OFFICE MARKET REPORT
Riga and regional cities

2015 Q2

GENERAL DESCRIPTION OF THE OFFICE PREMISES MARKET

RIGA

- During the first six months of 2015 no considerable changes in the demand for office space and rental rates could be seen in Riga.
- The proportion of vacant office premises at the top level office centres most demanded by tenants continued the slow decrease trend and was within the range of 2 to 3%. Outside the central business district (CBD) and in lower class office centres vacancy rates are considerably higher.
- The rotation of tenants is passive, new premises are most commonly searched for when a company is expanding and the current landlord is unable to offer the necessary additional space
- There are landlords who establish a deposit of free spaces for this purpose in order to be able to satisfy the demand for additional premises by their *big* tenants.
- In Riga the demand is highest for office space in the CBD including the newly built office buildings at Skanstes street.
- As there is a shortage of A and B1 class offices, lease contracts are signed for office centres that have not been commissioned yet, for example, most of the added premises in the office centre *Europa* have been rented.

Vacancy rate at office centres in Riga per classes and location, %

Class	CBD	Non-CBD
A	2.0%	-
B1	2.1%	2.9%
B2	13.3%	9.7%
C	32.2%	4.2%

CBD – Central Business District

REGIONAL CITIES

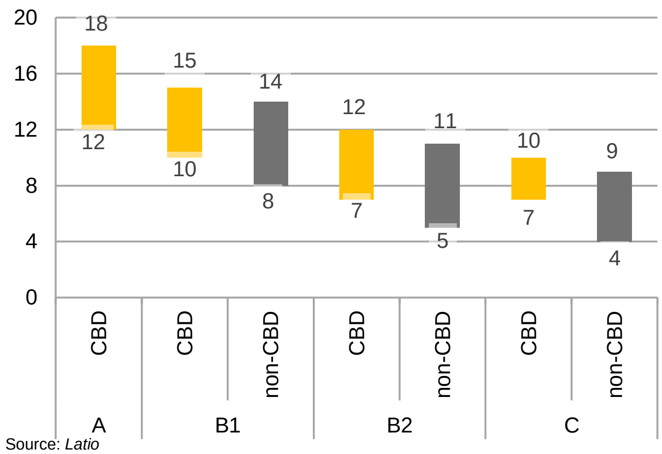
- In regions the office lease market is the least active segment of commercial premises. The proportion of vacant premises is sufficient, in particular, outside city centres. However, quite often the demand exceeds the offer also in the central parts of regional cities, which can be explained by the shortage of a high quality premises. Due to this factor, the rental rates can differ considerably even within the city centre.

RENTAL MARKET IN OFFICE CENTRES

SUPPLY

- Within the prime class office premises segment the supply has been insufficient for a long period providing the potential for building new A class offices.
- Several office centres are scheduled to be commissioned in 2016-2017 and are under construction now, for example, Hanner office building at Skanstes district (~15,000 m^2). Several existing business centres are expanding – for example, Tēraudlietuve (~ 2,700 m^2) and Europa (~ 2,400 m^2). ELL Nekustamie īpašumi has expressed and intention to develop an A class office building at Skanstes district.

Rent rates demanded by landlords in office centres in Q2 2015, EUR/m² per month



Source: *Latio*

- After the State Revenue Service of the Republic of Latvia moved to the new building at Tālejas street, significant B2 and C class office premises were released in the market and they have not been leased to tenants as of yet. For some of the office centres of this class the manager has changed, the lease policy is being modified, therefore the vacancy rate in the city centre is relatively high.

