

REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

November 2007

- In November, prices of standard type apartments continued decreasing. The average price of a standard type apartment – compared to October – decreased 3%, i.e. down to 1,445 EUR per sqm. It was for the first time that price decline reached a lower level than that of respective period in the previous year. Compared to last November the prices are 1.6% lower.
- Specific weight of delayed credit payments by households increases, and exceeds rate of respective period last year. There are more rapidly growing numbers of creditors unable to properly fulfill their obligations undertaken.
- Transactions are concluded only for those dwellings, sellers of which have set prices adequate to the current situation. Owners of dwellings who have not done this are forced to “pay” for the lost time in the circumstances of price decline.
- In October, the total amount of transactions with apartments retained its previously low level.
- Owners attempt to dispose of the dwellings that are not used for residence of themselves.
- More and more developers of new projects reduce prices of the objects on sale.
- Representatives of small business start to change demand on lease market of commercial space in reaction to decreasing income and growing business costs.
- There is a growing supply in the segment of lease of lower class offices.
- Lessors of commercial space put greater load of their costs onto shoulders of their lessees.
- There is ever enlarging supply of retail space for lease on most demanded shopping streets.
- On the market of commercial development land, remarkably different vision of development is retained among land sellers and potential buyers.

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GENERAL ECONOMIC SITUATION

In November, published data of Gross Domestic Product over the 3rd quarter still highlight Latvia as a most fast-growing national economy in European Union though a range of other indices show that this growth rate is not sustainable.

Although, in general, unemployment rate in Latvia lowered below 5% mark, in October the highest number of new unemployed people over the last 9 months was in Riga.

Retail trade turnover increased slightly in September, as compared to August. This year, even if consumers kept the same shopping habits as last year, the total annual retail trade increase would rather be closer to 10% that cannot be deemed a remarkable achievement for a fast-growing economy as it had been in Latvia so far.

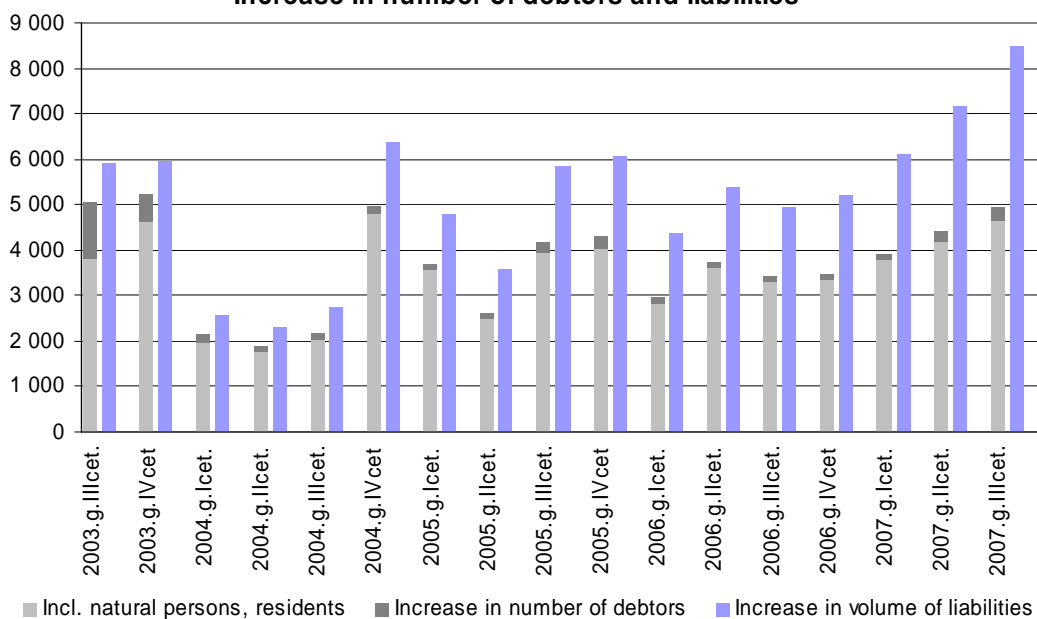
More households prefer to switch their funds from consuming to other needs. Indicative of this are shrinking balances in current accounts and decreasing cash turnover. Judging by growing volume of deposits nominated in foreign currencies – lats are partially converted for these purposes, but partially, probably, saved in foreign currencies in cash. Thus lats holders express their worries about possible devaluation of our national currency.

During the last few months a similar dynamics of deposit volume has been observed also in other Eastern European countries, even in those where domestic currency has not been subject to speculations on depreciation of value. Thereupon it could be concluded that volume of total deposits was decreased also by investors which did not consider Eastern European region attractive for investments any more.

