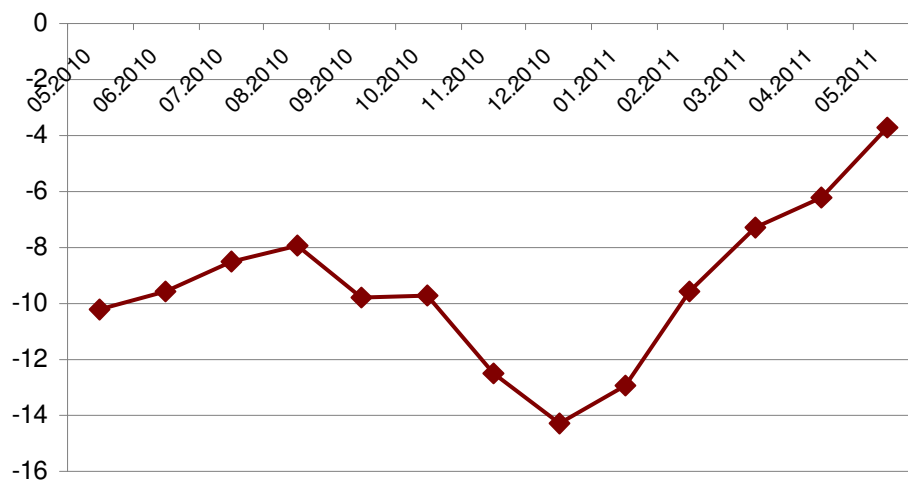


### Office space

A characteristic feature of the office leasing market in the second quarter was absence of significant changes in the rent level, with a small upward trend. The anticipated office rental price stagnation in the B and C class office segment is based on the low solvency of companies and uncertainty about future business growth opportunities.

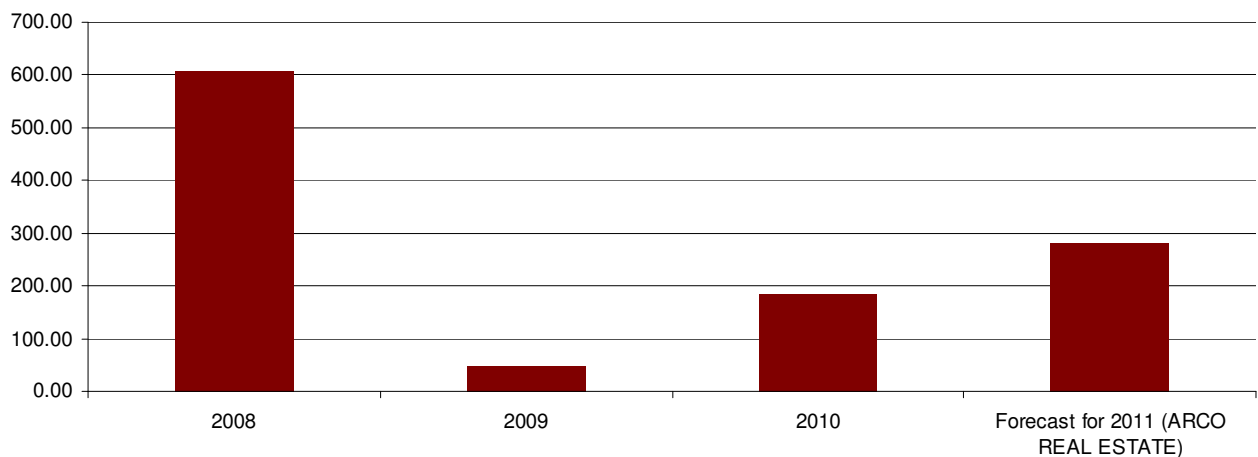
Demand for offices is dominating mostly in the segment of relatively small offices. The highest demand is observed in the segment of offices with the area from 50 to 100m<sup>2</sup>. Small offices are searched for both in the city centre and in relevant manufacturing or warehouse buildings or their surroundings. Office searching activity is strongly dependent on both the economic development of the country, and the business sentiment and development plans.

**ECONOMIC SENTIMENT INDEX OF THE RL (data of the CSB of the RL)**



- **Economic sentiment index** - a weighted average of the manufacturing, construction, retail, service sector and consumer confidence indicators.

