

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

**September 2007**

- **In September, amount of transactions with standard type apartments decreased to the level that was historically record low.**
- **Market of divided agricultural lands (parceled land plots) is on its decline. In August, amount of such transactions was record low over the recent five years.**
- **In September, prices of standard type apartments continued reducing. The average price of a standard type apartment compared to August reduced 1.3% making 1,521 EUR per sqm. Opposed to the last September the price is about 10.2% higher. More remarkable price fall was observed for one-room apartments.**
- **Hopes of market participants for market „revival” anticipated this autumn were postponed to next spring.**
- **Burden of mortgage loans of Latvian households is heavier than in European Union.**
- **„Top 3” of banks has changed as to granted mortgage loans.**
- **Supply of projects commenced by developers has increased.**
- **Lessees of industrial space pay more attention to quality of an offer instead of its price.**
- **Strong demand in production space is retained in Riga.**

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## GENERAL ECONOMIC SITUATION

Gross Domestic Product (GDP), in the 2<sup>nd</sup> quarter this year compared to the respective period last year, increased 11% that was slightly less than in the 1<sup>st</sup> quarter. GDP growth rates could not yet be decreased by tightening of financing conditions of commercial banks, therefore it can be admitted that gradual cooling down of national economy had already started. The said practice of commercial banks is likely to accelerate this process. Propositions of government and other municipalities to freeze salary funds may have similar effect. This set of resolutions implemented in a relatively short time may slow down national economy growth excessively.

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In August, unemployment rate decreased down to 5.4% in Latvia, but it remained invariably 3.4% in Riga. In Latvia, there is a pronounced decreasing tendency in amount of unemployed people, but it is not so in Riga - business focus of Latvia.

Small business providing significant part of working places within the private sector assesses development prospects less optimistically than some months ago. This is justified, for example, by decreased purchase rates of commercial transport – small commercial vehicles in August.

Reconciled seasonal data of domestic trade in August as compared to July show decrease of retail trade turnover. This decrease is most likely to remain also in September, since August - in relation to beginning of school year - was a month of active buying, but September – less active.

In September, optimistic mood of consumers was ever depressed and was on the lowest level over the recent two and a half years. Though the inquired consumers made large purchases more in September than in August and promised to buy more in the future, the negative future vision has depressed their optimism.

Inflation records are made almost each month. It would be optimistic and too early to anticipate slow down of price increase during the remaining months of this year when prices of energy resources grow.

However, prices of export production set by producers do not increase that fast: external demand, unlike domestic market, is sensitive to price increase caused by the rapid raising of wages. In September, inquiry of producers revealed remarkable drop of export orders, but stock of produced and unsold production grew essentially. It may be concluded that competition of producers has already become less on foreign markets and rapid growth of this sector cannot be expected that soon.

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Costs of labour force per hour grew 31.6% in Latvia in the 2<sup>nd</sup> quarter of this year as compared to the 2<sup>nd</sup> quarter last year. When comparing data of 1<sup>st</sup> and 2<sup>nd</sup> quarter of this year it must be noted that average costs of labour force per hour grew 16.1% in this country.

In July, compared to June, volume of import grew very rapidly – 10.5%, while volume of export decreased 3.7%. Seasonally, negative balance sheet of external trade keeps growing in the 2<sup>nd</sup> half-year. Thus current account deficit of the 3<sup>rd</sup> quarter is likely to decrease again and this will be an ordinary very negative signal for foreign investors about long-term development capacity of Latvian national economy.

Increase of volume of loans granted to Latvian resident finance institutions, non-finance companies and households reached 285 million lats at the end of August that was much more than those 226 million lats of July. Growth of mortgage loans, however, kept decreasing to 78 million lats in August.

Current effect of tightening of lending conditions is mainly expressed as decreasing yearly growth rates of loans and mortgage loans. Monthly volume of loans granted in the 2<sup>nd</sup> half-year is not likely to be bigger than in summer but it is most likely to be decreased.

At the end of June, mortgage loans were granted to almost 150 thousand households in Latvia that made a bit more than 16% out of the total number of households. This can be considered as a small figure. Yet GDP to volume of loans ratio has reached the average level of European Union, i.e. 45%. Thus we conclude that – in terms of income - buyer of dwelling in Latvia has undertaken more tight liabilities than an average buyer in EU.

