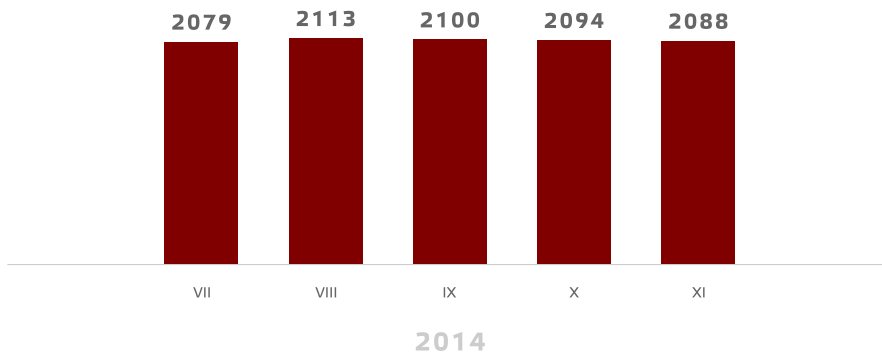


APARTMENTS IN THE RIGA CITY CENTRE NOVEMBER

Apartments in the Riga City centre

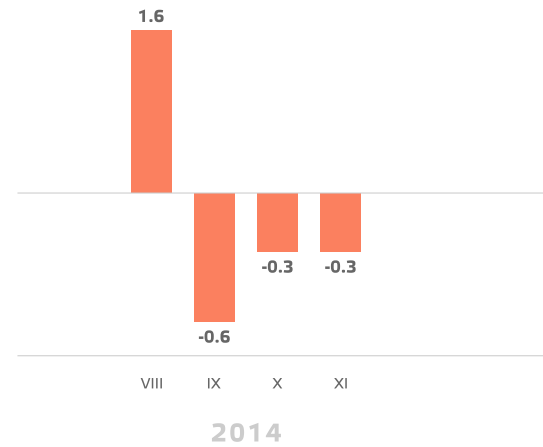
In November 2014, the prices of apartments located in the Riga City centre decreased by 0.3% but the total autumn season price fall s 1.20%. The average price of an apartment located in the Riga City centre has now reached the position of 2088 EUR/m².

Movements of the average price of an apartment located in the Riga City centre, EUR/m²



Source: ARCO REAL ESTATE

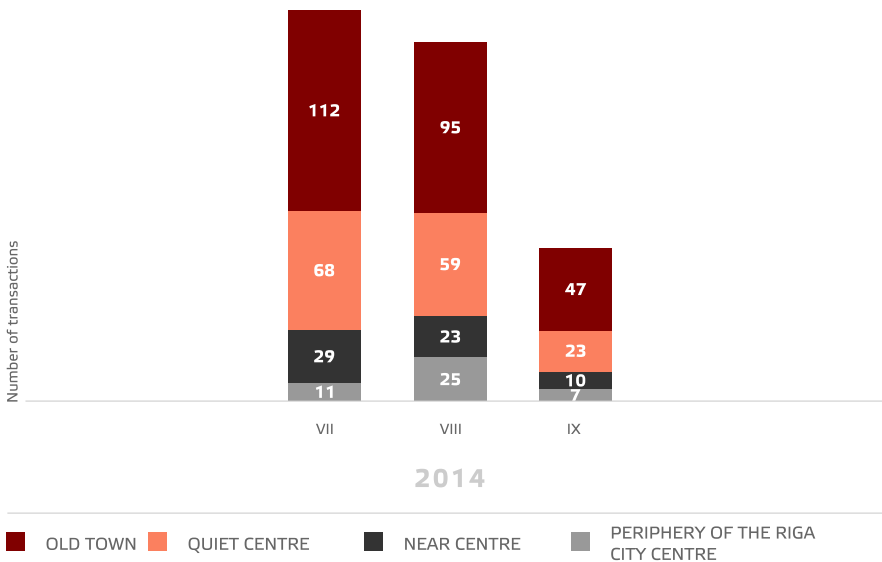
Changes in prices of apartments located in the Riga City centre, %



Source: ARCO REAL ESTATE

Price fall in the autumn months was mainly caused by the shrinking demand, which took place in the result of coming into effect of the amendments to the Immigration. This in turn led to diminished interest from the part of non-residents who, through the acquisition of property, wanted to secure the possibility of obtaining a temporary residence permit, because the new 250 000 EUR minimum threshold was too high.

