

REAL ESTATE MARKET OVERVIEW – RIGA AND AGGLOMERATION

October 2004

Price difference between the same class apartments being located in more prestigious and not so prestigious residential districts is still increasing. The biggest price increase is witnessed for the generally acknowledged as having the best layout apartments of 119, 104 series in Purvciems, Plavnieki, Mezciems and Zolitude as well as for the bigger apartments of three and four rooms. Actually price of a standard type apartment located in a prestigious residential district is equivalent to that of a small private house. Besides, dwelling supply introduced by the new projects is not sufficient enough to have noticeable impact upon the average apartment prices.

Supply of quality apartments in the Old Town and within the surrounding Boulevard area is very limited whereas the demand is steadily growing thus encouraging price increase. At the moment prices for quality apartments in the above location reach 2000 EUR/sq.m., sometimes over 4000 EUR/sq.m. Within this context boundaries of the historical centre of the city are already perceived in a broader sense.

Land properties represent the most stable real estate market sector experiencing continuous demand thus creating a respective price increase.

Class B properties face the strongest demand in the office market at the moment whereas the most active segment is Class C offices where the demand is driven by newly established companies.

In October the total retail market area has experienced serious growth by launching third parts of the shopping centres “Domina Shopping” (total retail area 44 000 sq.m.) and “Alfa” (total retail area 60 000 sq.m.). Moreover, all the retail areas have been leased before their official opening.

Total private sector credit portfolio increase in October has reached 60 million lats. The amount of credits granted to private individuals is more or less within the previous scale, the majority being mortgage loans for purchasing dwelling, and most of the resources being channelled into the standard type apartment market.

In October X. Conference of Central European Real Estate Associations Network took place in Riga. The Conference was focusing on the new real estate markets, Latvia including. Investment influx into the Latvian real estate market is forecasted.

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RESIDENTIAL MARKET

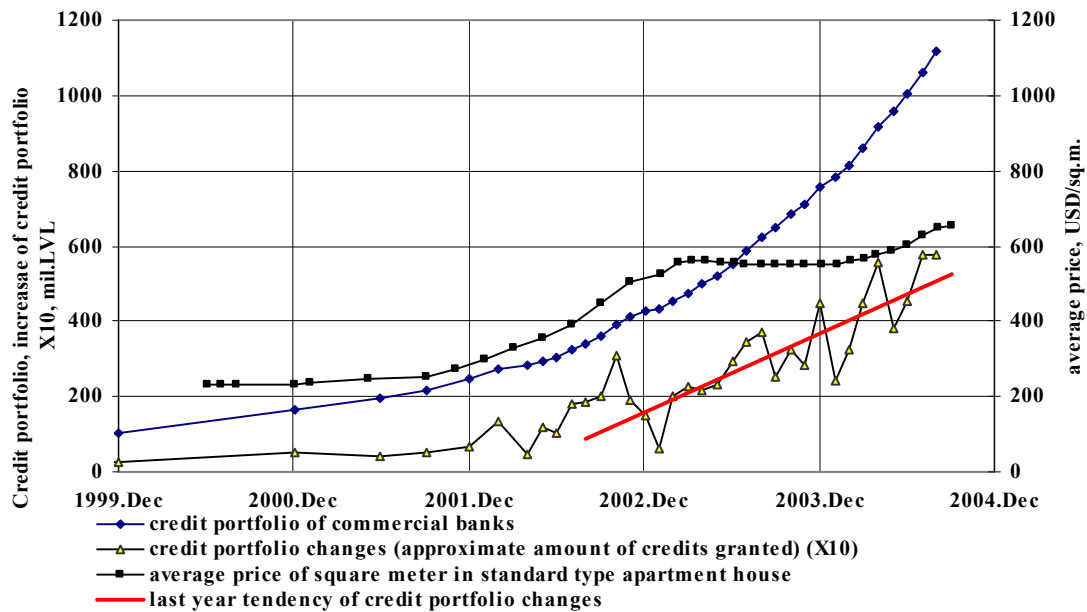
Notwithstanding the continuous price increase, the total number of deals in October retains the level of the previous period. Standard type apartment prices have reached 686 USD per sq.m., thus the average price increase per month is 4,4% or 24% this year. Price range of standard type apartments is basically determined by the apartment location either in a prestigious or not so prestigious residential area.

Apartment prices in the most demanded residential districts like Purvciems, Plavnieki, Mezciems and Zolitude have experienced much higher boost than those of apartments located in Ziepniekkalns and Kengarags. In other words, for the price of a two room apartment in Purvciems one can buy a three room apartment in Kengarags. Besides, one should take into consideration, that irrespective of the quality of the apartment itself, the price is affected by such parameters as infrastructure of the location of the residential building, surrounding territory, condition of the building, safe and clean stairwells, socially equal neighbours etc.

