

REAL ESTATE MARKET OVERVIEW - RIGA AND GREATER RIGA AREA

December 2004

In December apartment prices in the Old Town have exceeded 5000 EUR per square meter – provided the current trend is retained, a considerable price increase is to be expected in year 2005.

The highest demand is still witnessed for standard type apartments in block houses where the price of a square meter is already approaching 600 EUR.

With regard to the law adopted by the Parliament “On the rent of residential space” that establishes new rent limits for the next three year period, investors are not so optimistic when evaluating the residential building properties put on the market.

In the most prestigious locations in Jurmala residential development land prices are close to 400 EUR per square meter – taking into consideration the limited supply and the seasonal lower market activity, a price rise is to be expected.

Land prices in Marupes parish have already reached 35 EUR per square meter.

In December a number of state and local authorities’ institutions, ministries of Culture and Justice including, by way of tender procedure have concluded agreements of leasing over 3000 sq. m office space for the price of about 10 EUR/sq. m per month. The majority of the said leases are concluded for the period up to 2 years, i.e., for the duration of refurbishing of their normal premises.

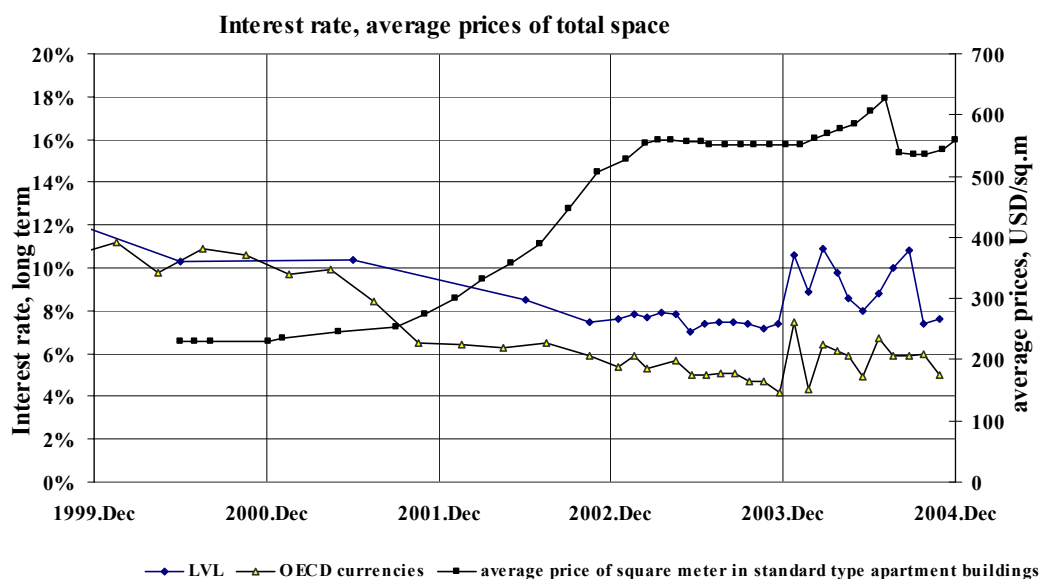
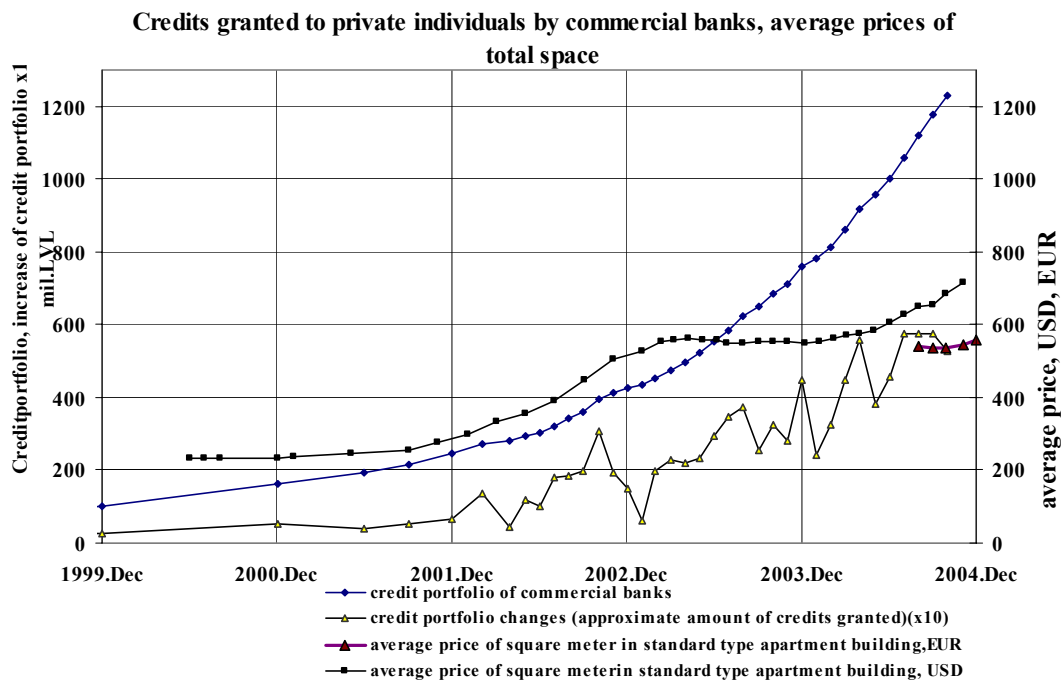
The strangest real estate deal in Latvia of the year 2004 could be the sales and subsequent lease of the former local authorities’ owned shop “Sakta” to the Latvian post company “Latvijas Pasts” for a ten year period. One can assume – a prime retail space in Riga is like a hot potato.

