REAL ESTATE MARKET OVERVIEW – RIGA AND GREATER RIGA AREA

November 2006

- **In October, the number of transactions with apartments in Riga reached its historical maximum – over 1,700 transactions per month**
- **In November, the average price of a standard type apartment in Riga was 1,470 EUR per sq.m. It has increased for 4.5% in comparison with the previous month**

- **Starting with January 1st, 2007, alterations in legislation will be in force – from the next year on, building tax will have to be paid according to cadastral value determined by State Land Service instead of taking into account average balance value or inventory value as it is now**

- **In November, 15 new housing projects were presented, and 5 of them were approved (construction licences were issued) by Riga Council**

- **Three new office buildings in Riga and Greater Riga area were offered.**
- **Construction of new dwelling houses in the regions causes demand in retail space for banking services and trade of construction supplies outside Riga**
- **There was an increased interest in small land plots (2,000 to 10,000 sq.m.) for mixed or industrial development in Greater Riga area**

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GENERAL ECONOMIC SITUATION

The Bank of Latvia has raised refinancing rate from 4.5% to 5% a year. Traditionally, rise of refinancing rates causes rise of credit interest granted by commercial banks though it concerns only loans in lats. Interest rate of loans in euro currency is determined by European Central Bank mainly as well as financial markets of the world on the whole.

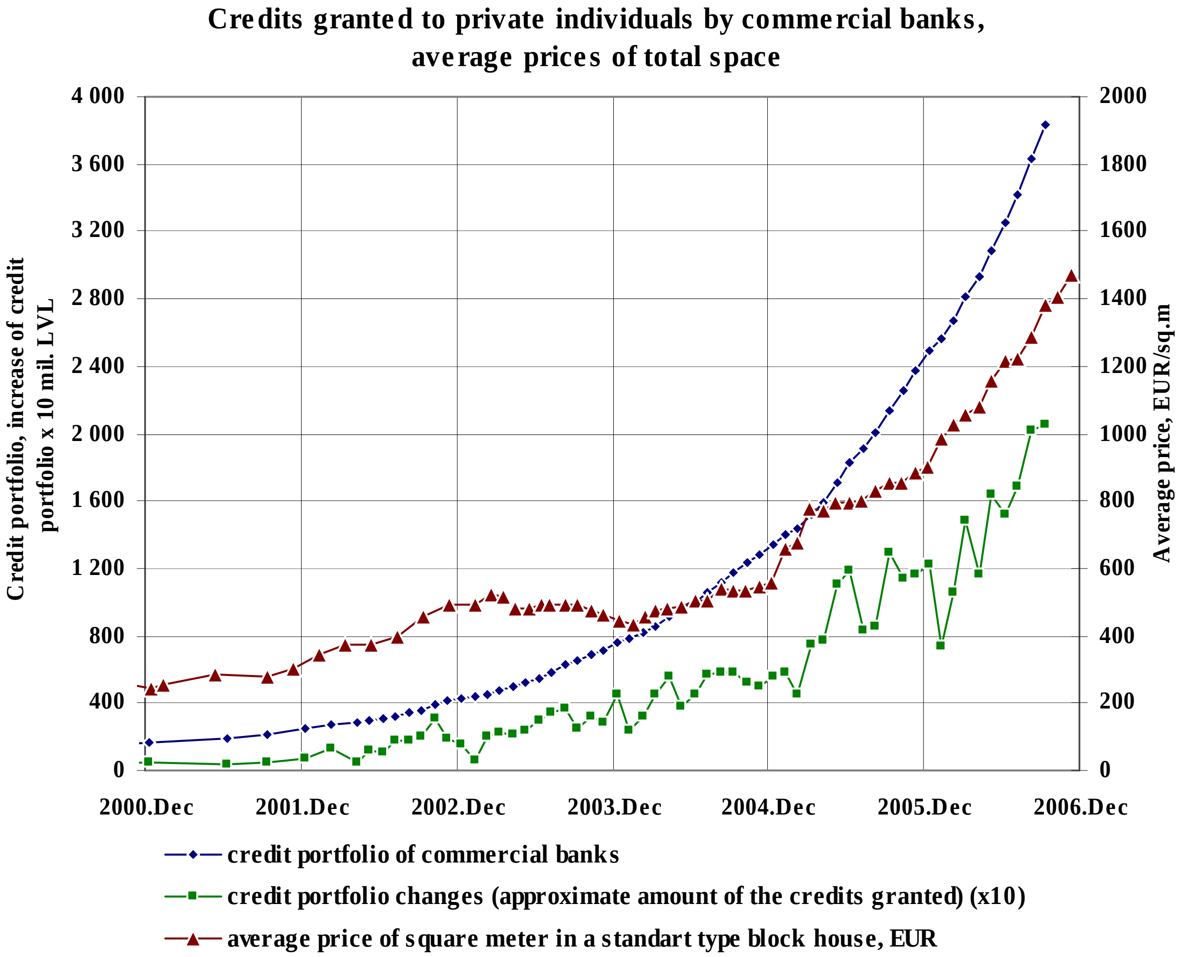
During the conference “Business Forecast 2007” organized by the newspaper “Dienas Bizness”, an emphasis was placed on further rise of construction costs, and that they could increase for 20% more. It was forecasted that prices would rise until the moment when Latvia would reach the average level of EU. Experts emphasized that prices of cement, energy resources and other materials would continue to increase as well as wages would be scaled up continuously.

