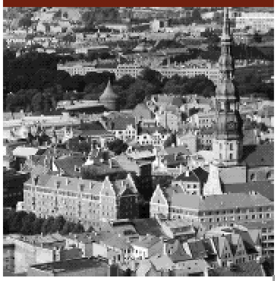
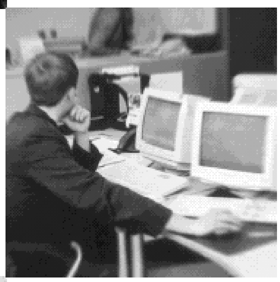
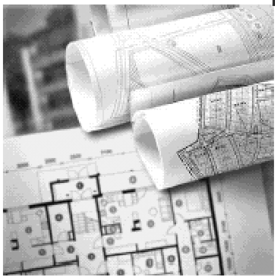
Latvian Real Estate Market Overview

January–June, 2002







ARCO REAL ESTATE

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RIGA

This Market Research Analytical Report is prepared by SIA "Arko Nekustamais Īpašums Latvija" LLC [Arco Real Estate Latvia], and provides a concentrated information on real estate market of Latvia for the 1st six months of the year 2002. This Report contains a brief account regarding the most essential segments of real estate market, such as:

- trade in apartments;
- lease of tenanted premises;
- one-family private houses;
- property in land (for construction of one-family houses);
- property in land (for construction of industrial and public buildings);
- sales areas market;
- lease of office premises.

The tables, in which the results of analysis of a real estate market segment are summarized, display the price within appropriate segment in the beginning of the year and in mid-year, and also provide a forecast on changes in prices for the nearest three months.

The sources of information used in performing the said analysis is the database of real estate transactions of SIA "Arko Nekustamais Īpašums Latvija" LLC, our clients' demands and offerings database, and also information provided by our co-operation partners, and sources of publicly available information, too.

This Market Research Analytical Report is intended for target users operating or interested in Latvia's real estate market, starting from individuals through investors and bankers.

SIA "Arko Nekustamais Īpašums Latvija" LLC intends to perform such analyses of real estate market on a regular basis, providing a brief review every six months.

You are kindly requested to address your proposals, comments or questions to Assessment Department of SIA "Arko Nekustamais Īpašums Latvija" LLC at the address as follows below:

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Explanations for graphs:

Foreseen changes in prices during the 2nd six months 2002:

⇨ prices will not change;

⇧ prices will increase.

Trade in apartments.

Along with active operation of banks in the field of mortgage crediting, real estate market in its trading in apartments section is still active, too. Notwithstanding the drastic increase in apartments prices in 2001, by 20 to 24 % on the average, also in the 1st six months of 2002 the prices continue to grow, by 20% for half a year in total. Such increase in prices during the recent half a year was seen in all housing estates, also in Ķengarags, Zolitūde, Vecmīlgrāvis and Bolderāja, in which the prices increased just a little during the previous six months. During this half a year, especially high growth of prices was seen in such housing estates as Ķengarags, Ziepniekkalns and Dzirciems.

Of serial-type standard apartments, the most rapid growth of prices was seen for one-room apartments, and presently the price amounts to US$ 12,000 up to 16,000, ie. 45% of price increase during a year.

The demand for apartments in newly erected and reconstructed houses has increased, however, the number of offered objects dod not grow. The demand for apartments in Old Riga, especially for small studio-type apartments up to 50 m^2 in floorspace, increased again.

Of serial-type standard apartments, in more demand are one-room and two-room apartments, but in downtown Riga, in their turn, 4-room apartments with area of 80 to 120 m^2 are in demand. The essential factor influencing the price for apartments is the prestige of particular borough (street), and the condition of common-use facilities (staircases, entrances, facades, etc.).

Based upon the number of concluded transactions, and analysis of buyers' demand, the prices for the most demanded apartments (in US$/$m^2$) are as follow:

Old Riga

- restored or newly built houses, apartments with decorative finish	1,300 – 1,600
- houses without restoration, apartments in good condition	900 – 1,400
- houses without restoration, apartments in poor condition	800 – 1,000

