

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

**October 2006**

- **In October, the average price of a standard type apartment in Riga was 1,405 EUR per sq.m, thus being for 1.5 % higher than in September.**
- **In October, 22 new housing projects were announced on the market of new homes.**
- **Office building „Ziemeļu vārti” (Nordic Gate) in the centre of Riga, on 151 Brivibas Street, was commissioned.**
- **There is still a high demand in office premises – several lessees at the same time apply to rent them.**
- **4 shopping centres were sold to institutional investors: “Mols”, “Dole”, and “Alfa” in Riga as well as “Valdeka” in Jelgava.**
- **One of the largest trading operators of DIY (Do It Yourself) goods in Germany “Bauhaus” is going to start its business in Latvia.**
- **The shopping centre “Spice” launched the third round of construction, with a view to open the largest centre of furniture and household goods in the Baltic States next autumn in Riga.**

**Data publishing without reference to the source is prohibited!**

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## GENERAL ECONOMIC SITUATION

According to the data given by Central Statistics Administration, costs of construction in Latvia rose for 26.5% in the third quarter of 2006 if compared to the third quarter of 2005. This is the greatest annual rise of construction costs since 1995. Most rapidly – for 58.9% – wages of workers increased.

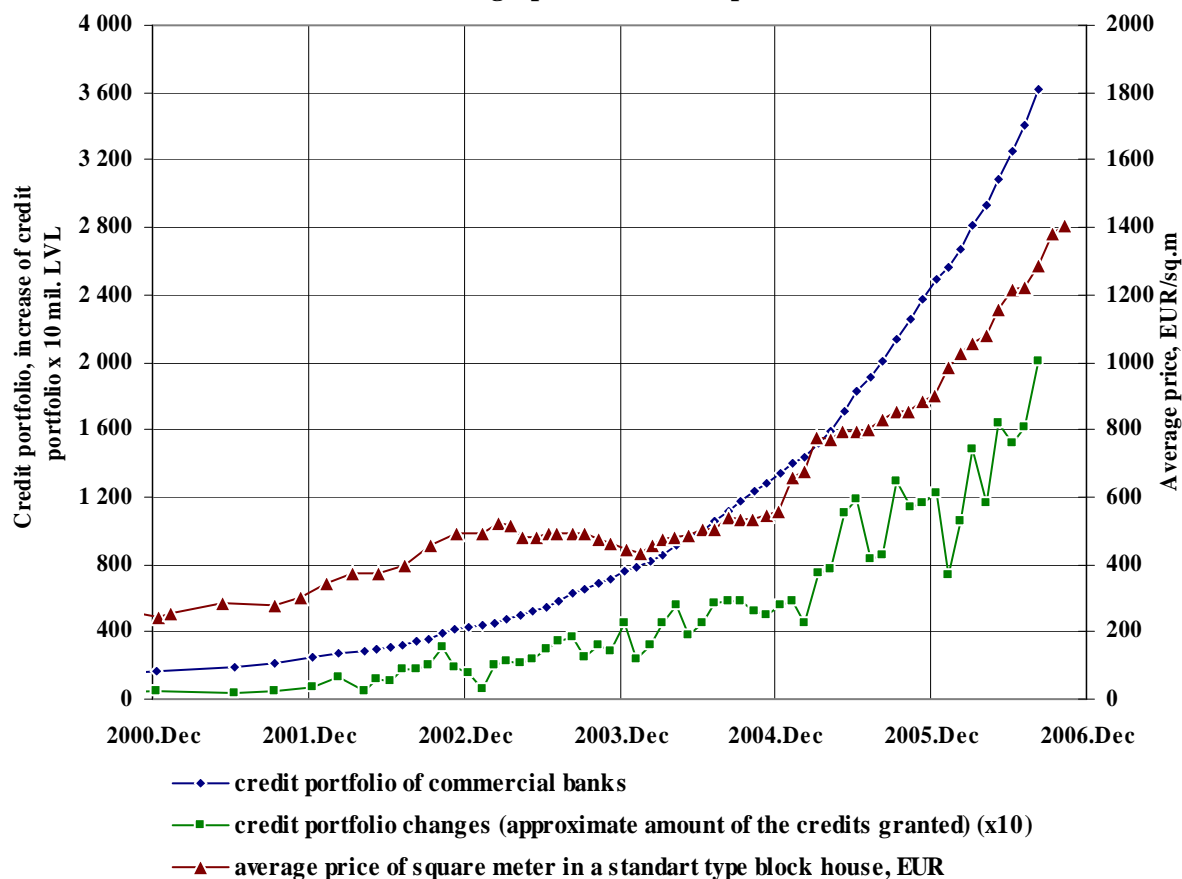
This is explained by rapid growth of construction branch. It is developing faster than other economic sectors. Rapid economic growth entails demand in construction services. Limited construction capacities have become the reason for delayed launching of construction works of confirmed projects, and the risk of postponed deadlines of construction works becomes higher.