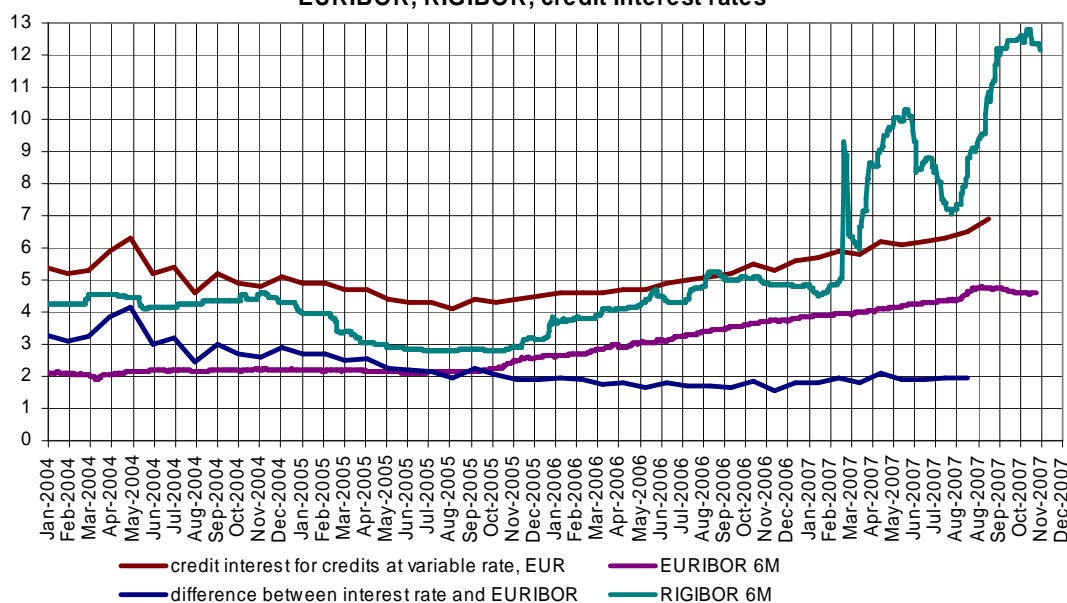
Instead of less available mortgage loans people continue taking consumption credits therefore increase of this credit volume is not likely to shrink. At the same time there is emerging anxiety about the fact that amount of delayed credit payments increased remarkably during the last quarters of this year. Small consumption credits account for an essential share, while number of delayed mortgage credits increased, too.

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Debtors do not fulfill their obligations that dutifully like before. Debtors' first loans are refinanced, but also second loans are delayed. There is an increasing specific weight of households that feel burden of loan payments ever harder, and they are forced to switch bigger share of their income to cover these costs.

Increase in number of debtors and liabilities


Source: Register of Debtors

EURIBOR, RIGIBOR, credit interest rates


Source: British Bankers Association, Central Statistical Bureau, Bank of Latvia, LATIO

