 - 75000	-	43000 - 80000	-	-	56000 - 74000	-	-	-	38000 - 44000
Series 104	1-room	40000 - 55000	30000 - 45000	-	26000 - 40000	30000 - 45000	38000 - 53000	39000 - 54000	-	-	-
	2-rooms	52000 - 63000	37000 - 63000	-	35000 - 58000	37000 - 63000	51000 - 73000	52000 - 62000	-	-	-
	3-rooms	57000 - 75000	50000 - 75000	-	45000 - 70000	45000 - 75000	56000 - 70000	56000 - 75000	-	-	-
„Lithuanian" proj.	1-room	24000 - 33000	20000 - 27000	19000 - 28000	20000 - 42000	-	-	24000 - 35000	-	20000 - 22000	20000 - 25000
	2-rooms	34000 - 40000	30000 - 45000	29000 - 50000	30000 - 50000	-	-	34000 - 54000	-	32500 - 33000	28000 - 34000
	3-rooms	38000 - 57000	39000 - 53000	39000 - 55000	37000 - 65000	-	-	38000 - 56000	-	36000 - 39000	35000 - 38000
„Hruschov" type houses	1-room	30000 - 32000	20000 - 29000	21000 - 33000	-	-	-	-	20000 - 26000	21000 - 26000	-
	2-rooms	32000 - 36000	30000 - 43000	30000 - 47000	-	-	-	-	28000 - 41500	30000 - 38000	-
	3-rooms	37000 - 40000	40000 - 51000	40000 - 55000	-	-	-	-	36000 - 40000	36000 - 40000	-

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THE NEW HOMES MARKET

This March prices in the new homes market have remained stable. Construction works characteristic to the spring period are commenced. Developers have started actively organizing tenders in order to choose the most appropriate construction companies to develop the new residential projects. To a great extent the choice of the construction companies will determine prices of the new apartments. Many developers are waiting and not determining apartment prices while the market trends and construction costs are not clear yet.

More and more Western-standard accommodations are offered, i.e., with complete internal finish. The strongest demand is witnessed for the apartments with the so called white finish, i.e., rigypsum (plasterboard) walls or complete finish. Demand for apartments of the so called black finish, i.e., concrete walls without plastering and floor covering where the living premises are not connected to communications, is not big.

APARTMENTS IN THE CENTRE OF THE CITY

Apartments located in the centre of the city are a profitable investment object. If previously apartments purchased in the exclusive centre for further sales were put on the market no sooner than a year after its purchase date, then this March the apartments procured at the end of the last year are already offered for sales.

The average price of the apartments located in the Old Town has reached 3000 - 3500 EUR/m^2, but prices of separate apartments are even higher. However, transactions for sums exceeding 4000 EUR/m^2 take place very seldom, while the offer is quite extensive.

DETACHED HOUSING

With spring setting in the detached housing market has become more active. Detached houses are mainly purchased either to meet the concrete family requirements for living or because of the location. The most typical detached house sought for buying is a quality building of about 200 m^2 with complete internal finish. The house must be functional, with maximum living area. The strongest demand is witnessed for detached houses in Marupe, Bergi, Langstini, Titurga. At the moment the lowest rating is to houses in Ulbroka, Ikskile, Ogre. There is almost no supply in the locations of the highest rating.

Purchasers have become more demanding with regard to quality. Although along with the season setting in, the so called “un-demanded” houses also are being bought out. In Marupe near the Riga border all through the winter separate 160 – 250 m^2 detached houses with white finish were on sales for about 250 000 EUR. In March a great deal of these houses were bought.