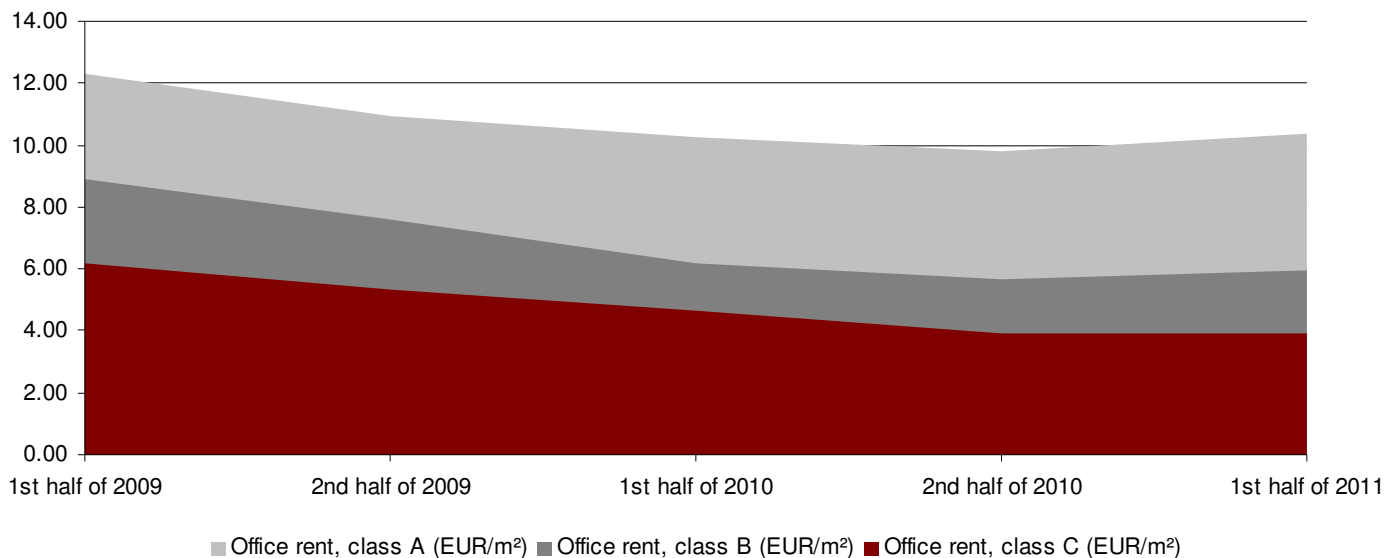
**Direct foreign investments received during the period, million LVL (data of the CSB of the RL)**



Foreign investors' investments now play a major role in economic integration processes. Currently, when the co-financing of the development of enterprises by the banks is limited in our country, business growth will be determined by confidence of investors in the country's growth scenario. Latvian economic development is unlikely to be rapid, since it depends on the national economic development dynamics of European countries.

More pronounced upward trend in rents is being observed just in respect of the class A and B+ offices, because the available office space is gradually decreasing. Those office buildings, which have been chosen by tenants because of their advantages, such as site reputation, management fee and public utilities charge levels, car parking possibilities, are being occupied most rapidly.

### Office rent levels in Riga



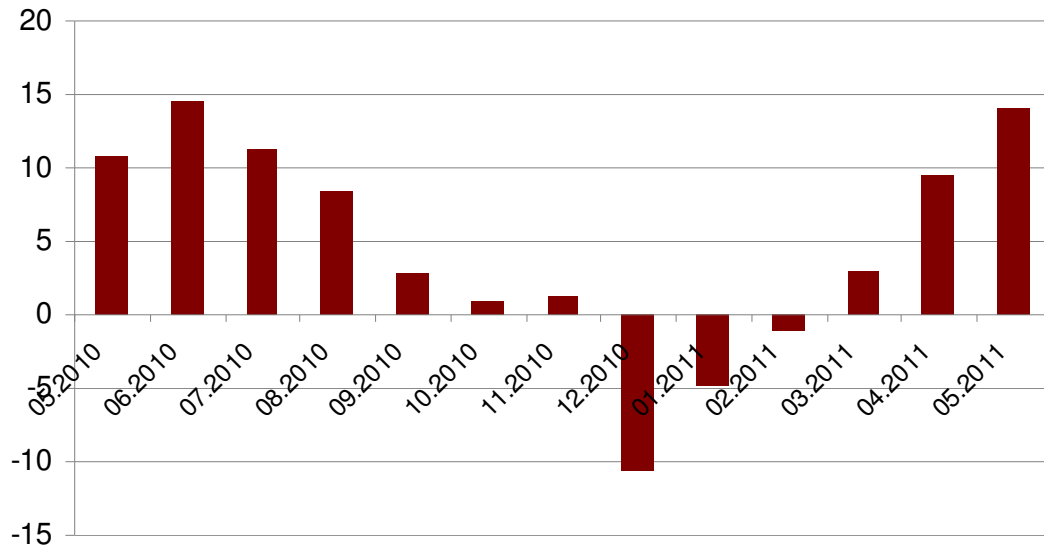
Source: ARCO REAL ESTATE

Investors seem to think that it is too early to plan construction of new offices, because the rent levels in comparison to the construction costs amounts are relatively low and do not give hope for more than 5-7% rental growth in the foreseeable future. Investors have expressed interest in buying existing office buildings on the condition that not less than 60-70% of the areas are leased out and the purchase price level provides at least 7-8% yield. It should be noted that today a large part of the offer office buildings offered does not meet these criteria; therefore, they are not attractive to investors. The situation can improve gradually and over time.