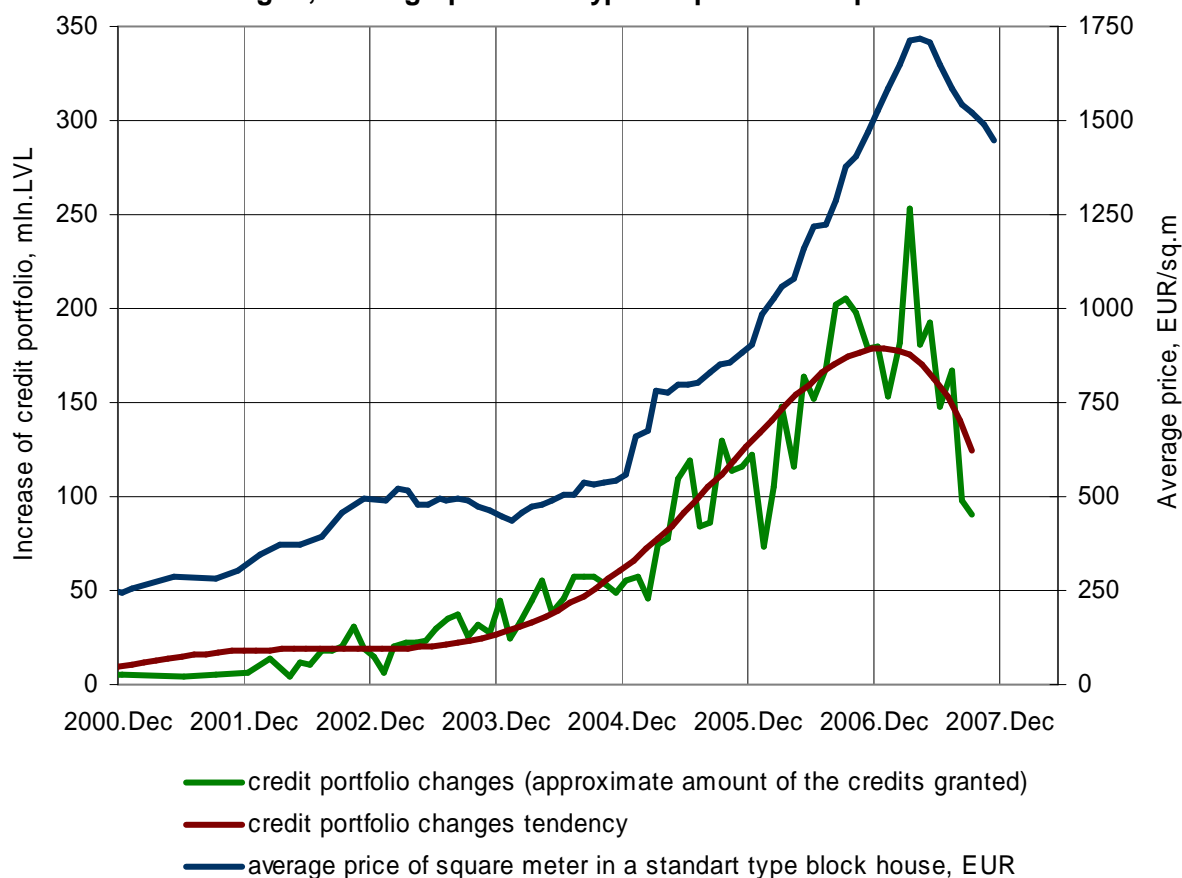
In November, rate of EURIBOR 6M retained stable around 4.8%, yet loans in euro became more expensive since banks put up the added interest rate. Rate of RIGIBOR 6M decreased slightly, but it was still on record high level – 12%.

HOUSING MARKET

STANDARD TYPE APARTMENTS

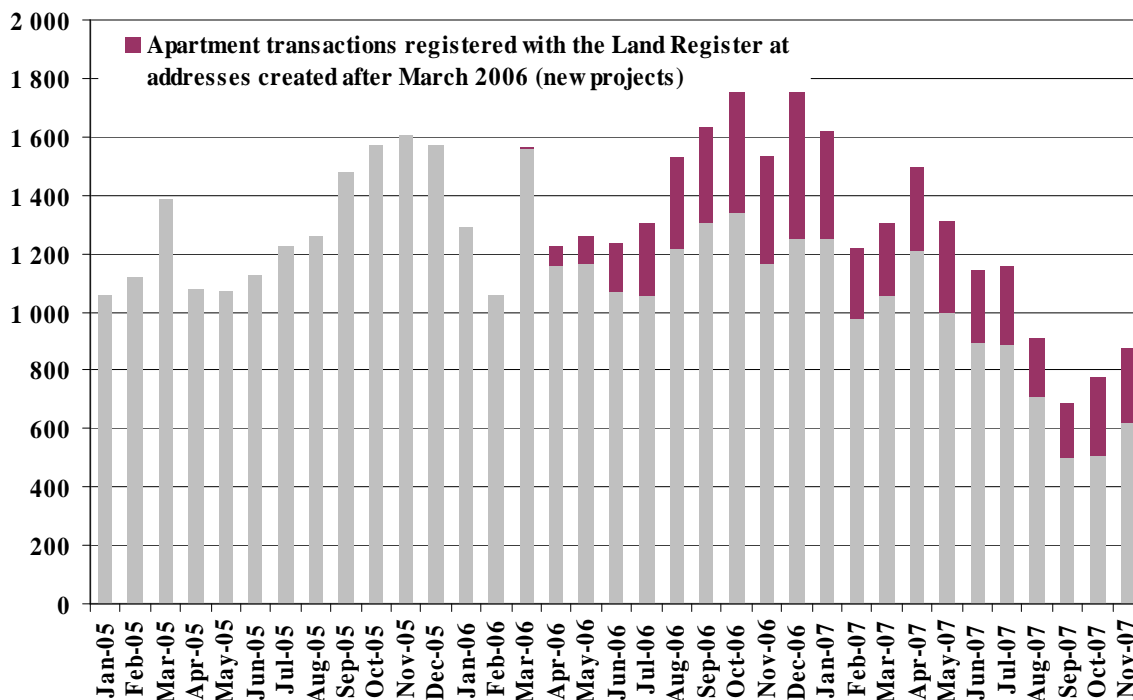
- In November, prices of standard type apartments continued decreasing. The average price of a standard type apartment in November – 1,445 EUR per sqm. It is 3% lower than in October, and now 1.6% lower than in last November.

