

REAL ESTATE MARKET OVERVIEW - RIGA AND GREATER RIGA AREA

January 2005

Traditionally January is considered to be the quietest and less active month of the year in the real estate market. Whereas January 2005 is a landmark for a number of new trends, considerable price increases.

In January the price range of standard type apartments lies between 360 EUR/m² and 860 EUR/m². The average price for standard type apartments in block houses has increased for 10%, while for the most demanded series apartments in the most prestigious residential districts the price growth has even reached 30%. Standard type apartments in block houses no longer can be considered as a single price category.

During the last year prices of quality apartments in the quiet centre of Riga have increased for about 50% to 85%. Prices of the best apartments nearby the Old Town have witnessed price growth of 100%. Apartment prices will continue to climb.

Under the influence of the January hurricane demand for residential development land in places potentially subject to over-flooding has become more circumspect, purchasers tend to be more cautious.

However, Garkalne parish has hit the record - price of the residential development land there has reached 70 EUR/m².

Due to the fact that lease agreements of many enterprises terminated on December 31, 2004, a number of lessees, a state institution including, were forced to search urgently for new premises. The lessees were careless enough not to notify lessors in due time about their intentions to proceed with the previous leases.

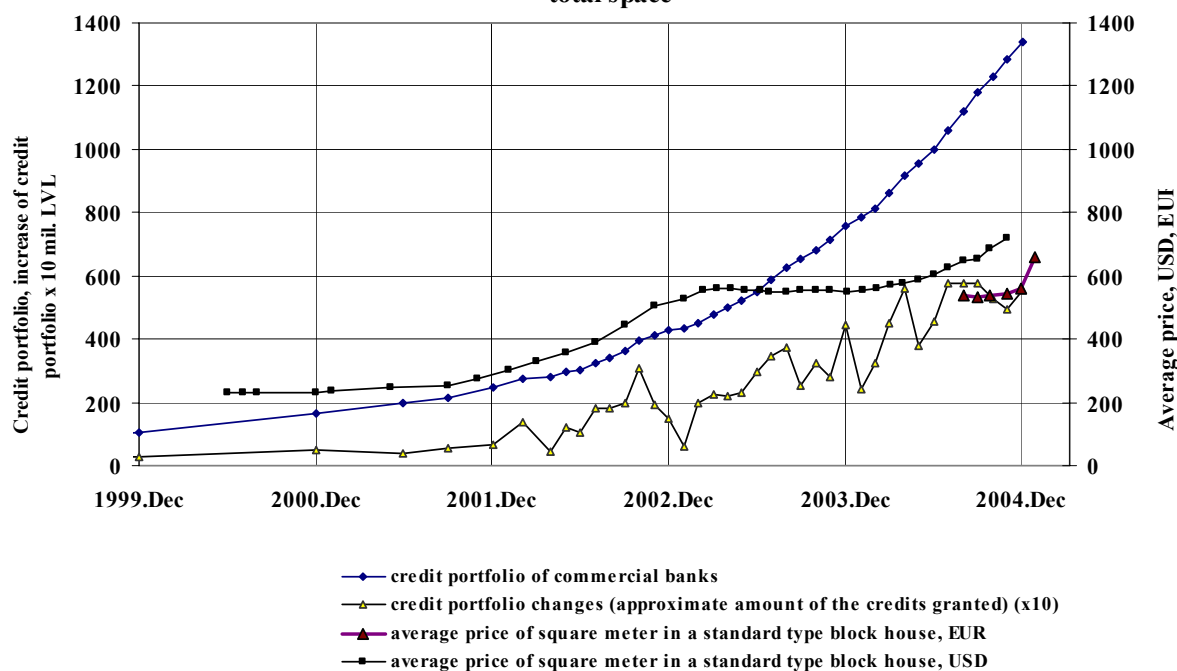
A stir was aroused by the decisive activities of the Ministry of Culture in preparing soil for alienation of the land needed for the construction of the Latvian National Library. Rapidly growing prices make the already complicated process even more complex. Property evaluation made 8 months ago does not reflect the current real estate market situation.