Starting with January 1st, 2007, there will be in force alternations concerning objects liable to property tax and order of property tax calculation. The law stipulates that from the next year on building tax will have to be paid according to cadastral value determined by State Land Service instead of taking into account an average balance value or inventory value as it is now. The law alternations are indicative of property tax increase.

HOUSING MARKET

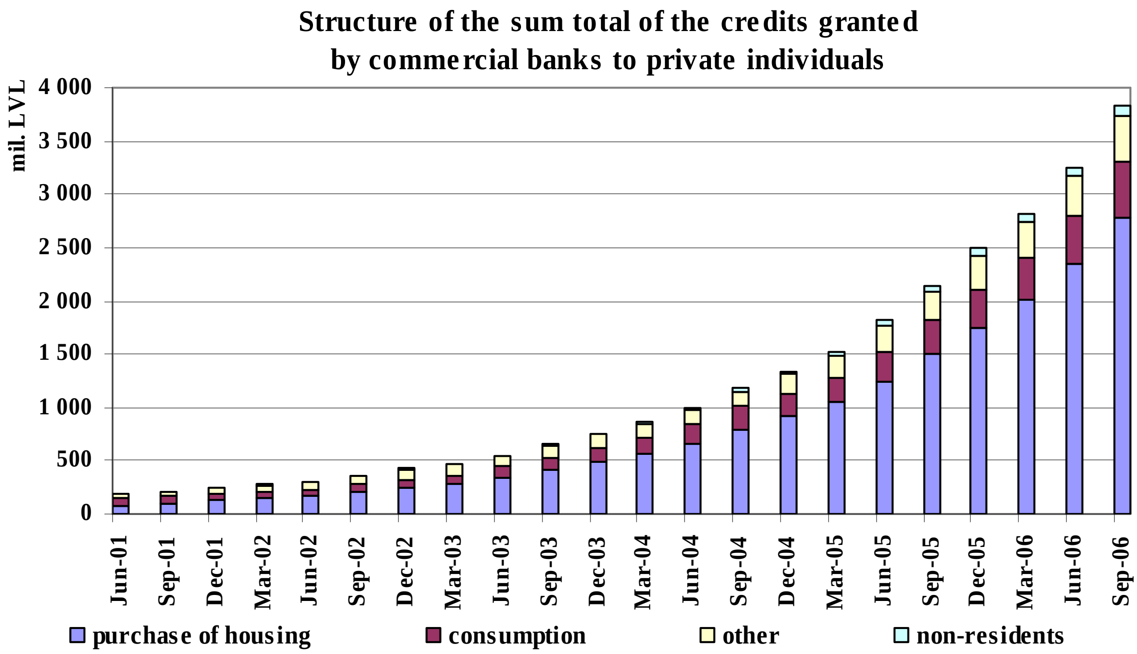
