

Latio

Real Estate

Commercial Property Market Report Riga

2nd quarter 2014

Office premises

The demand for office premises in the second quarter of this year in Riga remained at the level of the first three months of the year. No substantial changes in the office rental fee occurred during this period. Compared to the beginning of the year, the proportion of non-rented premises has increased in several categories of the office premises.

The increase in free spaces is partly caused by the release of approximately 40 000 square metres of space previously rented by the State Revenue Service after the transfer of all Riga based structural units of this State institution to a newly commissioned office building in April. Furthermore, there are released and non-rented premises in other office buildings in Riga City Centre, for instance, the building at 3 13.janvara Street, previously rented by “GE Money Bank”. It is expected that premises of a higher quality that have been released by the tenants will gradually be rented.

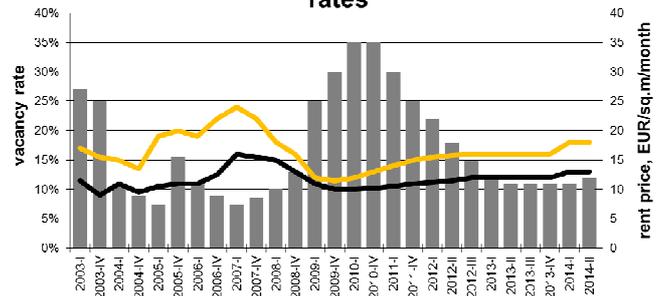
In total, the rotation of tenants compared to the beginning of the previous year has decreased. New premises are most commonly searched for when a company is expanding and the current renter is unable to offer necessary additional space.

The most active seekers of office premises in the second quarter of the year were IT companies, providers of legal services, structures related to education, as well as public organisations.

Just like in previous periods, the major demand was for office premises in the active centre of Riga and in high-quality buildings in the surroundings of Dunties Street and Skanstes Street, as well as in the close-by Pārdaugava. The major part of the demand is ensured by companies which require premises up to 200 square metres. Currently the number of new tenants who require premises of more than 1000 and more square metres and more is not large.

The range of the monthly rental fee for A-class office buildings in which deals were done in the second quarter of 2014 was 13–16 euros per square metre, for B-class premises – 8–13 euros (in the centre of Riga – 10–13 euros, in Pārdaugava and other places outside the centre – 8–11 euros) per square metre, while for C-class premises – 4–8 euros per square metre.

Office premises rent prices and vacancy rates



Source: LATIO ■ vacancy rate — Rent price, class A — Rent price, class B

The proportion of non-rented premises in the segment of A-class premises is currently at minimum. In the middle of 2012 this index was around 10%. In the segment of B-class premises the volume of non-rented premises in various parts of Riga varies: the proportion of free premises in the city centre is less than 10%, while the same index for office premises in Pārdaugava and other places outside the centre of Riga is approximately 20%.

Office premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Prime	16 – 18	3% – 5%
Class A	13 – 16	4%
Class B (downtown Riga)	10 – 13	7%
Class B (outside the center)	8 – 11	20%
Class C	4 – 8	20% – 30%

Source: Latio

No significant increase in the offer of office premises is expected in the nearest future. It is anticipated that after a new owner is found, within a year the offer may include offices in the premises of the former central building of “Latvijas Krājbanka” in liquidation in the surroundings of Skanste. Furthermore, various other construction projects may be commissioned, which would add an extra 15 000 – 20 000 square metres to the offer of the premises.

However, active construction of new office buildings is not expected in the near future, as developers' plans are limited both by the strict provisions of bank financing, and the level of the rental fee which is too low to ensure the expected economic efficiency of new office buildings. Considering the current expenses related to such projects, construction of B-class office buildings would be profitable if lease rate reached 14 euro per square metre a month.

A slight increase in the rental fee will remain in the future, and by the end of the year the rental fee for A-class and B-class offices is expected to increase for 5% on average.

Retail premises

The most demanded segment of retail space by tenants is Old Riga and the Riga active centre where the proportion of non-rented premises is small.

Nevertheless, premises in favourable locations are partly empty, since their owners try to attract tenants who would be ready to pay a higher rental fee. Several owners are keen to rent their premises to higher category brand clothing sellers, while other owners would not rent out their premises to catering companies. Previously occupied premises in Old Riga and the active centre have recently been released by several banks.