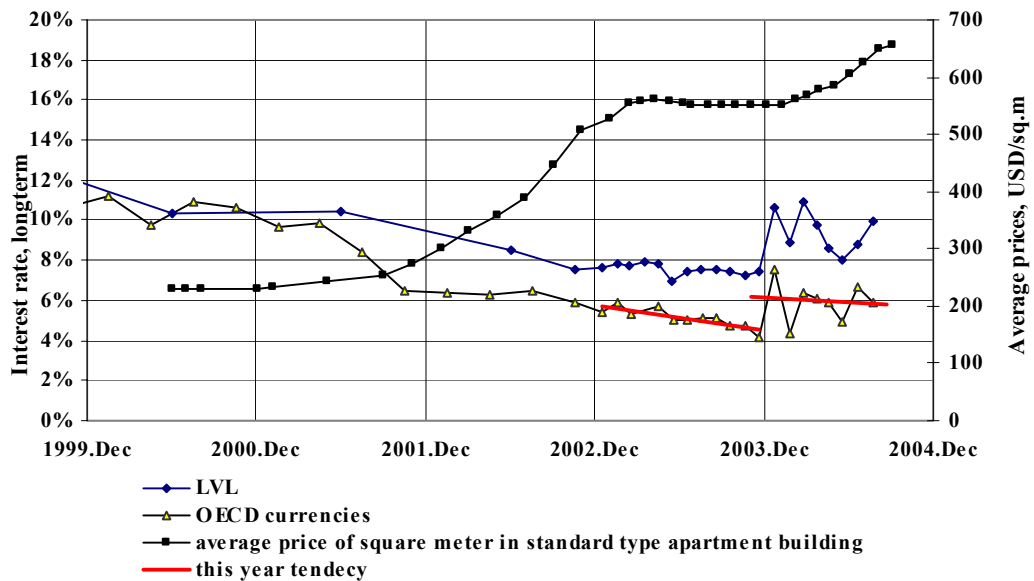
Average privatised apartment prices in Riga residential districts in October, USD

| District, series | | | Purvciems | Ziepniekkalns | Agenskalns | Imanta | Zolitude | Plavnieki | Mezciems | Jugla | Kengarags | Bolderaja |
|----------------------|--------|--|-----------|---------------|------------|--------|----------|-----------|----------|--------|-----------|-----------|
| Series 119 | 1-ist. | | 35 000 | 30 000 | | | 30 000 | 32 000 | | | | |
| | 2-ist. | | 47 000 | 40 000 | | | 40 000 | 45 000 | | | | |
| | 3-ist. | | 55 000 | 46 000 | | | 45 000 | 50 000 | | | | |
| | 4-ist. | | 63 000 | 55 000 | | | 58 000 | 60 000 | | | | |
| Series 602 | 1-ist. | | 24 000 | 24 000 | | 24 000 | | 24 000 | 24 000 | | | |
| | 2-ist. | | 37 000 | 36 000 | | 36 000 | | 37 000 | 37 000 | | | |
| | 3-ist. | | 44 000 | 40 000 | | 40 000 | | 44 000 | 43 000 | | | |
| | 4-ist. | | 52 000 | 45 000 | | 45 000 | | 51 000 | 51 000 | | | |
| Series 103 | 1-ist. | | 27 000 | | 24 000 | | | 24 000 | | | | 20 000 |
| | 2-ist. | | 42 000 | | 35 000 | | | 40 000 | | | | 25 000 |
| | 3-ist. | | 49 000 | | 41 000 | | | 45 000 | | | | 30 000 |
| | 4-ist. | | | 20 000 | | | | | | | | |
| Series 104 | 1-ist. | | 33 000 | 30 000 | | 30 000 | 30 000 | 33 000 | 33 000 | | | |
| | 2-ist. | | 45 000 | 40 000 | | 40 000 | 40 000 | 45 000 | 45 000 | | | |
| | 3-ist. | | 55 000 | 45 000 | | 45 000 | 45 000 | 55 000 | 55 000 | | | |
| "Lithuanian" proj. | 1-ist. | | 24 000 | 23 000 | 23 000 | 22 000 | | | 23 000 | | 23 000 | 18 000 |
| | 2-ist. | | 37 000 | 31 000 | 30 000 | 31 000 | | | 33 000 | | 30 000 | 23 000 |
| | 3-ist. | | 43 000 | 35 000 | 37 000 | 35 000 | | | 40 000 | | 35 000 | 28 000 |
| "Hruschov" buildings | 1-ist. | | 23 000 | 21 000 | 23 000 | | | | | 21 000 | 22 000 | 18 000 |
| | 2-ist. | | 33 000 | 29 000 | 33 000 | | | | | 31 000 | 27 000 | 22 000 |
| | 3-ist. | | 37 000 | 34 000 | 35 000 | | | | | 34 000 | 32 000 | 26 000 |