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RESIDENTIAL MARKET

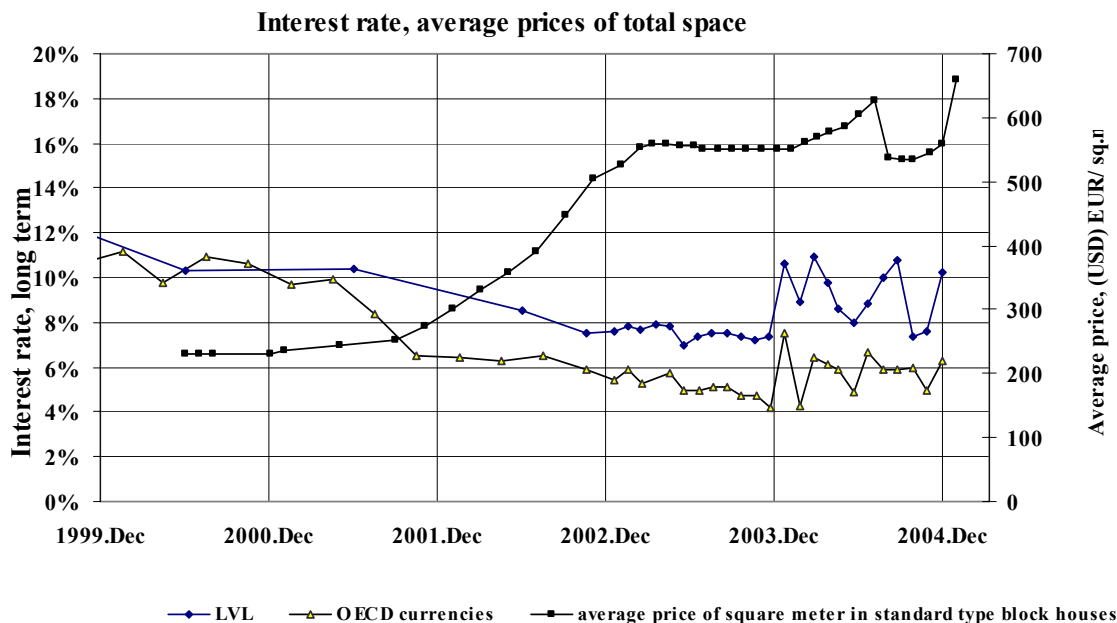
In accordance with the latest FCMC (surveillance institution of the financial market) data on December 2004, the credit portfolio granted to private individuals, the majority of which is used to finance purchasing of dwelling, is undergoing a continuous growth – of about 55 mil. LVL per month. This growth is quite stable starting from the middle of 2004. In December 2004 the average credit interest rates have witnessed certain increase, if compared with November. However, they retain the level of the last half of 2004 with a tendency to decrease, notwithstanding the fact that during half a year LIBOR index USD 6m has climbed from 1,5% up to 2,7%, i.e., for more than 1% point. This increase can be explained by the reduced difference of money price between the world markets and Latvia after its accession to the EU, while credits in USD were granted at the average interest rate of LIBOR USD 6m + 3%.

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



The Ministry of Culture is willing to alienate the properties located where the future Latvian National Library will be built. Moreover, the Ministry is willing to alienate these properties for prices that are considerably lower than their current market value. The Ministry offers for these properties reimbursement that is fixed basing on out-dated appraisals.

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STANDARD TYPE APARTMENTS

Apartment market in January is marked by a dramatic increase of price polarization. Price increase of different standard type apartments located in various districts differs, moreover, the price range of one type apartments within one residential district has increased. This trend can be explained by the fact that along with the new homes entering the market, secondary market is becoming more active, too. Thus purchasers of the new projects when moving into their new homes sell their previous apartments in the block houses. Quite often these are nicely located recently refurbished apartments in a good technical condition, thus their market value also is higher. Consequently sales price of such apartments may exceed the average market price of an analogous apartment in the respective residential district. However, if compared with the total transaction number (in December there were 1600 apartment purchase deals), this kind of transactions is not the dominating one.