In total, during the previous four years the proportion of free premises in the centre of Riga has decreased rapidly – in the end of 2009 25–30% of retail premises were non-rented.

The demand has a tendency to segment – the tenants try to choose retail premises in the locations with better pedestrian flow and closer to other successful merchants.

The most active seekers of premises in Old Riga and the centre of Riga, just like in previous years, are restaurants and other catering companies. A very significant factor for these tenants is the possibility to create an outdoor terrace. Ever more seldom do caterers agree to rent underground or basement premises, preferring spaces located on the first floor. In total, the highest demand is for premises with 50-100 square metres of area.

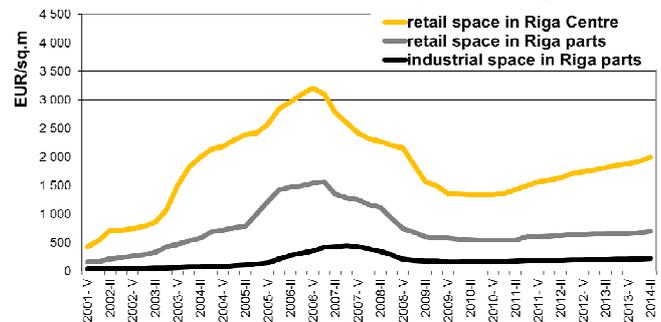
Retail premises rent prices and vacancy rates

	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

The monthly rental fee for premises with 50–100 square metres of space in the Old Town, at Kaļķu Street, Vaļņu Street, Audēju Street, as well as on separate stages of streets in the active centre in the 2nd quarter of 2014 was within the range of 40–70 euros per square metre. The monthly rental fee for premises with 150 square metres of space on the best shopping streets in the centre of Riga – Tērbatas Street, K.Barona Street direction centre to Ģertrūdes Street, Brīvības Street up to Lāčplēša Street, the Elizabetes Street stage between Brīvības Street and A.Čaka Street, in the proximity of the railway station, in the 2nd quarter was within the range of 15–25 euros per square metre.

Prices of Commercial Space in Riga



Source: LATIO

In the outskirts of the city centre the activity of various types of companies is gradually increasing and the proportion of non-rented retail space decreases. The monthly rental fee for premises in these locations is within the range of 4–15 euros per square metre.

In Riga residential districts the demand is for premises in locations with a high pedestrian flow, for instance, nearby public transport stops. The monthly rental fee for such premises is within the range of 4–15 euros per square metre, though in separate places a higher level of price can be reached.

Warehouse and industrial premises

The activity of tenants and the level of rental fee in the segment of warehouse and industrial premises in the 2nd quarter of the year has remained unchanged, compared to the first three months of the year.

The highest demand is for high-quality warehouse and industrial facilities with an area of up to 500–1000 square metres. In total, the offer corresponding to the demand of tenants is limited.

The projects for the development of new storage facilities designed for rental are virtually not being implemented. One of the major obstacles for developers is insufficient financing. The banks' funds are mainly available in cases when a developer has attracted an anchor tenant to a planned site and concluded a long-term rental contract.

When considering the possible location for the construction of new warehouse facilities, the developers search for suitable land plots as close as possible to Riga's residential districts, in order to ensure the availability of manpower and to make the way to the place work for potential employees as short as possible. This criterion is also of the utmost importance for the tenants of warehouse and industrial facilities.

Companies are also interested in the purchase and reconstruction of industrial facilities built in Soviet times. The advantage of such facilities, compared to the construction of new premises, is existing utilities and infrastructure.

Industrial premises rent prices and vacancy rates

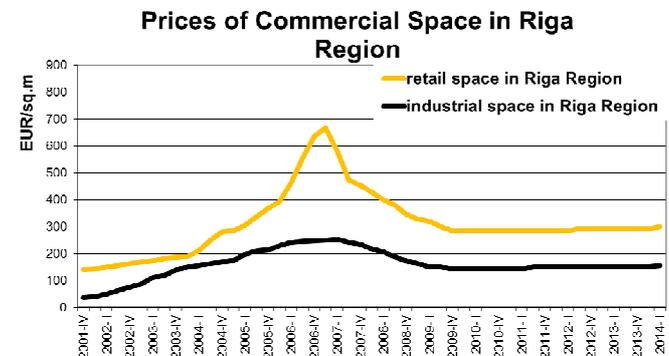
	Rent price, EUR/sq.m./month	Vacancy rate
Prime	4 - 4,5	5%
Class A	3 - 4	10%
Class B	1,5 - 2,5	30%

Source: Latio

The monthly rental fee of the Primeor highest category warehouse facilities in Riga in the 2nd quarter of 2014 was 4–4.5 euros per square metre. The proportion of free spaces in this category of premises is approximately 5%.

