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COMMERCIAL PROPERTY MARKET REPORT RIGA

1st quarter 2013



REAL ESTATE

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Office premises

In the beginning of 2013, the trends of previous periods continued in the office premises market of Riga – the proportion of vacant premises in the most in-demand locations decreased, and the rental costs of such premises slightly increased.

Like in the previous periods, the activity of tenants is mainly connected with a desire to switch current office premises for ones of better quality, better suited to their needs. Tenant turnover is also connected with the desire of owners to increase the rental price, which is not always justified under the current economic conditions.

Demand for office premises is greatest in downtown Riga and the best office buildings in the area of Dantes and Skanstes Streets, as well as in Pārdaugava. Approximately three quarters of the demand are generated by companies that require offices with area up to 200 square meters; there is also interest in premises up to 350–400 square meters. Class B premises attract the biggest demand. In the first quarter of the year, active search for premises in the center of Riga was conducted by various legal service providers, bank branches, medical service providers, also foreign embassies.

The rental price range at which transactions took place with Class A office premises in the beginning of 2013 was 10–16 euros per square meter/month; the price range of Class B premises was 7–12 euros (downtown Riga: 9–12 euros; Pārdaugava and elsewhere outside the center: 7–10 euros) per square meter/month, and Class C premises: 4–6 euros per square meter/month.

In specific cases, the rental cost depends on the area; when leasing smaller premises, it can be above the average, but it may be possible to agree on a lower rent when leasing an office with a larger area. There are also other factors that can influence the rental cost.

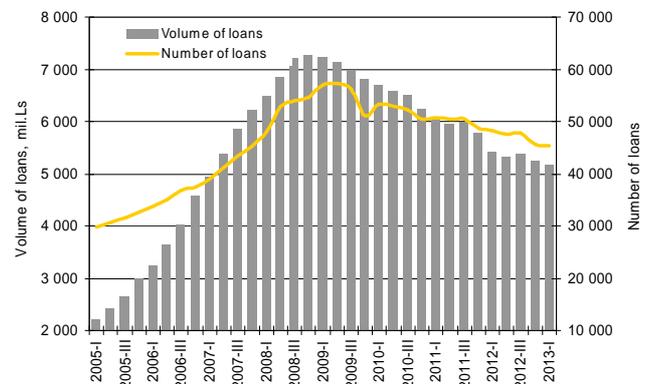
The proportion of vacant premises in the Class A office segment has fallen to a minimum. In the middle of 2012 it was around 10%. The amount of vacant premises in the Class B segment differs in various areas of Riga – the proportion of vacant premises in the city center in the beginning of the year was around 10%, in Pārdaugava – around 25%.

The falling proportion of vacant premises and changes of the rental price promote renewed plans of developers to construct new office buildings. However, these intentions are limited by the strict conditions of obtaining bank financing. In the next few years, the office premise market of Riga could be supplemented by only a few new buildings whose developers will be able to finance them with own resources.

Retail premises

The activity of tenants in the retail space segment in Q1 2013 remained biggest in Old Riga and downtown Riga. The proportion of vacant premises in the active center of the capital city is very low. Over the past three years it has declined rapidly – at the end of 2009, 25–30% of retail premises were vacant.

Number and volume of loans granted to enterprises



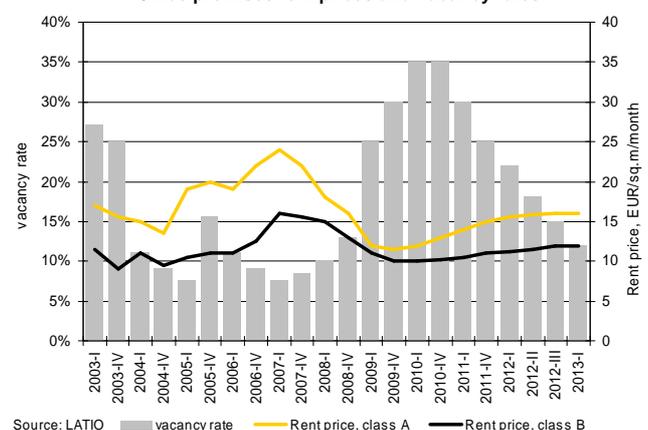
Source: The Finance and Capital Market Commission, LATIO

