Latvian Real Estate Market Overview

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ARCO REAL ESTATE

NEKUSTAMĀ ĪPAŠUMA BIROJS • REAL ESTATE COMPANY

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The survey of market analysis prepared by "Arco Real Estate" SIA gives us concise information on the real estate market in Latvia in year 2003. The Survey will give you a shot report on the most essential segments of the real estate market:

- market of flats,
- rent of dwelling premises,
- single family private houses,
- land plots (for construction of a single family house),
- farmland,
- land plots (for construction of industrial and public buildings),
- market of selling space,
- rent of office premises.

Charts of segment analysis of the real estate market show the price of the corresponding segment at the beginning and middle of the year.

Sources of information for the conducted analysis are "Arco Real Estate" SIA date base of on real property transactions, date base on supply and demand of our customers, as well as information provided by our cooperation partners and publicly available sources of information.

This survey of the real estate market has been prepared for a target group, whose activities and interests are Latvian real estate market, starting from private persons to investors and bankers.

"Arco Real Estate" SIA real estate market analysis is prepared on regular basis and provides a short survey for each half a year.

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Market of Flats

The growth of prices of flats, which started during the second half of 2001 and continued the whole year 2002, disregarding the forecasts on the possible price stabilisation, continued in the beginning of 2003. However, the first half of year 2003 was characterised not only by an increase of prices but also by a decrease that started in May and has been going on so far. If at the beginning of this year prices of flats in the most popular districts of Riga City and in the most marketable standard buildings grew in average for 2 – 3% per month, what summed up during the first five months of year 2003 up to 15%, then in May and June prices for some types of flats decreased for 5 - 8 %.

Price increase during the first months of the year.
Price decline starting from May.

One can not speak now about a common tendency for decreasing prices of flats because this decline was observed only for specific types of flats and only in some districts of Riga City. It is possible that this decrease was caused by some subjective factors, and only the second half of this year will show some specific changes in prices of flats.

The decline of prices of flats in year 2003 was mostly observed for three and four room flat in all types of standard buildings as well as in general for all "Lithuanian" and 602 series flats. Price decline was especially observed in Kengarags, Purvciems and Zolitude.

If during the first months of this year the maximal price for a single room flat reached up to 680 $ per square meter or in average 560 $ for all types of flats in the most marketable districts, then after a slight decline, price now is 540 $. The above mentioned prices shall be referred to undecorated flats, price for well decorated flats (PVC package windows, new heaters, replaced internal communications lines with good plumbing, as well as high quality interior finish) is from 680 to 750 $. It is typical that when carrying out repair works in these flats, price rise is not adequate to the amount of committed finances for the repairs; usually it is 40 – 60 % of the total of the cost estimate.

Investments in flat repairs are considerably higher than the market price of such decorated flats.

This is the price limit, which was projected before, and it corresponds to the prices for flats in buildings constructed some time ago, when comparing them to the prices of marketable flats in newly constructed buildings. The price for flats with finish in recently constructed buildings available on the market now is 700 – 900 $/m². When comparing a serial flat to a flat in a brand new building, one may conclude that all characteristic parameters of a flat (state of the design, utilities, layout, total floor space of auxiliary rooms, state of shared spatial land, and finally homogeneity of the social status of all tenants) is unequivocally in favour of flats in newly constructed buildings, thus the current price of 540 $ for a series flat per square meter is to be regarded as the upper no-risk limit for series flats.

When evaluating prices of flats, one must point out that they are based not only on the location of the building in a particular district and in a particular standard building but essential is also the amount of floor space. For example, the value of 1 square meter in a single room flat in series 119 flat in Purvciems is 600 $ but in a four room flat it is 510 $. In its turn the value of small single-room flats in the buildings of “bad” series – “Lithuanian”, “Chruschow” reaches up to 680 $/m². Unfortunately one has to conclude that customers are not so much interested in the technical condition of the building and the possibilities to maintain it because the price margin for different series buildings and in a different technical condition is rather narrow.

Differences among districts

If during the previous years price margin in different districts was rather disparate, then recently this margin among different districts has reduced.

- ✓ The highest prices for similar flats are in Purvciems, Plavnieki, Mezciems and Ziepniekkalns;
- ✓ Slightly lesser prices are in Imanta and Zolitude;
- ✓ Next price category is Jugla, Ilguciems and Vecmilgravis.
- ✓ The lowest prices are still in the Districts of Bolderaja and Daugavgriva.

Along with the rapid growth of price in standard buildings, prise has also increased significantly for flats in wooden construction buildings with a limited number of floors and in buildings with partial conveniences. Currently the price of flats in such buildings is 300-450 $/m². Well marketable are flats with partial conveniences in wooden buildings especially in the immediate Pardaugava. Usually those are buildings with a few flats where customer by merging them reconstructs such a block building into a single family house.

Centre of Riga

Stable demand for flats in the City Centre.
Price of repaired flats in the City Centre reaches 1500 $/m²

As it was projected, the price for undecorated flats continues to grow for buildings in the City Centre, and now it is 650 – 850 $/m². Price for decorated flats in the City Centre is 800- 1200 $/m² and unlike the new districts the committed finances are adequate to the price increase, in some cases enabling the owner to sell the flat after repairs with a profit.

Rather high and stable is the demand for flats in the elitist district - among Elizabetes, Ausekla and Rupniecibas streets that so far is the only district with several fully reconstructed buildings.

The price of flats in such buildings is 950 – 1150 $/m² without finish and 1100 – 1500 with finish. As flats in these buildings are sold in a very short time, one may conclude that the demand for flats of such quality is high, and the price is attractive.

New dwelling buildings

Price for flats in new dwelling houses has risen for 15 %.

During the last year and in the first half of year 2003 the offer of flats in new dwelling buildings continued to grow and sales of such flats was rather successful. When analysing price changes in this category, it is evident that price during six months has grown for about 15%; price increase in this segment is lesser that in the market of flats on the whole. So far new residential buildings have been built in Purvciems, Ziepniekkalns, Mezaparks, Sarkandaugava, Jugla and Marupe, as well as in Jurmala Town. During the second part of the year it is projected that the proportion of flats in newly constructed residential buildings will increase considerably what could essentially influence the price for series flats. The price of flats (with no interior decoration) in newly constructed buildings is 650 – 750 $/m^2$.

Riga region

Seeing price changes in Riga Region one may conclude that price increase is observed throughout the Region – price has grown in Marupe, Salaspils, Kekava, Ulbroka, and Jurmala – Kauguri and currently constitutes in average 70 – 80% of meant price of flats in Riga. Dubulti and Bulduri, Districts of Jurmala Town shall be looked upon as a specific case where price for standard flats (in a satisfactory condition) currently is the highest in the country – 650 – 700 $/m^2$, the price for flats with quality repairs in these districts run up to 900 - 1100 $/m^2$. Rather high price of flats in comparison with the meant price of flats in Riga City is observed during this half year also in Sigulda Town. Demand has grown and price has increased for flats in Riga vicinity villages, especially in places where buildings are well maintained and with public utilities. Price of flats in such villages constitute 35 – 40 % or Riga price.

Price increase in all Riga Region. The most expensive flats are in Jurmala Town – Dubulti and Bulduri.