# HOUSING MARKET

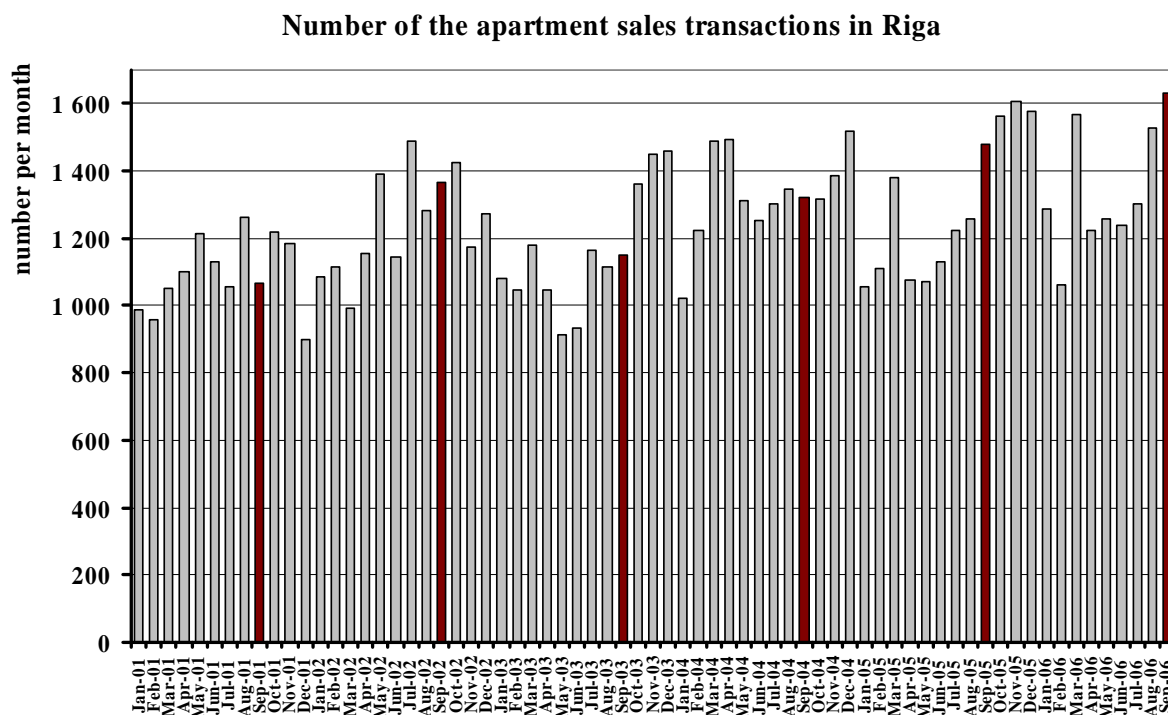
## STANDARD TYPE APARTMENTS

- In October, the average price of a standard type apartment in Riga was 1,405 EUR/sq.m, the rise being 1.5 %.