In January price range of standard type apartments is between 360 EUR/m² and 860 EUR/m². The given price range has determined dramatic growth of the average price that in January exceeds 10%. The average standard type apartment price in January exceeds 660 EUR/m². The apartment price range is so wide that standard type apartments in block houses no longer can be viewed as a single price category.

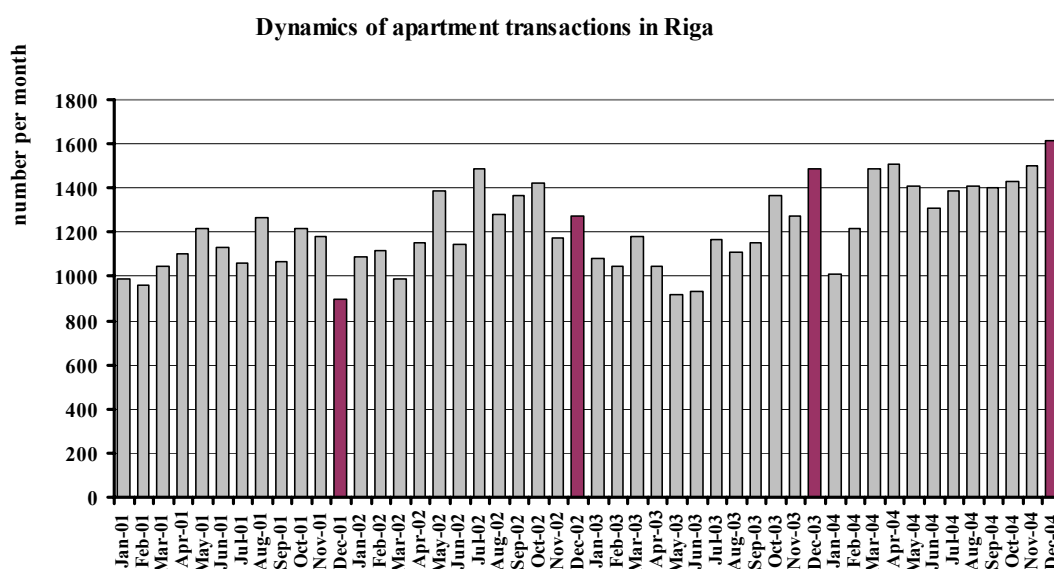
Standard type apartment prices in residential districts like Kengarags, Ziepniekkalns, Bolderaja have not experienced any notable changes, whereas, in the prestigious residential districts like Purcviems apartments of higher rating, i.e., series 103, 104, have become 30% more expensive. Prices of these apartments have already reached prices of the new homes market apartments, namely, they exceed 800 EUR/m². Apartment prices have climbed also in Agenskalns, Imanta.

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The pegging of the lats to the euro effected on January 1, 2005 has had certain impact upon the apartment market prices, too – in the majority of cases the apartment prices retained their face value whereas the currency was changed from USD to EUR. Transition to euro in the standard type apartment market was initiated in 2004, but beginning with January 2005 apartment prices are not stated in US dollars any more.

The market is not uniform, price amplitude is enormous. Market players are confused, on many occasions apartment owners are not sure what price to ask for the apartment to be sold.

Demand exceeds supply, the total number of deals remains the same.



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**Prices of standard type apartments in residential districts of Riga in January,
EUR**