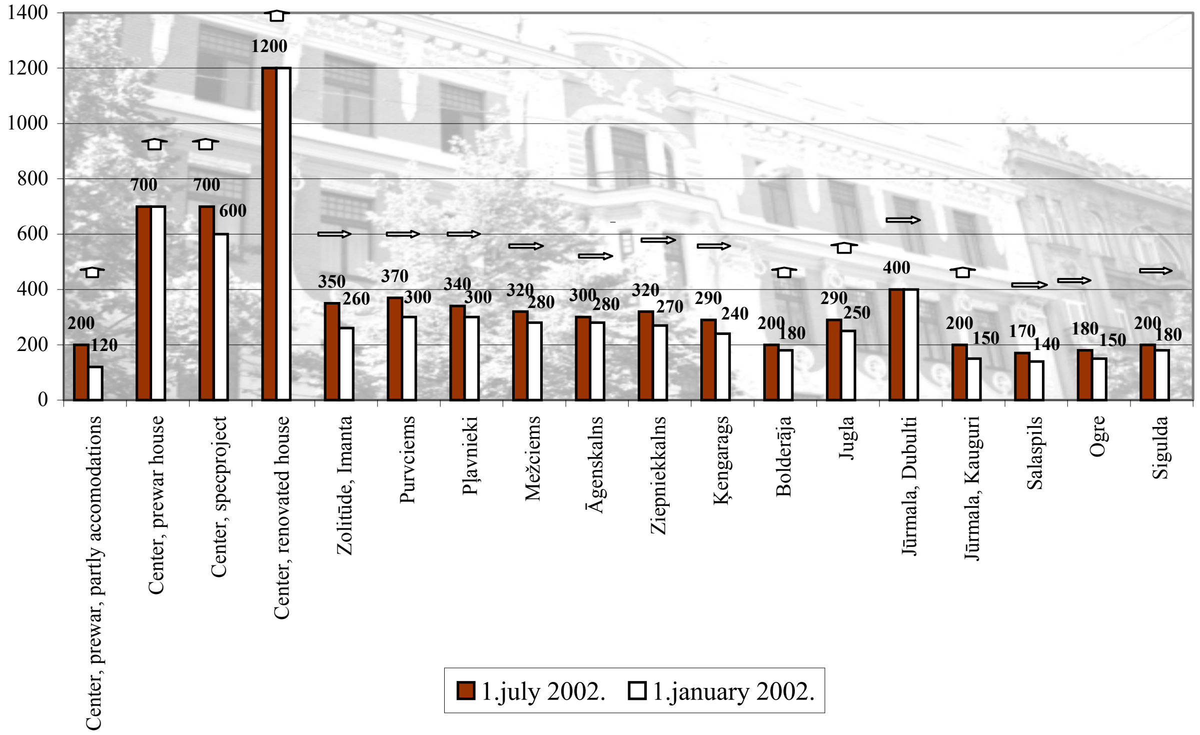
Houses in downtown Riga

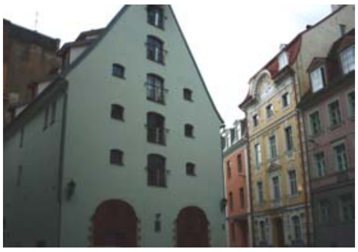
- reconstructed houses, apartments with decorative finish	1,100 – 1,400
- reconstructed houses, apartments without decorative finish	700 – 1,000
- houses without reconstruction, apartments in good condition	700 – 900
- houses without reconstruction, apartments in poor condition	400 – 600
- houses of "special design" of 70ies	700 – 1,000
- apartments in houses with partial amenities	200 – 350

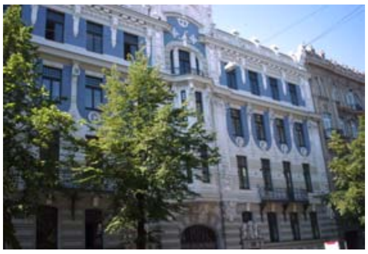
New housing estates

- serial-type standard apartments	260 – 410
- serial-type standard apartments with high-quality new finish	380 – 500
- apartments in newly built houses, without decorative finish	450 – 600
- apartments in newly built houses, with decorative finish	650 – 900

Average 2 room appartment price (50 m²) USD/m²







<u>Lease of tenanted premises.</u>

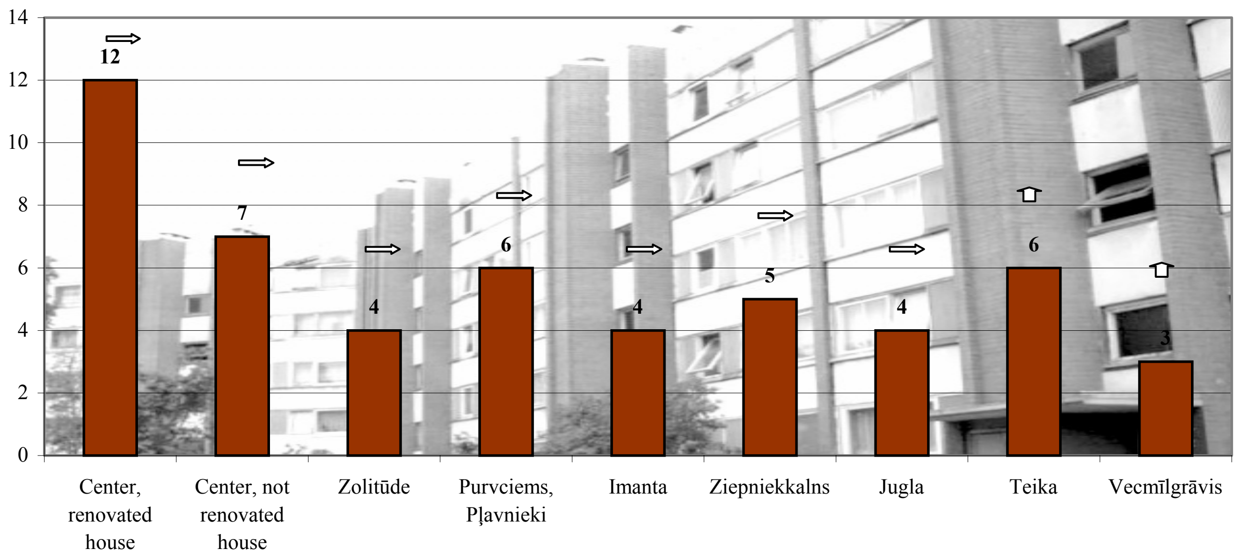
The total demand for lease of tenanted premises did not change any substantially during the year; however, rentals fell, especially for repaired apartments in downtown Riga. The folowing three main categories of leased apartments may be singled out in the sector of lease of tenanted premises:

- furnished apartments in new housing estates, in good condition; within this category, 1 to 3-room apartments are mostly demanded;
- furnished apartments in renovated (reconstructed) houses in downtown Riga, repaired with high quality standard; this category is characterized by being located in the prestigeous area, high quality of decorative finish of both an apartment and common-use facilities, high level of security. The mostly demanded apartments are 50 to 80 m^2 in area. For the most part, furnished apartments are in demand;
- furnished apartments in houses in downtown Riga, in good condition; the most characteristic feature of this category is its location in houses in rather poor technical condition, the same applying to condition of common-use facilities, and where the level of security is low. The rentals for apartments falling within this category saw a substantial reduction during the year.

The factors influencing the level of rental for all the categories listed above are the prestige of particular area, opportunities of public transport, car parking, and the particular floor within a house.

Demand for small studio-type apartments in Old Riga increased, as mentioned above. The number of transactions involving long-term lease agreements for 10 to 15 years, in which, additionally to comparatively low rental amoounting to US$ 2 to 3 per m^2, it is stipulated, that a lessee shall perform capital repair on its own account, increased similarly.

Average appartment rent price USD/m^2



<u>One-family private houses.</u>

In total, there are no substantial changes in prices for private houses, and new projects for private-house settlements appeared in the market, such as “Mārasciems” in Mārupe, “Mežmalas” in Babīte, and beside “Beberi” settlement in Piņķi, currently under designing by Latio, two new projects are commenced, namely, “Lielpriedes” and Deičmanis-Osis’ settlements.

Compared with rapid growth of prices for apartments, which is connected with favourable changes in crediting terms and conditions, prices for private houses did not change; rather, changes in offerings of settlements can be seen: to build houses for comparatively lower prices.

In all new projects, for the most part it is provided for building medium-expensive houses, valued at US$ 120,000 to 150,000.

“Bebrupļavas” settlement comprised of private houses in the vicinity of Piņķi, presently at the stage of designing, provides for offering to clients simple private houses at presently the lowest price: the selling price for a house with 100 m^2 floorspace and a parcel of land with 1,400 m^2 large area is fixed at approx. US$ 50,000. Where rather low level of demand in private-house settlements exists, with the average price for a house amounting to approx. US$ 150,000, such offer may well be attractive for families having an income allowing them to take credit only for purshase of an apartment, because the fixed price at US$ 50,000 corresponds to the price for newly repaired four-room apartments in new housing estates.