STANDARD TYPE APARTMENTS

- **In November, the average price of a standard type apartment in Riga was 1,470 EUR per sq.m. It has increased for 4.5 % in comparison with the previous month.**



Source: The Finance and Capital Market Commission, LATIO

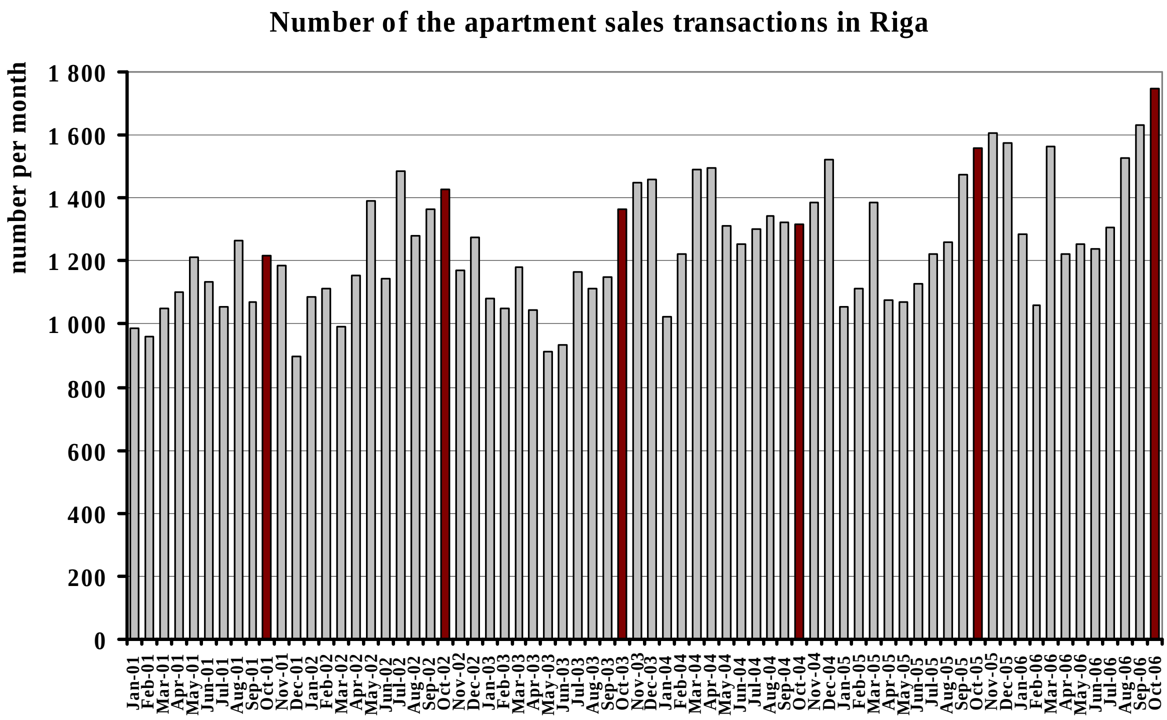
In comparison with the previous periods, a remarkable expansion of credit portfolio granted by commercial banks to private persons was witnessed in October, just like in September – it went beyond 200 million lats.