Conclusion

Among standard flats marketable are single and double room flats, in its turn in the Centre most sought-after are 4 room flats with floor space 80 – 120 m². The most popular and expensive among standard buildings are those of series 104, 119 and 103. Popularity of those series is ensured by a good layout – separate rooms, rather large auxiliary rooms, and good heat isolation. An essential factor for the price of a flat is the prestige of the district (street) and the condition of common-use premises (staircase, entrance, facade). On the basis sales numbers and the analysis of customer's demand, prices of the most marketable flats are as follow:

Series flats in	450 - 680 $/m^2$
• Centre located buildings	650 - 850 $/m^2$
• Centre located wooden buildings	300 - 450 $/m^2$
• Newly constructed buildings in districts	
with no finish	550 - 700 $/m^2$
with finish	650 – 950 $/m^2$
• Reconstructed buildings in the Centre	
with no finish	950 – 1150 $/m^2$
with finish	1000 – 1500 $/m^2$
• Reconstructed buildings in the Old City	
with finish	1400 – 2000 $/m^2$

Prognosis of changes of prices of flats for the second half of year 2003

Excerpt from the market research "ARCO REAL ESTATE Survey of Real Estate Market - Year 2002."

One may project general increase of price for 20 – 30 % for all categories of flats in year 2003. Price of series flats in Purvciems, Plavnieki and Zolitude has reached its top limit of 550 – 600 $/m² which from the point of view of financial investments shall be considered as no-risk limit in the market of series flats, and this is also confirmed by the data on the price of series flat in Tallinn and Vilnius. Price increase for series flats will take place in the districts where price is on the lowest level, as well as it might rise for small single room flats. Price will grow for Centre location flats (undecorated), also for flats with partial conveniences in the area around the Centre. One may predict price growth also in the largest towns of Riga Region – Kauguri (Jurmala), Ogre, Kekava, and Vangazi.

If all the new dwelling house construction projects planned for year 2003 are realised and also Municipality of Riga City starts constructing such buildings, larger number of quality flats will enter the market, and if price of flats in these buildings is 650 – 750 $/m² (flats with simple finish), one may foresee a slight decrease of price for standard flats

Market research prognosis prepared by "Arco Real Estate" Ltd for year 2003 has fully come true.

When predicting price changes for the second half of year 2003, both price increase during the first months of this year, the decrease during May and June, the number of flats on the market and information on the known projects of new dwelling houses and their prices were taken into account.

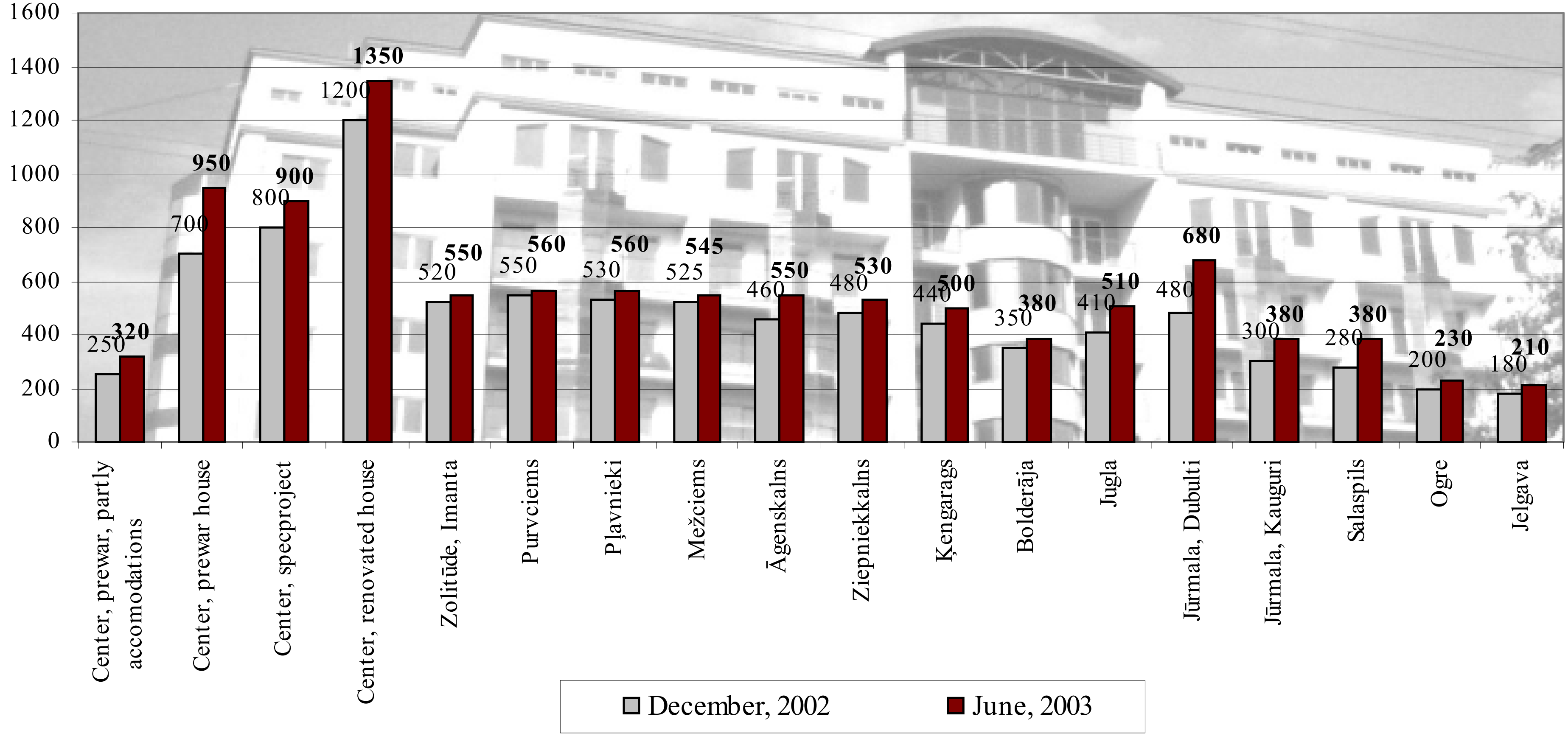
Basing on these data, we may foresee that there will be no increase for prices for series flats. Decrease of prices for not more than 15% per half a year could affect four room flats in all standard buildings, as well as for well refurbished flats the current price of which is over 700 $/m^2. No price increase should take place for flats with partial conveniences because the price for these flats has reached the maximally possible limit – 450 $/m^2. Price could fluctuate in Bolderaja, Vecmilgravis, Mezciems and Ilguciems.

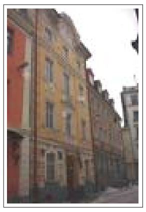
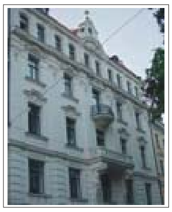
Price decline for repaired three and four room flats. Price increase for flats in the Riga City Centre and in Jurmala Town -Districts of Dubulti and Bulduri.

Price will be stable in Riga vicinity - Marupe, Kekava, Sigulda, Ogre and Kauguri (Jurmala).

Price will keep growing for all kind of flats in the Centre of Riga and Jurmala – Dubulti and Bulduri.

2 room apartment price (50 m²) USD/m²



Rental of residential premises.