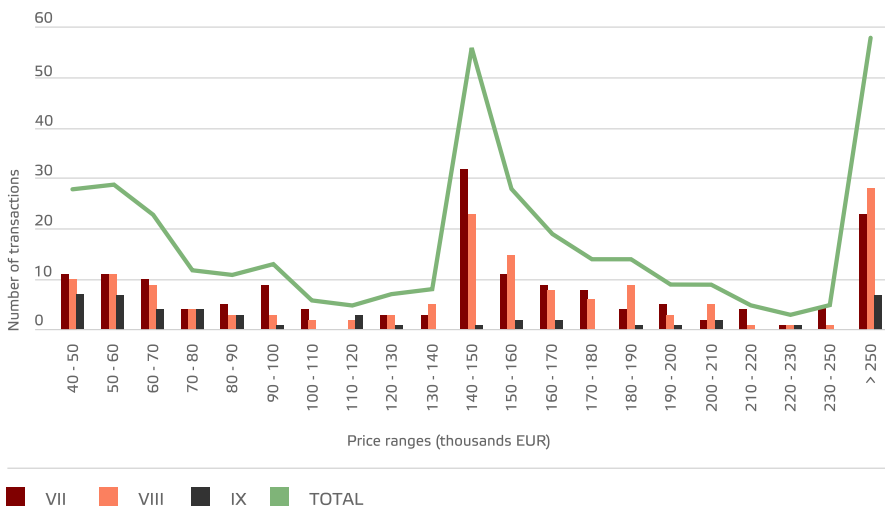
Changes in number of transactions with apartments located in the Riga City centre



Source: STATE LAND SERVICE

This relationship was also confirmed by the fact that in September, when the amendments to the law came into force, the number of transactions with apartments in the city centre decreased significantly (-57%). Looking at the changes in the number of transactions by the price range, it is evident that the greatest reduction was observed in the price range of 140 000 EUR - EUR 150 000, and in September, an unusually large number of transactions in this price range was not seen. In September, the number of transactions in the amount of up to 140 000 EUR decreased by 36%, but in the amount of above 140 000 EUR - by as much as 83%.

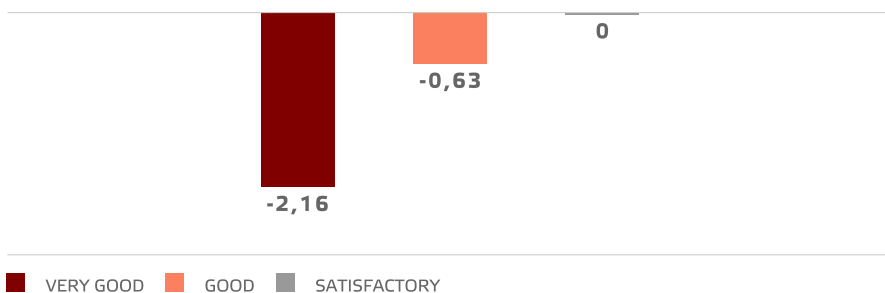
Breakdown of number of transactions by price ranges, 2014



Source: STATE LAND SERVICE

Also fact that the most significant price decrease (-2.16%) concerned apartments in very good condition shows that the Immigration Act amendments served as the main reason for the price decline. Since most foreign nationals wanted to buy a property with a good interior decoration for immediate living, without additional time and financial investments, apartments of this quality class were most demanded in the non-resident sector.