District/Series		Purvciems	Mezciems	Ziepiņiekalns	Imanta	Zolitūde	Plāvēnieki	Agenskalns	Jugla	Kengarags	Bolderāja
Series 119	1-room	29000 - 37000	-	24000 - 23000	-	29000 - 35000	28000 - 36000	-	-	-	-
	2-rooms	40000 - 45000	-	33000 - 40000	-	37000 - 41000	36000 - 43000	-	-	-	-
	3-rooms	46000 - 55000	-	39000 - 46000	-	42000 - 46000	42000 - 54000	-	-	-	-
	4-rooms	48000 - 62000	-	45000 - 52000	-	50000 - 55000	49000 - 61000	-	-	-	-
Series 104	1-room	29000 - 40000	29000 - 35000	24000 - 34000	24000 - 35000	25000 - 35000	27000 - 36000	-	-	-	-
	2-rooms	35000 - 48000	36000 - 37000	32000 - 42000	33000 - 40000	37000 - 41000	35000 - 42000	-	-	-	-
	3-rooms	45000 - 57000	44000 - 55000	36000 - 52000	38000 - 50000	42000 - 50000	42000 - 56000	-	-	-	-
Series 103	1-room	23000 - 33000	-	-	-	-	23000 - 29000	22000 - 30000	-	-	18000 - 19000
	2-rooms	34000 - 40000	-	-	-	-	33000 - 36000	29000 - 40000	-	-	21000 - 23000
	3-rooms	40000 - 47000	-	-	-	-	38000 - 46000	35000 - 50000	-	-	27000 - 27000
Series 602	1-room	22000 - 28000	24000 - 25000	21000 - 28000	21000 - 26000	-	21000 - 30000	-	-	-	-
	2-rooms	30000 - 40000	32000 - 40000	28000 - 37000	30000 - 34000	-	31000 - 42000	-	-	-	-
	3-rooms	38000 - 47000	42000 - 45000	36000 - 42000	36000 - 42000	-	38000 - 46000	-	-	-	-
	4-rooms	42000 - 56000	48000 - 55000	39000 - 50000	40000 - 50000	-	40000 - 55000	-	-	-	-
"Lithuanian" type L proj.	1-room	22000 - 26000	20000 - 25000	18000 - 23000	21000 - 24000	-	-	20000 - 25000	-	18000 - 25000	16000 - 18000
	2-rooms	30000 - 36000	30000 - 35000	27000 - 30000	28000 - 32000	-	-	27000 - 33000	- 24000	26000 - 28000	21000 - 25000
	3-rooms	38000 - 45000	36000 - 43000	32000 - 40000	32000 - 45000	-	-	33000 - 43000	-	32000 - 35000	25000 - 30000
"Hruschov" houses	1-room	21000 - 25000	-	18000 - 21000	-	-	-	19000 - 25000	21000 - 23000	20000 - 22000	-
	2-rooms	28000 - 35000	-	25000 - 31000	-	-	-	26000 - 30000	27000 - 30000	24000 - 27000	-
	3-rooms	32000 - 40000	-	29000 - 37000	-	-	-	31000 - 45000	30000 - 38000	28000 - 33000	-

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THE NEW HOMES MARKET

Apartments in the new homes are gradually bought out, especially taking into consideration that prices of the highest rated standard type apartments in the most prestigious residential districts have already reached prices of the apartments in the new homes.

Supply of the new projects is extensive, possibilities to choose are sufficient. In order to retain the price level, when initiating the project, developers tend to sell the not so good apartments, whereas when the house is to be launched, better and more expensive apartments are put on the market. Besides, apartment prices are increasing along with the general trend of apartment price increase.

Moreover, it has to be noted that in 2004 construction costs have climbed for more than 6%.

APARTMENTS IN THE CENTRE OF THE CITY

Construction in Riga centre is not uniform, thus apartment prices even in one building can differ greatly depending on the apartment location either in the façade or in the courtyard side of the house. Besides, the closer the apartment is located to the Old Town, the price is higher.

During the last year price of apartments without finish in the quiet centre of Riga has climbed for 50% to 85%, namely, the price range lies between 1200 EUR/m² and 3500 EUR/m². Closer to the Old Town, for example, in Raina boulevard, prices of the best apartments have increased for 100% reaching already 4000 EUR/m².

At the same time apartment prices in the greater central Riga area – in the Central Railway Station region in Latgale district, in the vicinity of Valmieras street, in the residential area close to the port have witnessed a 25% increase in a year's time. In the vicinity of the port from Hanzas street up to Lugazu street apartment prices are beginning with 1400 EUR/m² and reaching 2200 EUR/m². In the district between Valmieras street and Caka street apartments are offered for prices beginning with 600 EUR/m² and 1500 EUR/m².

Apartment price growth is expected to continue.