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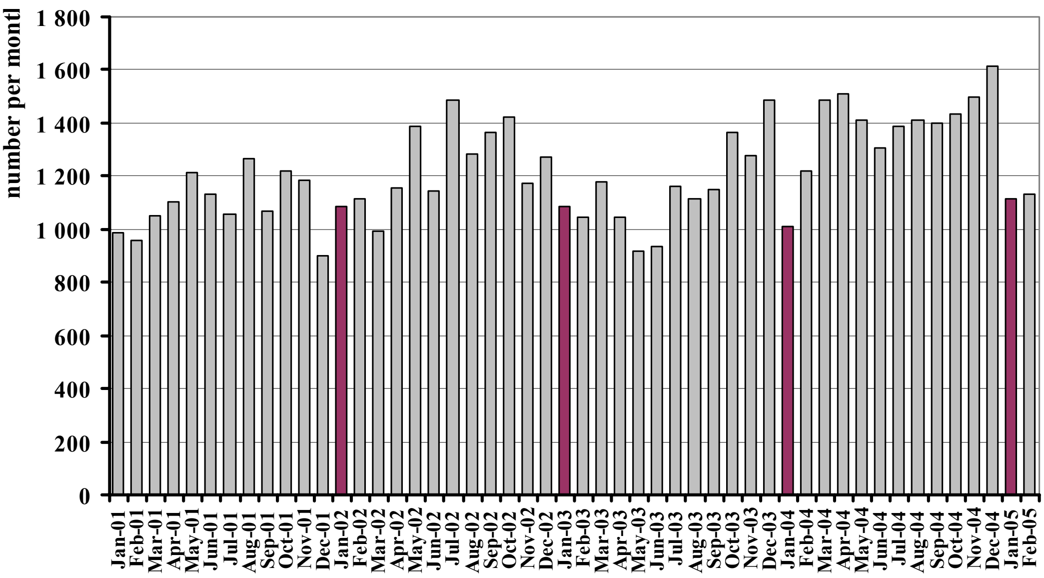
RESIDENTIAL DEVELOPMENT LAND MARKET

This market segment as well as the detached housing market is characterized by seasonality when the majority of transactions take place from spring till midsummer. At the moment the market activity is great. In March land parceling mostly took place in Marupe parish.

In Darzini, a location not far from the centre of the city, that is gradually becoming a site of low-storey buildings, prices for land are already exceeding 30 EUR/m^2. With the demand increasing, prices are gradually climbing notwithstanding the not yet put in order infrastructure as well as the factor of environment contamination affected by the presence of the former soviet aviation airfield and the vicinity of the Getlini dumping – ground. Proprietors of some larger land plots have commenced putting into order and parceling of their properties.

Dynamics of apartment transactions in Riga



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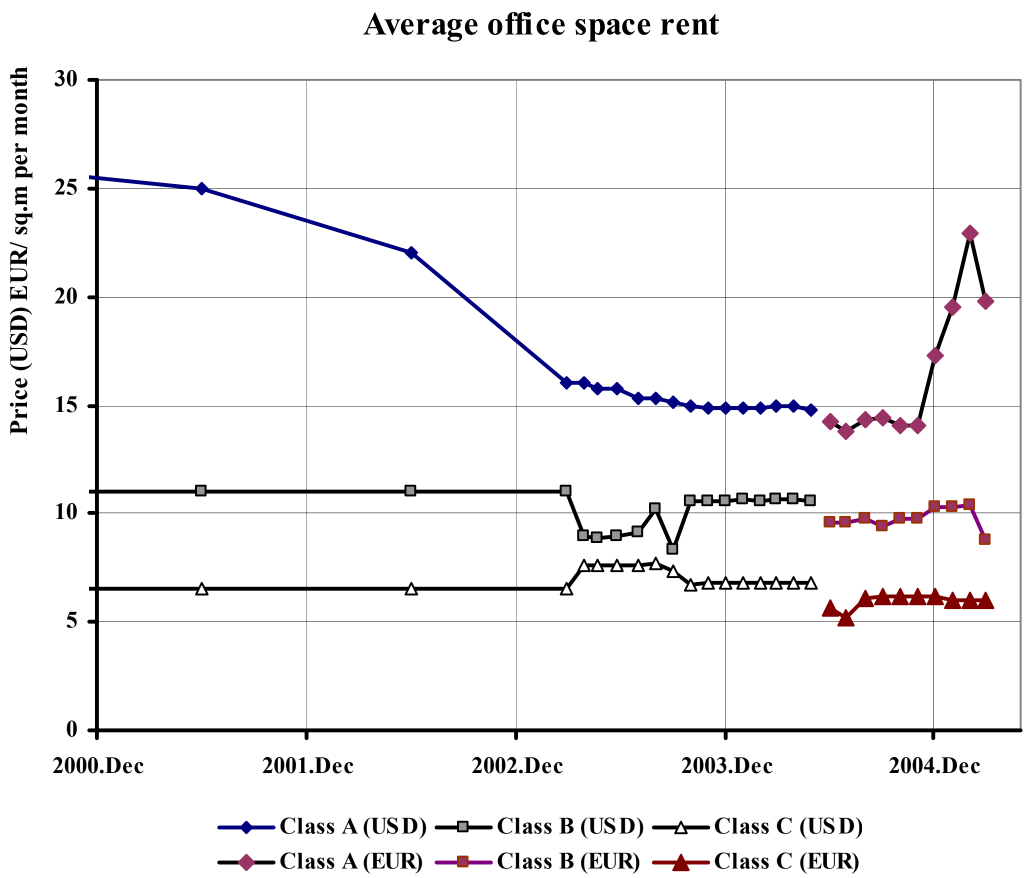
COMMERCIAL SPACE

