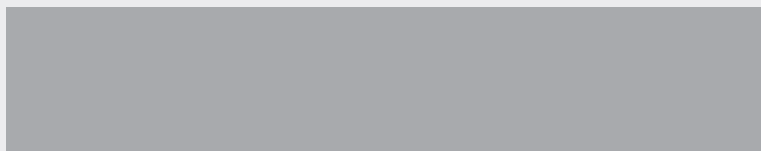




**LATVIAN REAL ESTATE
MARKET OVERVIEW,
2008**



GENERAL INFORMATION, TAXATION

Population in 2008 (m)	2.3
Area (thousand km²)	65
Capital City	Riga
Population in Capital Cities in 2008 (thousand)	717
Population in Capital Cities (%)	32%
Largest Cities in 2008 (no. of inhabitantsthousand)	Daugavpils: 106 Liepaja: 85 Jelgava: 66
GDP (MEUR)	19 860 (2007)
GDP growth (%)	-4.7% (Q3 2008)
Inflation rate (%)	15.8% (Q3 2008)
Unemployment rate (%)	7.2% (Q3 2008)
Gross Salaries (EUR per month)	692 (Q3 2008)
Personal income tax	23% (from 01.01.2009) 15% (business income)
Corporate income tax	15%
VAT (general rate)	21% (from 01.01.2009)
Land tax	1%
Property tax or building tax	1%
Currency, exchange rate	LVL (1 EUR = 0.7028 LVL)

Tax rates remained unchanged in 2008. However, in connection with approval of the economy stabilization plan by the Parliament, a number of normative acts including also tax rates were amended at the end of 2008; the new tax rates came into effect on January 1, 2009.

Tax rate changes in Latvia		
	2008	2009
Value added tax (VAT)	18%	21%*
VAT reduced rate	5%	10%*
Personal income tax (PIT)	25%	23%*
Excise tax imposed upon alcohol and alcoholic beverages/ for 100 litres absolute alcohol	630 LVL	825 LVL**
Excise tax imposed upon wine/ for 100 litres	30 LVL	40 LVL**
Excise tax imposed upon coffee/ for 100 kg	50 LVL	100 LVL**
Excise tax imposed upon non-alcoholic beverages/ for 100 litres	2 LVL	4 LVL**
Excise tax imposed upon lead-free petrol/ for 1000 litres	228 LVL	269 LVL** (increased by 18,0%)
Excise tax imposed upon diesel fuel/ for 1000 litres	136 LVL	164 LVL** (increased by 21,2%)
Excise tax imposed upon kerosene/ for 1000 litres	193 LVL	234 LVL** (increased by 21,0%)

*Tax rates in effect from 01.01.2009.

** Tax rates in effect from 01.02.2009.

*** Source: Ministry of Finance

RESIDENTIAL PREMISES

In 2008, a rapid apartment price decrease was observed. This resulted in a rapid decrease of the demand, and a price decline in all the real estate sectors. The apartment prices decreased by 35% in general from the beginning of 2008.

The main factor that influenced the real estate market in 2007 was the amendments to the law adopted by the Parliament of the RL in connection with the anti-inflation plan. Several laws and regulations were amended also in 2008, in order to reanimate the real estate market. In 2008, the Consumer Rights Protection Law was amended so that the precondition for obtaining of a credit that 10% of the property price should be paid by the credit taker himself was deleted. However, the law still contains the provisions stating that if a real estate is used as a security for a credit, the credit amount granted by a bank cannot exceed 90% of the property value. A credit equivalent to 100% of the property value may be granted only in the case if the real property value does not exceed the amount of 100 minimum monthly salaries, which today amounts to 16 000 LVL. Thus, reduction of the real estate prices will create better and better possibilities to buyers to purchase real estates without having necessity to make the first payment to the banks. The policy of the banks towards credit takers is strict and exacting so that the banks grant credits amounting only to 60-70% of market value of real estates.

The uncertainty in the real estate market and the serious economical situation in the country are the reasons why all the market actors have taken an expectant position. Many buyers are waiting for a bigger price fall; sellers are waiting for a new price increase, but developers of new projects freeze or postpone the planned projects till the moment when the situation in the real estate market will stabilize.

In 2008 the following fact has found full confirmation: the new project market, like the whole real estate industry, entered a phase which is opposite to the development and which may be called stagnation.