Last year boom of real estate transactions proved the fact that, when buying a flat, monthly payment to the credit institution almost equalled to the monthly rent payment. And this was the cause for sagging of price for rental flats.

The total demand for rental flats has not changed substantially during this year, though a price fall took place. Now price has become stable.

Rentals do not exceed monthly payments to a credit institution. Demand has not changed but rentals decreased.

Categories of rental flats

In the sector of dwelling premises the following main categories of rental flats should be established:

- ✓ District located furnished flats in a good condition. The most marketable in this category are flats with 1-3 rooms; especially high demand is for single room flats. Most popular districts – Purvciems, Plavnieki, Teika and the immediate Pardaugava. When renting such a flat one must reckon with a monthly payment of 100 – 150 LVL.
- ✓ Furnished flats with quality finish in remodelled buildings located in the Centre. This category is characterised by location in a prestigious district, high quality finish of the flat and commonly used spatial, security level. Essential is a possibility to park one's car. Floor space of the most marketable flats is 50 – 100 m^2. Most marketable are furnished flats. When renting such a flat one must reckon with a monthly payment of 500 – 1200 $.
- ✓ Well decorated and furnished flats in renovated art nouveau buildings in the City Centre (Quiet City Centre), especially, if buildings and rooms are rich in décor, with a fireplace and stylistically harmonised furniture. The most demanded is for flats with 50- 100 m^2 of floor space. When renting such a flat, monthly rental will be 600 – 2000 $.
- ✓ Influence of Old City has decreased also due to the fact that noise level increases there and people have parking problems. Taking into consideration all these facts, demand for Old City flats had diminished, wherewith also prises have sunk. Only the price for well maintained Old City flats may be compared to the price for flats in the Quiet Centre, which currently are the most expensive ones.

Factors influencing rentals for all categories are prestige of the district, condition of the flat, available public transportation, availability of parking and floor of the building.

The average lease agreement term is for one to two years. There is high demand for flats for a shorter period of time – from three up to six months but there are few such flats on the market.

Categories of tenants

Persons who prefer renting are:

- ✓ Foreigners, who come to Latvia to work for a longer period of time, the large number of arriving businessmen and investors, newly opened representations of foreign companies.
- ✓ Residents of Latvia, who have purchased a flat in one of the new projects or are constructing a house, and the rented flat is a temporary accommodation.
- ✓ Students and people, who do not have enough financial resources for the first instalment.

Rent of private houses

Very popular is renting a private house for summer season from May to September at the seaside not just in Jurmala but also along Vidzeme seashore.

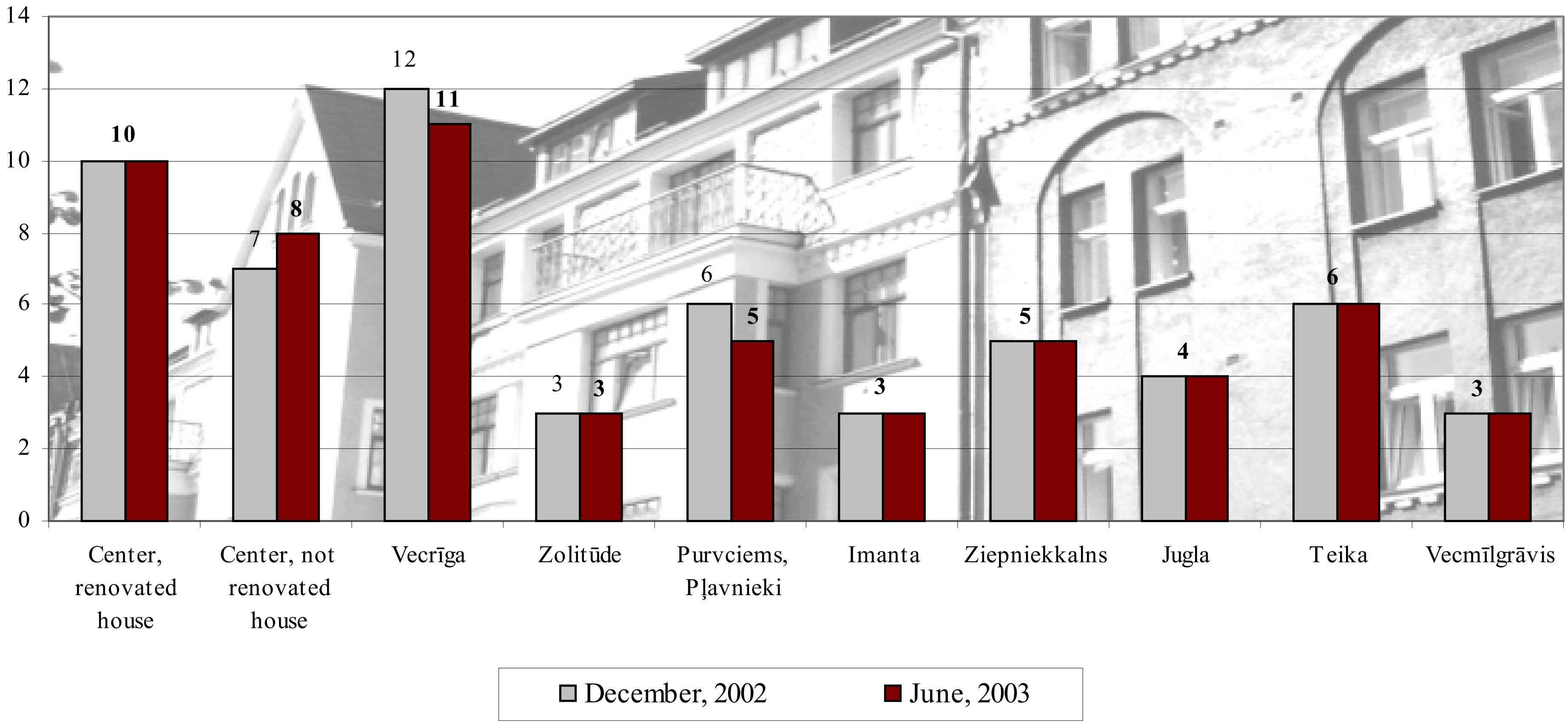
Both local businessmen and foreign visitors choose to rent a private house. Price depends on prestige of the location, distance to the sea, and equipment in the house.

Houses in Jurmala with all conveniences, equipment, and furniture - 1500-3000 $/per month.

A simpler summer cottage up to 1500 $/per month.

When speaking about renting a private house not just for summer season, on the market there are houses or parts of house in Teika, immediate Pardaugava, Mezaparks, Imanta. Though, the offer is comparatively small. The price in these districts is 150 – 300 LVL.

Average apartment rent price, USD/m2



Single family private houses

Unlike any other components of the real estate market, there is no trace of any special changes observed in the sector of private houses.

During this half year supply has grown in the so called “cheap “sector, i.e. from 60 000 – 90 000 $. For such a prise are offered standard wooden prefabricated hoses with floor space of 90 – 140 m² which are produced both in Lithuania and Estonia, and lately also in Russia. The price of a prefabricated set alone - without assembling and finish is 280 – 450 $/ m². Usually these cheap buildings are constructed in places where land price is 10 $/ m² thus after putting such a house in operation, price starts from 600 $/ m² which is similar to the market price for standard flats. There are also several Latvian companies offering custom made wooden frame buildings but the price for such buildings starts from 750 $/ m². Custom made stone prefabricated buildings usually are not cheaper than 800 $/ m². Except for districts of Riga Mezaparks and Jurmala City, where construction costs for a solid brick building still exceed the market value of such buildings. The high construction costs could be explained by the high prices of construction materials available in Latvia and high labour costs, and it leads to the fact that prices for similar buildings in Latvia are higher that in other Baltic states.