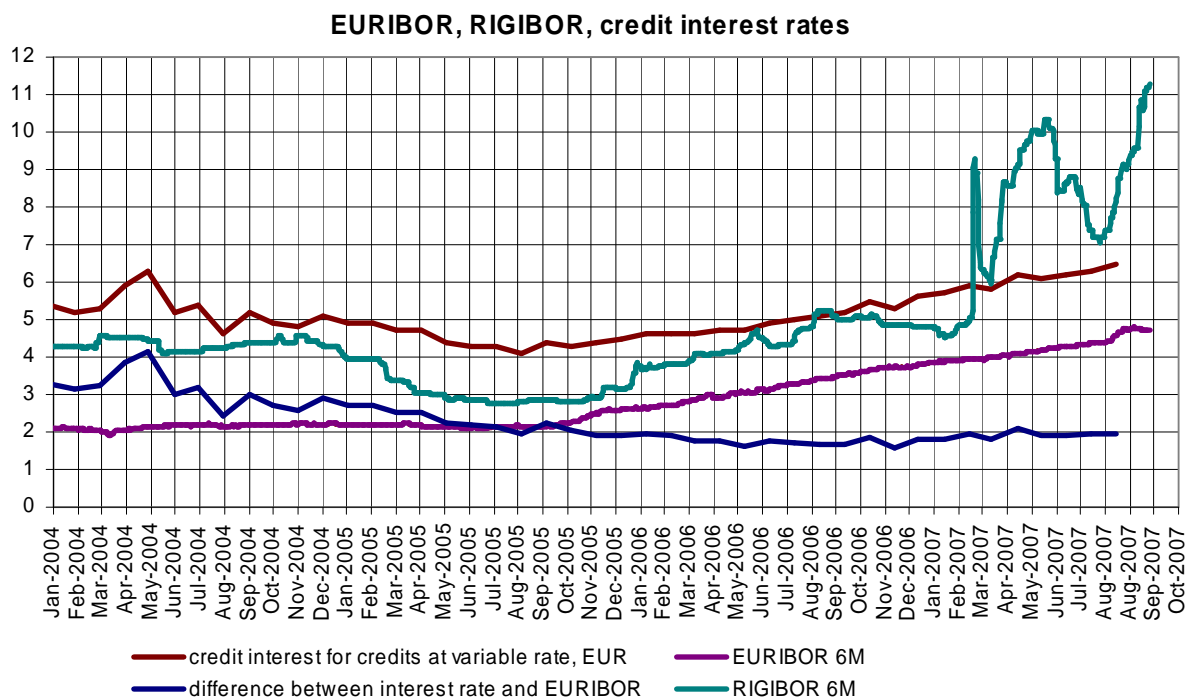
International ratings agency “Moody's Investors Service” has lowered credit rating “A2” of Latvia from positive perspective to a stable one. This was done due to stronger economic disequilibrium and rise of inflation level. Experts of the agency note that on the Latvian real estate market there are observed artificially inflated prices of real property and speculations as well. Concurrently, housing prices have started to reduce. Besides, there is an impressive current account deficit. Still “Moody's” do not predict remarkable down in credit trust of Latvia.

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Recurrent lowering of credit rating is essential for foreign investors but it is not a determinative factor for making investments in some country.

Volume of supply of various commenced real estate development projects on different stages of construction has grown significantly. Investors, however, do not rush to take part in buying-up such objects. Developers still wish to get profit. That period has not set in yet when they would wish just to compensate investments or incur as little damages as possible.

In September, rate of EURIBOR 6-months stabilized without reaching 5% mark. In September, rate of RIGIBOR 6-months kept its rapid climb and exceeded 12%.