Having analyzed the gradual price decrease in the new project segment during the reporting period, we can see that already at the end of 2008 it was 30 - 40% in average. (The analysis concerned not only the statistics of the supply where the price level had been higher but also the real transactions completed in 2008.) Competitive price of one square metre of a 2 - 3 room apartment with full interior decoration and located in an economical class project was 1300 -1500 EUR at the end of 2008.

RESIDENTIAL PREMISES

Apartment prices in different districts of the capital, EUR/ m²

Riga	
Old town:	1800 - 2400
City centre:	
New	2300 - 4500
Secondary market	950 - 1700
Suburban areas:	
New	1300 - 1500
Secondary market	800 - 950

Average rental price, EUR/ m²/ month

Riga	
New premises	4.5 - 8
Old premises	Up to 1.5



Riga, Bišumuiža

LAND MARKET

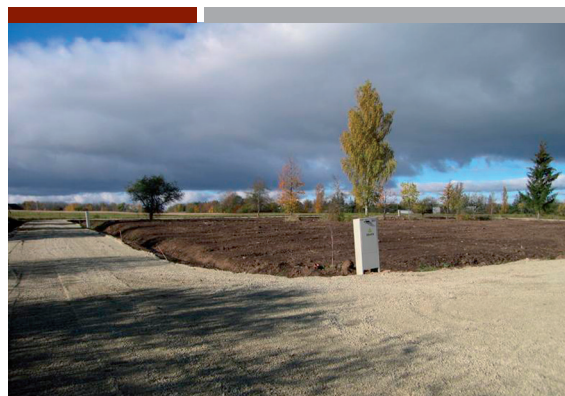
The land market of Latvia was rather inactive in 2008; the number of transactions completed was significantly reduced, also the number of offers was relatively low. In the result of this, the prices of the land lots intended for private building were reduced. The reasons of the land plot price level decrease were connected with implementation of the anti-inflation plan, which envisaged also a change of the crediting policies in the whole country (more restricted access to credits for persons having non-declared incomes). Other circumstances that affected the land price in the market were: the high inflation level in the country, the complicated process of obtaining of a co-financing from credit institutions, the apartment price level decrease and other factors.

The activity of buyers in the land market was reduced also due to the constantly increasing construction costs. The reason of this was the fact that a lot of previously started projects were finished in the beginning of 2008 but the number of new projects is constantly decreasing. In the current market situation when there is no demand for new house projects, also the construction volumes are being smaller and smaller. In 2008 construction of shopping centres and service objects was the sole sector of stable development.

An analysis of the prices of land plots intended for private building showed that the prices decreased by 34% in 2008 in comparison with the previous year. But if the private building land prices observed in Riga

District on December 31, 2008 are compared with those of December 31, 2007, we can see that the prices are by 34% lower in average.

The previous interest of buyers in purchasing of land began to decline along with the worsening of the economic situation. However, buyers who will build private houses, prefer land plots in the Riga District, located not far from the Riga City centre, offered at a relatively low price and situated in an attractive landscape.



Land plots with communications

Residential land prices in the district of Riga, 1 January 2009, EUR/ m²

	Land plots up to 1800 m ²			Land plots from 1800 to 3000 m ²		
	Minimal value	Typical price	Maximal value	Minimal value	Typical price	Maximal value
Ādaži	20	34	75	25	30	65
Babīte, Kleisti	30	45	75	25	35	60
Baloži, Titurga	25	45	70	20	40	65
Garkalnes pagasts	28	50	90	20	40	85
Jaunmārupe	30	35	50	25	30	45
Ķekava	20	40	60	15	35	45
Lielais and Mazais Baltezers	45	75	150	45	65	110
Mārupe	30	47	70	20	40	65
Olaine, Jaunolaine direction	22	33	45	20	25	40
Rāmava, Katlakalns	30	50	80	20	45	70
Salaspils	25	30	60	20	30	50
Stopiņi	25	38	50	20	30	45
Piņķi	40	50	80	35	47	75
Ulbroka	28	35	65	25	30	60

Source: Arco Real Estate

OFFICE PREMISES

In 2008, the office market was one of the most active segments of the real estate market, and this segment had been to a certain degree more active than in 2007.

