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

**November 2004**

**The key event in the real estate market in November is launching of three office buildings – the head office “Saules akmens” of the commercial bank “Hansabanka”, a renovated office building in 28 Aspazijas boulevard and two newly built office buildings in 13 Skanstes street. Besides, the space vacated by the previous tenants has also come on the market. In November total office space has increased for about 29 000 m<sup>2</sup>.**

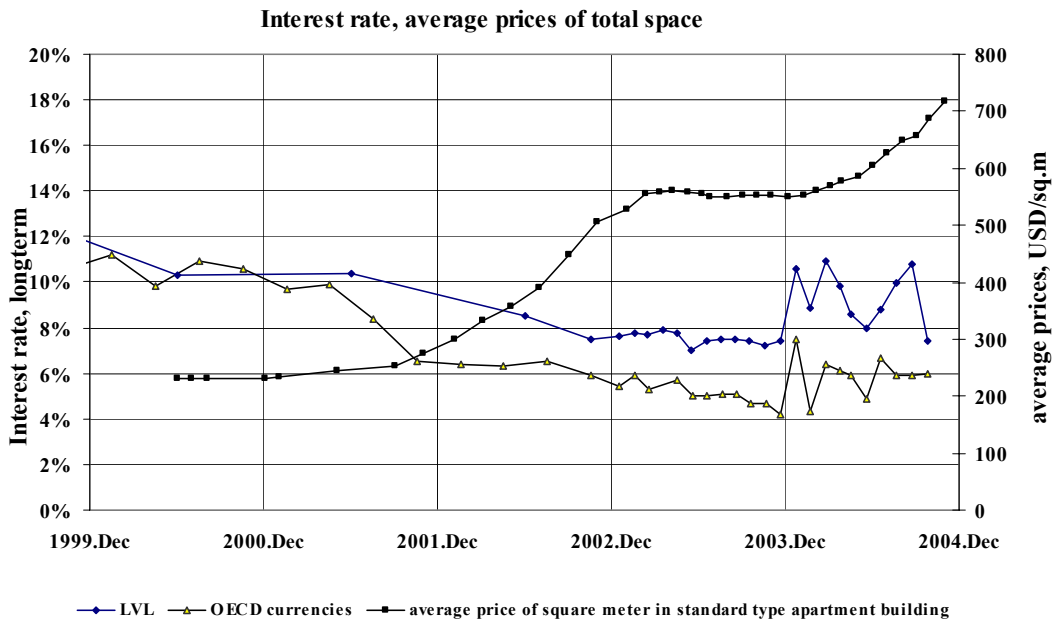
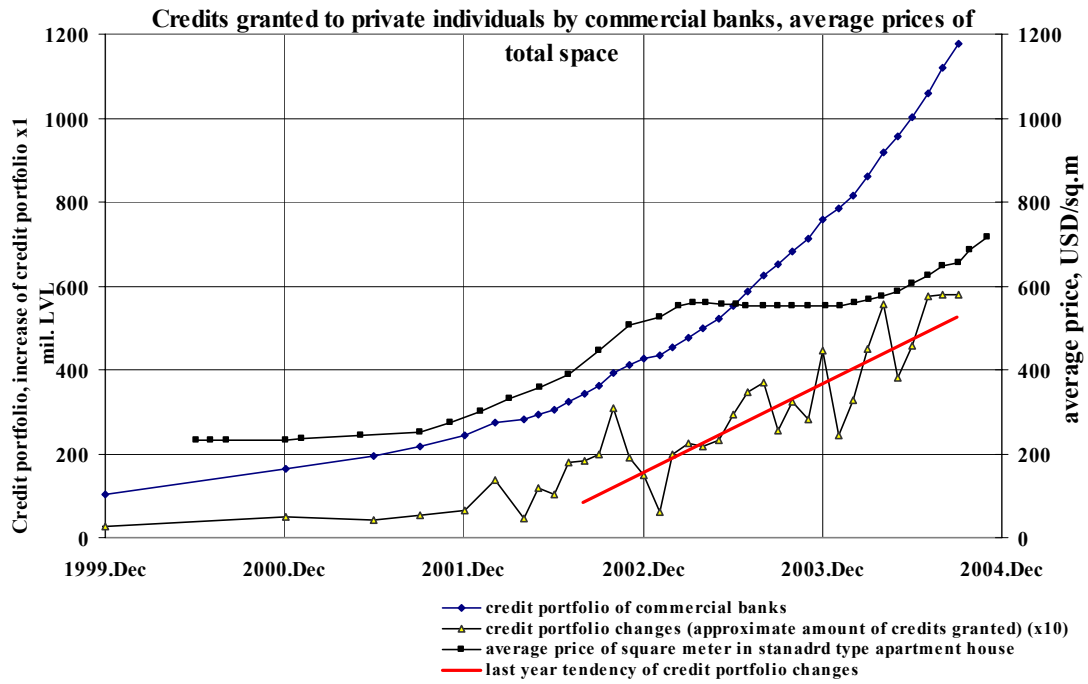
**In November prices of standard type apartments in standard apartment houses located in Riga residential districts have climbed for about 4 %, exceeding already 700 USD per sq.m. 90 % of the total housing stock is comprised by the said apartments.**