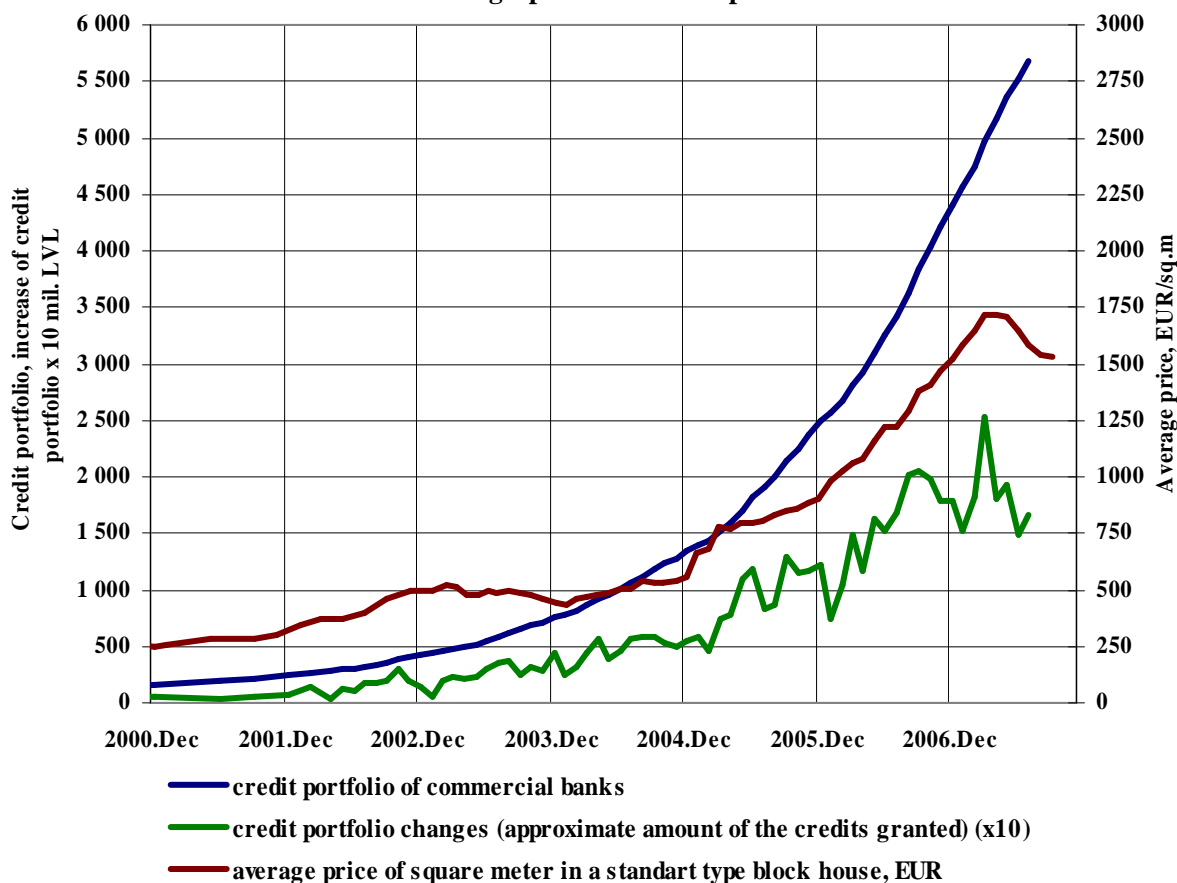
**Source:** British Bankers Association, Central Statistical Bureau, Bank of Latvia, LATIO