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



Interest rate, average prices of total space



APARTMENTS IN THE CENTRE OF THE CITY

Number of the apartments available in the Old Town and within the surrounding Boulevard area is restricted, thus prices for the apartments offered for sale exceed 2000 EUR/sq.m., or even 4000 EUR/sq.m. This market segment is not overactive, but gradually the apartments are sold out. Apartment prices tend to decrease when moving away from the Old Town. However, taking into consideration the high apartment prices in the Old Town and its vicinity, lately there has been developing a tendency to perceive boundaries of the historical centre of the city in a somewhat broader sense. If previously customer interest was mainly focused on the Old Town and the near centre, then lately Lacplesa, Caka, Stabu, Bruninieku streets are also being considered as the central area of the city. Besides, the apartments are getting better as the old buildings in the above sites are renovated. This market segment is especially favoured by small and medium investors who wish to purchase centrally located apartments. Thus such apartments are facing a growing demand and consequently they are becoming more expensive, namely, price level starts with 800 EUR/sq.m. for an unrenovated apartment. Moreover, the supply of quality apartments (in a refurbished building with new communications, preferably with an elevator, easily accessible, with a nice view etc.) is very restricted.

PRIVATE HOUSES

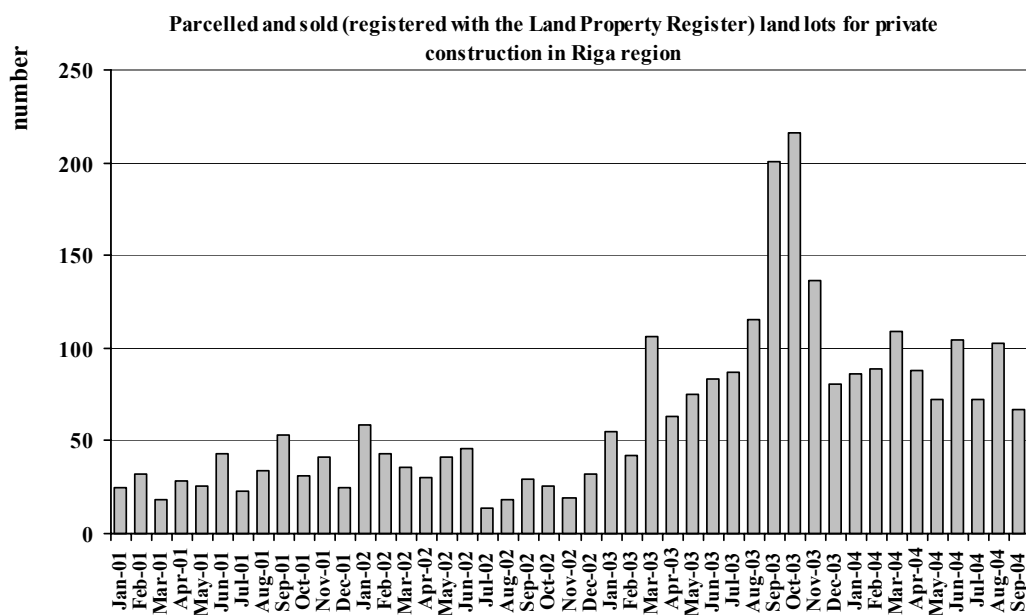
As the price for a standard type apartment in a prestigious location equals to that of a small private house, i.e., 30 000 – 45 000 LVL, there is considerable interest to purchase private houses within half an hour's driving distance from Riga boundaries. Another tendency is to take credits for purchasing summer cottages in the so-called gardening cooperative societies or turning them into winter houses. The total amount of construction permits granted is continuously growing.

LAND

Land property is the most stable real estate sector where the demand is steady and such is the price increase. Encouraged by the above factors in October the earlier initiated land property purchasing and parcelling processes are still going on. In other words it means that the previously purchased land properties are sold out by land parcels.