In 2008, there were commissioned several significant office buildings, such as, *Unity Business Centre*, *SWH biznesa centrs*, *Upmalas biroji* etc. It is planned to commission a number of office buildings, such as *BUMBIERIS*, *EUROPA*, *M80*, *Kārļa Ulmaņa project* etc., also in 2009.

In 2007, enterprises built office buildings mostly for own needs because they could not find buildings that met their requirements (for example, *Parex Bank*, *Kesko Agro administration centre*, *Rietumu Bank*, new headquarters of the Ministry of the Interior); but in 2008 the majority of the projects were supported by foreign investors.

In 2008, the total planned area of modern office premises amounted to 140 000 m². Projects commenced in the beginning of 2009 show that the area of the office premises to be built in 2009 also will be impressive.



SWH business centre



Duntēs nami

OFFICE PREMISES

Key figures of office premises

Riga

Average rental price

Class A, EUR/ m²/month 8 - 16

Class B, EUR/ m²/month 5 - 12

Average vacancy (Class A office) 10 - 15%

Prime yield (Class A office) 7.5 - 10%

Office space rent levels in Riga (prices indicated in EUR/m²):

	Class A		Class B		Class C
	Rigas centre	Riga periphery	Rigas centre	Riga periphery	Riga (office premises outside centre)
at the end of 2006	16 - 26	15 - 20	9 - 18	6 - 13	3 - 6
1st half of 2007	17 - 25	15 - 20	12 - 18	8 - 14	7 - 10
at the end of 2007	18 - 23	14 - 20	14 - 20	8 - 16	7 - 12
1st half of 2008	16 - 20	16 - 18	10 - 12	9 - 11	6 - 12
at the end of 2008	10 - 18	8 - 14	7 - 12	5 - 9	3 - 6

Source: Arco Real Estate

RETAIL PREMISES

No one new shopping centre was commissioned in Riga in 2008, and first changes will take place only in 2009 when according to the plans two shopping centres – *Cube City* and *Riga Plaza* will be commissioned; it is also planned to open a new interior article and furniture store *Alfa Home centres* in the shopping centre *Alfa*. Bigger changes in this sphere will take place first in 2010 when the *Linstow* retail park and two large shopping and entertainment centres developed by *VP Akropolis* will be launched in the market.

A lot of stores including stores selling exclusive goods were closed in the central part of Riga in 2008. This time has been difficult also for lessors of retail premises, who are forced to reduce the rent amounts in order to retain the existing tenants or find new ones. There are rather a lot of vacant premises in the central part of Riga offered for rent. This situation, obviously, will not change in the nearest future, in any case, while the overall economical situation would not get better. In 2008, the average rent of premises located in high pedestrian intensity streets of the central part of Riga was from 25 to 48 EUR for one square metre; in the central streets of the Old Town – from 30 to 60 EUR for 1 m².

Shopping centres with high pedestrian flow play an increasingly significant role in this sphere; such centres will have perfect development opportunities also in the future, by extending the existing areas.

RETAIL PREMISES

Average rental prices EUR/ m²/ month in different districts of Riga city

Expensive streets	25 - 48
City centre	12 - 25
Trade centres	10 - 20
Old town	15 - 35

Average yield of retail premises 6 - 8%

Biggest shopping centres

Name	Space, m²
Domina	110 000
Spice	107 000
Alfa	56 000

INDUSTRIAL AND WAREHOUSE PREMISES

Presently, 34 logistics industrial parks are being operated in Latvia, and 23 of them are located in Riga or Riga District.

Industrial parks complying with the criteria of this category are: *Nordic Industrial Park* at Olaine, *NP business centre* in Riga, *NP business centre* in Jelgava, *Business Park SIVA* in Ogre etc. However, many industrial parks do not meet the modern requirements and have a number of imperfections, such as low ceiling height, inefficient arrangement, too big number of storeys, inconvenient loading/unloading facilities etc.

Development of the industrial project market and growth of the demand leads to an increased supply of high-class commercial projects intended for industrial purposes, in the result of which quality level of industrial premises is increasing.

Rental prices of industrial premises in the secondary market of Riga (Soviet-time production and warehouse premises) are from 2 to 5 €/ m², but the prices of warehouse and production objects fluctuate from 5 to 9 €/ m².