Overall price changes of the city centre apartments in the autumn months (2014), by technical condition, %

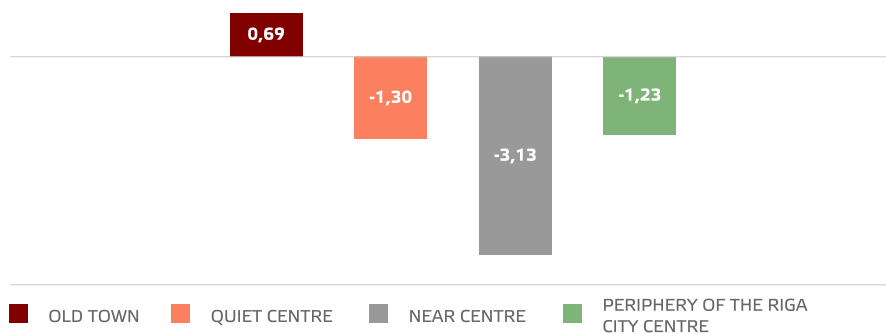


Source: ARCO REAL ESTATE

As to location, the largest decline in the number of transactions was seen in the city centre area (the so-called "near centre"), where in September there were registered by 64% fewer transactions than in the previous two months on average. In this part of the city centre in the autumn months there was also observed the biggest price decrease (-3.13%), which corresponded to the expectations given the fact that the largest proportion of transactions for an amount in excess of 142 300 EUR, but less than 250 000 EUR was registered just in this part of the city centre.

The Old Town was the only part of the city centre where in the autumn months there was observed increase in prices (+0.69%). This can be explained by the fact that the demand for apartments in the city centre part has historically been more stable. Being aware of the fact that supply of housing of historical value is currently limited, the prices in the Old Town were less exposed to different market conditions. Also the fact that the value of a large part of the Old Town properties has achieved the threshold of 250 000 EUR threshold may be considered as a significant price increase, so that therefore the Old City was less exposed to the impact of amendments to the Immigration Law.

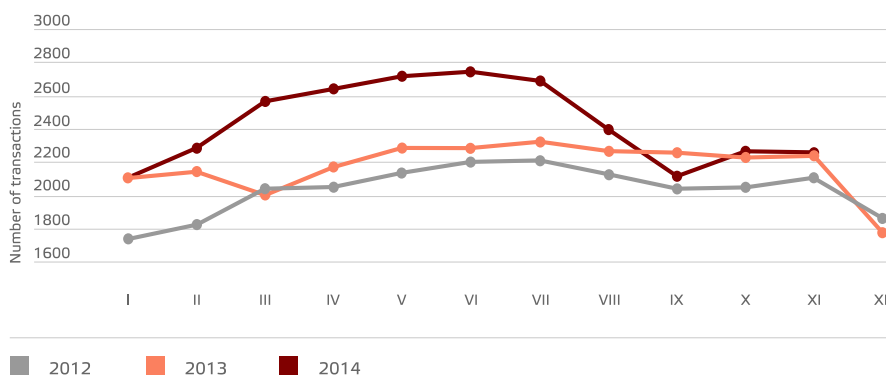
Overall price changes of the city centre apartments in the autumn months, by location, %



Source: ARCO REAL ESTATE

Looking at the changes in the supply of the city centre apartments it is evident that it has been more stable in the autumn months and has reached the previous year's level. Early in the year, in response to interest from the part of non-residents, also the supply of apartments had increased, however, due to the big number of transactions that took place in this segment in July and August, the supply decreased subsequently.