When constructing a standard wooden prefabricated houses, their price is similar to the price of flats in Riga districts

Private houses in Riga City

Private houses in Riga City are offered in “Kolonna” village in Mezaparks, “Ķīpsalas Ligzda” which is located in Kipsala, where they offer both single standing and line houses, In Pardaugava village “Šampēteris 100” and in Jugla, vicinity of Smerlis. Mostly finished buildings or buildings constructed in accordance with specific projects are offered in these districts, and construction is carried out in specially prepared areas. Construction of private houses among already existing buildings is widespread in Pardaugava, - direction of Marupe and Sampeteris.

Private houses in Riga vicinity

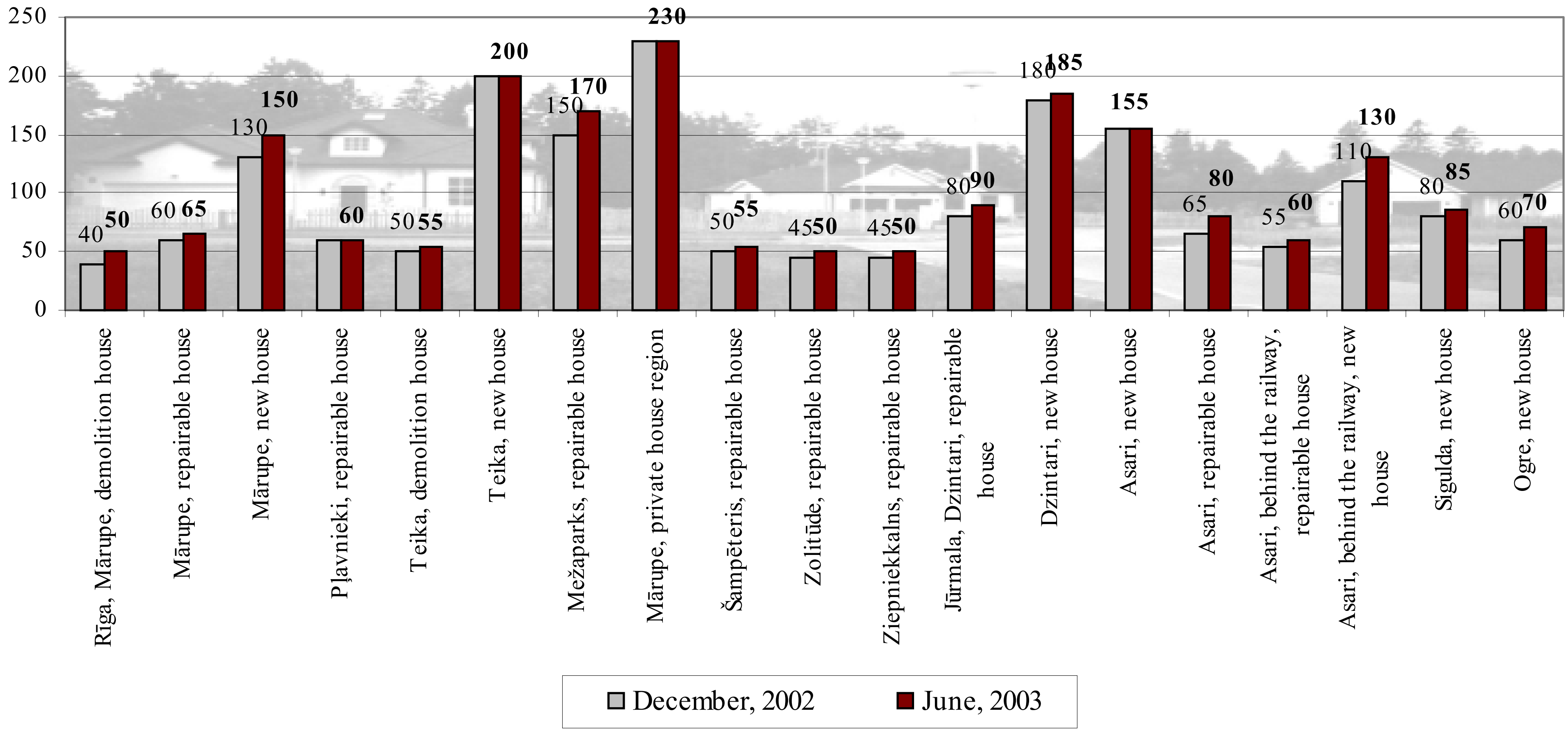
Outside Riga the most active construction of new buildings takes place in Jurmala and Riga vicinity – Marupe, Pinki, Kekava and Dreilini direction. Comparatively more expensive buildings (150 – 200 000 $) in Riga vicinity are offered around the lake Baltezers, Bergi, Marupe and Pinki. In its turn the cheapest buildings (90 – 120 000$) are constructed in the parishes of Jaunmarupe, Ulbroka and Stopini.

Categories of private houses

When analysing the supply and performed transactions, it is still possible to establish the following categories of private houses:

- In a bad condition (to be demolished or reconstructed). A typical characteristic for this category is its location in an area of private houses with already existing communications. Depending on the size of the plot, possibilities to access it and the district, price of land is the major constituent of the property price. Properties of this category are rather marketable. Depending from the district, price is from 50 000 – 60 000 \$. No price increase has been observed in this category during this half year, also the number of units is limited.
- Small (up to 100 m^2) buildings with simple finish where internal repairs would be necessary. Buildings constructed during 1950 -1960. Such houses are mostly offered in Plavnieki, Purvciems, Mezciems, Zolitude and Marupes direction. Average price 50 000 – 75 000 \$. The number of offers decreased.
- Prefabricated single family houses, are offered standard buildings from catalogues on the land plot of the customer. There is the largest price difference in this category starting from 60 000 \$ (Russia) – 180 000 \$ (Finndomo). The market of cheaper buildings has grown considerably during this half a year.
- Newly constructed buildings with floor space up to 200 m^2, Quality materials and inside communications. The largest difference in price in this category depends on the location. Average price is 120 000 – 180 000 \$.
- Newly constructed buildings in private house villages. The most typical features are spruced neighbourhood, level of security and neighbours. Location is very essential in determining the price. Supply is rather large. Average price 150 000 – 250 000 \$.

Average price of the private house (land area till 1500 m²) thousands USD



Land properties (for constructing a single family house)

For several years land properties have been the most stable segment of the real estate market. During the first half of year 2003 there was observed a rather even and stable growth of the demand and correspondingly increase of the price. In Riga City the price for land has grown both for plots purchased with an aim to construct a private house and to construct a commercial building. Price has risen for land plots in Mezaparks; some places it has reached even 100 $/m². Disregarding this high price, there are still some areas in Mezaparks where currently larger land plots (several hectares) got stranded in the phase of privatisation and, if after privatisation these plots will be divided into building plots, one may predict a certain decrease of price. Price is stable and high also in Kipsala where there are still large available unused land plots. The land plots offered for construction for private houses are detached from the existing sites. Current price is 70 – 120 $/m² but the supply is very limited.