**A tendency to offer centrally located apartments for a price higher than their market value can be witnessed.**

**The order issued by Riga City Council to suspend granting permits to open gambling-houses in the capital and the resolution on determining a centralized gambling location in Riga will have drastic effect on the retail space market. The lease agreements concluded will be breached, the renovation works commenced will be stopped, owners of the retail space will have to seek for new tenants.**

**The total credit amount granted to private individuals in November constitutes almost 1200 million lats, 70 % out of which being mortgage loans.**

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## RESIDENTIAL MARKET

Property prices in this Market Overview are given in the currencies used in the majority of the deals in the respective market segment. The seller usually determines currency of the deal, thus there is no generally accepted principle to be followed. If up to now most of the prices of standard type apartments were given in dollars (USD), a tendency to determine apartment price to equal extent in either of the three currencies - dollars (USD), euro (EUR) and lats (LVL) is witnessed. Prices of exclusive properties and land usually are given in euro (EUR), while prices for newly built houses are determined in lats (LVL).

### STANDARD TYPE APARTMENTS

90 % of the housing market is comprised by standard type apartments in standard apartment buildings located in Riga residential districts. In November average apartment prices have climbed for 4 % exceeding 700 USD per sq.m. The most substantial price increase, i.e. 6%, was witnessed in residential districts Plavnieki, Mežciems and Jugla. In November there was no special demand for some type of apartments in some specific residential district.

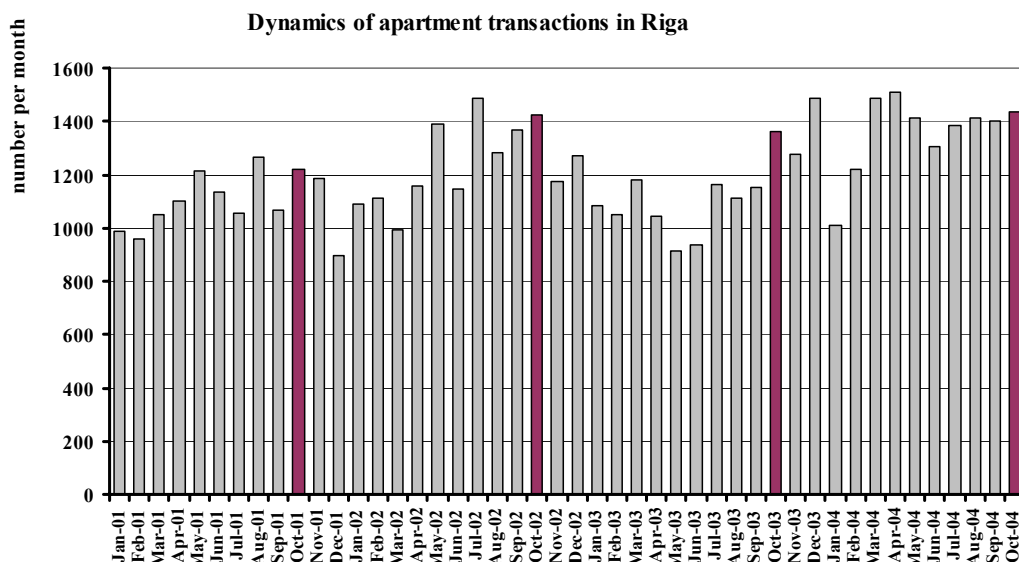
Prices as well as their amplitude have increased. Demand exceeds supply, but no great activity was witnessed. The cheapest market segment, i.e. a small standard type one room apartment, has become more expensive exceeding already 22 000 USD.