# HOUSING MARKET

## STANDARD TYPE APARTMENTS

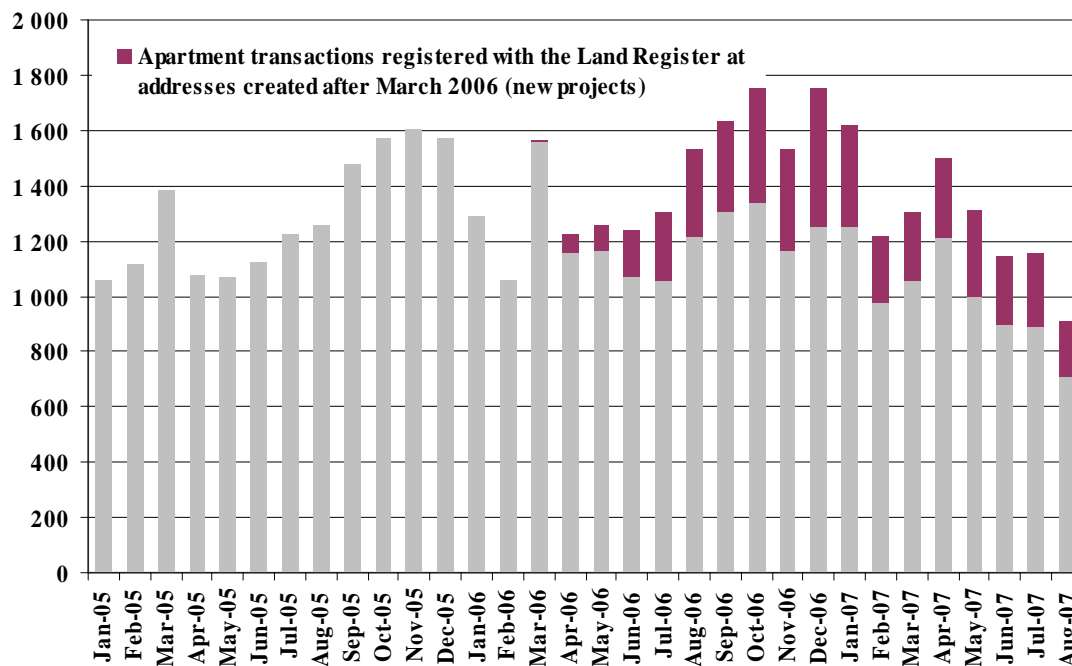
- In September, prices of standard type apartments kept reducing. The average price of a standard type apartment in September was 1,521 EUR per sqm. It is 1.3% less than in August and 10.2 % more than last September.

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



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 August, amount of transactions with apartments registered with the Land Register in Riga has significantly decreased as compared to July. It is record low now reckoning from the time when aggregation of data on activity in this market segment had been started. Official data on September transactions will be available only in October but provisional data suggests that amount of transactions keep decreasing.

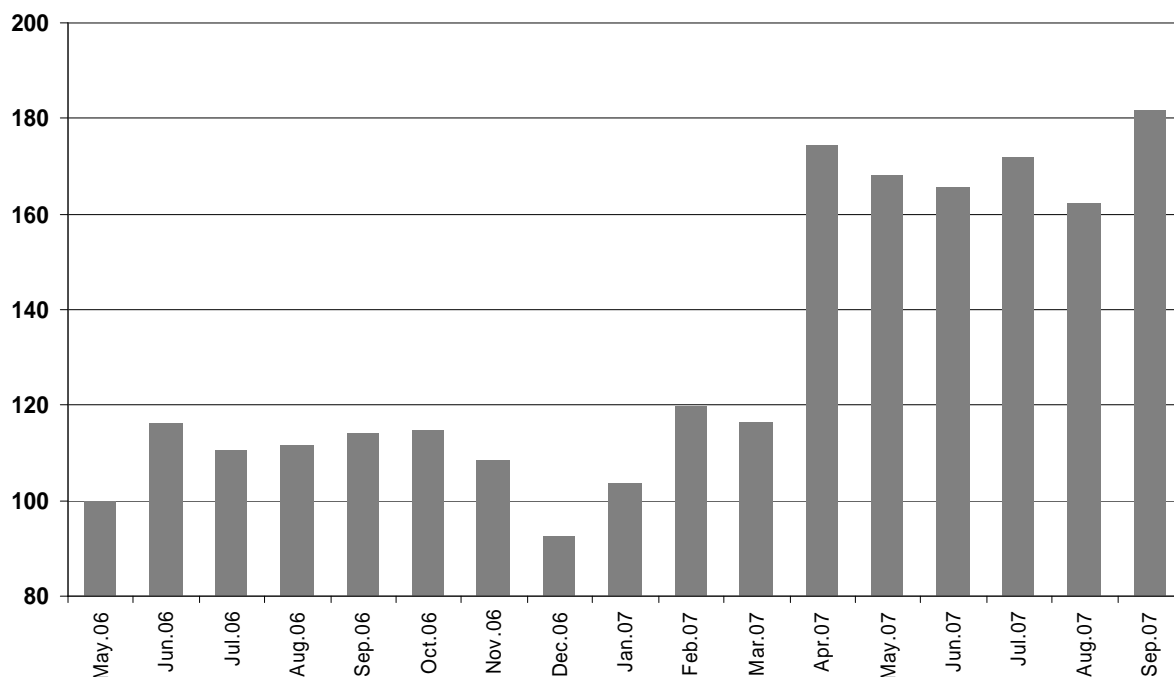
In September, the tendency was retained that buyers anticipated further price fall and cut demand in apartments. At the same time there is a growing number of interested people who hope that, perhaps, they can purchase real property now that they dared not to even consider before because of the prices. These people most often do not qualify for being granted a loan.