DETACHED HOUSING

There is no great stir in the market of detached houses, purchasers are not buying properties for inadequately high prices if compared with their market value.

Stable demand for smaller detached houses in the vicinity of Riga – Babite, Garkalne, Jaunolaine, is witnessed. In villages like “Padebesi”, “Titurgas ezers” the average price of standard detached houses without finish, i.e., from 58 m² to 112 m², is around 670 EUR/m². For comparison, the average standard type apartment price in January has exceeded already 660 EUR/m².

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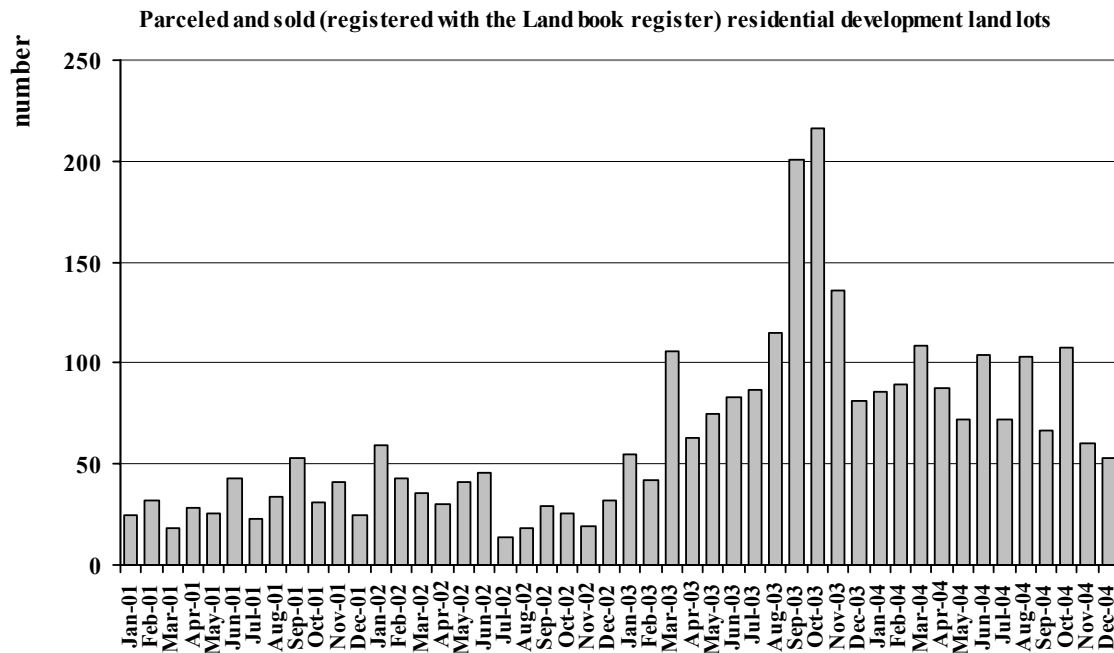
The hurricane of January 9th has inflicted enormous damage to the coastline of Latvia by devastating beaches and demolishing buildings close to the sea shore. Detached houses built on the banks of over-flooded rivers and lakes were damaged, especially in the lower places. At the moment it is impossible to forecast impact of the hurricane on the prices of the detached house market.

RESIDENTIAL DEVELOPMENT LAND MARKET

Traditionally January is not an active month in the residential land market. Besides, under the influence of the January hurricane demand has become more cautious, land in meadows is no longer of interest, purchasers tend to take more into consideration various risk factors. There is a demand for land with developed infrastructure. However, only within some three months it will be possible to assess whether price for residential development land in the direct proximity to waters will go down.

Residential development land price amplitude is very broad and location specific. Price depends on the location of the lot, infrastructure and accessibility of communications in the respective place. For example, in Garkalne parish residential development land amplitude is within 15 and 70 EUR/m². In Marupe parish the maximum price reaches already 55 EUR/m², in Saulkrasti and Carnikava 45 EUR/m². At the same time in the territory of Carnikava parish like in Kekava and Stopini parishes land in parceled meadows can be bought also for 10 EUR/m², while in Adazi the cheapest residential development land costs already 18 EUR/m².