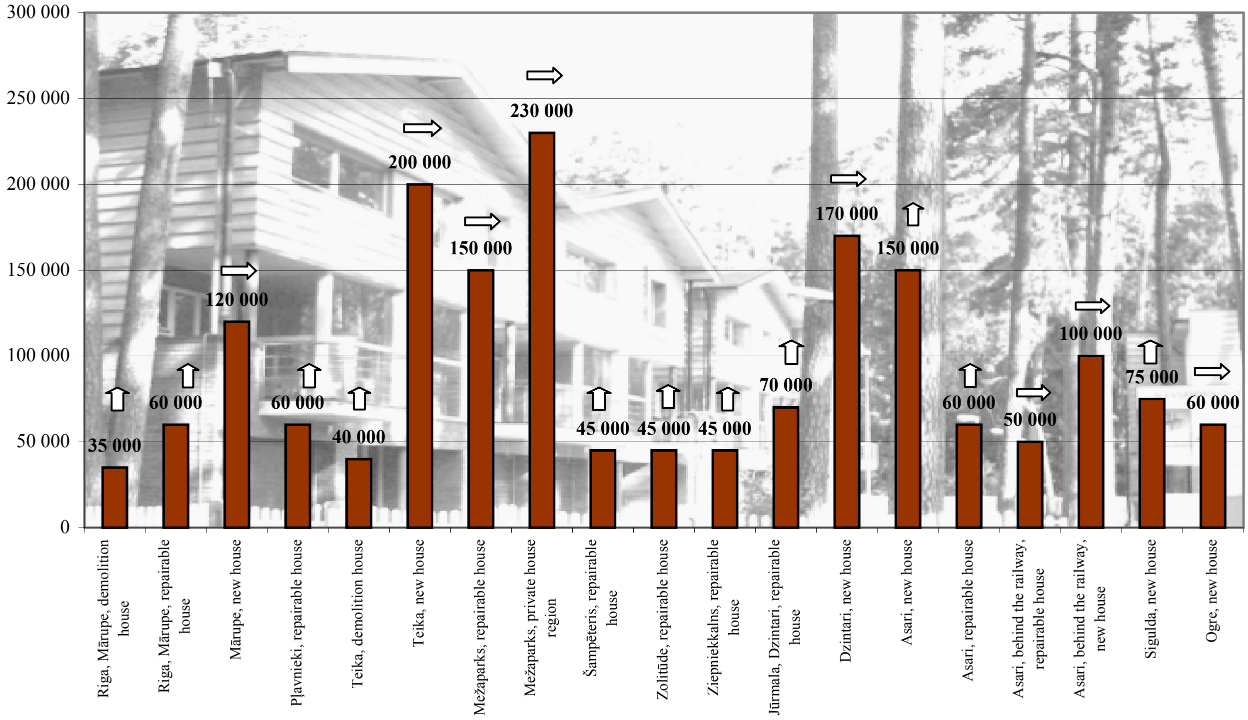
The activity in houses construction in the directions of Ķekava and Saulkrasti is rather low, and this fact allows to forecast the development of these areas in the future.

By analyzing offers, and concluded transactions, the following categories of private houses may be singled out:

- houses in poor condition (subject to demolition or reconstruction). The characteristic feature of this category is its location in private houses area with already existing infrastructure. Depending on land area, access opportunities, and particular location within a housing area, the main part of price for property is formed of the value of land. Properties falling within this category are rather demanded, and at ever growing price. Depending on particular housing area, the prices amount to US$ 30,000 up to 50,000;
- small (up to 100 m^2) houses with simple decorative finish, in which it would be necessary to perform internal repair works. For the most part, such houses are offered in Pļavnieki, Purvciems, Mežciems, Zolitūde areas, they are built in 50ies and 60ies. The average prices amount to US$ 50,000 up to 70,000;
- newly built houses with floorspace area of up to 200 m^2, featuring high quality materials used and internal communication lines. Within this category, the difference of prices is formed mostly by the location. The average prices amount to US$ 100,000 up to 180,000;
- newly built houses in private-house settlements. The most characteristic feature of such houses is tidy environment, level of security, and neighbours. The place of location forms very substantial difference in prices. Offering is rather large. The average prices amount to US$ 150,000 up to 250,000.

In currently commenced and planned private-house settlements, the total number of houses is now nearing 1,500 new houses. Having analyzed the course of sales, and compared it with the plans of project implementators as mentioned in press, we can draw an inference, that implementation of many settlements is protracted now by 2 to 3 years. As more and more new projects appear in this segment, providing for offering houses at lower prices, we can forecast, that several projects will go bankrupt, along with certain changes in currently offered houses of expensive projects.

Average price for the private house (land area till 1500 m^2) USD



Property in land (for construction of one-family houses).

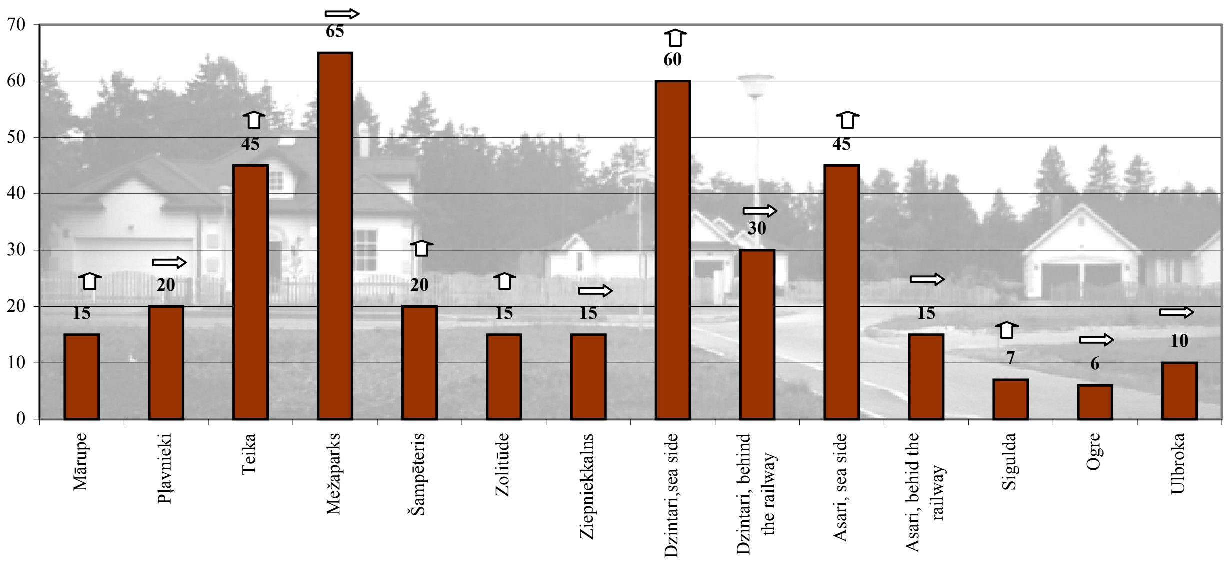
Demand for parcels of land intended for construction of private houses is continuously existing with upward trend. In especially high demand are parcels of land in the city territory, in areas of small-storied houses with well-developed infrastructure. In demanded areas (Teika, Mežaparks, Pļavnieki), the prices grow, because the number of offers ir small. Prices and demand for Vecāķi area increased, for land in streets close to the seashore up to US$ 30 to 50 per m^2, and in Buļļusala Island up to US$ 20 to 30 per m^2 for plots along the Buļļupe River. This ever increasing demand for plots of land is conditioned by the possibility of performing construction according to one's wishes and financial abilities, possibility of performing construction in multiple stages, thus making step-by-step investments in property.