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Potential buyers can be advised to avoid paying security deposit until safe confirmation of guaranteed purchase financing is received.

Banks do not promise changes in the tight lending conditions and they slow down lending speed. The biggest players on the market of mortgage loans have cut volume of granted loans several times. The recent market leaders “Hansabanka” and “SEB” - comparing the observed maximum volume of granted loans in February and March – have cut it five to ten times in August. Now “ToP 3” banks are “Nordea”, “DnB NORD” and “AB.LV”.

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



Source: [www.reklama.lv](http://www.reklama.lv), [www.dzivoklis.lv](http://www.dzivoklis.lv), LATIO

Based on the information provided by largest real estate portals, supply of apartments in Riga has grown slightly in September as compared to August.

Specific weight of one-room apartments increases within the supply. More rapid price reduction can be also observed in this segment. This is most likely to indicate that bulk of sellers did not sell small space apartments in previous periods, but held them by renting out and waiting for maximum price increase.

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Market participants, who hoped for market “revival” in autumn, now are waiting for changes to take place only next spring. This setting of stabilization term and its consequent postponing is just a psychological process and it is not based on knowledge about real estate market or experience.

Tightening of lending conditions or economic shock of credit supply side can make real estate market to search for balance for longer time, – not only some months; and the decline of prices of standard type apartments in four months is just an initial reaction. Besides, it must be considered that in the previous periods - part of buyers which made impressive demand are standing on the side of sellers now. On the side of buyers, on its turn, waiting for price fall governs now.

Unlike Riga where the decline continues on the market of standard type apartments there is a sustained demand in apartments in some places of Riga District. There is observed strong interest of buyers in apartments in Adazi, Carnikava, Saulkrasti and Sigulda. It is mainly explained by poor supply. Apartment prices fluctuate between 1,000 and 1,300 Ls per sqm on these territories depending on location. Sellers often agree to reduce them for 10%.

In September, supply of apartments for rent has decreased slightly in Riga - about 10%. Unlike in previous months when apartment for sale was offered by the owner also for rent, rent supply has decreased in September though selling supply has grown.

In the face of the sustained strong demand in apartments for rent, rentals also have grown. Tenants are willing to pay even Ls 300 monthly plus charges for residential services for one-room and two-room apartments. Still apartments at 200 – 250 Ls a month are most demanded. Bulk of transactions is concluded at these prices.

In August, just like before, most transactions have taken place with two-room apartments in houses of “Lithuanian” project.

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**Typical prices of standard type apartments in Riga residential areas in September, 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	70 000	70 000					71 000						
	2- rooms	90 000	93 000					87 000						
	3- rooms	102 000	105 000					100 000						
	4- rooms	109 000	110 000					116 000						
Series 602	1- room	56 000	57 000	60 000			56 000			56 000	52 000			
	2- rooms	80 000	83 000	80 000			80 000			83 000	76 000			
	3- rooms	92 000	94 000	92 000			91 000			93 000	96 000	94 000		
	4- rooms	100 000	103 000	102 000			113 000			105 000	104 000	101 000		
Series 103	1- room	59 000	60 000		60 000						58 000	57 000	50 000	
	2- rooms	85 000	83 000		83 000						78 000	77 000	68 000	
	3- rooms	95 000	95 000		101 000						104 000	96 000	85 000	
Series 104	1- room	69 000	70 000	68 000			72 000	70 000						
	2- rooms	92 000	91 000	91 000			90 000	87 000						
	3- rooms	102 000	103 000	101 000			103 000	100 000						
„Lithuanian” proj.	1- room	52 000		56 000	54 000			52 000		52 000		52 000	47 000	
	2- rooms	73 000		77 000	70 000			73 000		71 000	73 000		68 000	62 000
	3- rooms	88 000		94 000	87 000			86 000		85 000	81 000		85 000	76 000
„Hruschov” type houses	1- room	51 000			54 000				52 000	53 000	52 000	51 000	51 000	
	2- rooms	71 000			68 000				69 000	70 000	71 000	71 000	69 000	
	3- rooms	84 000			88 000				83 000	84 000	81 000	83 000	84 000	

Source: LATIO data

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## DETACHED HOUSES

Sustained supply and stable high prices are retained on the market of detached houses in September just like in August. Prices even increased in some places on Vidzeme seaside. Sellers are convinced that properties near the sea cannot depreciate.