#### Average prices of privatised apartments in residential districts of Riga in November, USD

District/series		Purciems	Ziepniekkalns	Āgenskalns	Imanta	Zolitūde	Plavnieki	Mežciems	Jugla	Kengarags	Bolderāja
Series 119	1-room	37000	34 000			31 000	36 000				
	2-rooms	48000	40000			40000	47 000				
	3-rooms	56000	46 000			47 000	55 000				
	4--rooms	64000	55 000			63 000	63 000				
Series 602	1- room	25000	25000		25 000		25 000	25 000			
	2--rooms	39000	36 000		36 000		39 000	39 000			
	3- rooms	46000	40 000		41 000		45 000	46 000			
	4- rooms	54000	45 000		45 000		53 000	54 000			
Series 103	1- room	28000		24 000			27 000				20 000
	2- rooms	44000		35 000			43 000				25 000
	3- rooms	50000		42 000			49 000				30 000
	4- rooms		20000								
Series 104	1- room	37000	30 000		30 000	31 000	36 000	36 000			
	2- rooms	47000	40000		40000	40000	46 000	46 000			
	3- rooms	57000	45 000		45 000	45 000	56 000	56 000			
	4- rooms										

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"Lithuanian" proj.	1- room	26000	23 000	23 000	23 000			25 000		23 000	18 000
	2- rooms	38000	31 000	33 000	32 000			37 000		30 000	23 000
	3- rooms	44000	35 000	37 000	37 000			43 000		37 000	28 000
	4- rooms										
"Hruschov" houses	1- room	25000	23 000	23 000					24 000	22 000	18 000
	2- rooms	35000	32 000	35 000					33 000	30 000	22 000
	3- rooms	39000	37 000	39 000					39 000	35 000	26 000
	4- rooms										



## NEW PROJECTS

Active construction of residential buildings is going on. An average project with a partial finish is completed within a year. Usually construction is started in the beginning of the year, but internal decoration is performed in autumn. There is strong interest in the apartments of the new projects. When a project is started, apartment prices are lower, gradually prices climb, and in the most successful projects apartments are sold being still unfinished. Successful projects are those where developer has managed to bring to conformity location of the building with the project and price.

In one of the most prestigious residential areas, Purvciems, very compact construction is going on. Trees are cut, new buildings are constructed in the yards between the houses. In 2003 average price of an apartment without a finish in Purvciems was 400 LVL/m<sup>2</sup>, in 2004 the price has climbed to 500 LVL/m<sup>2</sup>. In Marupe where a number of multi-apartment buildings are built, an apartment without a finish costs about 350 LVL/m<sup>2</sup>.

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## APARTMENTS IN THE CENTRE OF THE CITY

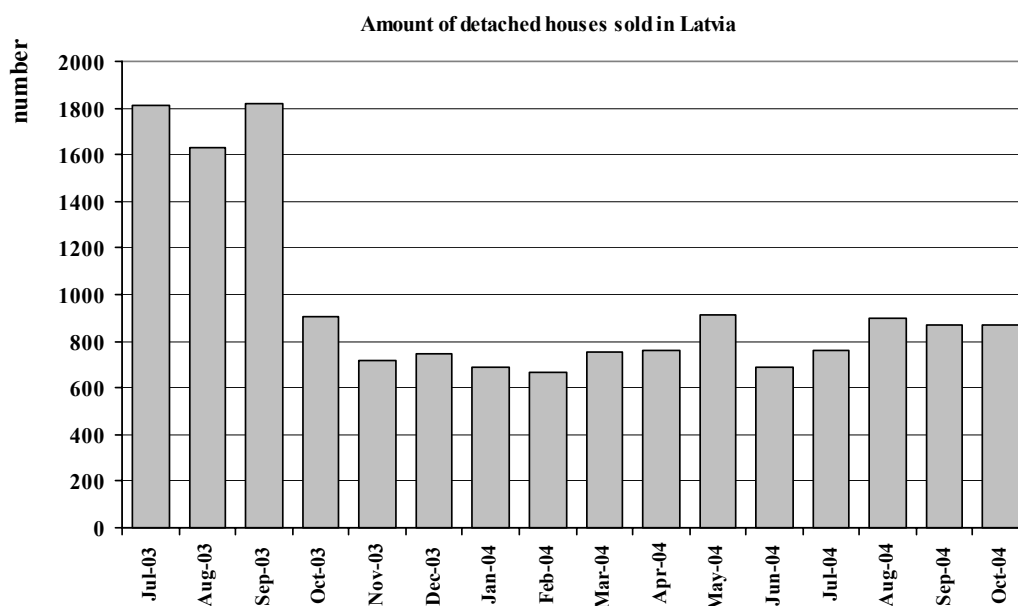
Lately a tendency to offer centrally located apartments for a price higher than their market value is witnessed. To a certain extent this can be explained with the last years' tendency for prices of centrally located properties to climb. Consequently sellers expect further rise of prices. Apartments in the centre of about 100 sq.m are purchased for the price of 2000 to 3000 EUR/m<sup>2</sup>. Purchasers have become more demanding and they are not ready to pay the said price when the apartment does not meet their criteria, e.g. the building is not renovated, staircase are not safe, there are old communications, apartment floor-space exceeds 200 m<sup>2</sup>.