Source: The Finance and Capital Market Commission, LATIO

In comparison with the first half of the year as well as the last few years, the highest rise of loans granted to private persons in summary total was observed in the third quarter of this year. As it was forecasted before, the greatest part of the granted loans in summary total was made by mortgage loans. An increase was witnessed also in the total sum of granted consumption credits that was explained by the fact that the majority of private persons provided money for the initial payment most often by consumption credit. Increase was witnessed also in other types of credits as well as in credits granted to non-residents.

Though commissioning of new projects often is delayed, amount of square metres of commissioned dwelling houses increases every quarter according to CSA data.



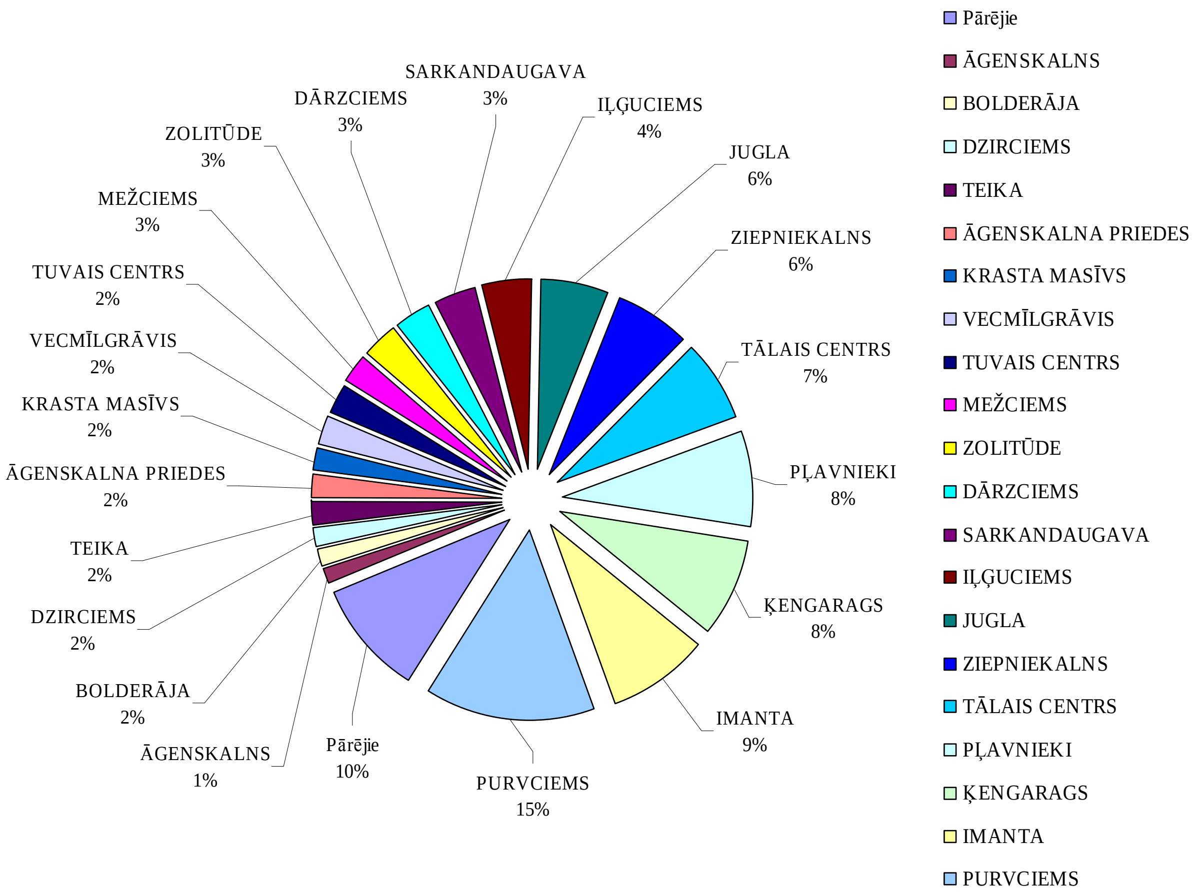
Source: Landbook Register, State Land Service

In October, the number of transactions with apartments in Riga reached its historical maximum – over 1,700 transactions. On the whole, even increase in transactions number was observed during the last few months. The last maximum was reached in November in 2005 – over 1,600 transactions. Transactions number increased due to selling apartments in new housing projects as well as more active trade of standard type apartments in residential districts.