Demand for parcels of land outside private-house settlements of Riga is rather unstable. In particular settlements, price for land reduced by 15 to 20 %, and as an exception "Ezerkrasts" private-house settlement at the Sunīši Lake should be mentioned, where the price for land, compared with that fixed at the beginning of trading, increased, and presently, depending on the location of plot of land within the territory of settlement, amounts to US$ 18 to 35 per m^2. Having analyzed changes in prices for parcels of land in private-house settlements, we can draw an inference, that the determinant factor of price is the level of improvement of a settlement, location at waters (on the shore of a river or lake), existence of relief and trees.

Still increasing is demand for parcels of land in Jūrmala, especially in the streets close to dunes. Prices grew for Melluži – Asari area across the railway, where its is possible to acquire large in the sense of their area plots of land, 3,000 m^2 and more for comparatively low price: presently, for US$ 6 to 15 per m^2. As there do not exist any particular difficulties with construction rules regarding private houses in this part of the town of Jūrmala, we can forecast, that prices in this area will continue to grow in the future, too.

Offered are many plots of land in the dunes zone, with area of 3,000 up to 6,000 m^2, and selling price at about US$ 80 per m^2; however, the demand is low, because the parcelling out of such plots is frequently impossible, and, therefore, construction of new houses is restricted.

Average land price for the family house building (area 1500 m²) USD/m^2



Property in land (for construction of industrial and public buildings).

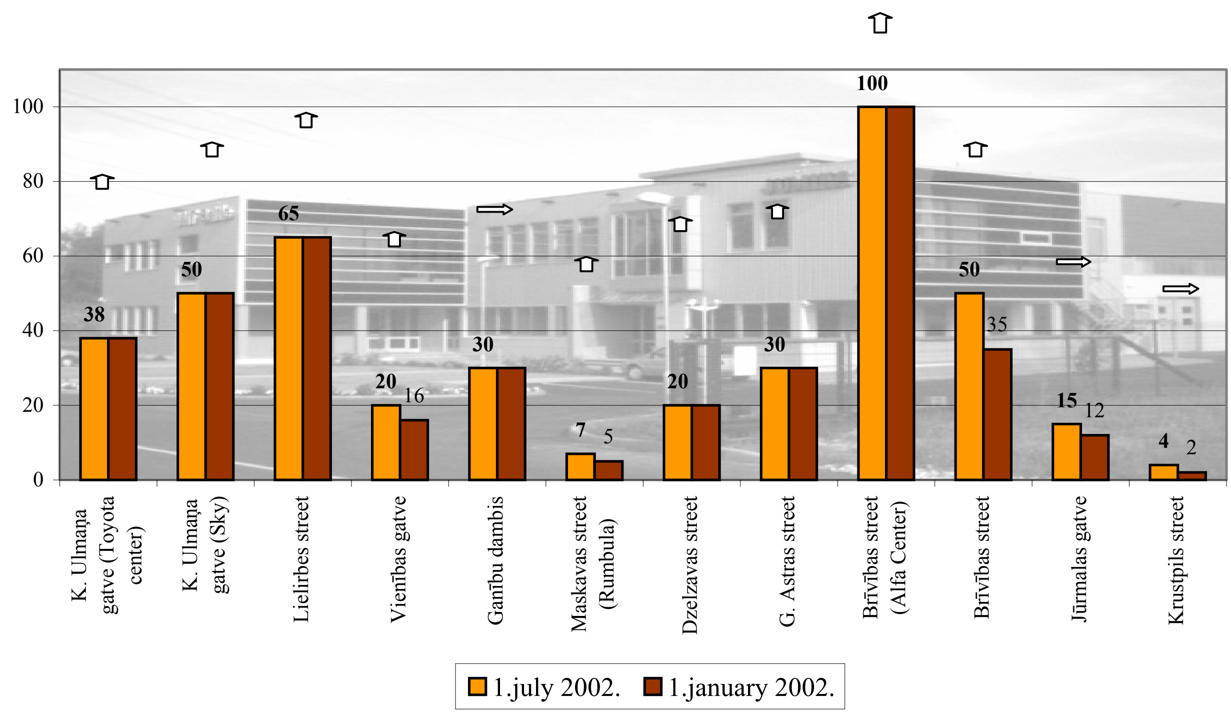
Demand for plots of land fit for commercial construction is stable, and especial attention is attracted to the plots located close to the main traffic roads and in central parts of housing estates. The most demanded are plots of land in K.Ulmaņa gatve Street, Lielirbes Street, Krasta Street, Maskavas Street, Brīvības Street, and also in central streets in Purvciems and Ziepniekkalns, not to mention the central part of Riga.