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RESIDENTIAL MARKET

STANDARD TYPE APARTMENTS AND THE NEW HOMES MARKET

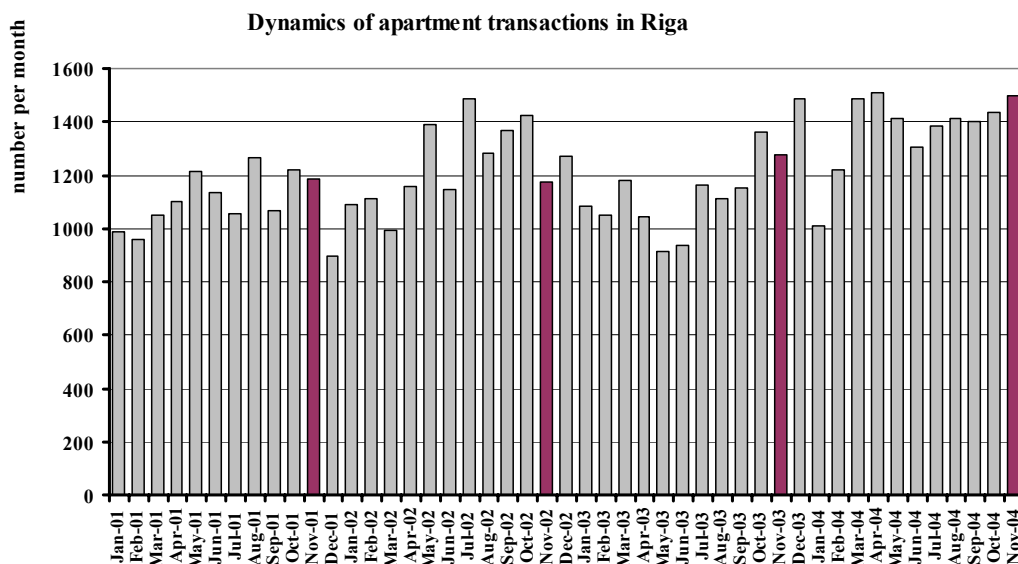
Demand for standard type apartments in block houses in Riga residential districts is high, whereas the supply is limited. The average time taken to sell apartments has been notably reduced, on several occasions an apartment is sold within a week's time. The US dollar has lost its leading role in the standard type apartment market. In December average standard type apartment prices that now are given in EUR have increased for about 3% thus exceeding 559 EUR per sq.m.