OFFICE SPACE

The trend of the end of the last year when the main demand drivers were state institutions is still growing. State institutions are expanding, work processes are being optimized, thus larger premises are sought both for leasing and for buying. A number of tenders have been concluded – the State Probation service has leased premises of 1600 m^2, State data inspection – 130 m^2, but the bureau of the Minister of Special Assignments for Electronic Government Affairs (the e-affair ministry) has started work in the new premises of 330 m^2. Several State Revenue Service (SRS) departments are willing to lease new premises, for example, SRS Vidzeme suburb department is willing to lease office space of about 1700 m^2 in the former VEF premises, but SRS Riga regional office is interested in the lease of additional 231 m^2 in Skanstes street. Usually state institutions lease Class B office space for 9 EUR/m^2.



In the Class A office space market no changes are witnessed – the prices remain stable, vacancy rate has not changed significantly. Vacancy rate of the Hansabanka head office "Saules akmens" is estimated 25%.

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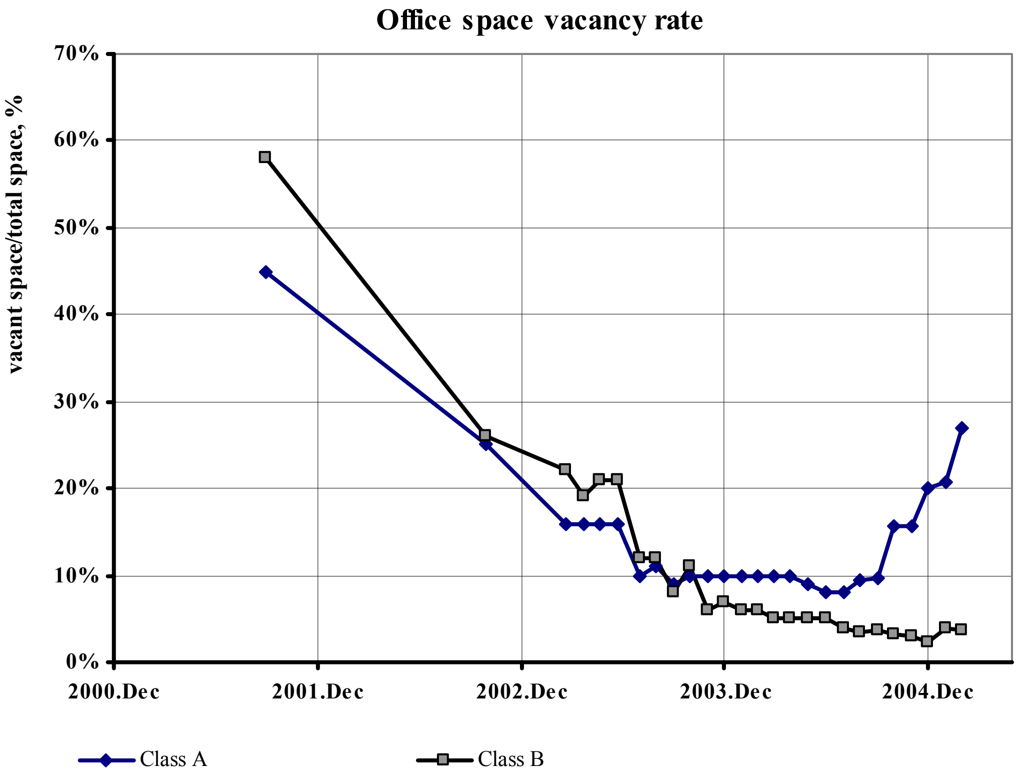