The acquired plots for the most part are used for construction of shopping centers, sport centers, and car servicing establisments. The average area of the acquired plots is 5,000 up to 20,000 m^2. The trend observed in the previous year confirmed itself, that prices for parcels of land increase drastically in immediate vicinity of new commercial objects, such as “Alfa Centrs” Hypermarket in Brīvības Street, where prices for plots of land increased from US$ 50 to 100 per m^2, and “SPICE” Shopping Center in Lielirbes Street, where prices increased from US$ 25 to 60 per m^2. Prices for parcels of land in Pļavnieki increased by 15 to 20 %, specifically, in A.Deglava Street, G.Astras Street, and Darzciema Street, and presently they amount to US$ 25 up to 40 per m^2. Invariably high prices are seen in the central part of Riga, in the following street-crossings:

- close to Central Railway Terminal, in crossing of Satekles Street and Dzirnavu Street: US$ 250 to 400 per m^2;
- in K.Barona Street, the land under shopping centers now costs US$ 380 to 650 per m^2.

The concluded transactions in acquisition of land are, as a matter of fact, aimed at construction of of new trading objects.

Land price (for commercial buildings) USD/m^2



<u>Sales areas market</u>.

The 1st six months 2002 are characterized by apparently slower growth of new sales areas; however, notwithstanding rather large supply of sales areas, the demand for new, high-quality premises did not lessen. During 2001, “Rimi”, presently the largest chain of food supermarkets, continued to expand, the said chain taking over the former “Interpegro” chain of food supermarkets; also, “VP Markets” chain of food stores of Lithuania and “Mego” chain of food stores expand rapidly. With opening of “Spice”, large shopping center, the enterprise “Kesko” of Finland commenced its active operations. In the last year, presently the largest shopping center – “Alfa Centrs” in Brīvības Street – was opened.

In spring 2002, the 2nd stage of “Alfa Centrs” was opened, and its total area now reached 37,000 m^2; construction of the 3rd stage is foreseen, too, and then the area of “Alfa Centrs” will reach 67,000 m^2.

During this year, “Mego Mix” Supermarket was opened in Krasta Street, and “Maxima” Hypermarket of Lithuania’s “VP Markets” chain. Reconstruction of “Mols” Supermarket is commenced, and “Stockmann” department store project launched close to Central Railway Terminal. The first supermarket offering exceptionally low prices – “Supernetto” – is opened in Saharova Street. However, the planned works in E.Preatoni’s center “Domina Shopping” still are not started, as well as in EKZ Project “Daugavas Centrs” in Krasta Street.

Along with development of food supermarkets, many supermarkets trading in manufactured goods and building materials started their activities, and also specialized supermarkets trading in machines and tools.

However, the last year will be characterized also by the first bankrupcy of supermarkets: in the end of year, “Krasta centrs”, one of the largest shopping centers, was ultimately closed, similarly to two building materials supermarkets “Polyplast”.

Also, recently opened “Spice” superstore in Krasta Street will change its shape, because its location in the background of the street does not provide the desired results.

Opening of large (up to 3,000 m^2 in area) shopping centers takes place also in central part of the city; for example, three shopping centers were opened in Kr.Barona Street during the last year. Having analyzed the demand for sales areas, we can draw an inference, that there exists stable, with upward trend, demand for premises in large shopping centers, but demand for separate store premises in Old Riga in central part of the city is lessened.

Along with increase in areas of new food supermarkets, the number of small food stores in central part of the city and in new housing areas reduces. The vacated premises are later occupied by enterprises engaged in servicing of population (different cafe, bars, hair-dressing and beauty salons).