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The price difference between a nicely renovated standard type apartment in a block house and an apartment in a new residential project is insignificant – price of a square meter in a renovated apartment in a block house has reached 720 EUR, while price of an apartment in a new home without finish, without walls is likewise about 720 EUR per square meter. However, the vast majority of purchasers prefer a more or less renovated apartment in a Soviet time block house because they are not willing to invest additional resources in finishing the apartment that will cost roughly some 140 EUR/m² more.

Apartments in the new homes and detached houses are purchased by well-to-do people. With their level of welfare growing people tend to improve their living conditions and move to higher quality dwellings. The old yet comparatively recently renovated standard type apartments vacated by these people are purchased by others who by then have resided in worse quality apartments. Furthermore, the apartments vacated by these people are in demand by the next category of purchasers. This type of migration can be witnessed even within the boundaries of one residential district.



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Average prices of privatized apartments in residential districts of Riga in December, EUR

District/series		Purvciems	Ziepniekkalns	Agenskalns	Imanta	Zolitūde	Playnieki	Mežciems	Jugla	Kengarags	Bolderāja
Series 119	1-ist.	29 000	26 000	-	-	27 000	28 000	-	-	-	-
	2-ist.	37 000	32 000	-	-	36 000	36 000	-	-	-	-
	3-ist.	44 000	38 000	-	-	42 000	42 000	-	-	-	-
	4-ist.	51 000	46 000	-	-	50 000	49 000	-	-	-	-
Series 602	1-ist.	21 000	20 000	-	23 000	-	21 000	19 000	-	-	-
	2-ist.	29 000	27 000	-	29 000	-	30 000	30 000	-	-	-
	3-ist.	38 000	32 000	-	38 000	-	38 000	38 000	-	-	-
	4-ist.	44 000	38 000	-	42 000	-	40 000	41 000	-	-	-
Series 103	1-ist.	23 000	-	20 000	-	-	21 000	-	-	-	19 000
	2-ist.	34 000	-	29 000	-	-	33 000	-	-	-	27 000
	3-ist.	39 000	-	35 000	-	-	38 000	-	-	-	30 000
	4-ist.	-	-	-	-	-	-	-	-	-	-
Series 104	1-ist.	28 000	24 000	-	23 000	24 000	27 000	27 000	-	-	-
	2-ist.	36 000	32 000	-	32 000	32 000	35 000	35 000	-	-	-
	3-ist.	44 000	36 000	-	37 000	36 000	42 000	44 000	-	-	-
	4-ist.	-	-	-	-	-	-	-	-	-	-
"Lithuania n" proj.	1-ist.	21 000	12 000	20 000	20 000	-	-	19 000	-	19 000	16 000
	2-ist.	30 000	26 000	27 000	27 000	-	-	29 000	-	26 000	20 000
	3-ist.	36 000	30 000	30 000	30 000	-	-	34 000	-	28 000	25 000
	4-ist.	-	-	-	-	-	-	-	-	-	-
"Hruschov" houses	1-ist.	20 000	17 000	19 000	-	-	-	-	19 000	17 000	14 000
	2-ist.	29 000	24 000	27 000	-	-	-	-	25 000	24 000	18 000
	3-ist.	33 000	29 000	30 000	-	-	-	-	30 000	28 000	22 000
	4-ist.	-	-	-	-	-	-	-	-	-	-

APARTMENTS IN THE CENTRE OF THE CITY

Sales of apartments and residential buildings in the centre are affected not only by the real estate market trends, but also by the resolutions adopted by the government.

Due to the law adopted by the government that establishes rent limits for another three year period, investors are not so optimistic when evaluating residential buildings put on the market. Besides, a number of new types of allowances for the tenants of denationalized buildings are to be introduced, for example, allowance for vacating residential premises, even assistance granted by local authorities to cover partially or to full extent credit interest when purchasing a new home. In the event the said allowance system comes into force, it is expected that vacated apartments in denationalized houses or houses returned to their legitimate owners might enter the market.

Prices of some apartments in the Old Town have already exceeded 5000 EUR/m².