Even and stable demand on the market of lands and corresponding price rise.

Land plots in Riga City

The most transactions with land in Riga City take place in Pardaugava – Marupe direction, Ziepniekkalns and Sampeteris Districts. Private land plots here are offered both by dividing the existing sites and acquiring and parcelling land plots where there previously have been allotments or industrial sites. Popularity of these plots is based on the developed infrastructure (streets paved with asphalt, communications, and public transportation) and pleasant natural environment with many trees. Price in these districts is 18-30 $/m². Land plots are offered and transactions take place in the districts of Plavnieki and Purvciems, and also here establishing of new land plots takes place by dividing the existing ones or using the land of former allotments. Land price here is 20- 25 $/m². Parcelling of private land plots continues in the direction of Dreilini – Mezciems that could be a rather active place for constructing private houses in the future.

Land in Riga vicinity

Farmland in Riga vicinity is being built up by dividing it into building plots.

Land market is rather active in the immediate vicinity of Riga City. The most popular still are Marupe, Pinki and Kekavas directions. Private construction in Marupe Parish takes place among the existing land sites and moving even deeper into the farmland in the direction of Jaunmarupe and Olaine. Price levels are rather different here – price of land plots along streets with existing structure and communications is 12-20 $/m², but price for recently parcelled agricultural land is 6 - 12 $/m².

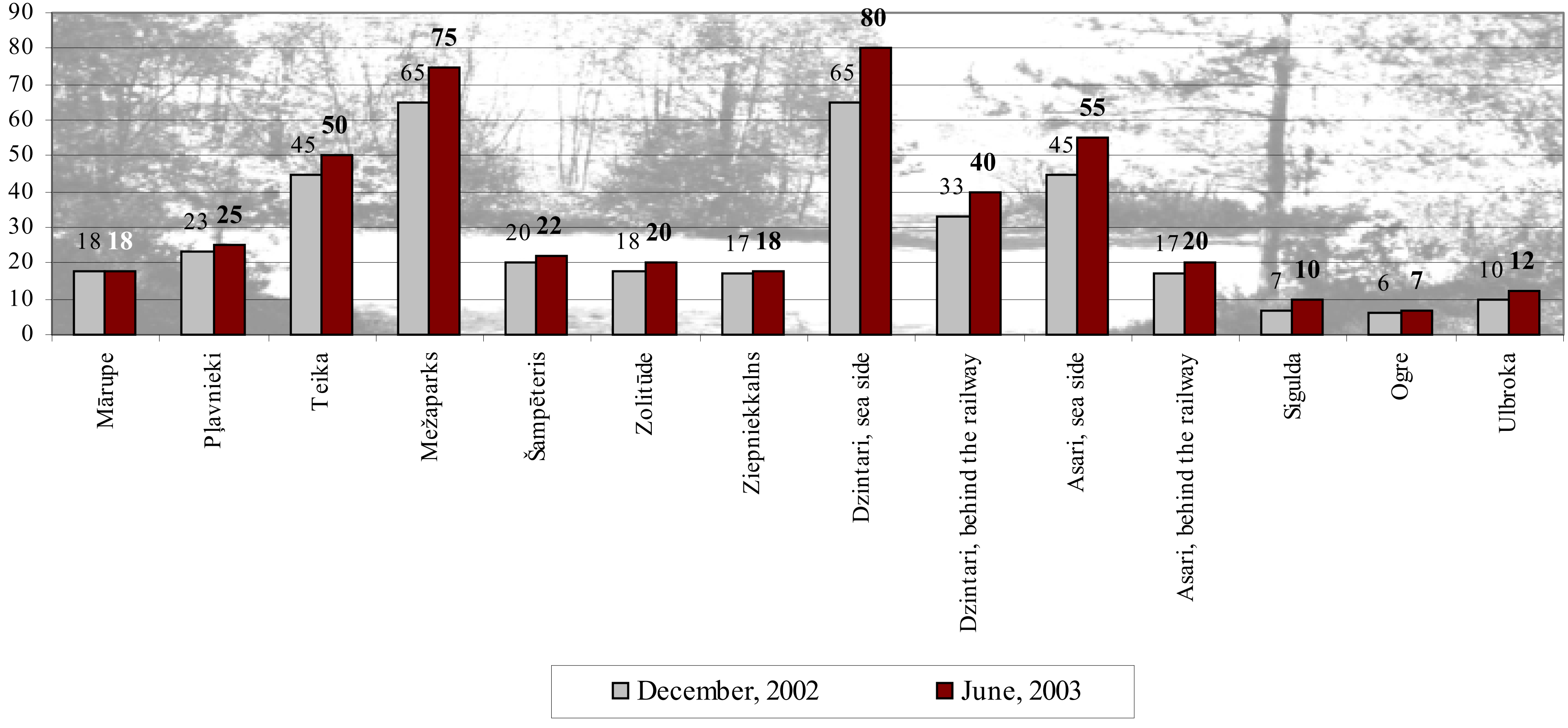
During the first half of year 2003 has grown the market of building plots that have been established by dividing former farmland. Price of such land plots (with area of 1400 – 2000 m²):

- Jaunmarupe	5-9 $
- Babite	5-15 $
- Stopini	6-12 $
- Jaunolaine direction	3- 5 $
- Ramava	11-13 $
- Ulbroka	6- 8 $
- Adazi	5- 8 $
- Garkalne	8-12 $

Land in Jurmala.

As it was foreseen, price is still growing for land plots in Jurmala City. Price for land plots next to the dunes in the first half o year 2003 was starting from 60 $/m² in Asari up to 130 $/m² in Dzintari – Lielupe. The most decisive factor in this price category is the size of the plot and conditions for construction. Price has grown considerably in those districts of Jurmala that were comparatively cheep before. On the territory between the railway and the Lielupe in the neighbourhood of Asari – Vaivari it is currently 12- 20 $/m² (In year 2002 land was offered here for 4-12 $/m²). Price has increased as well in Kauguri, especially next to the sea, and currently it is 15 – 30 $/m².

Average land price for the family house building (area 1500 m²) USD/m2



Farmland

First half of year 2003 was characterised by stable price increase also for farmland. Purchasing of land according its planned use in future can be divided into the following parts:

- ✓ Land for recreation. Currently this is the most active group of farmland. Land is marketable mostly in picturesque sites next to waters - i.e. along the whole seashore, as well as along the banks of rivers and lakes, especially next to the Usma and Razna lakes, as well as on the banks of the rivers Abava, Venta, Ogre and Gauja. Price of a land plot (1-10 ha) is 2000 – 9000 $/ha. Price depends on the location, distance to Riga and size of the plot
- ✓ Agricultural land. Demand for and transactions with such land plots are comparatively small and concentrate in those regions of Latvia that are most favourable for farming – Zemgale (districts of Bauska, Dobele, partially Jelgava, Riga and Tukums). Price here is 700 – 1300 $/ha. Most marketable area is 20 – 70 ha.
- ✓ Land for logging. People purchase agricultural land consisting both of farmland and forest land with an aim to log the forested areas. Price is determined by the value of the forest, location and access roads. Price is 1000 -3000 $ per one hectare of forest.
- ✓ Land purchase for speculative transactions. Land is being purchased on the whole territory of Latvia. The decisive factor – size has to be not less than 100 hectares. Price of land 120 –300 $/ha.