In January the biggest number of residential development land purchase deals took place in Marupe, Kekava and Garkalne parishes.



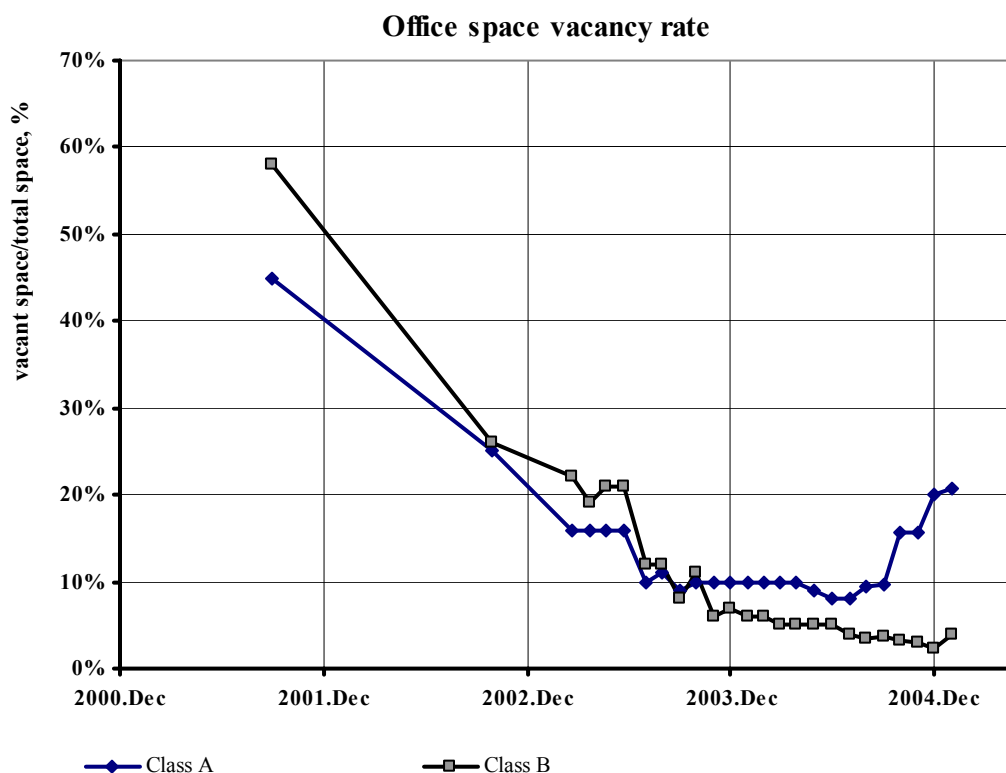
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COMMERCIAL SPACE