It is most likely that the demand for quality office space will only become stronger. Taking this trend into consideration investors – developers are actively showing interest in the possibilities of building new multi – storey office centres. Foreign investors, from Lithuania, Estonia and Russia including, are ready to invest in the construction of tall, about 200 000 m^2 large office centres with parking space in Riga.

RETAIL SPACE

The summer season approaching the demand for café and restaurant lease premises in the centre of Riga and in the Old Town is growing. In such exclusive locations separate premises usually are not put on sales, only the property as a whole. In the event separate premises come on the market, what happens very seldom, the price is extremely high. For example, a year ago retail space in Gertrudes street cost 2800 EUR/m^2, but this March the price has reached 3500 EUR/m^2. Lease of the retail space remains stable, whereas the sales price is climbing or, in other words, capitalization rate is falling. The strongest demand is witnessed for small premises of about 60 -70 m^2 that are leased out as soon as they appear in the market. In the popular shopping quarter price of such retail space is about 25 – 30 EUR/m^2. However, it is difficult to lease out larger retail space, say some 800 m^2. Demand for such space is not big and the price is about 25 EUR/m^2.

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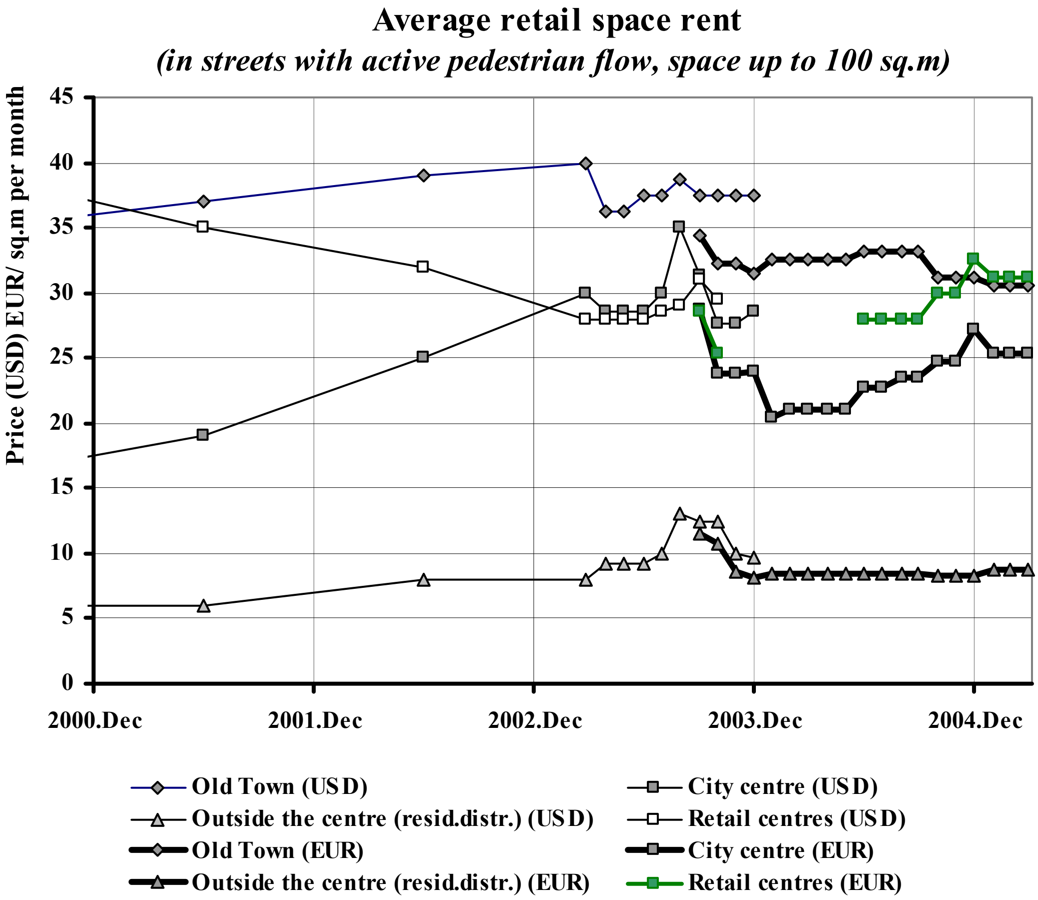