Overall one must point out that land market as a constituent part of real estate market is increasing steadily and is predictable.

Land plots (for construction of industrial and public buildings)

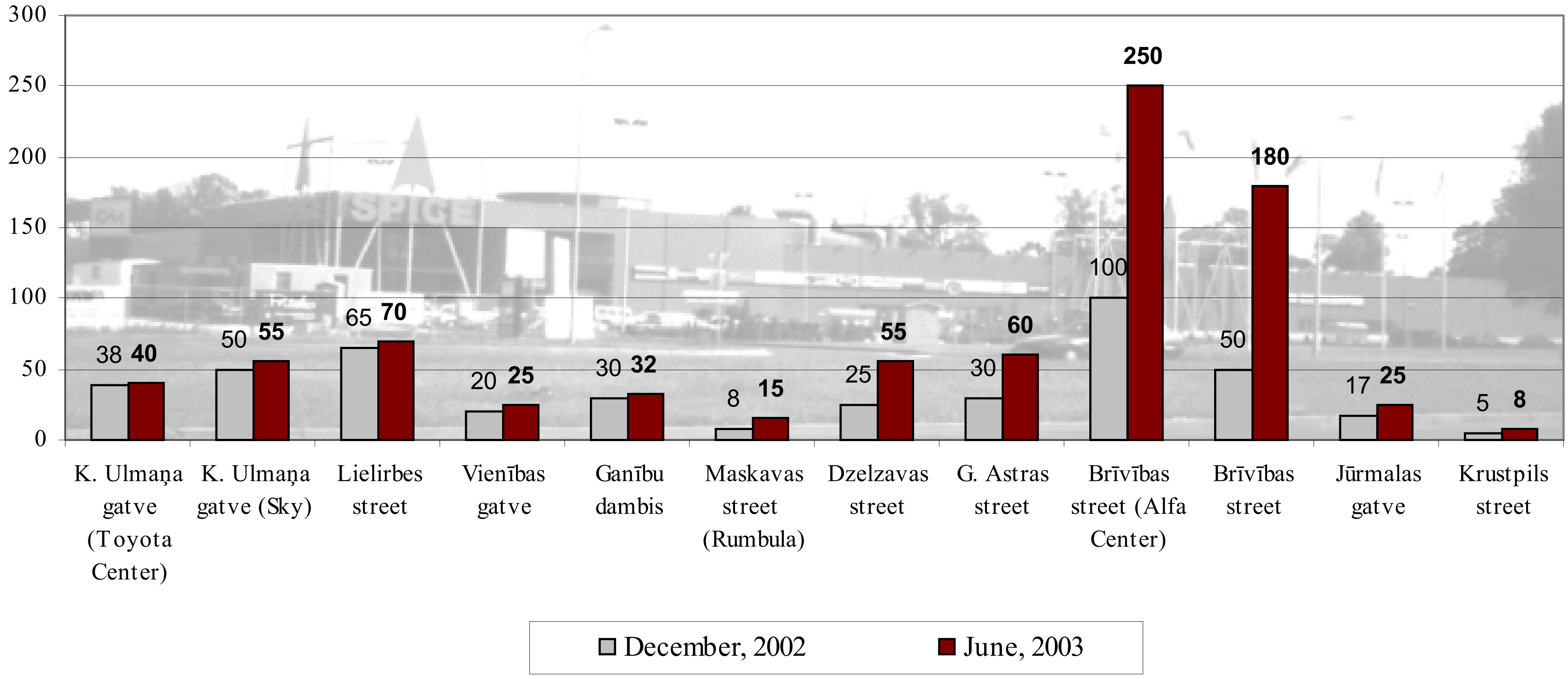
During the last year demand has grown considerably for land plots to construct many-storied residential buildings in the City Centre and in the most popular districts. Most marketable land pots in Riga Centre are 1500-3000 m². Taking into consideration that there are almost no empty available land plots in the City Centre, price has increased remarkably. Price in the Centre of Riga starts from 300 $/m² (Kr.Barona street at Pernava street) to 1200$/m² (at Terbata street). Price difference is determined by popularity of the street, but unlike the land plots to construct shopping molls, essential is not the flow of pedestrians but the sound isolation of the block. For example, price for a land pot to construct a many-storied dwelling building on the so popular for commerce Kr.Barona street, along which there is a tram line, is less than in neighbouring side streets.

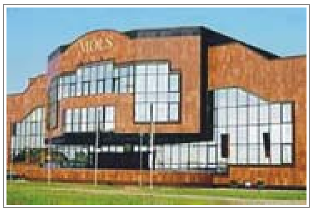
Market had grown for land plots in districts, especially in Purvciems and Plavnieki. Transactions with land properties in Purvciems and Plavnieki take place for very different price; the main difference among them is the size of the plot but especially its location towards the street. There is little market for land plots within residential blocks; price for this kind of land is 8-15 $/m². Often this price is even less than cadastre value of the land. Price for land plots for commercial construction along the main streets of a district with the size of 3000 – 6000 m² is 60 – 100 $/m². Larger areas of 10 000 m² - 30 000 m² are sold for 8 –16 $ /m².

Demand and price have increased for land plots to construct a many-stored dwelling building.

Land value has grown slightly for industrial land – for 5-10 %. Price grows faster for land in Ganibu dambis (price from 15 –30 $/m²) and Krustpils street (6-12 $/m²).

Land price (for commercial buildings) USD/m2





Market of retail space

During the first half of year 2003 were obseerved previously predicted sales of seling space. Along with the opening of the second phase of shopping centre 'Olympia" in May, seling space at this centre increased up to 19500 m². In May was also opened the first phase of the shopping and office centre "Origo" (17600m²) which is the latest project of Norvegian company "Linstow Varner". Disregarding the intensive discussion the shopping and office centre "Triangula Bastions", located in the Old City, was opened for public in March 2003. Although more and more new selling space is coming to the market, still one can notice a rather large uniformity of shops and trademarks. Important changes in this situation could take place when Latvia joins European Union, this would strengthen trust of foreign companies in Latvian market.

Opening of new shopping centres and expanding of the existing ones.

Lasting leader of running shopping centres still is "Linstow Varner" ("Centrs", "Alfa", "Mols", "Origo" u.c.). This autumn will be opened the second phase of the above mentioned shopping centre "Origo" (6435m²). Disregarding the disagreement with the Nation Inspection for Protection of Cuture and Monuments (NIPCM) it is planned that Finnish companies "Stockmann" and "Rautakirja" open a recreation and shopping centre "Stockmann Centrs". The first phase of "Pro Kapital" center "Domina Shopping" with 19000m² of selling space will start operating in September.

Planned projects

In the nearest future is planned expanding of the shopping centres "Alfa" and "Centrs", opening of the second phase of "Domina Shopping", implementation of the project "Galerija Patollo" in the centre of Riga, as well as constructing several new shopping and recreation complexes ("Latlada", "Riga Plaza" etc.). Although there are some diffeerences among those projects, something completely new in Latvian market is the project "Galerija Patollo"– seven storied complex in the very centre of Riga, where each floor will locate asimilar profile shops aimed at a specific target group. In "Galerija Patollo" there will be a parking lot for 250 cars, about 180 shops, 25 coffee shops and restaurants, 8 of those will be located on the roof.