The average rental of a single room apartment in residential districts was 150 LVL a months, a two-room apartment – 200 LVL a month, and a three-room apartment – 250 LVL a month.

With regard to the fact that received rentals do not cover credit payment, it is more beneficial financially to sell one's previous apartment when moving to new dwelling. More and more rarely, owners choose to rent out their old apartments, especially single-room and two-room apartments, due to some other reasons like, for example, anticipating a rise in prices of apartments.

Apartment purchase transactions ratio among residential districts in Riga, October 2006



Source: Landbook Register, State Address Register

Last month the number of transactions with standard type apartments increased most in Purvciems (15%) thus making this residential district a more pronounced leader in this segment.

The number of transactions with apartments increased a little also in Sarkandaugava, whereas in Zolitude, Vecmilgravis and Teika it decreased in comparison with the previous month.

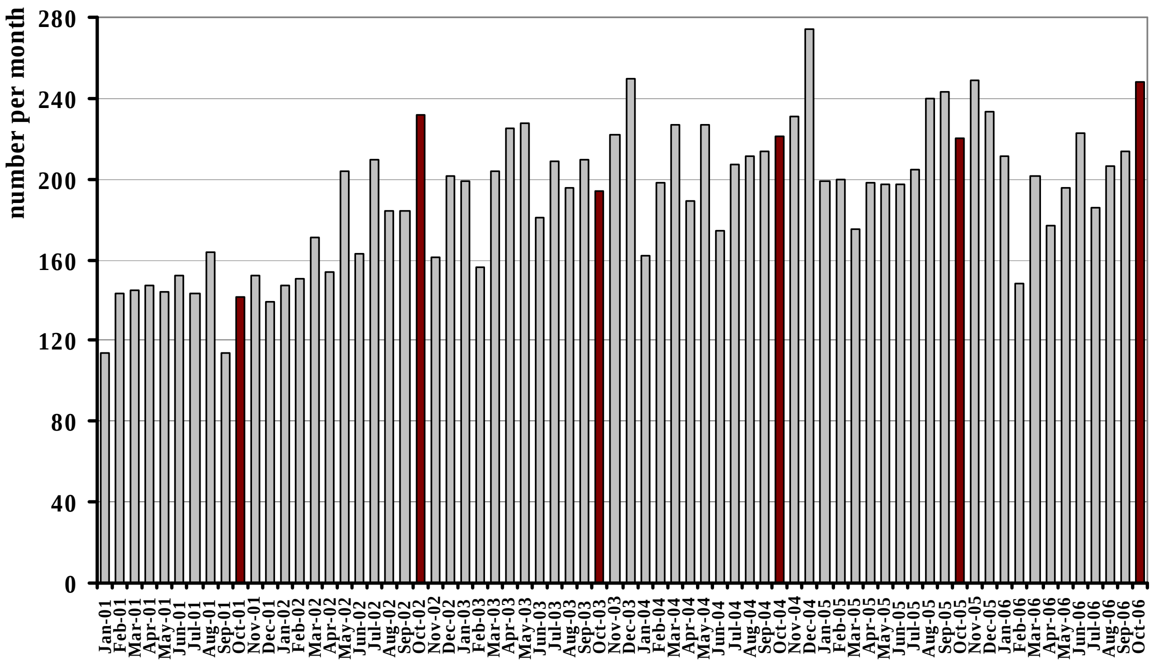
Typical prices of standard type apartments in Riga residential districts in November, EUR