During its last convocation meeting the previous Riga Municipality adopted regulations prohibiting organizing of gambling in Riga historical centre, Mezaparks, residential districts, moreover, these regulations refer to four and five star hotels as well. This prohibition is included in the final reading of the Riga historical centre (RHC) development plan supported by Riga Municipality. In one year's time after the adoption of these regulations gaming operators have to dismantle the slot-machines installed outside casinos and gaming-houses in the said territories. Besides they have to cease taking stakes for totalizators or bets, but in three years' time after the adoption of these regulations all the casinos, gaming-houses or bingo halls within the said territory have to be closed. Notwithstanding the above regulations the biggest gaming companies, like "Fenikss", "Klondaika", are still considering offers of new premises, however no new leases are concluded. This business is at an expectant stage. Therefore at least in the near future no rapid growth of retail space offer can be expected.

INDUSTRIAL MARKET

There are two main trends in the industrial space market – moving of industrial objects outside the city centre and commencement of construction of new centres of logistics.

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In February and March market activity was focused on land procurement in Greater Riga area for the purpose of building logistics centres. The main requirements are proximity of highways, railway connections and ship loading possibilities.

In the industrial space market two trends prevail – due to the growing demand for their services experienced companies develop and expand their existing premises, whereas newly established enterprises buy land and get prepared for the construction of centres of logistics.

Lately manufacturing has started developing in Latvia. Food producers have received EU quotas that guarantee market for a concrete amount of the production made. Along with the development of manufacturing, demand for warehouses corresponding to the EU requirements for reloading of commodities or storage of imported goods is increasing. Besides, more often than not production facilities together with warehouse space are demanded. The strongest demand in March was for small 30 – 60 m^2 offices together with 100 – 200 m^2 warehouse space.

Besides, in accordance with the requirements of the EU directives, requirements regarding the quality standards of warehouses are becoming stricter. The main demand drivers are food producers, wood industry, metal industry, pharmacy and plastics industry. The strongest demand is for heated warehouses of about 200 – 400 m^2. Warehouse space in Plavnieki, Purvciems is very much in demand, but as the price of land in these locations is about 50 EUR/m^2, buying of land for the construction of new warehouses does not justify itself.

The trend initiated in Riga in 2003 to move plants outside the city centre is still going on. With the property tax increasing, manufacturing is becoming a more and more irrational use of a centrally located site and building as this utilization of land does not generate yield equal to the one ensured by office and apartment buildings. Thus purchasers of the centrally located plants are both – developers procuring them in order to transform into offices or apartments, or investors who are waiting for further price increase to resell with profit.

This process to a great extent goes together with the new law on the completion of privatization. In accordance with the information provided by BNS, in March there was reached an agreement that the land owned by the state and the local authorities will be privatized for its market value and not for the cadastral one under the condition that the market price will not be lower than the cadastral value. It should be noted that at the moment in the majority of cases the cadastral value of an object is many times lower than the market value. Moreover, it is envisaged to elaborate regulations of the Cabinet of Ministers stipulating the exact procedure of determining value of the land to be privatized. It is envisaged to determine new cadastral value to land “fixing the value as close as possible to its market value”. However, determination of a new cadastral value is quite a time consuming process, whereas privatization is taking place all the time. An illustration of the above said could be a deal concluded in February when the then land of the warehouse territory in the territory of the freight yard “Rigas – Krasta ganibu parks” at Hansa street was sold for a price 50 times exceeding its cadastral value, i.e., market value or value of the deal was 140 LVL/m^2 (200 EUR/m^2), while the cadastral value was fixed 2,7 LVL/m^2 (3,85 EUR/m^2).

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