Tendency for rentals at the shopping centres to decrease.

Taking into consideration increasing competition, there is a slight tendency for rentals in those shopping centres to decrease. At the same time most of such centres have been constructed by taking a credit, thus the possibility to lower rental is very limited.

Chains of shops

Since a considerable part of market space is occupied by supermarkets and hypermarkets, it is essential to point out the fierce competition among the leaders of chain shops operating in Latvia – "Vilniaus Prekyba" enterprise "VP Market" ("T-Market" and "Maxima") and "Rimi Latvia". Currently there are 57 "T-Market" shops and six supermarkets "Maxima" in Latvia; in September one more supermarket "HyperMaxima", planned in the new shoping centre "Domina Shopping", will add to their number. During the last months the market share of "VP Market" has grown from 14% to 17%. On the other hand "Rimi Latvia" curently operates 34 shops, three of those are "Maxi Rimi" hypermarkets and one "Rimi Hypermarket" opened this April; design of the last one differs pleasingly from all previous Rimi shops. By the end of year 2004 "Rimi Latvija" Ltd. plans to increase the total number of their shops up to 75. Also Finnish "Kesko" group enterprise "Kesko Food" consistently continues its developemnt; group represented in Latvia by two concept shop chains – "City Market" and low prise shops "Supernetto". Along with the four existing "City Market" and five "Supernetto" shops, by the end of this year "Kesko Food" plans to open one more "City Market" and 10-20 "Supernetto" shops. Rather active are also retail shop chains "Mego" and "Nelda". Serious competition to the low prise shops "T-Market" and "Supernetto" may cause German retail shop chain"Lidl" that plans to enter Latvian market in the nearest future.

Selling space in the Centre of Riga

Currently the situation in the central part of the City is rather unstable – rather high number of premises with the total area exceeding 100 m², so far are empty, when former leaseholders moved to shopping centres or were unable to withstand competition (especially it refers to small groceries, sports equipment and household utilties shops). Rentals have slightly decreased, rather good selling space is occpied by shops offering cheap products.

This may not be said about smaller areas (50 m² - 100 m²) in the Centre, prestigeous locations (Barona, Terbatas, Kalku, Valnu, Audeju, and Smilsu streets), where demand exceeds supply, thus rentals have kept the previous level or even slightly increased – up to 35 - 45 $/m².

Stabilisation of the situation could considerably further coming of new foreign companies into Latvian market because center location quite often is a must for them or their concept does not allow being located in shopping centres. Just as the centre will always be important for dealers of exclusive items.

High demand fro premises in the Centre of Riga with high number of pedestrians, rentals unstable.

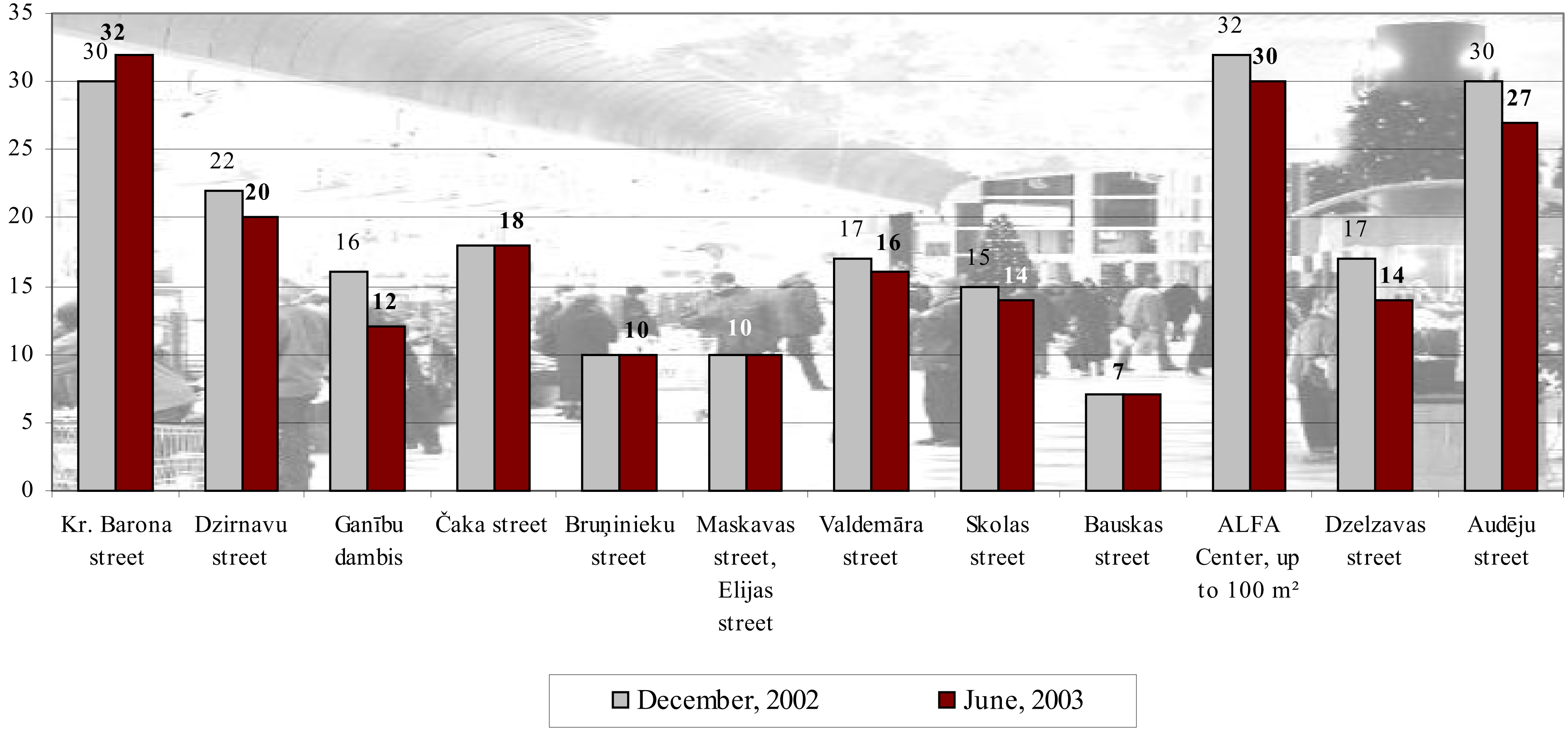
Taking into consideration the fluctuating rentals and hardly predictable situation in the market of commercial space, there is still high demand fro premises in the cenral part of the City that could be purchases as a property.

General characteristic for summer months is decreasing activity and reducing number of transactions in different business spheres, and the market of selling space is no exception.

