

COMMERCIAL PROPERTY MARKET REPORT

3rd quarter 2011

Office premises

During the third quarter, the demand and activity of tenants in the office premises market of Riga remained at the level of the first half of the year. Demand is greatest for office premises in downtown Riga and in new high-quality office buildings. The best locations have no free space at all, and rental rates are gradually increasing.

By industry, the most active participants of the office market in the third quarter were IT, pharmaceutical, legal consulting, marketing, advertising and insurance companies.

There was great interest in Class B office premises. Small premises up to 100 square meters are in the greatest demand. Such transactions are typically conducted in downtown Riga, as the offer of suitably-sized premises in the new business centers is very small. There is also demand for office premises with an area of 200–700 square meters.

The proportion of unrented office premises is gradually continuing to decrease, however it differs in various office categories. The percentage of free Prime office premises is 15–20%; Class A premises – 15%; Class B premises – around 30%. Over the past few months, the proportion of unrented premises has been falling in Class B, which is the largest office market segment in Riga.

With the amount of vacant premises decreasing, the rental rates in the most popular locations and office buildings are gradually growing. The average monthly rental rate for Prime office space was 16 euros in the third quarter. Class A office premises were available for 9–16 euros per month. Compared to previous periods, the upper ceiling of Class A rental rates has increased. In the best Class A office buildings with high occupancy rates, the rental rates have grown by 10–14% over the past two years.

Transactions with Class B premises in the third quarter were completed at 7–12 euros per month, with Class C premises – at 4–6 euros per month.

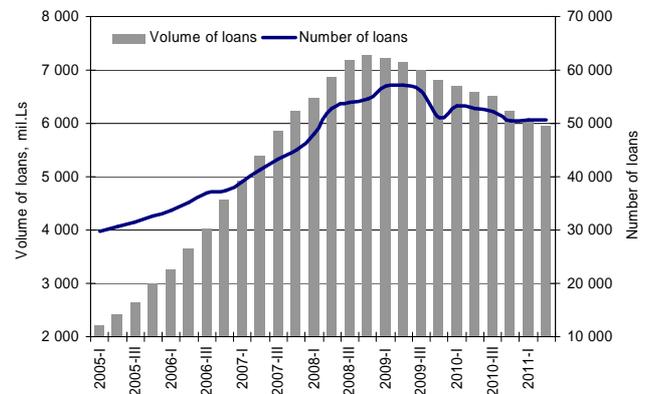
There have been several cases of banks selling foreclosed office buildings to investors. This is something new in the market; however, it is still too early to talk about a definite trend, as the current office rental rates do not ensure sufficient profitability for investors.

Rental rates can be expected to continue increasing in the most popular buildings with the highest occupancy rates. The proportion of vacant space will fall, however new office buildings will not be built yet. Tenant turnover will continue; the owners of the most in-demand buildings will attempt to attract better tenants.

Retail premises

In the retail premises segment, activity of tenants remained high during the third quarter in Old Riga and the center of Riga. The percentage of unrented premises in the best shopping streets of Old Riga and the center, compared with the first half of the year, has fallen and is close to 0%. Premises that are made available are quickly leased out.

Number and volume of loans granted to enterprises



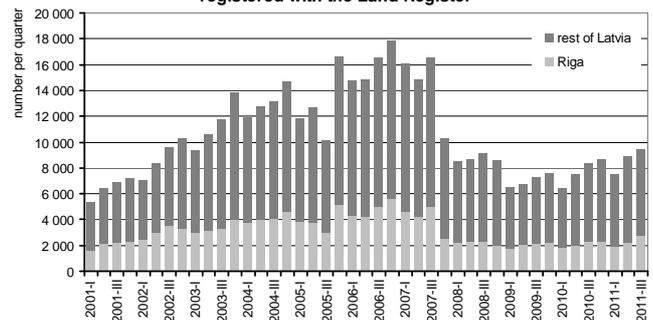
Source: The Finance and Capital Market Commission, LATIO

Office premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Prime	16	15%-25%
Class A	9 - 16	15%
Class B	7 - 12	30%

Source: Latio

Real Estate sales transactions in Latvia and Riga registered with the Land Register



Source: Land Register, LATIO

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Over the past two years, the proportion of unrented premises in the active center of Riga has shrunk very rapidly – in the end of 2009, the percentage of free retail premises was 25–30%.