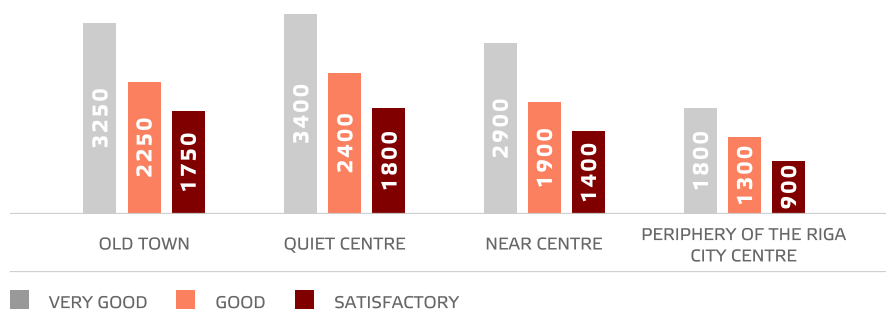
Dynamics of supply of apartments in the Riga City centre



Source: ARCO REAL ESTATE

Taking into account the circumstances and causes of the price decline, it is expected that a gradual price adjustment would continue. An increase of the number of transactions depends on the speed of adjustment of supply to the changes having occurred in the market.

Prices of one square metre of apartments located in the Riga City centre in November, EUR/m²



Source: ARCO REAL ESTATE



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In the periphery of the Riga city centre which consists of such neighbourhoods as Grīziņkalns, Avoti, Brasa and Pētersala, the apartment prices in the autumn months decreased by 1.23%. Average prices in November were around 900 EUR/m² for apartments in satisfactory condition, and around 1300 EUR/m² for apartments in good condition, while the price of apartments in very good condition was around 1800 EUR/m². Higher prices were observed for fully renovated buildings, for example, in Ernesta Birznieka Street No. 18, Eksporta Street 12 and Cēsu Street 23. In this part of the centre, there was registered a comparatively big number of transactions at a lower price for non-renovated apartments being in poor or even critical condition. Lower prices were observed also for wooden buildings, which are especially common in the vicinity of Grīziņkalns.

In the Riga city centre area (the so-called "Near Centre") the apartment prices in the autumn months decreased by 3.13%. Average prices in November were around 1400 EUR/m² for apartments in satisfactory condition, about 1,900 EUR/m² for apartments in good condition and around 2900 EUR/m² for apartments in very good condition. Higher prices were typical for apartments with high-quality interior decoration, located close to the Old Town or to a park, for example, apartments in the buildings at Raiņa Boulevard.

In the Quiet Centre the apartment prices in the autumn months decreased by 1.30%. Average prices in November were around 1800 EUR/m² for apartments in satisfactory condition, around 2400 EUR/m² for apartments in good condition and around 3400 EUR/m² for apartments in very good condition. Since in this part of centre a large impact on the price is made by the building's historical and architectural value, higher prices are characteristic for restored pre-war buildings having these values. In turn, the lowest prices in this part of the centre were typical for buildings, which are in very poor condition, such as in the beginning of Dzirnavu Street.

In the Old Town the apartment prices in the autumn months increased by 0.69%. Average prices in November were around 1750 EUR/m² for apartments in satisfactory condition, around 2250 EUR/m² for apartments in good condition and around 3250 EUR/m² for apartments in very good condition.

A characteristic feature of both the Old Town and the Quiet Centre was that the price of apartments being in similar condition and located in these neighbourhoods could greatly differ, depending on the location specifics. Higher prices in this part of the centre are characteristic for apartments located in renovated and new buildings.

Riga City centre apartment capitalization rates which were influenced by the price level in November, ranged from 4% to 6% on average. A lower rate was typical for apartments located at more prestigious places and apartments in a better condition with high quality interior decoration. In turn, in the periphery of the centre, capitalization rate exceeded 5%. The value of capitalization rate could have been significantly affected also by other factors, such housing adequacy to requirements of foreign students who wanted to rent living space.

The capitalization rate

The capitalization rate shows recovery options of invested finances in a specified period of time and gaining profit for the use of property.

The capitalization rate generally includes the following factors:

- risk-free investment rate;
- compensation for risk;
- compensation for the lower liquidity compared to deposits in a credit institution or securities;
- compensation for the additional costs associated with real estate;
- corrections due to possible decrease or increase of the property value.

Residential districts of Riga on the map



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