In August, amount of transactions with private houses in Riga – compared to July – decreased ca. 23%, in Riga District – ca. 5%, but in Jurmala – increased almost 40%.

In Saulkrasti, there is sustained demand in houses built as winter houses, 150 to 250 sqm large, heat-insulated, having all communications, located within 700 m from the sea. Supply of such houses is poor. Their prices range between 150,000 and 300,000 lats depending on their location and quality.

Purchasers are interested also in summer cottages which could be adapted for residing in, in the cooperatives located on Saulkrasti rural territory and Skulte Parish. Properties are demanded at prices within 40,000 lats. Supply of such properties ranges between 50,000 to 60,000 lats.

Similar situation is observed also in Carnikava and on the territories of Carnikava area – Garciems, Garupe, Gauja where villages of summer cottages are found.

In Sigulda, buyers show interest in detached houses in good condition and good location at the price of 150,000 to 170,000 lats. Such properties emerge seldom in the supply. Detached houses are offered at the price range between 210,000 and 250,000 lats.

## RESIDENTIAL DEVELOPMENT LAND

Supply continued growing on the market of building plots in September. Judging by the transactions registered with the Land Register, tightening of lending conditions has considerably affected the market of divided land plots. Demand is little. It is not commensurable with the supply volume that makes sellers reduce asked prices. In August, amount of transactions was record low in this segment over the recent five years.

There is a growing specific weight of sellers reducing prices. Reduction of prices, however, not always promises interest of potential purchasers. In the cases when a land plot attracts interest of a buyer, transactions take place if the seller is willing to reduce price for 5% to 10%.

In Carnikava, vacant land plots are demanded in the centre. Their supply does not meet demand. Asked prices of such land plots over the area of 1,200 to 2,000 sqm, fluctuate between 50 and 100 Ls per sqm depending on location and communications. Active dividing of land plots takes place despite the overall declining tendency. Owners of these land plots mainly choose to build houses and offer them on the market of detached houses.

In Adazi, buyers are interested in land plots close to the centre, 1,200 to 2,000 sqm large. Their prices fluctuate between 60 and 100 Ls per sqm. Prices of building plots in remote areas are 25 to 50 Ls per sqm.

In Sigulda, supply of agricultural land has grown in September. It is complicated to get loans for its purchase.

There is a sustained demand in building plots over the area of 1,200 to 2,000 sqm in Pabazhi and Saulkrasti within 700 m from the sea. Price of a building plot is determined by its locations, access roads and communications.

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Also on Saulkrasti rural territory and Skulte Parish, active division of land plots takes place. Landowners divide their properties and sell them on the stage when detail planning is elaborated and approved. Prices of such projects fluctuate between 15 and 20 Ls per sqm for land plots 1.5 to 2 hectares large, and between 10 and 15 Ls per sqm for larger ones over the area of 3 to 4 hectares.

## NEW HOUSING PROJECTS

### New projects announced in September

Name, address	Type of dwelling	Developer	Price LVL per sqm	Finish	No. of dwellings	No. of buildings
<b>Riga</b>						
Riga, 14 Kraslavas Street	A	SIA "Eiromāja"	1,965	Partial	26	1
„Jurta”, Riga, Purvciems, 9a Rumbulas Street	A	SIA "ERA Nami"	1,830	Full	26	1
„Matisa 38”, Riga, Centre, 38 Matisa Street	A	SIA "InReal"	2,000	Partial	48	3
Riga, Calm centre, 7 Strelnieku Street	A	-	-	-	-	-
<b>Riga District</b>						
„Priežvidi”, Riga District, Salas Parish, Spunciems	A	-	1,195	Partial	25	1
<b>Jurmala</b>						
Riga District, Jurmala, Bulduri, 12 Kuldigas Street	A	SIA "HART BŪVE"	-	Partial	16	1
<b>Other Districts</b>						
„Tinūžu šoseja”, Ogre District, Ikshkile, 1 Tinuzhu soseja	A	SIA "Levil Leader"	1,445	Partial	58	1
6a Draudzibas Street, Ogre	A	-	1,055	Partial	168	1
Bauska District, Bauska, 30 Zemgalu Street 30	TH	SIA "Zemgales finansu un investīciju kompānija"	900	Full	30	2