Office premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Class A	10 - 16	5%
Class B (downtown Riga)	9 - 12	10%
Class B (outside the center)	7 - 10	25%

Source: Latio

Office premises rent prices and vacancy rates



Source: LATIO

COMMERCIAL PROPERTY MARKET REPORT

1st quarter 2013

Good premises in Old Riga and in locations of the active center with pedestrian traffic suitable for the tenants' field of business are rented quickly; the offer of such premises is insufficient. The deficit of premises in downtown Riga is evidenced also by the first cases since the crisis period where the lessor compensates the existing tenant for vacating the premises before the expiration of the lease agreement and obtains a new tenant that agrees to a higher rental price.

The most suitable size of premises for tenants' needs would be 50–70 square meters, however almost no such premises are available in the center of Riga; companies are often forced to lease larger space with a basement or auxiliary premises. Considering the demand for smaller premises, owners of large premises agree to divide them into smaller spaces and rent them to different tenants.

In the active center of Riga, for example, in Elizabetes Street, retail premises in several buildings that are currently under construction or renovation could be made available this year.

The greatest interest in premises in Old Riga and the center of Riga is shown by restaurants and other catering companies.

In Old Riga, in streets such as Kaļķu, Vaļņu and Audēju, the lease price of premises with area of 50–100 square meters in Q1 2013 was 40–70 euros per square meter/month. In the best shopping streets of the center of Riga – Tērbatas Street, K. Barona Street in the direction from the center to Ģertrūdes Street, Brīvības Street to Lāčplēša Street, the section of Elizabetes Street between Brīvības and A. Čaka Street, in the vicinity of the train station – the monthly lease price of premises with area of 150 square meters was 15–25 euros per square meter in the first quarter.

In the central part of the city farther away from the active center, the proportion of vacant retail space is continuing a gradual decline. The lease price of premises in such locations is 4–15 euros per square meter/month, the same as for good retail space in residential neighborhoods with high pedestrian traffic.

In very good locations, the sale price of existing retail space in Old Riga or the active center is 4 000–7 000 euros per square meter, elsewhere in the city center: 1 200–2 300 euros per square meter.

Warehouse and industrial premises

Activity of tenants in the warehouse and industrial premises segment in the beginning of 2013 has remained at the previous year's level. The offer of higher-class premises is relatively small, so vacant premises find tenants quickly. Tenant turnover continues as of the beginning of the year.

Demand is greatest for good warehouse and industrial premises with area up to 500–1000 square meters. Suitable offer is limited.

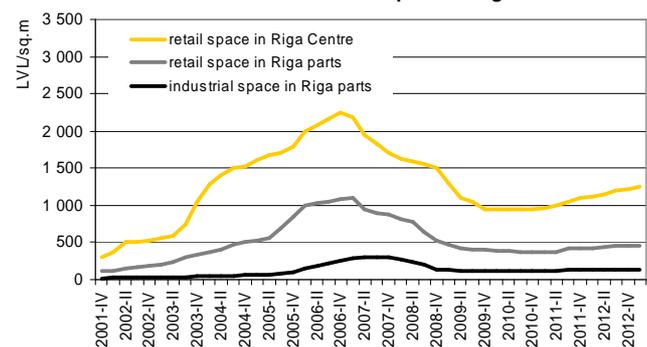
There is renewed interest in purchase and subsequent reconstruction of industrial premises built during the Soviet era. The advantage of such objects over construction of new facilities lies in existing utility lines and infrastructure.

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	10%

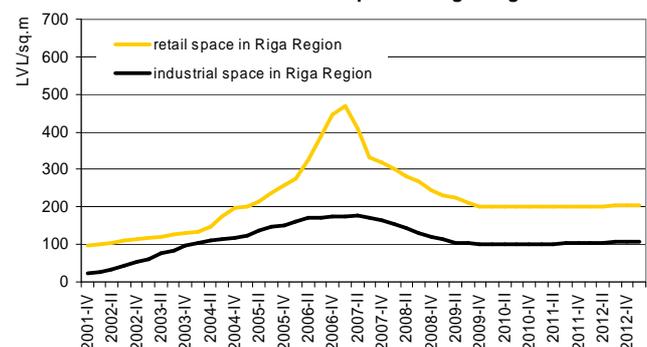
Source: Latio

Prices of Commercial Space in Riga



Source: LATIO

Prices of Commercial Space in Riga Region



Source: LATIO

COMMERCIAL PROPERTY MARKET REPORT

1st quarter 2013

In the prime segment of warehouse premises in Riga, the rental price is 4–4.5 euros per square meter/month. The proportion of vacant premises in this category is around 5%.