There is, however, tenant turnover, both in Old Riga and the active center. The tenant turnover in Old Riga is affected by changes in the tourist stream, while in the best retailing streets of the center it is often connected with the owners' desire to find tenants that are willing to pay more and conclude an agreement for a longer period than the current tenants.

For some of the retail premises of the active center, a considerable disadvantage is their involvement in legal proceedings. It prevents attracting stable long-term tenants, such as restaurants, that would be willing to accept higher lease payments than clothing stores. However, considering the major investment required for preparation of the facilities, these companies wish to conclude lease agreements for a period of 5–10 years. There is currently significant tenant turnover in such premises.

Compared to the first two quarters of the year, rental rates have not significantly changed in Old Riga, but have slightly grown in the best retailing streets of the city center. In Old Riga, in streets such as Kaļķu, Vaļņu and Audēju, the monthly rental rate of premises with an area of 50–100 square meters was 40–70 euros per square meter in the third quarter. In the best retailing streets of downtown Riga – Tērbatas, in the direction of K. Barona Street from the center to Ģertrūdes Street, in Brīvības Street to Lāčplēša Street, in Elizabetes Street between Brīvības and A. Čaka Streets, near the railroad station – the monthly rental rate for 150 square meters of space was 15–25 euros per square meter in the third quarter.

The proportion of vacant retail premises is gradually falling even outside the active city center, but it is not accompanied by an increase in the rental rates. The monthly rental rate is 4–15 euros per square meter. Owners who were hoping to receive a higher rental rate and were thus unable to lease out their premises for a long time have yielded, and, for example, agree to a rental rate of 3–6 euros in the span of Brīvības Street from Artiļerijas Street to VEF bridge. In neighborhood locations with large streams of pedestrians, the rental rates range from 4 to 15 euros per month.

Among foreign buyers, there is interest in purchasing first-floor retail premises in downtown Riga at a price of 300,000–500,000 euros. Some sellers set inadequate prices, causing the deal to fall through.

Warehouses and industrial premises

Compared to the first half of the year, activity in the warehouse and industrial premise segment fell in the third quarter. There were no significant changes in rental rates.

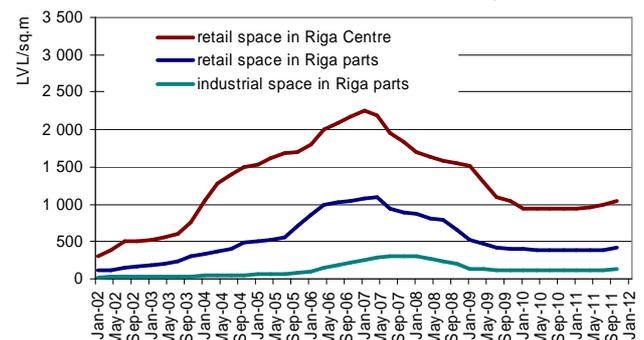
The monthly rental rate in the Prime segment is 4–5 euros per square meter. Compared to last year, the upper ceiling has grown by approximately 20%. The vacancy rate in this category of premises is 8–10%.