Land prices for private building sites

| Location | Price, EUR/sq.m. |
|--|------------------|
| Marupe parish (from Kantora street to Riga boundaries) | 43 |
| Marupe parish (behind Riga boundaries) | 38 |
| Zolitude | No supply/100 |
| Dzirciems | No supply |
| Imanta | No supply |
| Ramava | 25 |
| Jaunciems | 25 |
| Aplokciems | 125 |
| Upmalas (behind Adazi) | 11 |
| Mezaparks | 250 |
| Vecaki | 90 |
| Vecdaugava | 65 |
| Baltezers (near the highway) | 45 |
| Baltezers (at the lake) | 65 |
| Bukulti | 25 |
| Darzciems | 75 |
| Darzini | 30 |
| Salaspils (Silava) | 10 |



OFFICE SPACE

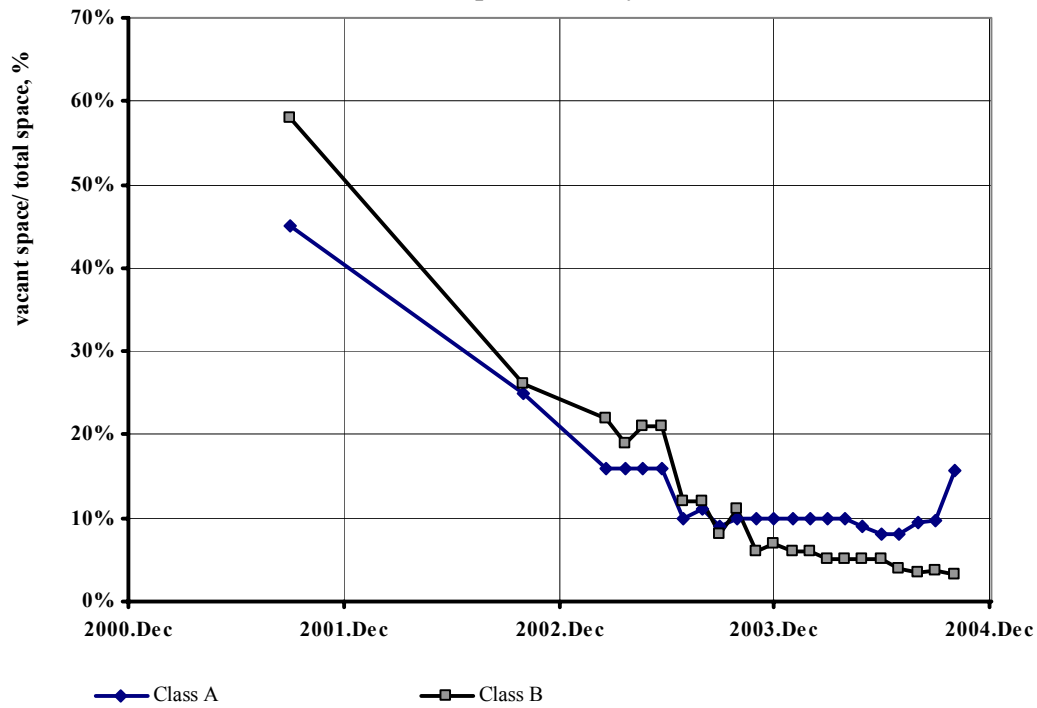
October has not brought in any notable changes in the general tendencies of the office space segment.

The most conservative is **Class A** office space market where the range of vacant office space is quite invariable. In October 15% of the lettable office space has remained unleased. Besides the price level has not experienced any changes at all – average A Class office accommodation still costs around 14 EUR to 17 EUR per sq.m. To a certain extent market stability can be explained by the unchanging environment. Besides, the anticipated Class A office space and apartment boom after Latvia's accession to the EU has not set in. As a result Class A office buildings remain semi-vacant, whereas their ownership changes.