In the Class A warehouse segment, which includes new, as well as renovated premises that fulfill modern requirements, the average rental price is 3–3.5 euros per square meter/month. The proportion of vacant premises in this category has fallen to 15%.

In Class B, which includes premises built during the Soviet era in good condition, the rent is 1.5–2.5 euros per square meter/month, and the proportion of vacant premises is around 30%.

Land for commercial construction

Demand was low in the first quarter for land suitable for construction of office or residential buildings in the center of Riga. It is explained by the strict requirements associated with obtaining bank financing necessary for the development of such projects, including a requirement to obtain a certain number of tenants or buyers before the project is developed.

The purchase price of land suitable for residential buildings in the central part of Riga is 250–1500 euros per square meter (of the useful floor area), depending on the scope and location of the project. The highest land prices are reached in Old Riga and its vicinity.

Interest remains in purchasing land for construction of warehouses and industrial premises for own needs. Such plots of land must have utility lines available and be located near the residential neighborhoods of Riga.

Investments

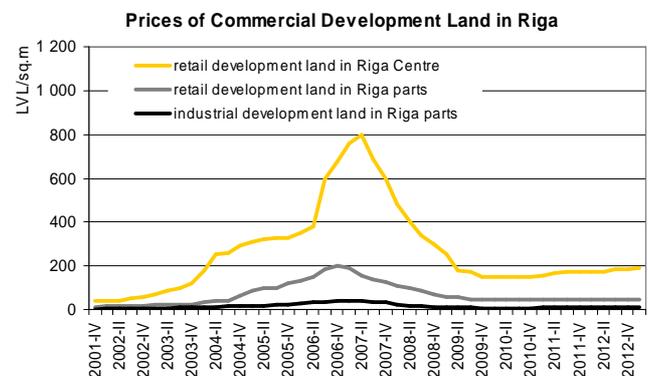
Although several transactions have taken place recently, investors who are mostly interested in purchasing commercial properties still remain cautious. This situation is mostly due to the profitability level provided by the current rental prices. The average profitability of cash flow objects is currently at 6%, and many investment funds are not satisfied with that. Another reason for waiting is that investors are unwilling to purchase companies through a complex transaction structure, such as by purchasing shares.

The market of residential buildings in the center of Riga has become more active – owners of several recently renovated buildings are looking for new objects to renovate and transform into rental apartment buildings or sell apartments in them. In the outer center, there is interest in buildings with small apartments to offer them on the rental market. Activity is also shown by investors willing to invest 200–500 thousand euros in purchasing small apartment buildings.

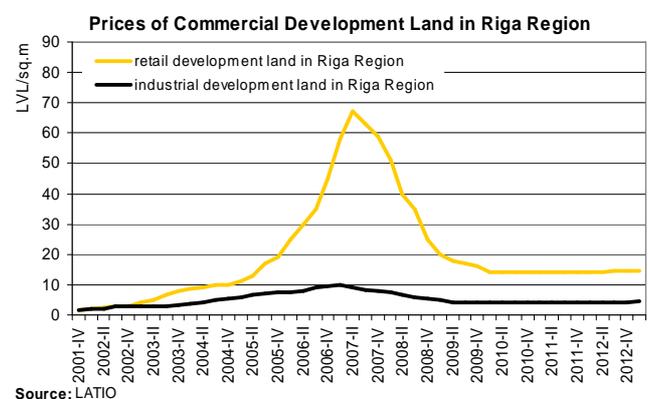
Industrial premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Prime	4 - 4,5	5%
Class A	3 - 3,5	15%
Class B	1,5 - 2,5	30%

Source: Latio



Source: LATIO



Source: LATIO