**Source:** LATIO

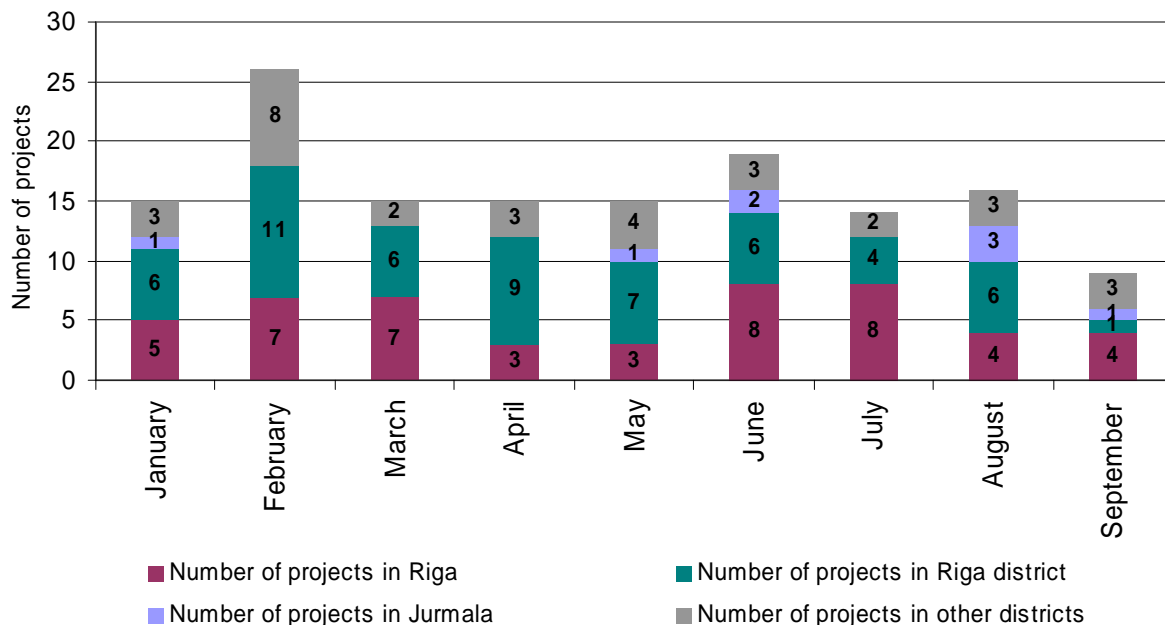
*A – apartments, DH – detached houses, TH – terrace houses*

In September, all in all nine new projects were announced that was almost two times less than in August. More and more developers take wait-and-see position. They think of a probability of laid up construction or selling their projects.

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Developers of new projects offer to buyers additional bonuses such as things that would had to be bought before, for example, parking places or auxiliary rooms for storing belongings.

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



Source: LATIO

## COMMERCIAL SPACE MARKET

### OFFICE SPACE

Entrepreneurs still do not worry about unbalanced development of Latvian national economy: they ever intend to enlarge and actively follow the development of their competitors wishing to overtake them. Indeed, real estate companies encounter demand that is based on wish to enlarge and well done job in conditions of national economy growth. It is little known about entrepreneurs who stop their development projects and investors which think over possibilities of cutting volume of their investments. The exception is developers of housing projects who - due to tightened lending conditions - experience shortage of funds and thus increase amount of unfinished projects.

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Entrepreneurs' inquiry data of September, compared to July, show less optimistic future vision by representatives of service sector. It is noted that amount of employed people will decrease in the near future. Assessment of demand in services has reached its record low level. Future demand, in its turn, is highly estimated by entrepreneurs. This is the main source of optimism of entrepreneurs in service sector. Service sector accounts for the biggest demand potential in office space market segment.