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



Source: The Finance and Capital Market Commission, LATIO



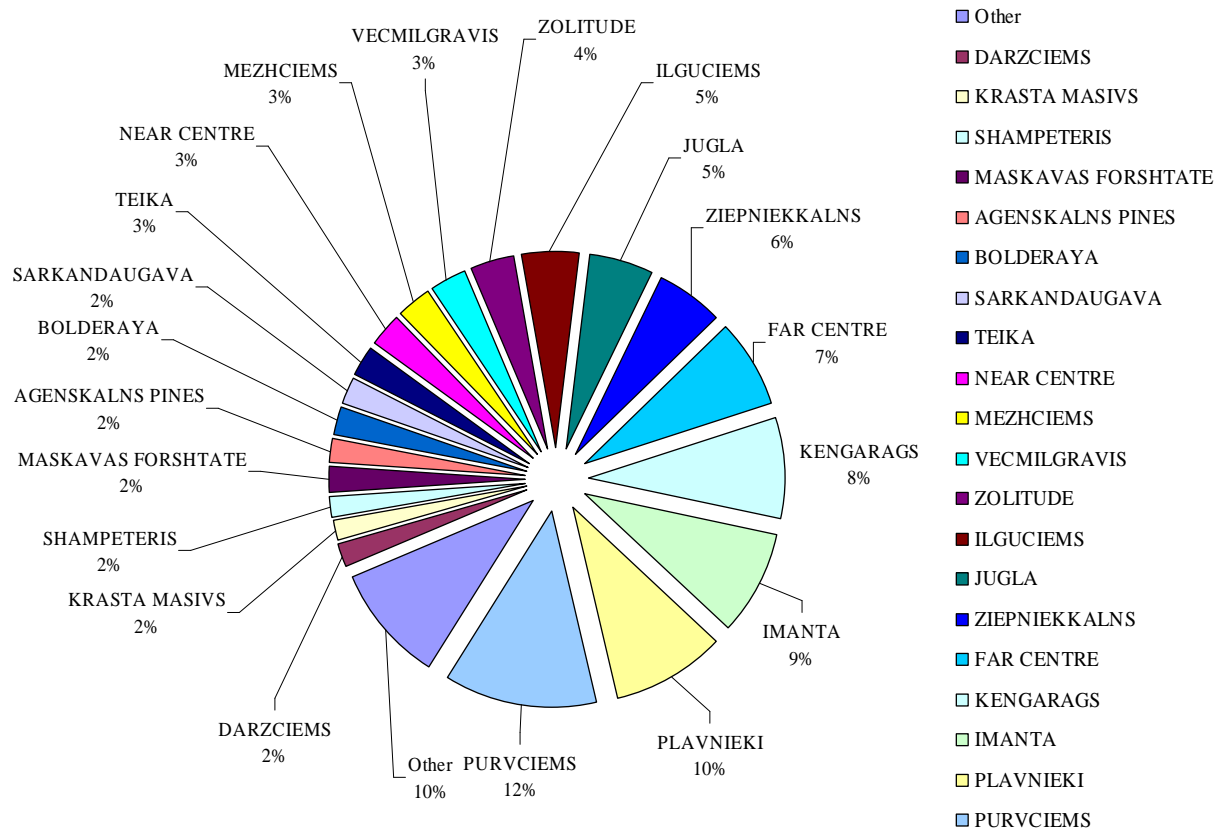
**Source:** Land Book Register & State Land Service

In September, the number of transactions with apartments reached 1600. It has been observed for several years that number of transactions had increased at the end of a year. It is partly explained by the fact that new multi-apartment houses are commissioned during the last several months of a year.

Many owners of standard type apartments still prefer to rent out the previous apartment instead of its selling after having acquired a new dwelling since they forecast further price rise.

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## Apartment purchase transactions ratio among residential districts in Riga, September 2006



**Source:** Land Book Register, State Address Register

Compared to the previous month, the number of transactions with apartments increased almost in all residential districts, decrease of transactions amount was witnessed only in Ziepniekkalns.

According to the data of Land Book and Address Register, it may be concluded that most transactions were concluded with two-room apartments. However, by appraising that a price payable for a square metre of a two-room apartment may be higher than a square metre of a three-room apartment of the same project even for 10%, purchasers more often prefer a variant that is larger and thus more expensive in respect of costs. Purchasers more often choose one-room apartments in new projects instead of two-room apartments in the standard type houses. Though being more expensive they are more available to purchasers taking into account the propitious terms of mortgage loans.