OFFICE SPACE

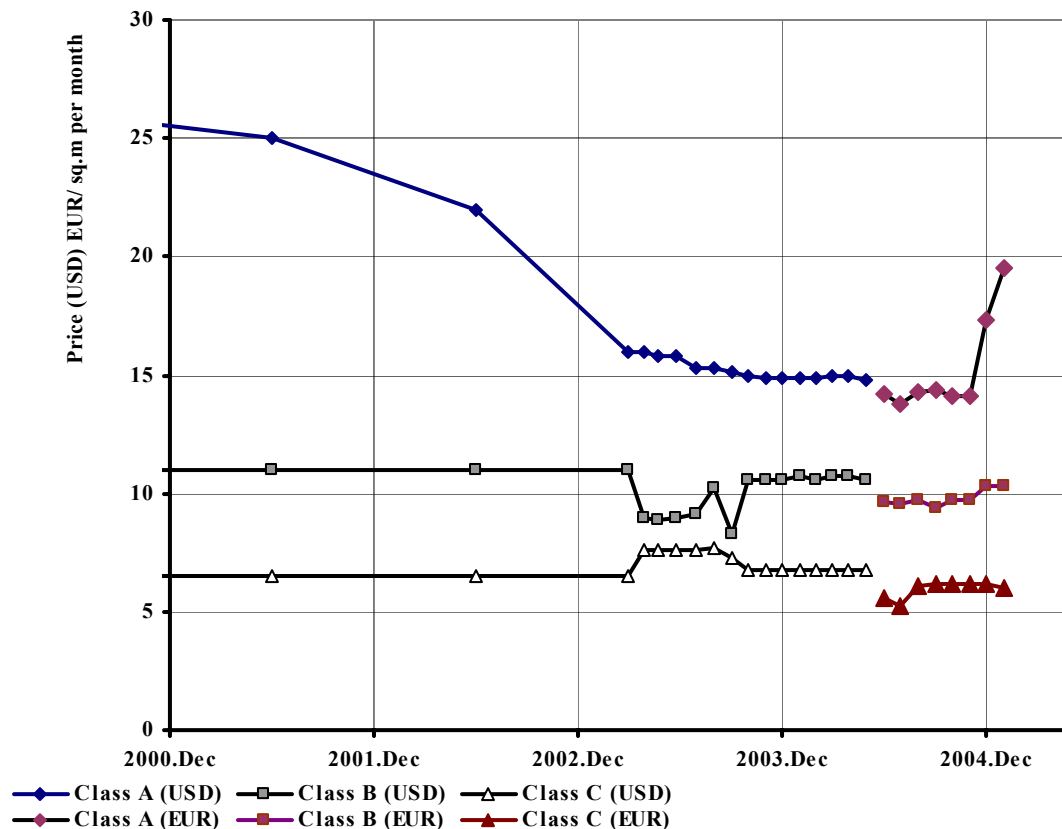
In January the Class B office market retains the December activity trend. With demand exceeding supply a tendency for office rents to climb is witnessed. On some occasions Class B rents have reached 14 EUR/m². To a certain extent this market activity can be explained by the carelessness of the lessees who failed to follow their lease terms – quite a number of lease agreements terminated on December 31st 2004, whereas the lessees forgot to notify in due time the lessors on their willingness to proceed with the premises rent. Thus a number of lessees, a state institution including, were forced to search urgently for new premises.

Also Class A – “Valdemara centrs” and “Saules akmens”, rents are climbing, reaching respectively 19 EUR/m² and 28,50 EUR/m². This price increase can be explained not so much by low vacancy rate than by inflation.



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Average office space rent



Diagrams in this report are prepared basing on the opinion of LATIO specialists that at the moment there are 2 Class A offices in Riga – “Valdemara centrs” and “Saules akmens” – the best and most modern office buildings in the city that comply with the generally acknowledged Class A office criteria.

Thus Class B office market has been supplemented by 4 quality office buildings. The given change of office gradation has affected vacancy rate and price indicators reflected in the above diagrams.