### Retail space

Demand for retail space has a pronounced seasonality, with a tendency to find a rental area for organization of catering and entertainment arrangements during the summer months. Thus, the spring turned out to be challenging for companies that wanted to find suitable commercial premises adequate rent levels on the main pedestrian streets in the Old Town, or on Riga's most recognized streets near the city centre. Percentage of free retail spaces in the most demanded urban areas is in the range from 3% to 5%.

### Confidence indicator in retail trade (data of the CSB of the RL)



- **Confidence indicator** in retail trade reflects the mood of the market participants and their trust in sector and the national economy.

Most recognized retail space rent levels tend to rise by an average of 8% per annum, with the upcoming trend of growth to continue at a similar level over the several next years.

There was observed high interest of investors in acquisition just of most demanded retail spaces. Comparing the last winter months with the corresponding period of the previous year we can see a lower tenant turnover. Thus, predicting economic growth, it can be concluded that investors will be mostly interested in the retail spaces situated in the most recognized shopping places.

#### ***Industrial and warehouse premises***

Small, but steady demand has been observed in the market of premises leased out to processing industry. Most demanded are low-rent premises, which meet the criteria, which vary depending on the specific requirements of the lessee. Low rent means the level of 1-2 EUR/sqm for non-heated rooms with the possibility to install individual heating units. Most demanded improvements are: loading ramp, level concrete floor, moderately high ceilings (3.5-4.5m), increased electrical power supply capacity (> 100kW) connection options. In some cases, unusual configuration of buildings and infrastructure is requested to ensure rational use of the lease object. A characteristic trend among tenants is, taking into account the heating costs of the previous winter months, to look for opportunities to develop their own individual heating solutions using, for example, chip or pellet boilers.

Rent level of heated warehouse space (2.5-4 EUR/m<sup>2</sup>) is stable with minor changes compared to the same period of the last year.

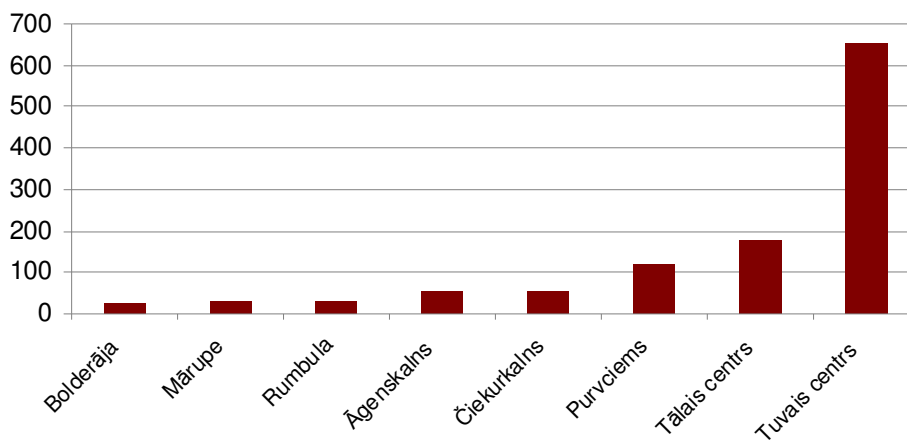
Investors are interested in renovated industrial spaces that are built without using bank loans and meet quality requirements of investors regarding minimum criteria of technical condition of surrounding areas and premises.

## Commercial land

### Mixed building areas

Demand for mixed building areas can now be evaluated as moderately low, but with the tendency to grow. Despite the small number of transactions, according to the data available to ARCO REAL ESTATE, it can be noted that the price level which might be interesting for the demand, frequently is by 20-40% lower than the prices of properties offered. In particular, this trend is observed in respect of land plots offered in Riga and located in the near and distant city centre. In many cases, this is caused by too optimistic hope of land owners in interest from the part of investors, which does not correspond to the current development of the economic situation.

**Average price (EUR/m<sup>2</sup>) of land plots offered for sale in mixed building areas.**



Data: ARCO REAL ESTATE

### Agricultural land

A characteristic feature of the agricultural land market is the very low rate of offers of land plots larger than 50ha. This situation is caused by the active purchasing trend of free land plots during the previous years, as well as by the stable demand price, which ranges from 700 to 1500 LVL/ha depending on soil fertility and the size of the plot offered. In Zemgale region, the agricultural land prices are higher, i.e., 1500-2500 LVL/ha. The price of larger land plots with an area of over 50 ha may be by 20-35% higher.