Credits granted to private individuals by commercial banks changes, average prices of typical apartment square meter



Source: the Finance and Capital Market Commission, LATIO

Apartment transactions registered with the Land Register in Riga*



Source: the Land Register, the State Land Service

* Amount of apartment transactions is estimated based on the Land Register records dividing in types of transactions: purchase or gift, and in properties: apartments. These data are adjusted while neglecting the records that may double if an apartment has been purchased as joint property. Amount of apartment transactions is corrected by a coefficient that is based on the proportion of purchase transactions registered with the State Land Service.

The marked part within the chart represents transactions that were registered with the Land Register as apartment transactions at the addresses created after March 2006. This part represents transactions with apartments in new projects; yet it is just an approximate index since transactions with non-residential space such as parking places in new projects are also registered with the Land Register as apartment transactions.

In October – compared to September – amount of apartment transactions registered with the Land Register increased slightly. Yet this increase was at the expense of the transactions concluded on dwellings in new projects. These are reference data only, whereas amount of transactions has not changed in segment of standard type apartments. Data of November transactions will be available only in December. At present, it is too early to presume stabilization of amount of transactions.

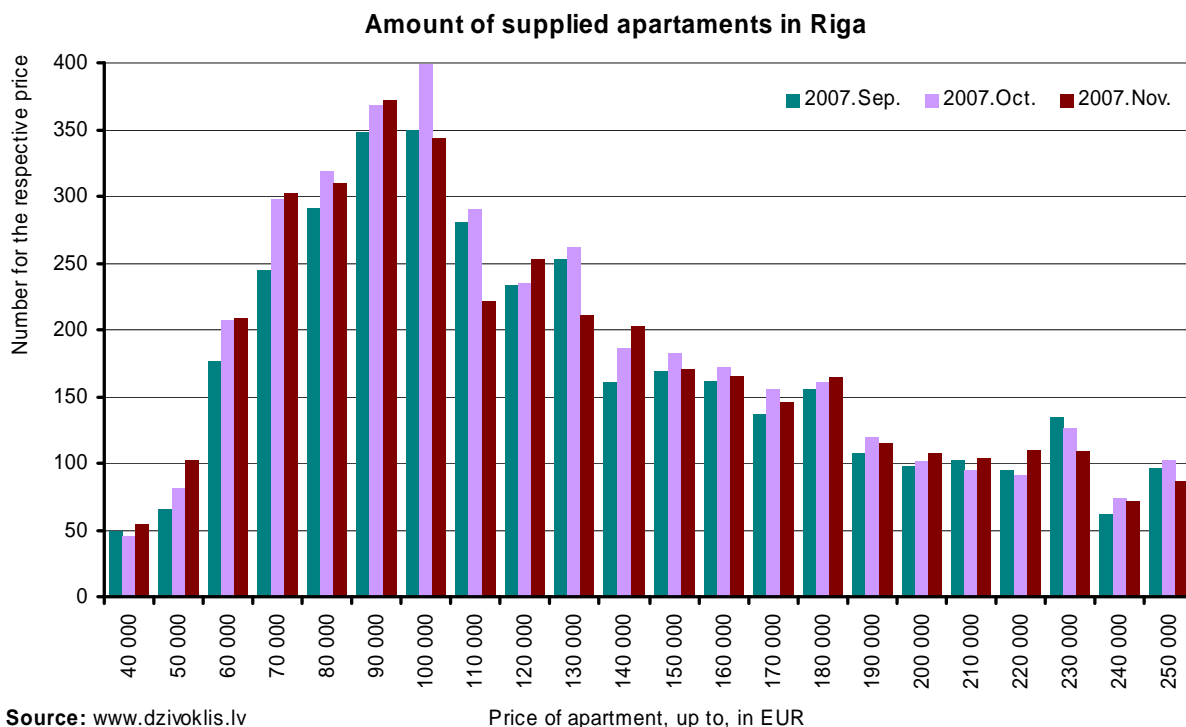
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In November, just like in October, there was retained the tendency that buyers expected further price reduction, and decreased demand in apartments.