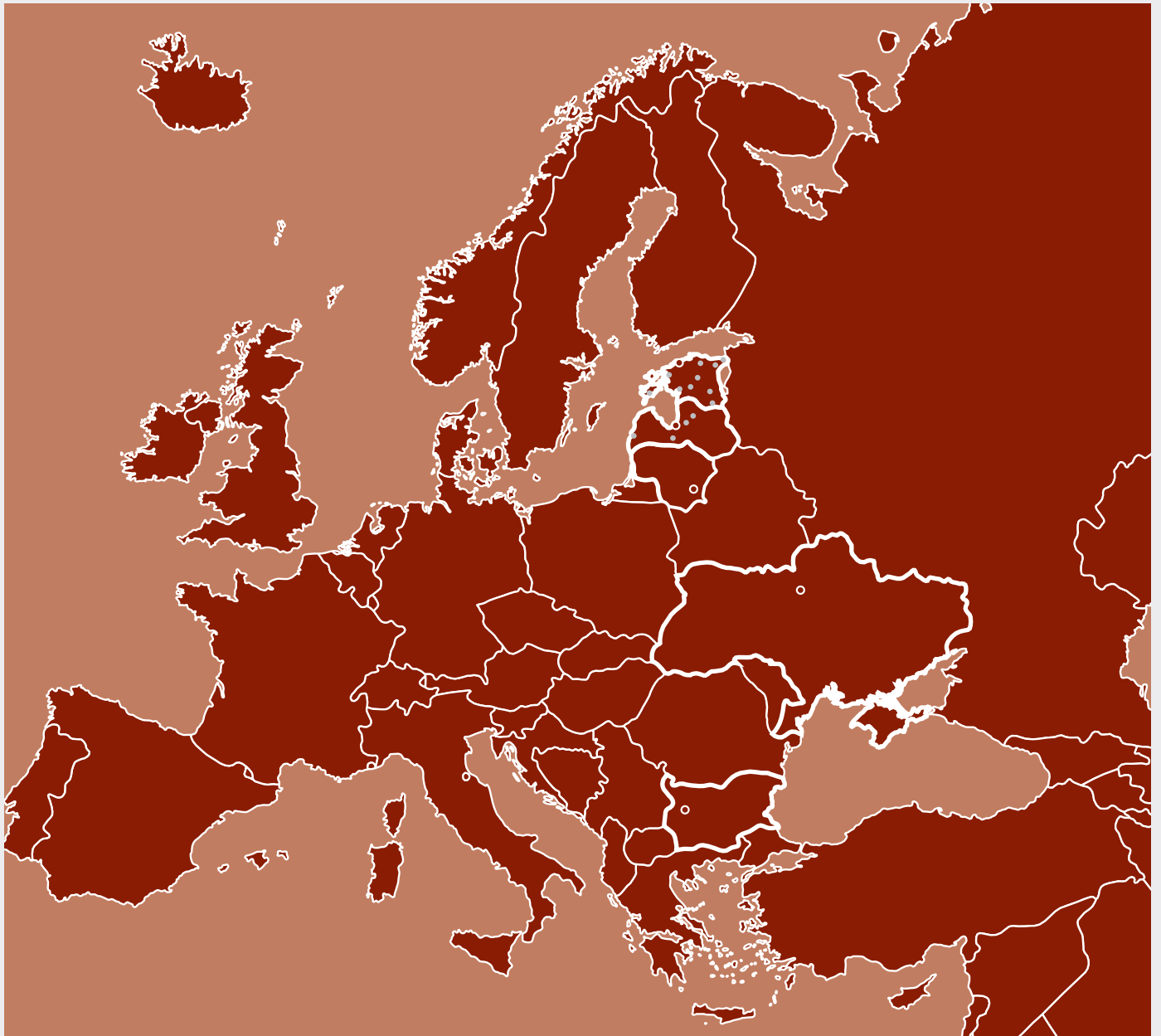
Rental of production and logistics premises at the end of 2008 (EUR/ m²)

Average rental prices EUR/ m²/ month

New warehouse premises in Riga	58
New warehouse premises in surrounding areas of Riga	4.57
Renovated warehouse premises in Riga	3.55
Old warehouse premises in surrounding areas of Riga	1.53



Trading and warehouse centre
Purvciems, Dzelzavas street



 www.arcoreal.lv