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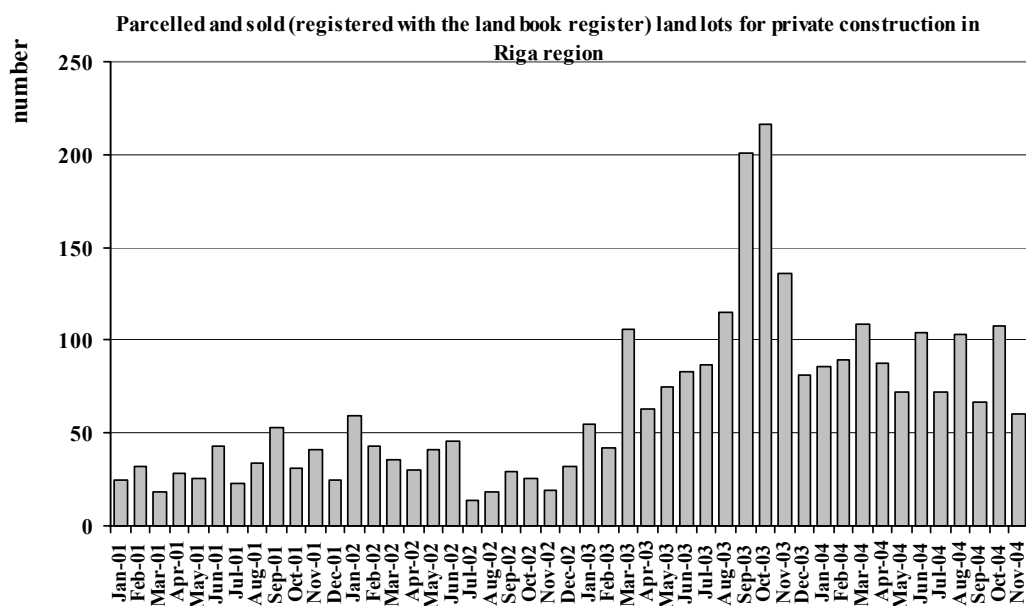
At the moment there is one dominant Riga centre, but in accordance with the Riga city development plan it is envisaged that in the coming years development of new residential and business districts will be initiated thus ensuring the citizens availability of all kinds of services within their neighborhood. Besides, more intensive development of the existing residential districts is expected to take place at the same time retaining quality of the existing centre of Riga. Consequently Riga has to become a metropolis having a number of equally significant centers.

DETACHED HOUSING

In the Riga city development plan special emphasis is put on encouraging detached housing in Rumbula, Skirotava, at the south side of the lake Jugla, in Bukulti, Trisciems, Mangali, Bullu sala as well as other places. Taking into consideration the environment quality of these locations – proximity of industrial objects, poor infrastructure, at this stage value of a square meter in these places is comparatively lower than that in the existing detached housing regions. Market activity in these locations will greatly depend on the means and ways how Riga Municipality is going to deal with the environment problems in the respective regions.

RESIDENTIAL DEVELOPMENT LAND MARKET

Due to the quiet season so characteristic to the Christmas period no great changes have been witnessed in the residential development land market activity and price level. However, in Marupes parish in some locations land prices have already exceeded 35 EUR/m².