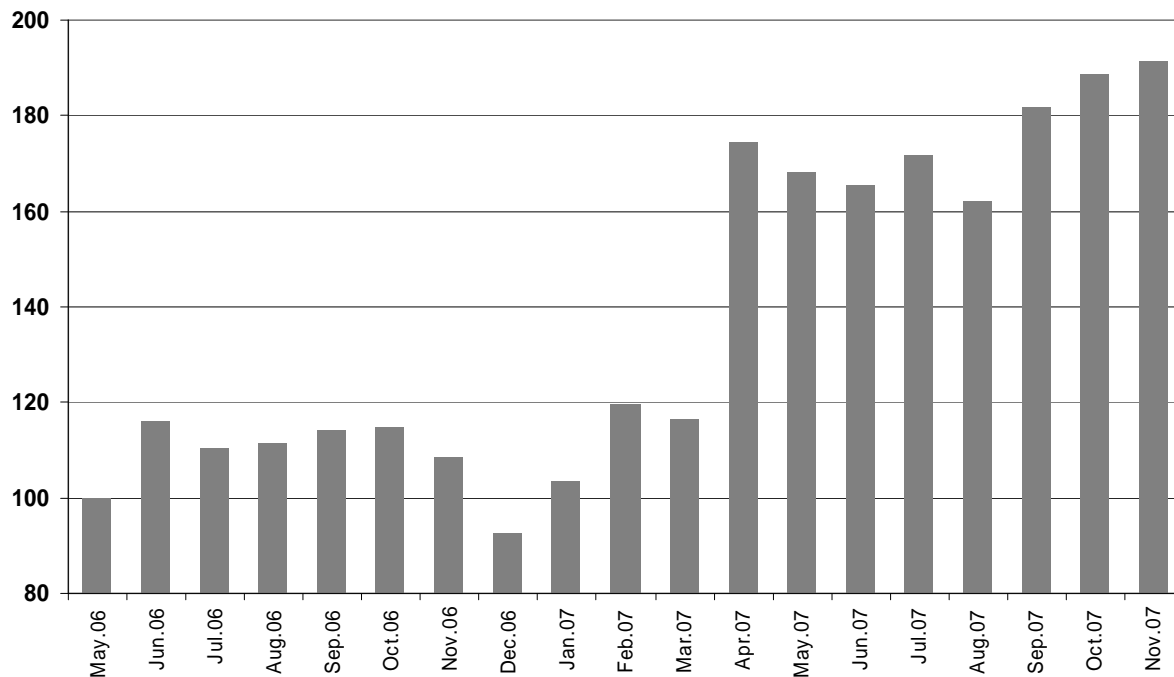
Among apartment sellers, there was increasing specific weight of the sellers who reduced price without inducement – usually for 10-15%, but often even this is not sufficient to provoke interest in such objects. Transactions are enhanced by price reduction for at least 20-30%, by calculating from average asking price in respective segment or 10-15% of appraisal sum recognized by bank.

Sellers who outpaced price reduction in the previous months, now can be satisfied that they gained more than in case if they would not have been that flexible.

Based on information provided for by the largest real estate portals, supply of apartments in Riga, compared to October, did not changed essentially in November, yet the growing tendency remained. There was increasing specific weight of supplied „unwanted” dwellings that were not used for residence and costs of which the owners were not able to cover.



Index of apartment supply volume in Riga (supply in May 2006 = 100)



Source: www.reklama.lv, www.dzivoklis.lv, LATIO

In November, the tendency was retained that there was increasing specific weight of sellers who were more compliant to suggestions on price reduction.

Some market participants are still of the opinion that prices will become stable soon and that price increase is expected again next spring. At present, no rational arguments for such position can be found.