In the category of A-class warehouse facilities, which includes new, as well as reconstructed premises complying with modern requirements, the average monthly rental fee was 3–4 euros per square metre. The proportion of free spaces in this category was 10%.

In the category of B-class warehouse facilities, which consist of premises built in Soviet times and in good technical condition, the monthly rental fee was 1.5–2.5 euros per square metre, while the proportion of free spaces comprised approximately 30%.



Source: LATIO

Hotels

A high level of activity can be observed in the segment of Riga hotels, which is ensured both by the developers of new buildings, and buyers of the existing hotel buildings.

A strive towards the city centre is observed in the hotel segment; therefore new buildings are being constructed mainly in Old Riga and its surroundings.

Within the last half-year the developers and investors have purchased several land plots in Old Riga where the construction of hotels is possible, and in the near future a number of similar deals may be concluded.

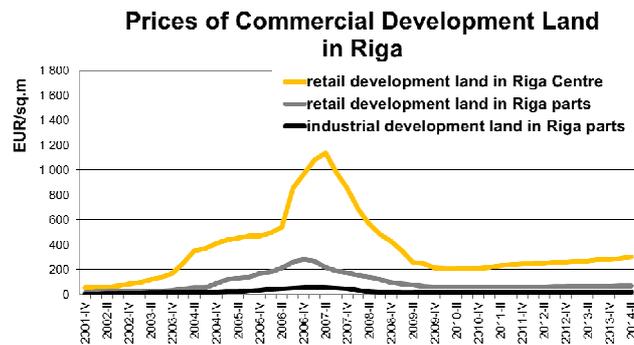
Hotels outside the central part of the city, as well as small hotels will be strongly influenced by the competition caused by the increase in the offer in the centre of Riga. This can contribute to the sale of such hotel buildings or transformation into dwelling houses.

In 2014, two new hotels will be added to the Riga hotel market. Considering the planned projects for construction and reconstruction of hotels, the major increase in the number of hotels in the city centre and in Old Riga is expected in 2015 and 2016, when the offer will include 1200 – 1500 rooms of mainly four and five star hotels.

Commercial development land

The demand in the segment of the land for commercial development is for land plots suitable for the construction of apartment buildings, hotels, shopping sites. The major interest is for the property in the central part of Riga.

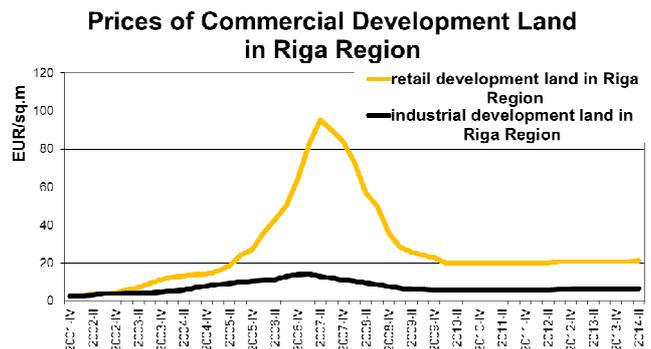
The demand for land plots with the related projects of dwelling houses has decreased, compared to the previous periods.



Source: LATIO

The decrease in interest is mainly related to the changes in the Immigration Law, which starting from 1st September 2014 provides for new criteria for the receipt of temporary residence permits in exchange for the purchase of real estate. The foreigners' demand for the purchase of apartments in the centre of Riga is expected to decrease.

Developers are interested in small land plots in the centre of Riga where buildings with apartments with a total area of 3 000 square metres can be built.



Source: LATIO

The major developers of dwelling houses in Riga residential districts are in the purchase of land for the construction of new buildings. The interest of these companies is related to land plots where dwelling houses with 5 000–10 000 square metres of the total area of apartments can be built.

Several retail companies, such as food store networks seeking possibilities for expansion in the districts without their representation, would like to purchase the land.