In the Old Town there is undersupply of accommodation and apartments for the price of 2500 EUR/m<sup>2</sup> are purchased. Moreover, in the Old Town there are apartments on sale for 5000 EUR/m<sup>2</sup>. There is no demand, but the owners are ready to wait.

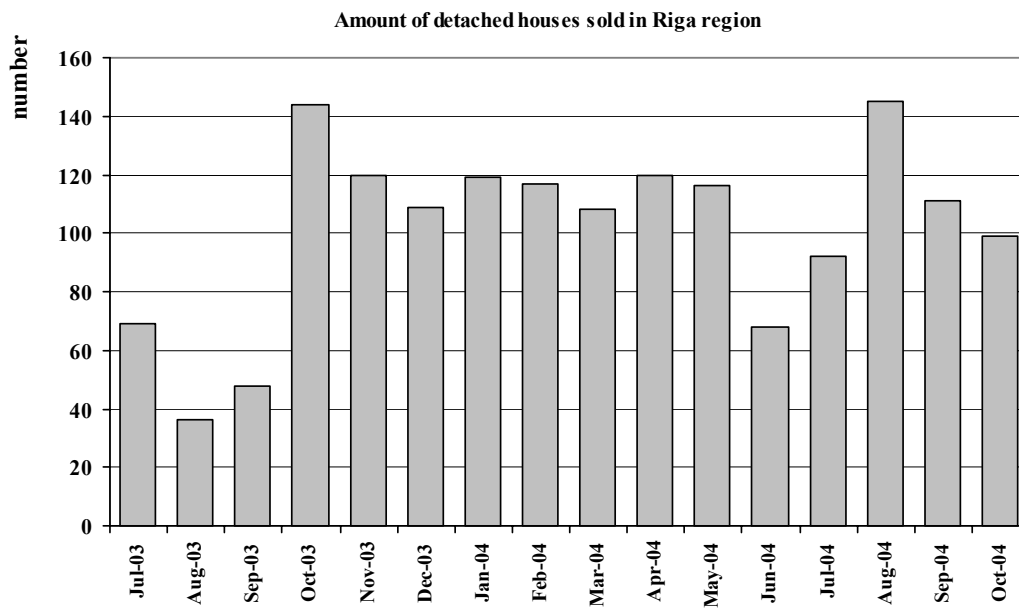
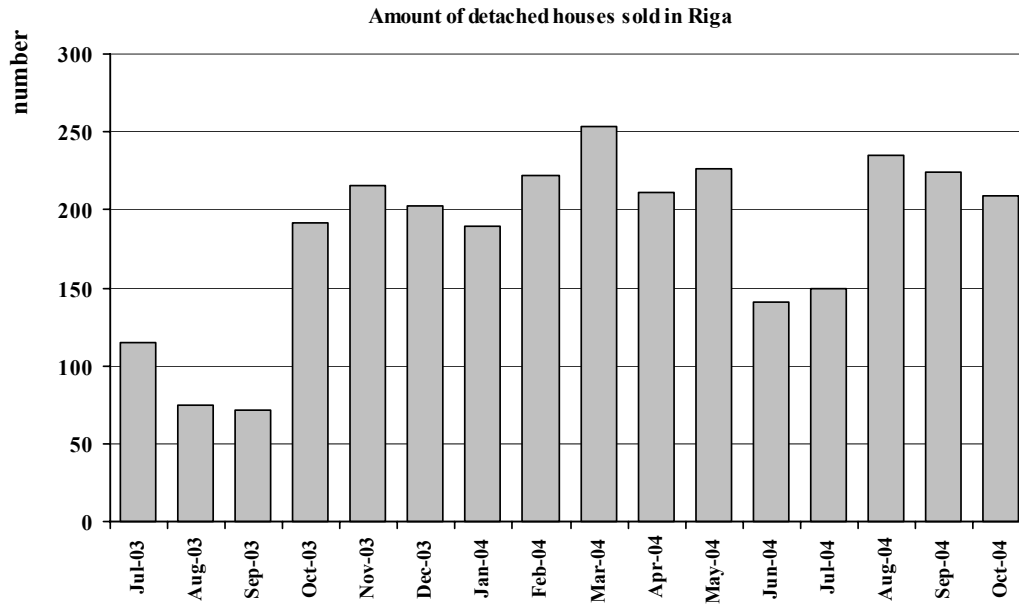
## DETACHED HOUSING

Market of detached houses is quite active, purchasers are seeking for newly built detached houses for the price of 100 000 LVL. However, the quality of such houses is not always adequate to the price. Thus a new category of purchasers willing to buy quality houses and ready to pay 180 000 up to 200 000 LVL for such a house has emerged.