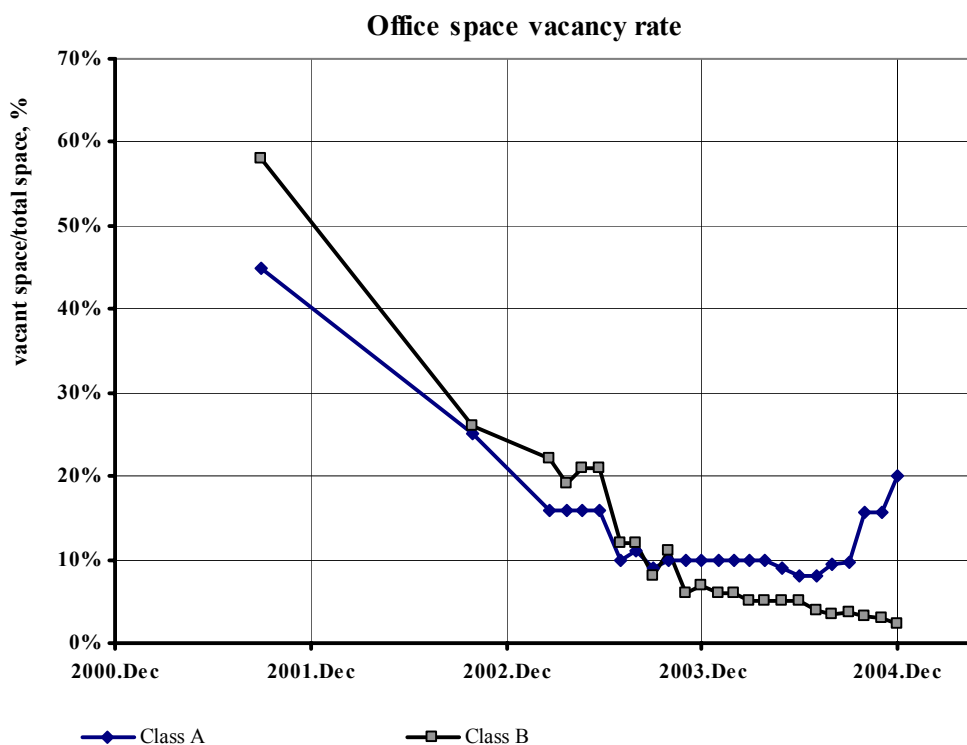
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COMMERCIAL SPACE

OFFICE SPACE

December has been an active month in the office space market. Demand for class B and class C office premises has nearly exceeded the supply resulting in a price increase - on several occasions reaching 13 EUR/m² for Class B and 10 EUR/m² for Class C premises. The main demand drivers are the state institutions – the existing institutions are expanding, buildings are being renovated, lease agreements expire, new state institutions are established, new projects initiated. The newly established institution – bureau of Minister for Special Assignments for Electronic Government Affairs (known as the e-affair ministry) has leased office space of about 450 m². Ministries of Culture and Justice are looking for premises (due to the renovation works of their head offices in Raina boulevard and the Old Town), also Riga Municipality Education, Youth and Sport department and the State Culture Capital Foundation of Latvia. Ministries of Foreign Affairs and Health are also planning to move to other premises.

Latvian postal company “Latvijas pasts” has concluded a lease agreement of the former local authorities’ owned shop “Sakta” premises for a 10 year period. According to the information provided by Guntis Ziedonis, Head of Marketing Section of Latvian joint-stock company State Real Estate Agency (SREA), the former “Sakta” retail premises were leased to “Latvijas Pasts” sidestepping the normal tender procedure. The company plans to turn the former retail premises into a post office because the lease of the current post office premises on Brivibas street is expected to rise and the post office located in Stacijas laukums is to be renovated.



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Considerable demand is witnessed for class A office space, but the supply is sufficient and the price level remains stable. The demand drivers for class A office space mostly are the existing companies that are expanding and not so much newly established companies or enterprises dissatisfied with the currently leased offices. A number of international companies are hiring employees only for the period of implementing a specific project and thus these companies (Microsoft, Hewlett Packard etc.) lease smaller class A office premises in the vicinity of the head office for a period up to one year. Initially four floors of the new class A office building “Saules akmens” were envisaged for lease, but now five floors are offered for lease, out of which only one is actually leased. Several banks are considering the possibility to leave their offices in the Old Town and lease bigger premises outside the historical centre of Riga.