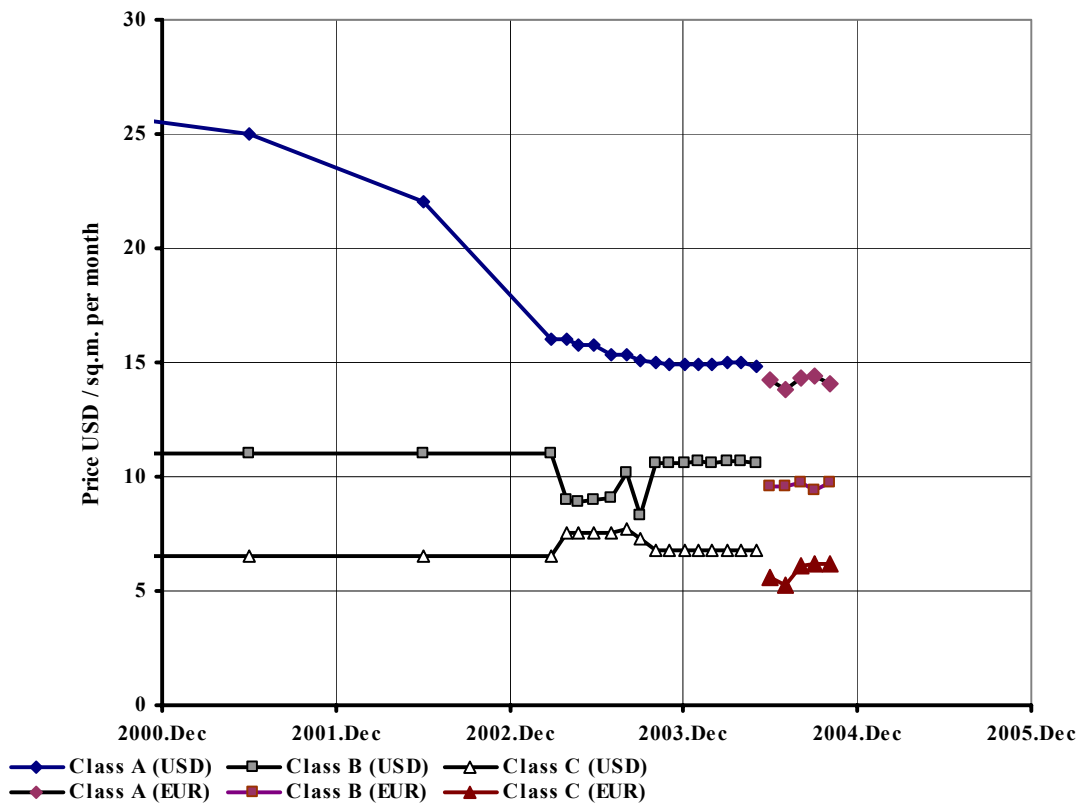
Class B vacancy rate is going down, moreover, the demand is so high that only some 3% of the Class B premises are not leased. Thus Class B market segment faces constant and gradual price increase for about 1 EUR per month, in October reaching the average of 10 EUR – 13 EUR per sq.m. To large extent the high demand for Class B offices is facilitated by the general macroeconomic development of the country, when starting a business small and relatively cheap Class C premises are leased, but along with successful development demand for quality grows in every aspect, office premises including.

Taking into consideration the above factors the most active office market segment undeniably is **Class C** office space. Private enterprises are established, mainly in the much demanded PR, IT and consultancy spheres. And as the business develops and flourishes the companies seek to upgrade or expand their offices. Thus the comparatively simple and economic Class C office accommodation is replaced by more prestigious and better equipped Class B offices.

Office space vacancy rate



Average office space rent



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Internet cafes, clubs and similar businesses can serve as a sample to illustrate maturing of the market. Due to the enormous customer flow and related factors, like dirty stairwells often used for smoking and drinking, beer and junk food retailers upstairs etc., lessees like internet clubs and driving schools are considered by landlords as most unwelcome. However, if the quality requirements of driving schools are regulated by licensing terms, then upgrading of internet club accommodation is demanded by business customers, mainly foreign businessmen who are renting apartments in the centre for about 500 EUR/month often having bad home internet connection. Thus internet clubs are tending to upgrade their premises by not only coming out of semi-basements and renting better quality accommodation located in the centre, but even introducing VIP rooms with leather upholstery. Consequently for adequate Class B accommodation lessees are ready to pay 10 EUR/sq.m., besides even 2nd and 3rd floors are in demand. Competition in this sphere is intensified by the accessibility of wireless internet connection in Reval Hotel Latvia and “Double Coffee” chain where internet services are offered free of charge.

COMMERCIAL SPACE

In October the total retail market area has experienced serious growth by launching third parts of the shopping centres “Domina Shopping” and “Alfa”. Notwithstanding almost simultaneous launching of retail space totalling more than 100 000 sq.m., rent for retail space has risen for about 1 – 2 EUR per sq.m. At the same time sales price has stabilised averaging 1700 – 1800 EUR/sq.m., and the supply is not very abundant.

At the same time there is strong demand for retail space within the popular shopping area encircled by Brivibas boulevard, Gertrudes, Kr.Barona and Elizabetes streets. Retail space rent in this area has reached 50 EUR/sq.m. However, a few blocks away beginning with Stabu street retail space is not demanded due to the small number of potential shoppers. Besides, if compared with the hectic summer period, during the last month demand for café premises rent has dropped notably.

Encouraging signs of rising activity in the commercial market are exposed by commodities producers, like furniture, metal-working, textile industries. These industries are developing and seeking for production premises either for rent or for purchasing.