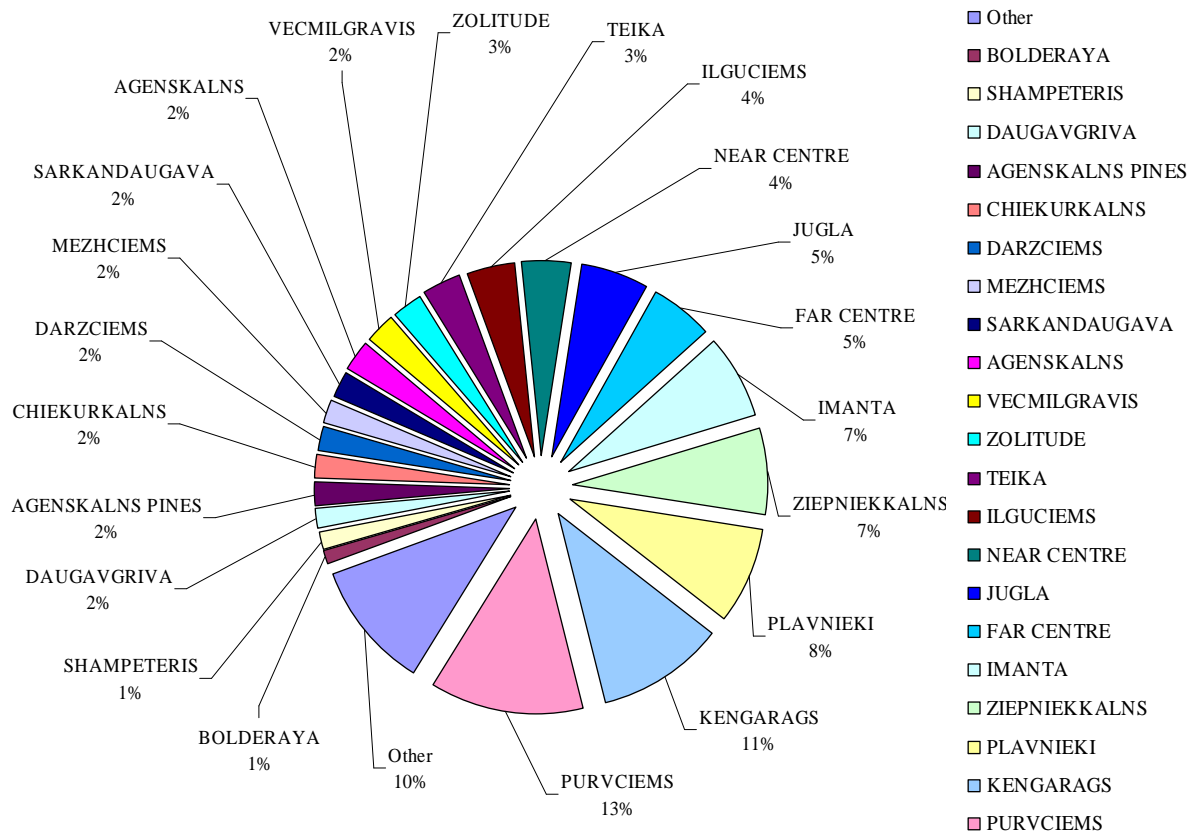
In November, tendency of saturated rent market retained. Supply of expensive apartments for rent keeps growing at prices above 300 LVL a month, plus public utilities.

Supply of rented apartments is supplemented by sellers who wish to ease their seeking for buyers by income from rent in order to cover loan costs fully or partially.

In Riga, a strong demand is retained in rented apartments at 170-200 lats per month for one-room apartments; within 250 lats - for two-room apartments, and within 300 lats a month – for three-room apartments (public utilities excluded). Rent prices are stabilized by decline in public income growth rate. Additional pressure on the rent prices is made by ever growing volume of charge for public utilities.

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Apartment transactions ratio among residential areas in Riga, October 2007



Source: the Land Register, National Address Register

In October, similar to September, most apartment transactions were concluded for Purvciems. In this area that a more rapid price reduction of expensive segment of standard type apartments was observed that in neighbouring areas. This is affected, most probably, by price reduction in the supplied new housing projects on this territory. Thus competition grows for share of solvent buyers.

Like before, most transactions were executed for two-room apartments. Moreover, amount of two-room apartment transactions has grown.

Typical prices of standard type apartments in Riga residential areas in November, EUR

District/ series	Purv- ciems	Plav- nieki	Mezh- ciems	Agens- kalns	Zoli- tude	Imanta	Jugla	Ziep- niek- kalns	Kenga- rags	Sar- kan- dau- gava	Vec- mil- gravis	Bolde- raya
Series 119	1- room	66 000	68 000			66 000		68 000				
	2- rooms	86 000	88 000			84 000		83 000				
	3- rooms	98 000	99 000			93 000		98 000				
	4- rooms	105 000	107 000			112 000		118 000				
Series 602	1- room	54 000	54 000	54 000			51 000	53 000		53 000	52 000	
	2- rooms	77 000	77 000	76 000			72 000	76 000		72 000	70 000	
	3- rooms	87 000	88 000	84 000			84 000	90 000		86 000	85 000	
	4- rooms	96 000	101 000	96 000			98 000	102 000		101 000	101 000	
Series 103	1- room	55 000	58 000		57 000					57 000	57 000	45 000
	2- rooms	81 000	82 000		81 000					75 000	75 000	64 000
	3- rooms	94 000	94 000		95 000					97 000	95 000	78 000
Series 104	1- room	65 000	65 000	67 000		67 000	65 000	69 000				
	2- rooms	88 000	88 000	90 000		84 000	82 000	85 000				
	3- rooms	99 000	98 000	99 000		95 000	92 000	97 000				
„Lithuanian” proj.	1- room	50 000		52 000	51 000		46 000	49 000	47 000		51 000	43 000
	2- rooms	72 000		74 000	70 000		66 000	68 000	66 000		64 000	55 000
	3- rooms	85 000		85 000	83 000		80 000	80 000	80 000		81 000	70 000
„Hruschov” type houses	1- room	49 000			53 000			52 000	50 000	50 000	53 000	51 000
	2- rooms	69 000			69 000			62 000	65 000	65 000	67 000	64 000
	3- rooms	83 000			83 000			81 000	80 000	80 000	83 000	82 000

Source: LATIO data

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DETACHED HOUSES

On the market of detached houses in November, like in October, there was retained disequilibrium of demand and supply in the terms of prices. There is 30-40% and even greater difference among preferred prices of buyers and asking prices of sellers.