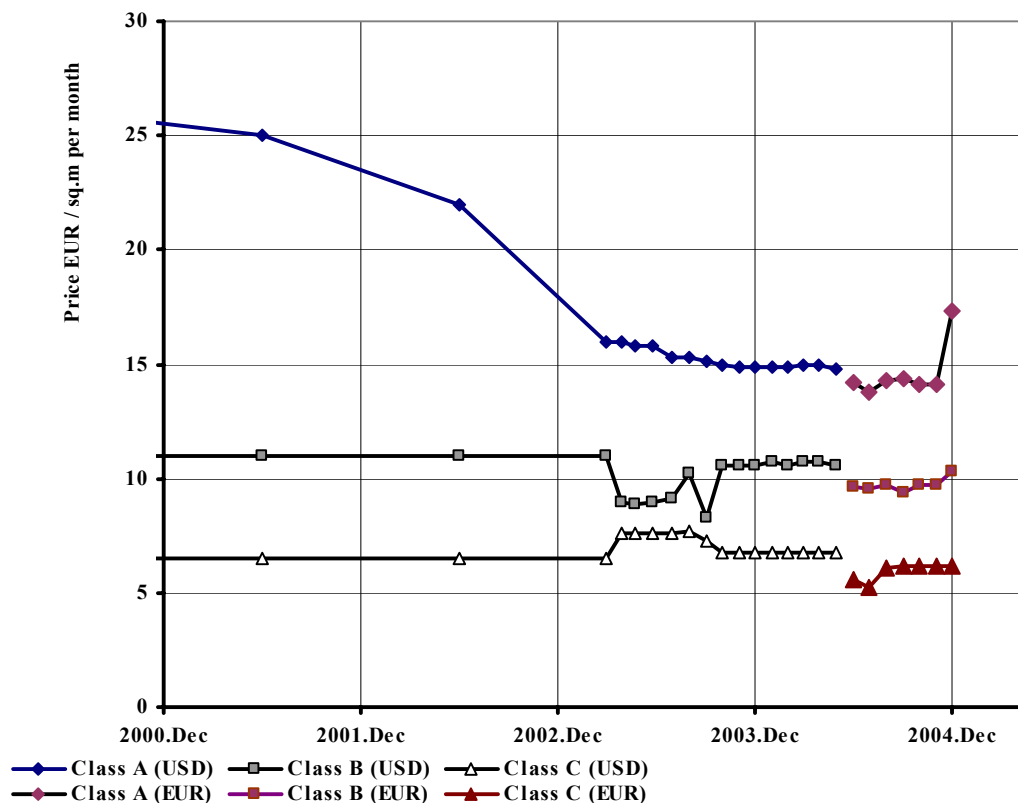
Along with launching the new class A office building “Saules akmens”, that considerably increased the total class A stock (for 18 623 m²), criteria according to which office space rated as class A space have changed. As in the Latvian real estate market there is not yet introduced and generally accepted a unified office gradation system, for the needs of this overview we have rated the following buildings as class A offices:

1	Citadeles street 12	“Citadele”
2	Alunana street 2	“Felix Holding Biznesa centrs”
3	Balasta dambis 1a	“Saules akmens”
4	Kronvalda boulevard 3	“Kronvalda bulvāris”
5	Mednieku street 4a	“MID Baltic A klases ēka”
6	K.Valdemara street 21	“Valdemāra centrs”

Thus in the next diagram increase of the value of class A office space indicator is related to the change of the object group and not to the increase of the average price of a square meter.