Thus a strong demand is retained in office lease market but supply grows slowly.

Quality of supply is always an essential factor that does not satisfy potential lessees. It is hard to attract lessees to office centres if easy access is not provided for both private cars and public transport.

Despite the great excess demand on the lease market of office space some project lessors meet with continued difficulties in attraction of lessees. The main cause of these problems is lack of knowledge and experience of these project developers. Lessors of projects not in demand still do not want to consult about choice of appropriate office complex format and development of structure of lessees therefore they incur losses. In circumstances when receiving of financing for any projects offered no difficulties, behavior of such unprofessional market participants was not that important. But currently they may lose the entire business if they rely just on their own limited knowledge and previous experience.

On the market, there is a growing specific weight of such office centres the ground floors of which are salons – galleries with a stock of an average area. Such a centre is being erected on Ganību Dambis. It is planned to be commissioned next summer.

Offices 150 to 350 sqm large are also in demand. The main potential lessees are companies that enlarge their business. They prefer prime offices in new or renovated buildings.

A tendency is retained that lessees search for offices near residential area of the company's governing body. Agencies of Estonian and Lithuanian companies base on a similar principle by giving preference to offices on either right or left bank of the Daugava River respectively so that to have easier access when driving from Estonia or Lithuania.

## RETAIL SPACE

Though it is too early to speak about soon ending of consumption rush, the first features of inertia in shopping race can be observed – retail trade turnover decreased in August in Latvia. Those are reconciled seasonal data of domestic trade in August as compared to July. The decrease is not significant – 0.6%, but in consideration of traditional August shopping prior to school, this negative figure should be perceived with anxiety.

But inquiries of entrepreneurs in retail trade sector conducted in the first weeks of September suggest increasing optimism of retailers as compared to August. Though this year they have record low intensions to make orders for the near future and the purchased reserves are highly estimated already, retailers' optimism is also based on a positive future vision.

Thus future vision of consumers essentially differs from retailers' opinion and shopkeepers will have to take pains and use imagination to empty purses of customers. This is likely to be done at the expense of their profit that, in its turn, may give rise to retailers' unwillingness to pay high rentals for retail space.

In September, a strong demand was still retained in retail space buying. Among the purchasers are found both traders and investors. Retail space in new projects is offered at 4,000 EUR per sqm in the historical centre.

More and more retail space emerges outside Riga limits. This confirms traders' optimism for future and their wish to wait for customers not only in Riga but to go to meet them in regions.

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## WAREHOUSE AND INDUSTRIAL SPACE

Though statistical data suggest a relative stagnation of industrial sector, data obtained in September via inquiry of entrepreneurs in industrial sector are indicative of stagnation transition to its decline. Rapid fall of domestic orders, rapid fall of export orders and rapid increase of produced but unsold production volume were the main reasons for the lowest level of optimism over the last two years. Estimation of future production volumes is also on the lowest level of this year, and valuation of future production prices has lowered, too.

Despite the said facts September demand in warehouse and industrial space for lease has not changed yet. Industrial space is still in demand in Riga. Though comparative pessimism of industrial sector is strongly pronounced the typical inflexibility of the sector protects industrial space market from swift fluctuations.

## COMMERCIAL DEVELOPMENT LAND

In September, optimism of entrepreneurs of construction sector – compared to August – has risen sharply. It is determined by increasing volume of orders. Nevertheless, the price level which builders are ready to ask for their work has not risen in September. Thus it can be concluded that builders get orders through price competition.

In September, stable purchasers' interest in commercial development land was retained. Potential investors scrupulously assess land plot quality (access roads, communications) and conformity with purpose of use, for example, in terms of logistics. Price is not given great weight to. A buyer agrees to pay 70 EUR per sqm for a selected object without showing any interest in much cheaper but lower quality land plot situated nearby.

Territories surrounding Riga detour are in demand. The greatest interest is shown in land plots by crossings of arterial roads. Supply of such land plots is limited and prices are high. The owners do not agree to reduce them.

In September, land plots over the area of 7,000 sqm located in the emerging industrial park in Adazhi have appeared in supply.

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