Retail premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
The best retail space in Old Riga	40 - 70	0%
Retail space in the best retailing streets	15 - 25	0%

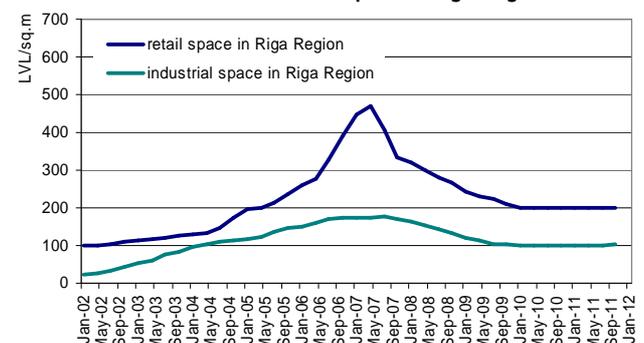
Source: Latio

Prices of Commercial Space in Riga



Source: LATIO

Prices of Commercial Space in Riga Region



Source: LATIO

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In the Class A category, which includes new, as well as renovated warehouse premises that meet the modern requirements, the average rental rate is 3 euros per square meter per month. The vacancy rate in this category is around 20%.

The monthly rental rate for Class B warehouses, which include premises built during the Soviet era in good technical condition, is 1.5–2.5 euros per square meter; the vacancy rate – around 30%. A significant disadvantage of these premises is not meeting the modern requirements in terms of layout, ceiling height, and energy-efficiency. The offer of such premises in Riga is wide; however, it often does not satisfy the needs of the tenants.

Several manufacturers that require a specific type of premises, as well as distributors, have shown interest in purchasing premises. However, most sellers set prices that are inadequately high for the current market situation.

It can be expected that the activity of tenants, as well as the rental rates in the warehouse and industrial premise segment will remain at the current levels for the near future.

Land for commercial construction

In the market of land for commercial construction, there are buyers showing interest in plots in the center of Riga that would allow constructing office buildings with a floor space of 2000–3000 square meters. There is also interest in plots of land for construction of small malls.

Outside the city center, there is demand for plots of land sized up to 0.5 hectares, with all utility lines. Interest in purchasing such plots of land has been shown by both manufacturers and merchants that wish to construct premises with an area of 1500–2000 square meters for their own needs, including office space.

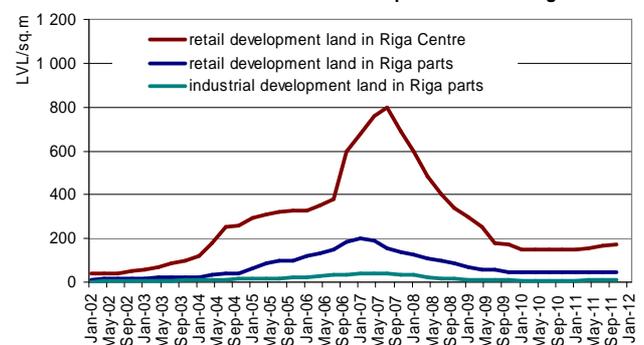
Taking into account the current economy, rental rates and paying capacity of tenants, the prices set by the sellers of land plots are often too high to make construction of commercial premises economically viable.

Industrial premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Prime	4 - 5	8%-10%
Class A	3	20%
Class B	1,5 - 2,5	30%

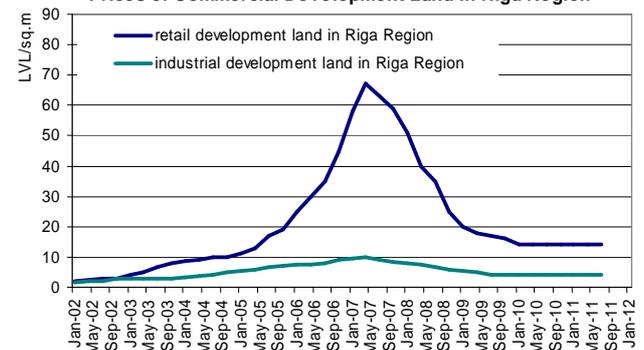
Source: Latio

Prices of Commercial Development Land in Riga



Source: LATIO

Prices of Commercial Development Land in Riga Region



Source: LATIO