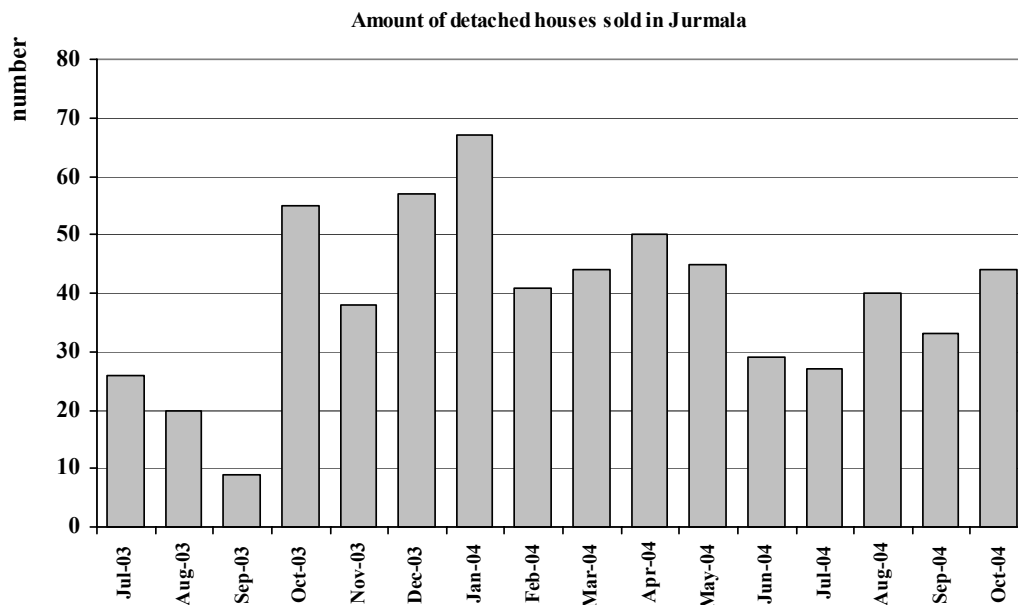
Property market in Jurmala is multiform and the demand is high. Exclusive properties for prices adequate to property prices in Spanish resorts – 600 000 up to 800 000 EUR and more as well as the so called budget houses are in demand. Budget houses are more demanded by Latvian residents while exclusive properties are mainly purchased by foreign citizens.



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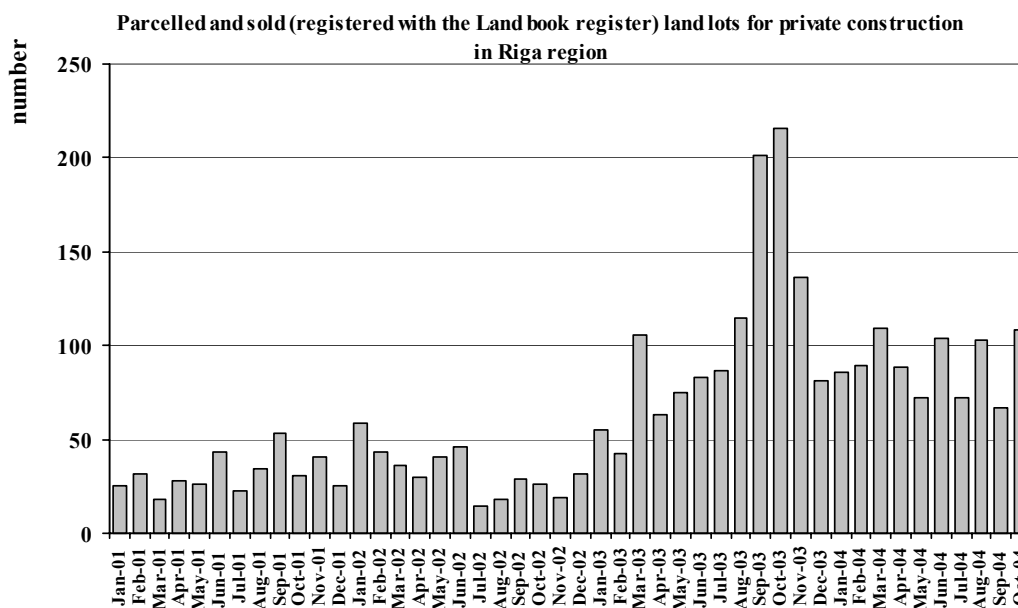
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## RESIDENTIAL DEVELOPMENT LAND MARKET