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	71 000	70 000			70 000			67 000				
	2-rooms	88 000	90 000			83 000			85 000				
	3-rooms	108 000	110 000			101 000			100 000				
	4-rooms	120 000	120 000			116 000			118 000				
Series 602	1-room	57 000	59 000	57 000			57 000		56 000		52 000	50 000	
	2-rooms	80 000	79 000	78 000			74 000		73 000		67 000	66 000	
	3-rooms	91 000	89 000	88 000			88 000		90 000		77 000	75 000	
	4-rooms	100 000	100 000	100 000			97 000		100 000		91 000	88 000	
Series 103	1-room	62 000	64 000		56 000		57 000				56 000	55 000	50 000
	2-rooms	85 000	85 000		79 000		78 000				73 000	72 000	64 000
	3-rooms	99 000	98 000		95 000		95 000				89 000	86 000	77 000
Series 104	1-room	70 000		68 000		74 000	74 000						
	2-rooms	89 000		87000		87 000	87 000						
	3-rooms	115 000		110 000		100 000	100 000						
„Lithuanian" proj.	1-room	56 000			51 000		54 000	53 000	49 000	49 000		47 000	45 000
	2-rooms	75 000			69 000		72 000	69 000	66 000	66 000		63 000	63 000
	3-rooms	84 000			81 000		86 000	83 000	81 000	78 000		75 000	74 000
„Hruschov" type houses	1-room	54 000			51 000			55 000	49 000	49 000	50 000	46 000	
	2-rooms	73 000			68 000			66 000	66 000	67 000	64 000	61 000	
	3-rooms	83 000			79 000			78000	80 000	77 000	77 000	75 000	

Source: LATIO data

MARKET OF DETACHED HOUSES

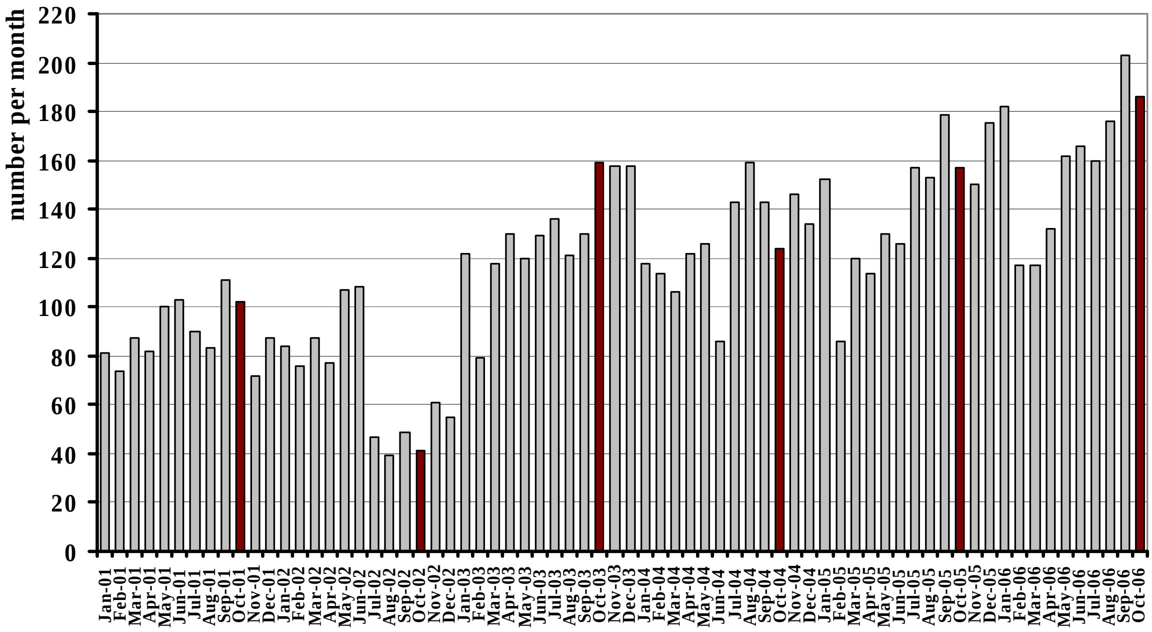
Number of the detached housing sales transactions in Riga



Source: Landbook Register

According to Landbook data, purchase transactions of detached houses in Riga increased in October. During the last half of the year, the highest rise in the number of transactions with detached houses was observed in June whereas in July, August and September there was a remarkably decreased activity of selling and buying of detached houses.