Average rentals, depending on the location and condition of the premises ($/m²):

- *premises in the big shopping centres depending on the area*
  - area up to 30m² 30 – 50
  - area 30 – 150m² 18 – 40
  - area above 150m² 8 – 30
- *in the cetral part of the City*
  - central streets (Barona, Terbatas, Caka, Brivibas) 15 - 40
  - side-streets 12 – 25
  - vicinity of the Centre 6 - 15
- *Old City*
  - central streets (Kalku, Valnu, Audeju, Smilsu) 20 - 45
  - side-streets 8 - 30
- *in districts*
  - district centre 6 – 18
  - outside centre 4 – 10

Rent price for commercial space, USD/m²



Lease of office premises

Due to stabilisation of entrepreneurship environment demand for larger size office premises has grown during the first half of year 2003. In every branch there are several leading companies with constantly growing number of staff. Thus these companies move to a different location resulting, and as a result smaller office premises become available. Companies that need office space starting from 500 m² and more want to rent of buy a separately standing building as a property. It involves functionality of office premises (convenient parking, easier to provide good internal communication system, marketing, possibility to place company's logo, etc.) Unfortunately it is very difficult now for such companies to find a corresponding solution because most of the buildings in the City Centre are privately owned and there are already several leaseholders and tenants, but outside the Centre office premises are mostly located in reconstructed Soviet times factories with very large floor space. Therefore several large companies have constructed or are in the process of constructing a new office building that would suit their functions (e.g. RIMI Latvia, PBLC, etc.). This tendency is expected to continue.

Demand for large office premises. New office buildings are being constructed for several leading companies.

There are plans for much movement of companies dealing with finances. It is known that holding company Hansabanka along with completing construction of its new office building "Saules akmens" will move all activities of its branches to this building leaving behind just servicing centres. And similar movement is expected in the nearest future also from other major financial institutions.

Taking into consideration this tendency, large amount of office space will become available in the City and that could cause fluctuation in rentals of office space.

Demand for smaller size office premises is rather stable, because new companies are always established. There are also companies that cease their activities due to different reasons, and this in its turn causes rotation of leaseholders of these premises

Demand correlation to supply is still negative because construction of premises considerable surpasses the number of potential leaseholders. In the first half of year 2003 there was a tendency for enterprises to move outside the limits of the City Centre. Companies who established they offices outside the Centre are mostly dealing with different kind of commerce and production because next to the office they need also a warehouse with easy access for freight transport which is not possible in the Centre of Riga. One may foresee that in the future in the Centre of Riga and Old City there could mostly be located companies providing different kind of juridical and financial services and consultations (offices of lawyers, notaries public, travel agencies, etc), as well as representative offices of large companies whose company strategy asks for being located in a prestigious office building.

Taking into consideration the favourable financing conditions established by banks, there is a new tendency to purchase office premises as company's property. It is still a problematic move because supply of such premises for sale is less than demand. Favourable bank financing conditions are also more often used by investment companies that develop buildings with offices for rent to create flow of money.

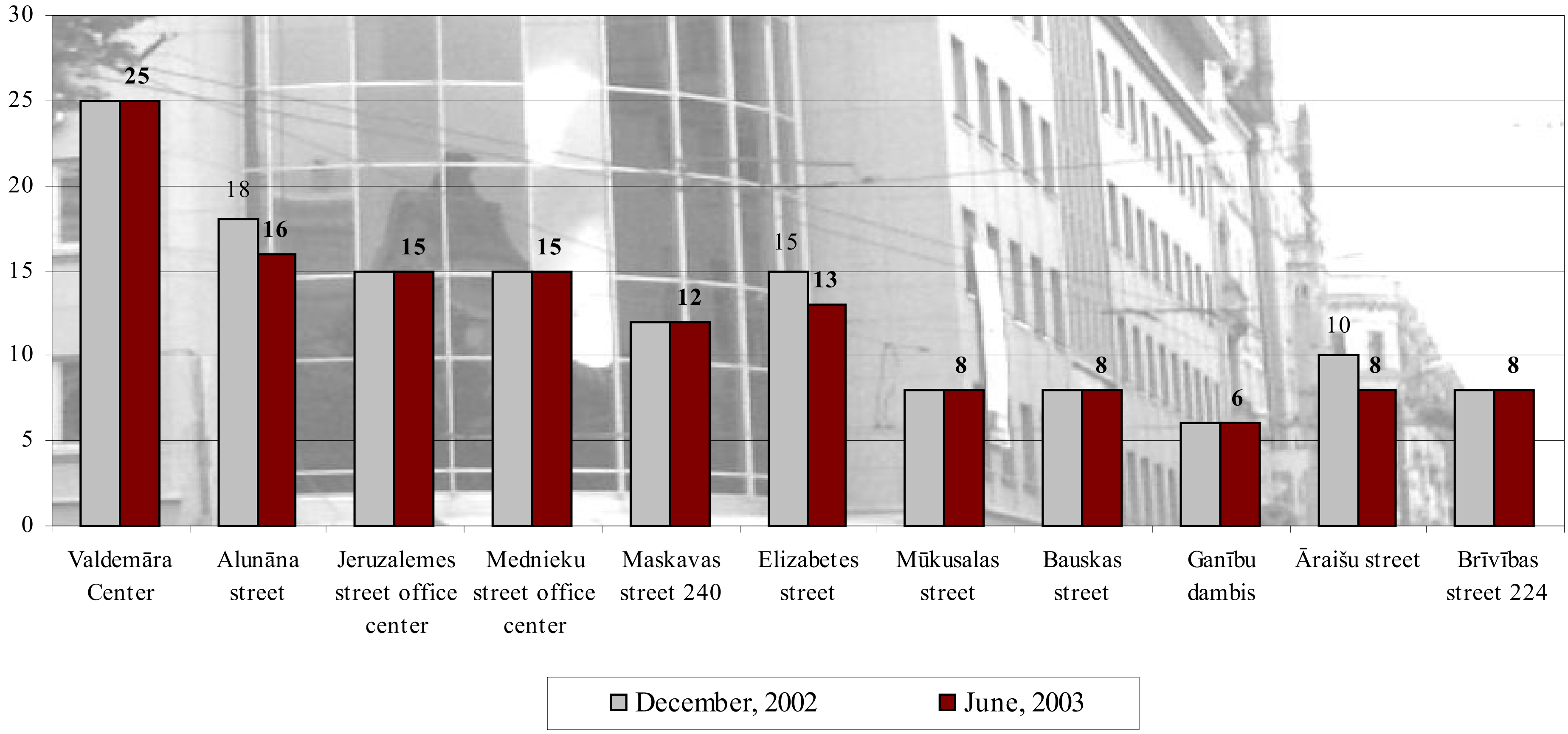
Tendency to obtain office premises as a property, however supply is insufficient

Fluctuations of rentals in Riga during the first half of year 2003 were minimal. Due to the increasing supply slightly cheaper have become office premises in office complexes located outside the Centre. As well as have decreased rentals for office space in the Old City. It is linked with the functionality of these offices (mostly the possibility of parking).

Rentals of office premises in Riga:

- Repaired A un B class office premises in business centres in the City Centre and Old City:
  10-25 $/m² (average 14 $/m²)
- Repaired A un B class office premises in business centres outside the City Centre:
  6-14 $/m² (average 10 $/m²)
- Repaired office premises on the ground floors of residential buildings or in separate one or two floor office buildings in the City Centre:
  6-15 $/m² (average 10 $/m²)
- Repaired office premises on the ground floors of residential buildings or in separate one or two floor office buildings outside the City Centre:
  4-9 $/m² (average 7 $/m²)
- Unrepaired office premises in the City Centre:
  4-6 $/m² (average 5 $/m²)
- Unrepaired office premises outside the City Centre:
  2-5 $/m² (average 3 $/m²)

Rent price for office, USD/m²



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