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**Typical prices of standard type apartments in Riga residential districts in October, 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	67 000	65 000			67 000		66 000				
	2- rooms	84 000	85 000			83 000		82 000				
	3- rooms	99 000	95 000			99 000		97 000				
	4- rooms	109 000	112 000			111 000		109 000				
Series 602	1- room	55 000	56 000	55 000			55 000	54 000		47 000	45 000	
	2- rooms	74 000	78 000	72 000			72 000	72 000		63 000	62 000	
	3- rooms	83 000	88 000	83 000			85 000	84 000		77 000	76 000	
	4- rooms	94 000	96 000	92 000			95 000	93 000		80 000	79 000	
Series 103	1- room	57 000	60 000		56 000					51 000	50 000	47 000
	2- rooms	78 000	80 000		75 000					70 000	68 000	67 000
	3- rooms	89 000	88 000		92 000					84 000	83 000	82 000
Series 104	1- room	68 000	67 000	67 000		67 000	65 000	65 000				
	2- rooms	83 000	82 000	81 000		82 000	79 000	82 000				
	3- rooms	103 000	102 000	100 000		97 000	93 000	98 000				
„Lithuanian” proj.	1- room	53 000		50 000	51 000		52 000	50 000	48 000		45 000	44 000
	2- rooms	71 000		70 000	68 000		70 000	67 000	65 000		60 000	63 000
	3- rooms	80 000		78 000	81 000		80 000	78 000	77 000		74 000	73 000
„Hruschov” type houses	1- room	54 000			48 000		51 000	51 000	48 000	48 000	45 000	
	2- rooms	69 000			66 000		66 000	66 000	63 000	65 000	62 000	
	3- rooms	83 000			79 000		77 000	77 000	76 000	76 000	73 000	

Source: LATIO data

## APARTMENTS IN THE CENTRE

Supply of apartments for rent in the centre decreased during the last three months. At the same time, supply for their sale increased. In October, supply of apartments for rent decreased for 40%, compared to summer months, but purchase offer increased for ca.10%.

Speculative capital flows out of Latvia – to Bulgaria and Ukraine – the countries where a higher capital growth is expected. Apartments of the centre were once the market segment of dwellings into which most speculative capital was flowing. Part of investors sells their properties – apartments in the centre of Riga, and they purchase exclusive properties for this money in the mentioned countries.

## NEW HOUSING PROJECTS

22 new housing projects were announced on the market of new homes. In Daugavpils and Ogre – it is already the fourth one in each, in Aizkraukle – the second one.

Renovated houses are more often encountered in Riga. This month – buildings on Brivibas, Pumpura, Strelnieku and Antonijas Streets. Probably, this trend will go on since more and more denationalized houses are vacated by the tenants.

In the project “Ūnijas nami” construction works are close to be finished – interior decoration is begun. Selling of dwellings has been begun only on this stage of construction. In the last few months, a tendency has been witnessed more often that offering new dwellings for sale were begun when finishing stage of construction was close.

The first building under construction – building in 19 Katolu Street, appeared in the Maskavas residential district. New projects have not been developed in this area before. This project is being developed by “Eiromāja” Ltd.; it will host 17 apartments that will be offered with white finish.

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### New projects announced in October

Title, address	Dwelling type	Developer	Price LVL/m <sup>2</sup>	Finish	Number of dwellings	Number of buildings
<b>Riga</b>						
"Meijas", Riga, 8 Stopiņu Street	A			Partial	24	1
Riga, Hanzas Street w/n	A	SIA "Stadions"	from 1970	Partial	15	1
Riga, Koku Street w/n	A	SIA "Ars Domina"	1800	Partial	18	2
"Tāļivalža nams", Riga, 20 Tāļivalža Street	A	SIA "V-Nami"	from 1600	Full	9	1
Riga, 3 Ratsupītes Street	A	SIA "Marno J"	from 1000	Partial	88	1
Riga, 27 Lidonu Street	A	SIA "Korso"		x	68	1
"Hanzas 3b", Riga, 3b Hanzas Street	A	SIA "Hanzas apartamenti"	from 1935	Partial	130	1
Riga, 162 Brīvības Street	A	SIA "Rūtes Nami"	1690	Partial	9	1
"Pumpura māja", Riga, 6 A.Pumpura Street	A	SIA "Marno J"	3865	Full	16	1
Riga, 19 Katolu Street	A	SIA "Eiromāja"	1550	White	17	1
"Ūnijas nami", Riga, 73 Ūnijas Street	A	SIA "Ūnijas nami"	1840	Full	12	1
"Premjers", Riga, 10 Juglas Street	A	SIA "Ezermalas nams"		Full	62	1
Riga, 13 Strelnieku Street	A		2090	Partial	25	1
Riga, 11 Antonijas Street	A	SIA "Immostate"		Full	22	1
<b>Riga district</b>						
"Jaunuzoli", Riga district, Salaspils, Nometņu Street	DH	SIA "Markors"	1000	Full	10	10
Riga district, Sigulda, 12 Strelnieku Street	TH	SIA "NDL Investīcijas"	880	Partial	4	1
"Kalnrozes" 2', Riga district, Salaspils, 12 Malienas Street	A	SIA "Daugavas Būvserviss"	750	Partial	36	1
"Baltežera terases", Riga district, Baltežers	A	SIA "Baltežera terases"	2110	Partial	72	6
<b>Jurmala</b>						
"Liedaga Lux", Riga district, Jurmala, 44 Vidus prospekts	A	SIA "Melins"	4287	Full	18	1
"Jaunā Jūrmala", Riga district, Jurmala, J.Plieksana Street	A	SIA "Manutent Latvia"	1830	Full	105	3
<b>Others</b>						
Daugavpils, 143A Miera Street	A	SIA "Ahris"	800	Partial	24	1
"Paulas", Ogre district, Ikskile Town, Adamlauks	TH	SIA "RK Alianse"	545	Partial	16	2
Aizkraukle, 30a Jaunceltņus Street	A	SIA "Ogres nami"	630	Partial	24	1