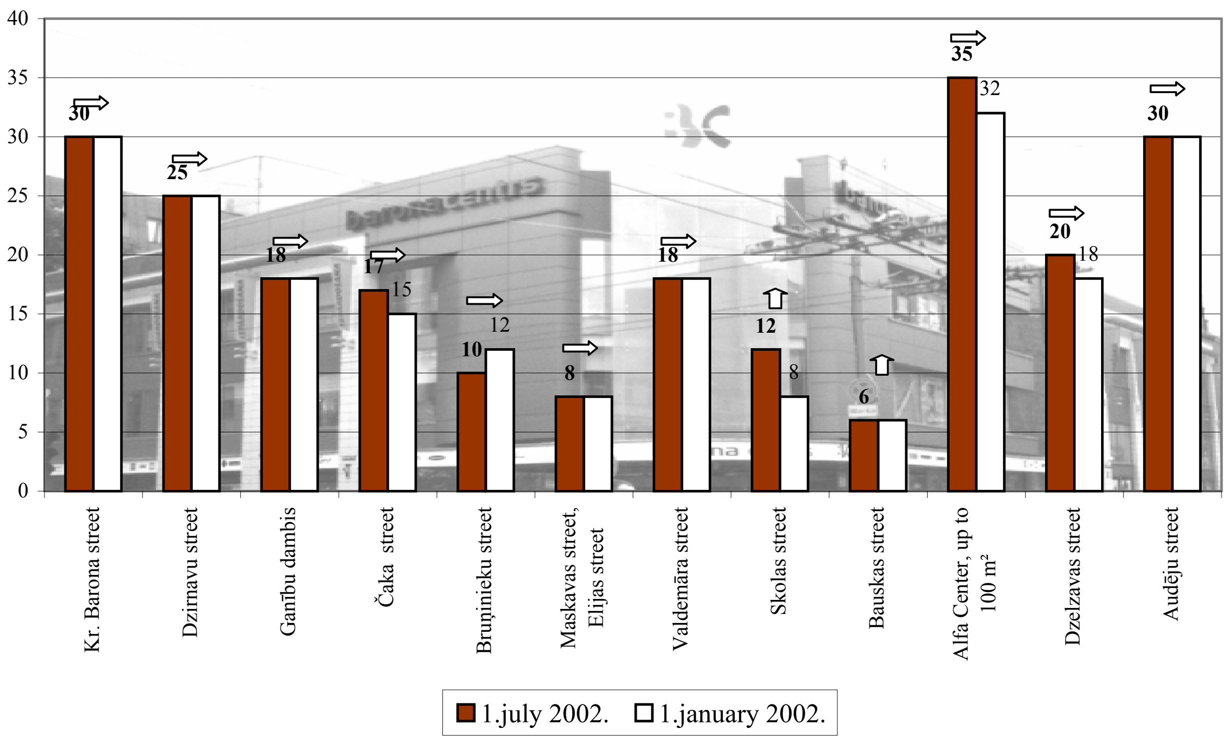
Presently, the most demanded places of location for supermarkets in the city of Riga are in Krasta Street, Maskavas Street and Brīvības Street, but in the direction of Jūrmala – Kalnciema Street, Lielirbes Street and K.Ulmaņa gatve Street, and also in the central blocks of new housing areas, such as Purvciems, Pļavnieki, Mežciems.

Having analyzed the number of transactions, we can draw an inference, that considerably larger part of sales areas market (about 70 %) is occupied by lease of sales areas, which is concentrated for the most part in large shopping centers; in its turn, the portion of selling sales areas is only 30 %, and for the most part such transactions are concluded regarding the premises in central part of the city.

The average rentals, depending on location of premises and their condition, are as follow:

- *premises in large shopping centers, depending on their area:-*
  - area up to 30 m^2 — US$ 30 – 50 per m^2
  - area 30 up to 100 m^2 — US$ 20 – 40 per m^2
  - area over 100 m^2 — US$ 8 – 30 per m^2
- *premises in central part of the city:-*
  - in main streets (Barona, Tērbatas, Čaka, Brīvības) — US$ 25 – 45 per m^2
  - in cross-streets — US$ 15 – 25 per m^2
  - in periphery of the central part — US$ 6 – 10 per m^2
- *premises in Old Riga:-*
  - in main streets (Kaļķu, Vaļņu, Audēju, Smilšu) — US$ 20 – 35 per m^2
  - in cross-streets — US$ 8 – 25 per m^2
- *premises in housing areas:-*
  - in the center of housing area — US$ 8 – 22 per m^2
  - outside the center — US$ 5 – 12 per m^2

Rent price for commercial space USD/m^2





Lease of office premises.

Lease of office premises, as a segment of real estate market, still is unstable. Along with opening of new, specially built office buildings, construction of separate office areas in the buildings located in central part of the city continues. The general level of rentals continues to fall; however, the demand for such premises is rather stable. The most recently demanded are the following categories of office premises:

- the highest class office premises, with air conditioning, permanent connection to Internet, availabillity of negotiations and conference halls, and car parkings;
- separately located, small office buildings for one lessee, with closed adjacent territory for car parking.