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Average office space rent

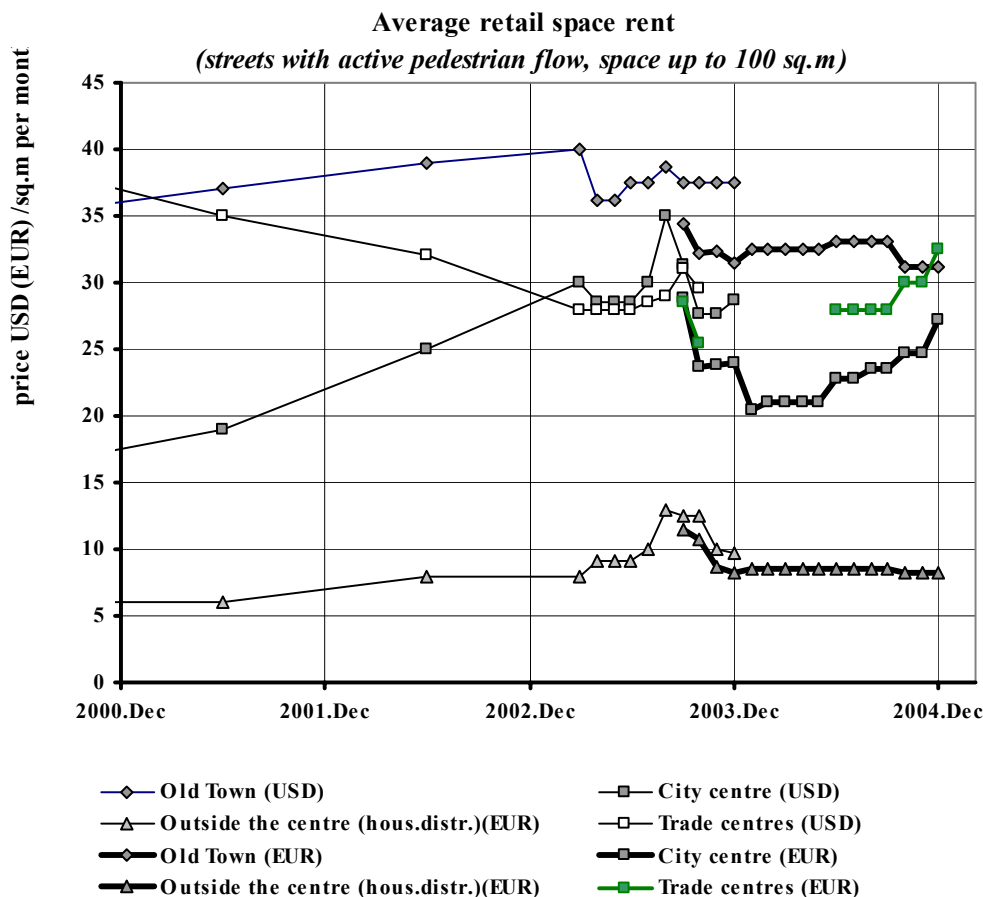


One of the Riga city development projects is to move the city administrative centre from the Old Town to Pardaugava, possibly Tornkalns. Considerable increase of construction amounts, renovation of the old buildings and their adaptation to other use are expected. A number of office premises are envisaged to be turned into hotels, including, the building on the corner of Dzirnavu and Antonijas streets that was abandoned for almost 10 years, also the present Ministry of Finance is under question.

RETAIL SPACE

In December prices of the retail space have more or less retained the same level. A demand for not so big - about 20 – 50 m² retail premises in the most popular supermarkets “Mols” and “Alfa” is witnessed, but actually there is no supply. At the same time the department store “Centrs”, owned by the same company “Linstow” Ltd., is being expanded and thus additional premises for lease are likely to be put on the market. There is witnessed interest for retail space in the active shopping area bounded by Brivibas boulevard, Gertrudes street, Kr.Barona street and Elizabetes street. The average lease of such retail spaces is 25 EUR/m², but the trend is to increase lease, on separate occasions reaching 55 EUR/m². A new tendency is putting on the real estate market lease rights to café premises – there are offered both – already functioning cafes with all the facilities and even with the name, and café premises without any equipment, just bare walls.

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INDUSTRIAL MARKET

In December stable demand for warehousing space for both – producers and supermarkets is witnessed. The biggest demand is for medium size class A warehouses, i.e., 1500 – 5000 m², but actually there is no ready-built stock to offer. A number of companies have responded to the demand by offering to build to suit class A warehouses provided pre-agreements are concluded. However, these offers are not accepted as the clients do not wish to invest resources and assume liabilities without having seen the ready premises. Almost all the operating “Rigas Industrialais parks” warehouse space is leased. This industrial park is willing to build for concrete clients additional warehouse space near the existing ones provided a pre-agreement is signed. Thus the clients have all the possibilities to view and ascertain themselves of the quality of the possible new warehouse space, but there is no demand at the moment.

Lately there is witnessed an interesting trend to refurbish, expand and improve old car shops.

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RIGA CITY DEVELOPMENT PLAN

From December 7 public discussions of the Riga city development plan for the years 2006 – 2018 elaborated by Riga Municipality Development department were announced. The development plan will stipulate the city development strategy, territory planning, use of the historical centre of the city, construction regulations, etc. The most important contribution of the 12 year city development plan is detailed Riga development concept, clearly defined construction and use requirements that will enable the investors to evaluate and make better decisions when purchasing new property for some concrete use.

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