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

Source: LATIO data

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## COMMERCIAL SPACE MARKET

### OFFICE SPACE

- **The office building “Ziemeļu vārti” (Nordic Gate) was commissioned in the centre of Riga, on 151 Brivibas Street.**
- **There is still a high demand in office premises – several lessees at the same time apply for them.**

There is still witnessed a high demand in office premises in new office projects under construction as well as in the rest of administrative buildings. Two or three lessees at the same time apply for good premises often. In such cases the owner prefers the lessee which has as fewer objections against terms of the lease agreement as possible; which intends to rent the premises for a longer period than others; which has as little demands for condition of premises and betterments (conditioning, ventilation, partition walls, extra WC construction etc.) as possible. There are also such cases when a lessee proposes to pay rental in advance for a year thus getting it even a little reduced in the result. Where a potential lessee seems interesting or “prestigious” to the owner, the owner may choose this very lessee out of several ones.

In new office centres under construction, preliminary agreements are actively signed with enterprises that provide public catering services. Such transactions already take place in such projects like “PBLC” on Ulbrokas Street, “GMP” on Krasta Street, “Nordic Technology Park” on Jurkalnes Street, “Panorama Plaza” on Ventspils Street, “SWH” and “Latvijas Krājbanka” on Skanstes Street, “Rietumu Capital Centre” on Vesetas Street, “Ziemeļu vārti” and “Barona kvartāls” on Brivibas Street. It is important for a developer to find providers of public catering services already during the process of the building design as it is related to task order to architects. Wrong choice of a public catering services provider may cause discontent of project lessees that, in its turn, has a negative effect on the project image.

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The office building in the centre of Riga, on 151 Brivibas Street, was commissioned. The bulk of the 8-storey building has been reserved, there are still offered only the 1<sup>st</sup> and the 2<sup>nd</sup> floor intended for big clients, and the 4<sup>th</sup> floor – for small clients. The rental is 13-14 EUR per sq.m. The lessees are “Nordea Bank Finland Plc Latvian branch”, “Audi Electronics”, several providers of financial services, state establishments. In the building, public catering will be provided by a structure of the restaurant “Fellini” that was created for this business centre particularly.

Quite an active demand for office premises is observed in the Silent Centre where providers of legal, accounting and financial services wish to fix up their offices. Decorated office premises are demanded in renovated buildings, easy accessible (an intercom, an elevator to upper floors, etc.), as well as with possible car parking. Rental of such premises fluctuates between 10 and 12 EUR per sq.m.

## RETAIL SPACE

- **4 shopping centres were sold to institutional investors: “Mols”, “Dole”, and “Alfa” in Riga as well as “Valdeka” in Jelgava.**
- **One of the largest trading operators of DIY (Do It Yourself) goods in Germany “Bauhaus” is going to start its business in Latvia.**
- **The shopping centre “Spice” launched the third round of construction, with a view to open the largest centre of furniture and household goods in the Baltic States next autumn in Riga.**

In October, retail space segment was the most active one on the market of commercial property.

Four transactions with institutional investors were concluded – shopping centres “Mols”, “Dole”, “Alfa” in Riga, and “Valdeka” in Jelgava were sold.

The Norwegian real estate company “Linstow AS” sold three shopping centres: “Mols”, “Dole” and “Alfa” to Norwegian fond “Acta” which is a company listed in stock exchange. Thus resources for new investments and real estate projects in Latvia and Eastern-Europe have been released. The transaction sum was 126 millions lats, time of its return – 7 to 10 years. “Linstow Center Management” will keep managing the sold centres, and “Linstow” has the right to repurchase the mentioned three centres in compliance with the transaction terms (Nozare.lv-LETA-EPI).