Localization of the market activity is undergoing changes – as the land supply in Bergi, Marupe, Mezaparks cannot satisfy the demand, new residential development centres emerge. In these locations market activity is quite high. In November the most active land market was in Olaine, Marupe, Kekava. Besides, the biggest number of deals was witnessed in Olaine.

Land supply in Jurmala is limited. Land prices in the territory of Jurmala are location specific - from 15 EUR/m<sup>2</sup> up to 300 EUR/m<sup>2</sup>. In Mezaparks land prices have reached 350 EUR/m<sup>2</sup>.



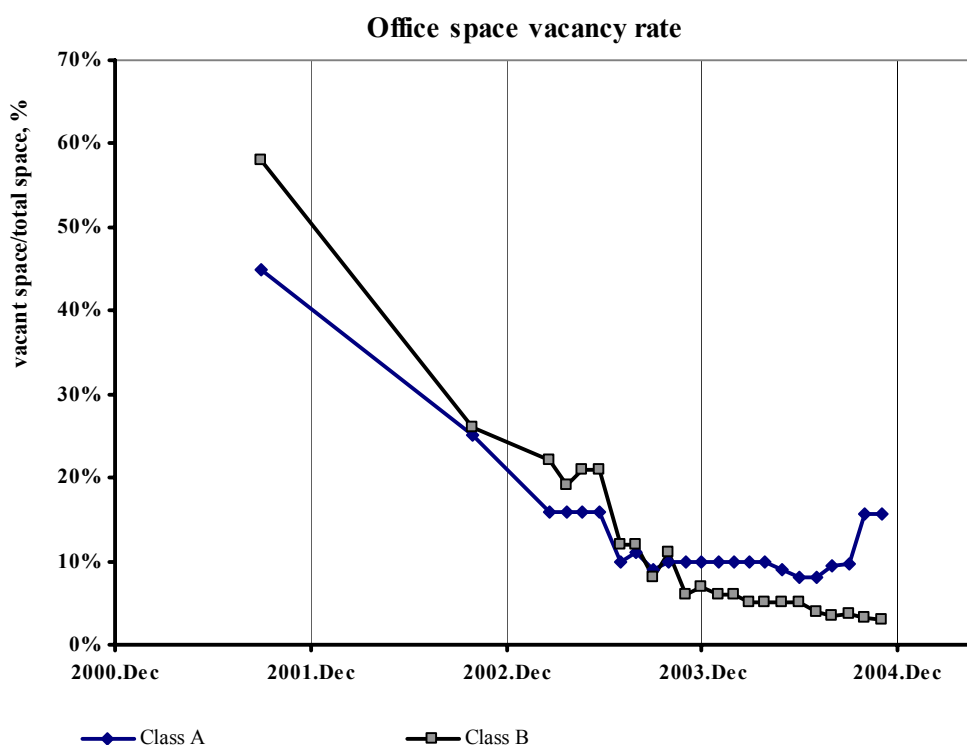
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## COMMERCIAL SPACE