There is a gradually growing specific weight of sellers who consider price reduction for 10-20%.

There is an enlarging supply of properties in rural areas owners of which to compensate loan costs for dwellings in Riga. There is a demand in properties at prices not exceeding LVL 50,000.

In October, amount of transactions for detached houses, compared to September, decreased ca. 8% in Riga, whereas it increased ca. 10% in Riga District, but more than 30% - in Jurmala.

RESIDENTIAL DEVELOPMENT LAND

On the market of building plots, supply is still inflexible, judging by prices. It is not influenced even by the poor demand brought about by changed attitude of banks.

At present, in order to purchase, for example, a land plot valuable at 20,000 lats, the official after-tax income should amount at 1,500 lats a month at least. There is quite a real possibility for a recipient of such a salary to get a loan for purchase of an apartment valuable at 100,000 lats.

On the market of parceled land plots, after a slight climb in amount of transactions in September, amount of transactions returned to its record low level in October.

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NEW HOUSING PROJECTS

New projects announced in November

Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
Riga						
Riga, Mezhciems, Liduma Str. 8a	A	-	-	-	-	-
"NCC Majas Bikernieku iela 162", Riga, Mezhciems, Bikernieku Str. 162	A	Ltd. "NCC Bikernieku Development"	1620	Full	322	18
"Pirmais Ipashums", Riga, Imanta, Kiburgas Str.	A	Ltd. "Globe Invest"	-	Full	36	6
Riga, Ilguciems, Maza stacijas Str. 3	A	-	-	-	-	-
Riga, Ilguciems, Dzirciema Str.	A	-	-	-	-	-
Riga, Pardaugava, Kuldigas Str. 37/39	A	Ltd. "YIT Celtnieciba"	1745	Full	79	2
Riga District						
"Pilskalnu Nami", Riga district, Marupe, Pilskalnu Str. 9, 11	A	-	1506	Full	8	2
"Gales nams", Riga district, Sigulda, Gales Str. 19	TH	Ltd. "Ars Domina"	1250	Full	9	1
"Pie egles", Riga district, Marupes par., Diklu Str. 94a	A	-	1475	Partial	12	1
"Vitinu ielas nams", Riga district, Marupes par., Vitinu Str. 4	A	Ltd. "Tris dalderi"	1630	Full	12	1
Jurmala						
"Rivera", Jurmala, Lielupe, Tiklu Str.	A	Ltd. "Lielupes Nams"	1890	Full	80	2

Source: LATIO

A – apartments, DH – detached houses, TH – terrace houses

In November, 10 new projects in Riga and Riga district were announced altogether. Unlike previous months, the largest amount of announced new projects is in Riga again.

In a portion of projects, a remarkable difference in prices is retained among those asked by developers and those set at 15-20% lower by buyers-up.

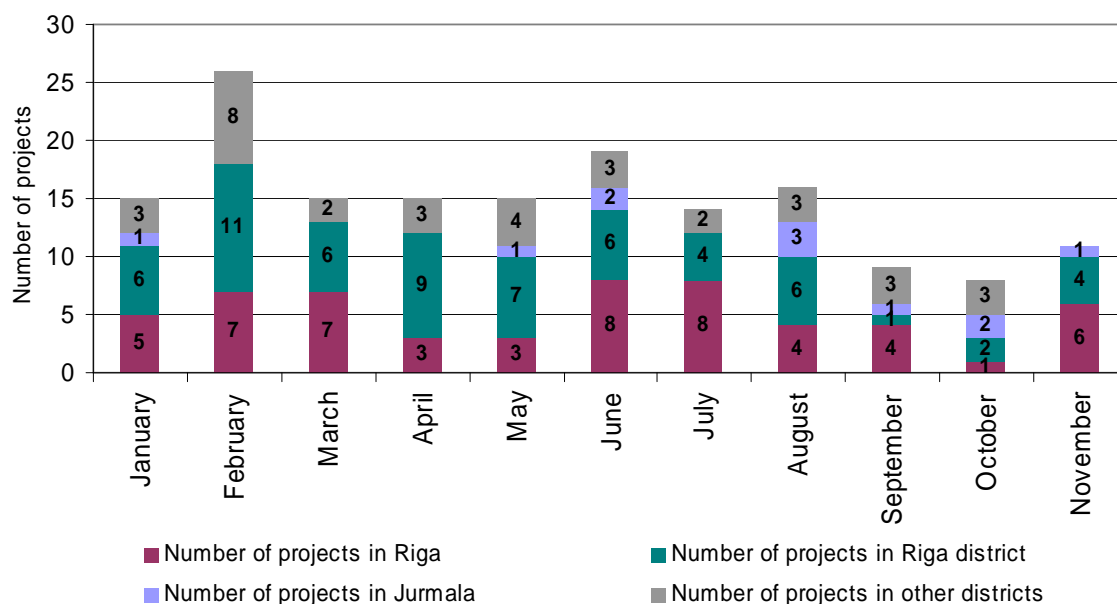
There is a growing amount of developers who consider possibility to reduce prices, or offer additional bonuses to buyers of the dwellings – full interior decoration, cars, expensive household appliances, etc.