Number of the detached housing sales transactions in Riga region*



Source: Landbook Register
* - data reveal information excluding Riga and Jurmala town

In October, purchase transactions of detached houses in Riga district decreased whereas it has increased in comparison with August, July and June.

There was an increased interest of tenants of multi-apartment houses in purchasing or building detached houses in Greater Riga area. With regard to the fact that, for example, price of a three-room flat in Sigulda fluctuates between 50,000 LVL and 60,000 LVL, local inhabitants think of a possibility to sell their flats and to use the gained money for purchasing or building private houses.

There was observed a remarkable interest of purchasers in terraced houses in Riga district (Sigulda, Ogre, and Ikskile) during the last month.

Demand increased in land plots approximately 3 ha large within a radius of 70 km from Riga as well as in centres of the parishes such as Suntazi and Malpils located close to Riga.

NEW HOUSING PROJECTS

New projects announced in November

Title, address	Dwelling type	Developer	Price LVL/m^2	Finish	Number of dwellings	Number of buildings
Riga						
Riga, 19 Matisa Street	A	x	x	x	x	1
Riga, 1 Ropazu Street	A	x	x	x	x	1
Riga, 16 Keldisa Street	A	SIA "SOS"	x	x	x	1
Riga, 12a, 14 Miera Street	A	x	x	x	x	2
Riga, 30 Gobas Street	A	x	x	x	81	1
"Darzciema nams" Riga, 1 Laudonas Street	A	SIA "Remus nami"	x	x	11	1
Riga, 11 Maza Kalna Street	A	SIA "NEIS"	x	Full	14	1
Riga, 14 Viīlandes Street	A	x	x	Full	14	1
"Dienvidu pakavs 3" Riga, Mezkalna Street	A	SIA "Pilsētmāju institūts"	x	x	x	1
Riga district						
"Kanala Street", Riga district, Adazi, Kanala Street	DH	SIA "VEIJA"	780	Partial	10	10
Twin house in Langstini, Riga district, Garkalne parish, 17 Elenburgas Street	TH	SIA "Savibalts"	1 224	Partial	2	2
Twin houses in Vecaki Riga district, Vecaki	TH	SIA "Savibalts"	1 560	Partial	2	2
Riga district, Marupe, 10 Malu Street	DH	SIA "Optimus projekts"	x	x	4	4
"Neibades Nami", Riga district, Saulkrasti, 4-22 Baltijas Street	DH	SIA "LVG projekti"	1 100	Full	19	19
Jurmala						
"Kaleju nami" Riga district, Jurmala, Melluzi, 41 Kaleju Street	TH	SIA "Kalēju Nami"	1 080	Partial	4	4

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

Source: LATIO data

In November, 15 new housing projects were presented (9 in Riga, 5 in Riga district and 1 in Jurmala), and 5 of them were approved by Riga Council. Construction licences were issued for the following multi-apartment houses:

- 19 Matisa Street
- 1 Ropazu Street
- 12a Miera Street
- 30 Gobas Street
- 16 Keldisa Street

COMMERCIAL SPACE MARKET

November was not an active month on commercial space market. It was related to both the tail-end of the year at hand and NATO summit that took place in the end of November and during which many enterprises were closed.

OFFICE SPACE

In November, rapidly grew the number of those offices space of which did not exceed 90 sq.m. Several such transactions were concluded in Riga centre (Lacplesa Street, Raina boulevard), in Pardauga (Meza Street), in Mezciems (Smerla Street). The lessees represent branches of construction, dentistry, environment protection and tourism.