### OFFICE SPACE

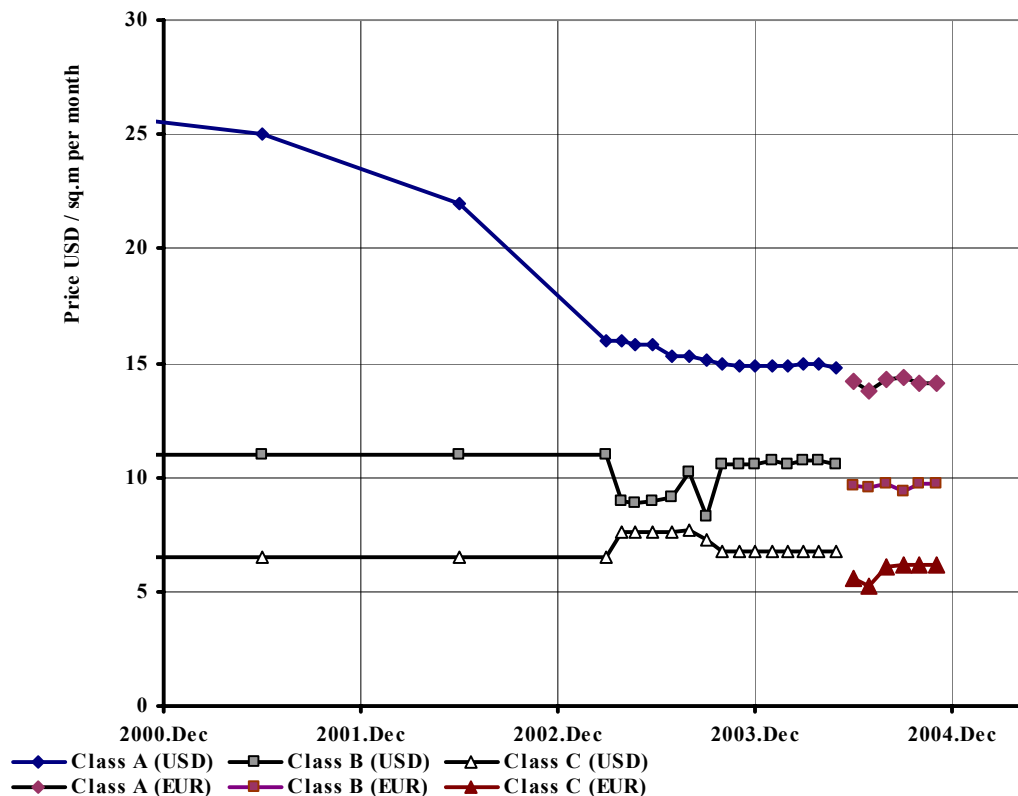
If October 2004 was marked by new retail space coming to the market, respectively, third parts of shopping centres ALFA and DOMINA were launched, the key event in the real estate market in November was launching of four office buildings. The head office “Saules akmens” of the JSC “Hansabanka” was launched on 17<sup>th</sup> November, thus increasing the not so extensive Class A office stock in Riga. Total space of the building is 29 000 m<sup>2</sup>, but the total office space is 19018 m<sup>2</sup>, average floor-space of a floor – 756 m<sup>2</sup>, price is 20 EUR/ m<sup>2</sup>. Four to five floors of the “Saules akmens” are leased, one of the tenants being “KPMG Latvija” bureau.

Almost at the same time three Class B office buildings were launched. The renovated office building in 28 Aspazijas boulevard was leased to a representative office of the European Commission. The total space of this building is 2000 m<sup>2</sup>, price 12 EUR/ m<sup>2</sup>. The other two office buildings are the newly constructed buildings in 13 Skanstes street with the total space of 7657 m<sup>2</sup>, price 9 EUR/m<sup>2</sup>. The major tenant of this complex is IT company “Microlink Latvia”, among other tenants – pharmaceutical company “Astra Zeneca”. As a result the total stock of offices in November has increased for about 29 000 m<sup>2</sup>. Notwithstanding coming on the market of new office space and the space vacated by the previous tenants, occupancy rate of Class B office space continues to grow.



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### Average office space rent