The shopping centre “Valdeka” in Jelgava was purchased by Irish development and investment company “BNTP”. The transaction sum overruns 10 millions euros. The space of the shopping centre “Valdeka”, in the area of 12,500 sq.m, is leased out to such retail business representatives like “Maxima”, “Nelss”, “Drogas”, “Chilli Pizza”, “and “Narvesen”.

These transactions show that interest of foreign institutional investors in investment objects in Latvia increases.

One of the largest trading operators of DIY (Do It Yourself) goods in Germany – “Bauhaus” starts its business in Latvia. In 2008 “Bauhaus” will open its first shop in the shopping centre “Alfa”. The trader has purchased land on the territory of the shopping centre where it is going to build a special shop. It is planned that it will be allowed to enter the shop by a car. It is forecasted that “Bauhaus” entering the market will affect traders whose shops are located in the vicinity of the shopping centre “Alfa”. There is still retained a high demand for construction supplies. This year and the last one were successful to producers of construction supplies, and the growth is expected also next year. Companies keep investing in order to increase production capacities and to open new plants. According to the calculations by traders of construction supplies, “Bauhaus” entering Latvia will not reduce the short supply of construction.

The shopping centre “Spice” has launched the 3<sup>rd</sup> construction round with a view to open the largest centre of furniture and household goods in the Baltic States next autumn in Riga. It is planned to locate more than 40 shops in the new furniture house with 28,000 sq.m of its total area. It is planned that a car parking will be situated on the roof of the furniture house. After the 3<sup>rd</sup> construction round of “Spice” will be finished, the total area of the shopping centre will be more than 100,000 square metres.

A big demand for retail space in the active centre of Riga is observed – there is a wish both to purchase and to rent. Premises 50 to 100 sq.m large are most often searched for, yet there is a demand also for premises in the area of 100 - 200 sq.m. There is no purchase offer in the active centre of Riga – it is explained by high rentals that reach 70 EUR per sq.m. Rental keeps rising for retail premises up to 50 sq.m large that are located on the cross-streets in this area of Riga. Compared to the last year it has soared for 20%. Demand has increased also for larger retail spaces in the area of 500 to 1, 000 sq.m, and that would be located as close to Riga centre as possible. A wish both to purchase and to rent is observed. However, supply of such premises is poor.

In October, clients’ interest in premises in Pardaugava, especially in Agenskalns, increased. Rentals also rose in Agenskalns – premises are offered already for 18 EUR per sq.m at present, instead of the previous 8-12 EUR per sq.m. Premises 50-150 sq.m large are most demanded. There is a remarkable flow of potential clients in the centre of Agenskalns, yet there is not enough space. Prevailing demanders that wish to purchase space in this area are representatives of banks, insurers, traders of car goods and groceries.

It is witnessed that smaller traders begin merging together thus enlarging sales amounts and searching for new, larger retail space. This month, several traders of construction and decoration supplies have merged thus creating more competitive enterprises in this trade segment. The main reason of this strategy is effectiveness of merging material and human resources of enterprises that enables to enhance turnover and revenue of enterprises. Definitely, incoming foreign companies into Latvia also deserve attention since they sometimes provide services or goods for lower prices than enterprises of similar profile.

## INDUSTRIAL SPACE

In October, traders of different types of goods and car service stations expressed most interest in industrial objects (200-500 sq.m). Heated premises in the area of 1,000 - 3,000 sq.m were most demanded.

Rentals retain the previous rates; selling prices are still high. But supply for sale increases.

Like in September, also in October, there was witnessed an increased demand for additional warehouses by trading enterprises that had bought enlarged volumes of goods against the end of the year and wished to take on lease warehouses for a short term. However, supply of such warehouses is poor since the owners do not want short-term lessees.

There is a big demand for commercial development land in Riga and Greater Riga area, but there is actually no appropriate supply. Demanders wish to construct work-shops, plants, warehouses, car wash, and car service stations. But land owners ask excessively high prices, for example, beginning with 200 LVL per sq.m for land in Zolitude. There is also a demand for land for rent, but there is no such supply, too. In Riga, commercial development land is demanded in the area from 1 to 5 ha.

Big companies wish to purchase land in Greater Riga area unless distance to highway does not exceed 500 m. There is a supply of land in Jaunolaine, but in the distance of 1 km to highway.