Due to the fact, that there are scarce free territories in the central part of Riga, where new buildings can be erected, many dwelling houses of the pre-war period are adapted to the needs of offices. For the most part, these houses do not fit to the needs of offices. Due to large supply, the level of rentals for office premises existing in such houses fell during the last year by approximately 20 %.

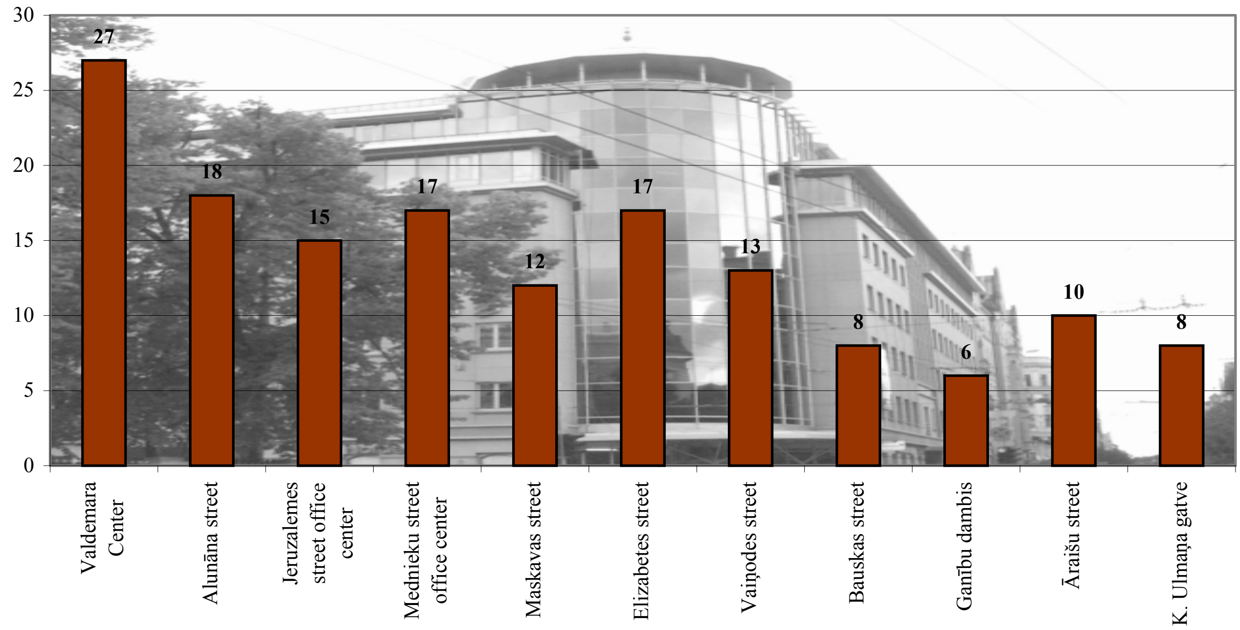
Such step-be-step decrease in prices offered in office premises market is in many senses promoted by projects for reconstruction of the former industrial premises, as more and more cheaper credits influence also costs for renovation of such buildings, and this further echoes in the rentals for office premises, which the office premises segment already existing in market must reckon with, even against its will. As presently in Riga several projects of such shape are under way, also for the future we can forecast step-by-step slow reduction of rentals for office premises.

Increasingly more and more popular become also offices located outside the central part of Riga, this caused by convenient access by personal motor vehicles, and existence of convenient car parkings, which still is rather grave problem in central part of the city. So, office and trading center was commissioned latterly in Maskavas Street, as well as office buildings in Ganību dambis Street, Skanstes Street, and in K.Ulmaņa gatve Street, too. Based upon such positive experience, we can forecast, that within the nearest years also other such office centers repaired according to modern standards may well appear outside central part of the city.

Rentals for office premises in Riga:

- Repaired "A" and "B" Class premises in business centers in downtown Riga:
  US$ 16 – 27 per m^2 (US$ 17 per m^2 on the average);
- Repaired "A" and "B" Class premises in business centers outside downtown Riga:
  US$ 11 – 18 per m^2 (US$ 14 per m^2 on the average);
- Repaired premises in ground floors of dwelling houses, or in separate one-storey or two-strorey buildings in central part of the city:
  US$ 7 – 15 per m^2 (US$ 10 per m^2 on the average);
- Repaired premises in ground floors of dwelling houses, or in separate one-storey or two-storey buildings outside central part of the city:
  US$ 4 – 11 per m^2 (US$ 6 per m^2 on the average);
- Unrepaired premises in central part of the city:
  US$ 4 – 8 per m^2 (US$ 5 per m^2 on the average);
- Unrepaired premises outside central part of the city:
  US$ 2 – 6 per m^2 (US$ 4 per m^2 on the average).

Rent price for office USD/m^2



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