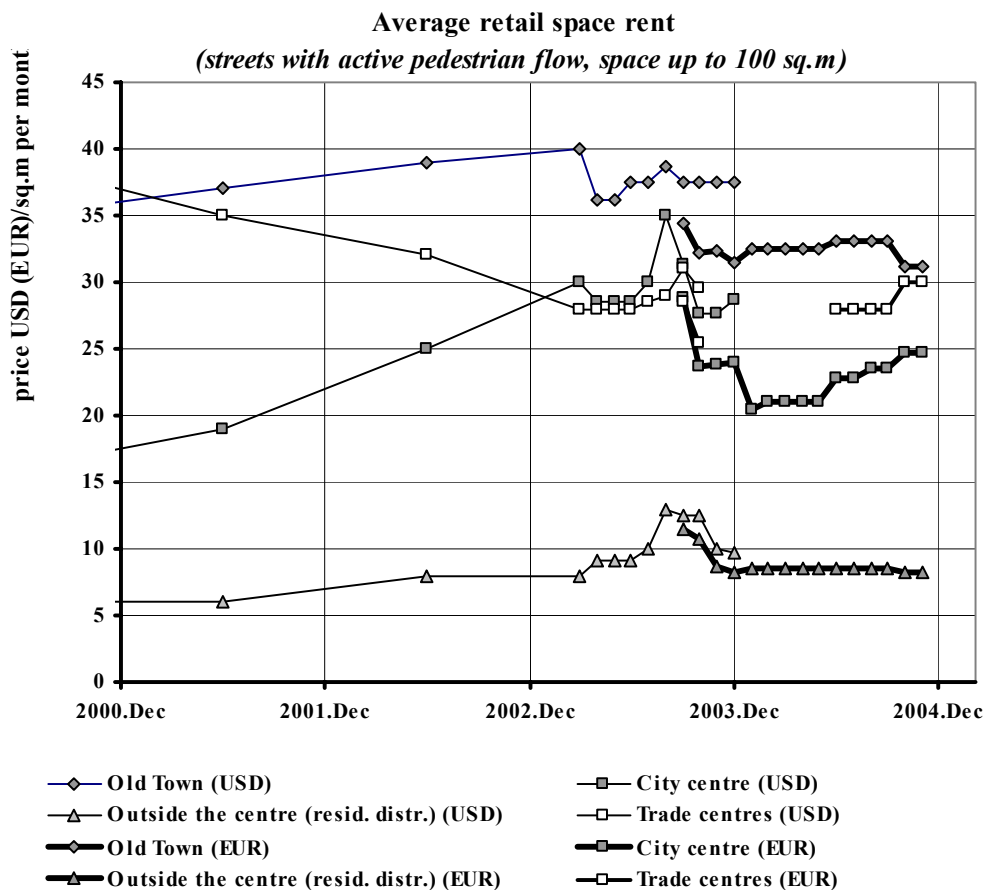


### RETAIL SPACE

Retail space market is developing, supply does not meet demand. Rents remain stable. In regional shopping centres where customers are doing their regular shopping, all the retail space is not only leased, but potential tenants are even keying up for possible premises to lease. The gap is increasing between standard shopping centres, where customers can only go shopping, and shopping and leisure centres, that due to growing welfare of people have become a typical week-end “retail therapy” for the masses.

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One of the topical events in November is the plan of Riga City Council to determine territories where organization of gambling will be prohibited. Riga Mayor Gundars Bojars has issued an order to suspend granting permits to open gaming-houses in the capital until approval of the new Riga development plan for years 2006 - 2018. Data provided by Lotteries and Gambling Supervisory Inspection show that by the end of September in Latvia there were operating 582 gaming-houses and 15 casinos, the majority of them being located in Riga. The market is dominated by a few big gaming companies that are successfully developing their business and looking for new premises and new business solutions as well as by a number of smaller companies. The gambling network “Fenikss” had found a successful premises lease solution by concluding franchise agreements with a number of small cafes in various Riga districts, i.e. by offering the cafes its name and logo, interior decoration and slot-machines. The resolution of the Security commission of Riga City Council on determining a centralized gambling location in Riga will have drastic effect on the retail space market. The lease agreements concluded will be breached, the renovation works commenced will be stopped, owners of the retail space will have to seek for new tenants.



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## INDUSTRIAL MARKET

The warehousing market demand drivers are manufacturers and supermarkets. At the moment the major demand is for medium size Class A warehouse space, i.e. 2000 – 5000 m<sup>2</sup>, but there is practically no supply. For example, the Danish retail chain “JYSK” franchise company in Latvia that is planning to open its sixth store, is seeking for European standard Class A warehouse premises with total space of about 5000 m<sup>2</sup>. This information is confirmed by “JYSK” store-coordinator Pavels Pogumirskis. The existing “JYSK” warehouse cannot satisfy the growing demands of Latvian, Lithuanian and Estonian centre of logistics.

The general practice is to adjust for the warehousing needs the former Soviet factories and hangars. New Class A warehouses and logistics centres are built to suit, for example, “Scandinavian Tobacco”, “VP Market”. Slowly but surely manufacturing is developing in Latvia again, mainly furniture manufacturing. Manufacturers cannot afford freezing their current assets and storing their ready-made products, they need warehouses for raw materials. Thus the biggest demand is for relatively small warehouse space. One of the solutions would be development of industrial parks conforming to international standards where tenants could rent not only premises, but also a full range of services. The existing five industrial parks conforming to international standards and operating in Riga and greater Riga area “Rīgas Industriālais parks”, „Business Park Siva”, „Nordic Industrial Park”, „Nordic Technology Park”, Rīgas port industrial park „Vega” cannot satisfy the growing demand of foreign and local entrepreneurs.

According to BNS data, Ministry of Transport and Communications is willing to attract international consortium to the construction of 40 km highway Riga – Jelgava. The total costs are estimated to be around 150 – 250 million lats. It will be possible to construct new manufacturing facilities and factories all along the highway. As the demand for such developments is high, determination of industrial zone will attract both, local and foreign investors.

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