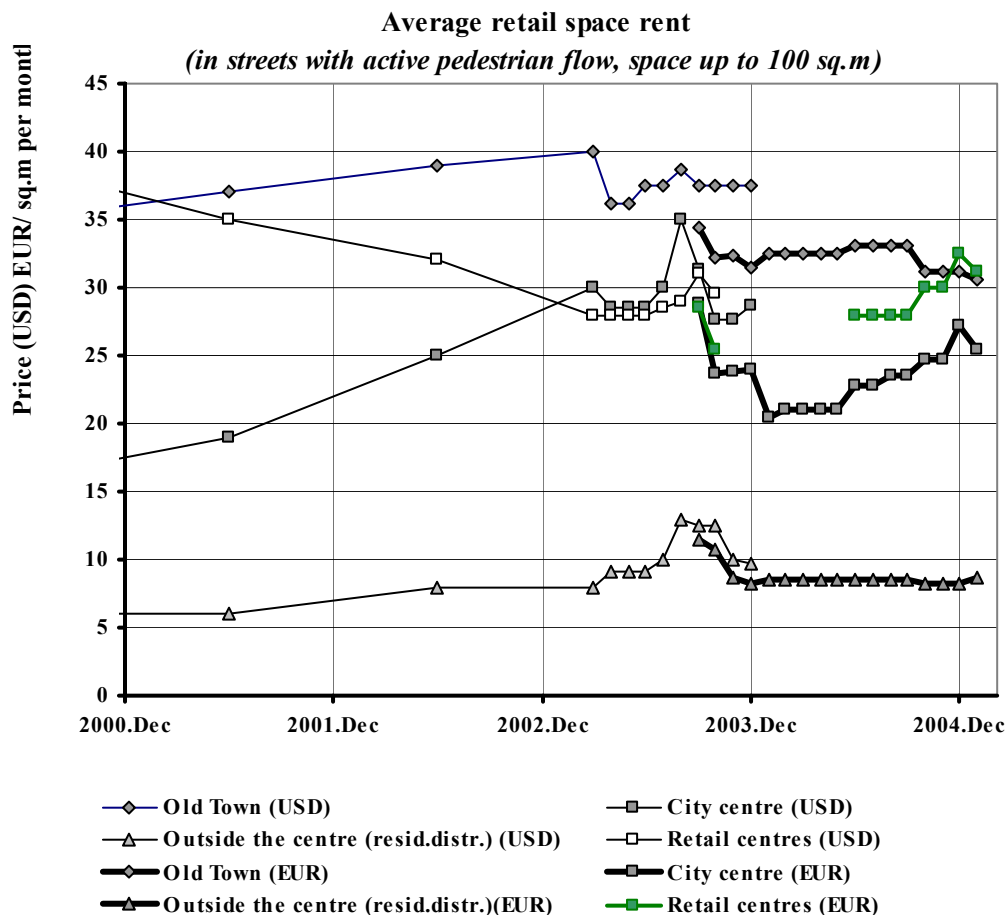
In September 2004 Kalpaka Park residence was commissioned, but by now all the 13 office premises in the semi-basement and on the ground floor are leased or booked. This is a mixed type building with apartments for rent starting from the first floor. Office rents in the building are not high – 10 EUR/m². Among the lessees there are lawyers, foreign agencies, educational establishments.

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RETAIL SPACE

January has not introduced any essential changes in the retail space market. There is interest to buy or lease cafe premises of about 100 m², but in the centre of Riga there is almost no adequate supply. As usually there is demand for premises in the popular shopping streets – Terbatas and Kr.Barona streets where the monthly rent for retail space up to 50 m² is 25-35 EUR/m², but for retail space of 50 to 150 m² rent is between 18 and 55 EUR/m². The average rent in retail centres is 30 – 40 EUR/m².

For retail space exceeding 50 m² rent is usually lower than for the smaller ones of less than 50 m². The exception is the said Riga centre shopping quarter bounded by Terbatas, Kr.Barona, Marijas and Brivibas streets where constant demand for prime retail space is witnessed.



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INDUSTRIAL MARKET

In January stable demand for medium sized – up to 5000 m², class A warehouses was retained, however, there are no ready-made premises. Clients are searching for ready-made space by approaching real estate companies as they do not wish to sign agreements on the lease of not yet built premises.

Thus owner-occupier warehouse complexes are under construction in the vicinity of Riga. The main builders of such complexes are companies with offices located in one place and warehouses in a different one. Moreover, companies from Saldus, Liepaja and other places are constructing centres of logistics for their own needs near Riga. Thus land prices in the business territory are growing, in Marupe, Salaspils direction reaching already 30 EUR/m².

In response to the ever increasing demand in 2005 it is envisaged to build a new class A centre of logistics in Salaspils. At the moment there is already signed one lease agreement for the space total of about 2000 m². The monthly rent is 7 EUR/m²+utilities+VAT. The total territory of this centre of logistics will be 62734 m², there will be two hangars of 12380 m² and 11190 m² respectively. The yard coverage will be 15 000 m², parking is planned for 78 vehicles. The minimum rent space for a potential lessee – 1000 m².

Riga Industrial park with the total space of about 200 000 m² is offering to build to suit warehouses on 0.3 -0.4 ha of the unoccupied land in one year's time after signing the lease agreement as well as logistics services. In April 2005 they are planning to commission a newly built warehouse for the price of 6 EUR/m² and office space for 9 EUR/m².

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