There is a continuous demand of lessees for premises in the Calm Centre – lawyers, attorneys and financial advisors actively demand apartments on the first floor in the Calm Centre in order to open their offices there.

Many big companies analyze market situation searching for possibility to build offices for their own needs and they make a decision to construct office buildings over 3,000 square metres large. It is beyond doubt, however, that construction of a new office building is complicated. It is related to substantial financial investments as well as the process of project development itself – land purchase, designing and receiving necessary licences for construction of the building. The present market situation marks out a tendency where new offices for their own needs are built by companies working within the branches of banking and construction.

Rotation of lessees continues since owners scale up rentals when prolonging lease agreements and present lessees are not satisfied with that. At the same time there are some cases when several lessees are interested in one and the same office simultaneously.

“SEB Unibanka” informed mass media about the bank’s decision to sell its buildings located in the Baltic States. 22 building will be sold in Latvia, 14 in Estonia and 26 in Lithuania. Selling transactions of office buildings were observed more often lately. In many cases reversible leasing deals were concluded. Development tendencies of such transactions characterises that owners reckon that capital profitability in the basic activity will be higher than expected capital gains from real estate. In such transactions the structure of owner’s assets changes and the owner can provide using substantial amount of resources for its basic activity.

During the exhibition “Real Estate 2006” that took place in the end of November three new office projects were presented: an office building on Astras Street without number with total area 7,500 sq.m, an office building in Marupe “Nim Invest darījumu centrs” with total area 1,700 sq.m, and an office building on 31/33 M.Nometnu Street with total area 2,200 sq.m. Premises are offered for rent in all these projects. Projects are planned to be commissioned in second half of the year 2008.

RETAIL SPACE

In November several banks and one of the biggest traders of finishing materials and floorings started searching for space outside Riga and in the biggest towns of Latvia. It is related to the fact that dynamic construction of new housing projects is carried out in the regions of the country thus causing demand for construction materials and banking services.

Many enterprises prefer purchasing to lease of retail space. It is explained by high rentals and their rise as well as by an existing clients' category that purchase retail space as investment objects.

Comparatively poor supply of retail space in the active centre and the Old Town was observed. Rentals of lease supply in the active centre of Riga do not stop growing, reaching 70 EUR per sq.m for premises up to 50 sq.m large. Prices of sales supply reach 3,500 EUR per sq.m on average. There is still excessive demand in both retail space purchase and lease.

Traders of clothes and shoes, tourist agencies, beauty salons, and providers of public catering services search for retail space, 30 sq.m to 100 sq.m large, in the active centre of Riga. Premises are searched for also by entrepreneurs from Russia and Lithuania carrying on trade of furniture and spare parts of motor vehicles.

The second round in the space of 6,000 sq.m of the shopping centre "Elkor Centrs" on 60 Krasta Street was opened on November 20th. There were represented new groups of goods such as household goods, textiles, carpets, dishes, toys and furniture.

INDUSTRIAL SPACE

November was an inactive month also within the segment of industrial space, but supplied rentals rose a little at the same time – for approximately 0.50 LVL per sq.m. Probably, the lack of activity in November can be explained just by the price rise.

Space in several new industrial projects will be available during the next few years.

Clients who search for heated premises are willing to conclude transactions also on non-heated premises provided it is possible to install heating there.

Interest increased in small land plots (2,000 to 10,000 sq.m) for mixed or industrial development in Greater Riga area. Sites in good places with engineering communications as well as old building on them are mainly demanded with a view to establish car service stations, warehouses or small production centres. An essential requirement for location of such sites is a possibility to expand during the next few years by constructing additional buildings. The most demanded land plots are those in directions to Kekava, Marupe and Bauska located as close to traffic highways as possible.