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Project developers often reject from previously included strict agreement terms providing protection from speculations. Some project developers consider possibilities of bridge-financing of the buyers.

Developers of new projects are motivated to reduce prices also by banks having financed construction and now expecting for cash flow from end-buyers.

**New projects announced in the 2007
in distribution among districts**



Source: LATIO

COMMERCIAL SPACE MARKET

OFFICE SPACE

Though cooling down of national economy is undeniable, no stable features of soon decline in demand could be noticed in the sector of commercial space market in previous months, yet now it can be argued with even more certainty that never-ceasing propensity of enterprises for enlarging will have to be adopted to new economic turns and opportunities provided by them. Yield level and, consequently, wish to enlarge will be inevitably diminished by ever-growing costs of enterprises.

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In November, activity of transactions increased on the office lease market, especially for those of the lower class – in the segment of small offices up to 50 sqm of floor space. Premises are in demand mainly on the right bank of the Daugava River and in the Historical Centre. Among lessees prevailing are service providing and consulting branch companies. Transactions most often are concluded at prices 6 to 12 EUR per sqm. Lessees – representatives of small business – emphasize importance of the price more essentially than ever.

Lease prices are reduced for average space offices – 150-200 sqm of floor space – that are not located in office centres. Previously set prices – 12-18 EUR per sqm, are reduced for 10-15% by the owners, but clients occasionally are able to get an additional discount.

Prices are invariable in new office centres, and discounts are given only to lessees of large space, i.e. 1,000 sqm and larger.

Inflation coefficient and portion of expenditures on real property tax payments are more often included in lease contracts as variable costs by lessors of premises.

There is a growing supply of average and large office premises which have not undergone interior decoration for a long time. There is no sufficient demand in such premises and it does not change even in reaction to reduction of the set price for 10% by the owners.

RETAIL SPACE

The fact that smaller amount of flats has remained for the disposal of households during the last months, has not been unnoticed by traders, and this makes some of these representatives not to expect for shopping rush of the year-end, but decline further lease of retail space. This results in increasing supply of lease premises in the segment of street trade, on locations that were in the strongest demand several months ago.

On the lease market of retail space, tendency of previous months does not change – supply of premises on the ground floors grows gradually in *top* centre, but the prices are invariable, yet. Like before, there is retained interest of potential lessees, but they do not agree to the lease price –60-70 EUR per sqm on average.

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In November, demand in larger premises increased – up to 500 sqm of floor space for restaurants. There is lack of such supply in the Centre.

WAREHOUSE AND INDUSTRIAL SPACE

Market segment of industrial space, unlike office and retail space sectors, still does not show any dependence on cooling down of national economy that could be related to certain inertia. However, it cannot be expected any more that economic development will not affect volume of demand also on the lease market of industrial space.

In November, decline in activity was observed on the lease market of industrial space, and potential lessees explain it by the end of the year that is traditionally a period when work performed is assessed and future plans designed. Therefore acceleration of activity is expected only in late January next year.

In November, part of demand was formed by lessees who were not satisfied with the offered, changed prices of current premises - higher lease prices, but in the end they are forced to accept overall price increase.

In choosing premises, entrepreneurs pay more attention than ever to a business factor like heating price, and seek for premises with possibly higher energy efficiency.

COMMERCIAL DEVELOPMENT LAND

In November, interest in building plots in Riga and Riga District was still sustained by developers of office, retail and industrial space projects.

There is still existing disequilibrium in vision of development of Riga and its region since asking prices of landowners are 30% higher than those acceptable to the investors.

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