RENTAL MARKET IN OFFICE CENTRES

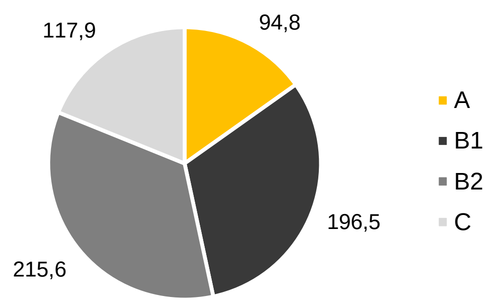
DEMAND

- Tenants' actions in the office space market depends on their priorities. If this is required for business and the financial position of the company allows it, slightly more expensive and higher quality premises are preferred.
- Companies for which the economic factor is decisive and the class of premises is secondary choose to rent cheaper premises at office centres or buildings outside the central business district of the city.
- The increasing necessity of parking places by tenants is among the factors presenting an obstacle for renting offices.

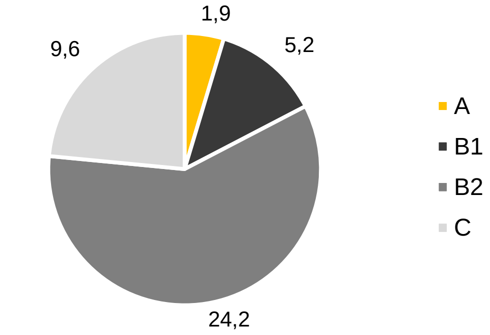
RENTAL FEES

- The demand is stable, therefore the level of rental fees remains stable. In some office centres fees are increased up to the market level as the rent contracts signed during the crisis period expire.
- Latio experts expect that rental fees will not increase on average in the near future, they might even decline.
- The graph of rental rates reflects the rental rate demanded by landlords, however, the actual levels of transactions can also be lower, in particular, when a transaction is concluded with a large and stable tenant.
- The broad range of rental rates is partially also related with the size of the management fee and the different understanding of the application of the management and rent fee by landlords. landlords are interested in the final rate.
- Office management fees at office centres vary from 1 to 6 EUR/m^2.

Total rent space at office centres, thousand m²



Vacant rate space in office centres, thousand m²



Rent rates demanded by landlords at properties in Q2 2015, EUR/m² per month

Source: *Latio*

SALE OF OFFICES

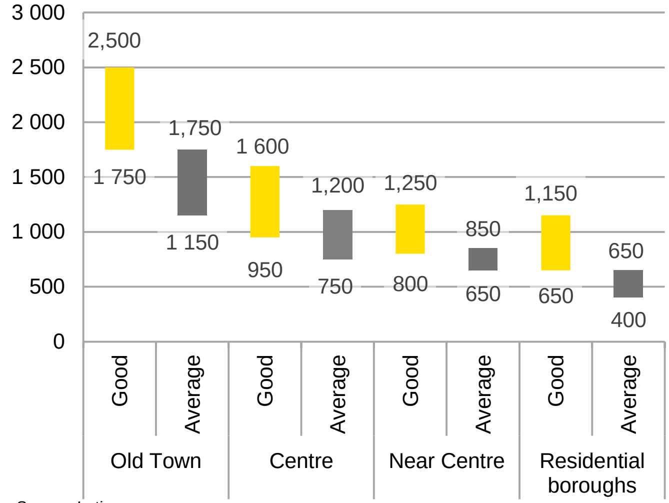
PRICES

- The prices of office premises in pre-war buildings in the historical centre of the city are similar to the purchase prices of apartments with no repair. The price can reach 2,500 EUR/m^2 and above in a renovated building with a conditioning system and a elevator.
- The sales price of rented office buildings is usually expressed in yield terms, which can range from 6.5% to 9% depending on the location of the building in the city, the quality of the building and tenants.

SALE OF OFFICES

- During the first six months of the year several sales transactions of office centres have taken place – the Regional Investment Bank bought the building at Alunāna iela 2 at the price of 14.7 million euros, an Estonian investment fund bought a building at Lāčplēša iela 20a at an auction at the price of close to 9 million euros.
- The prices of leased-out *trophy-asset* level office centres at the CBD are growing from the point of view of both the profitability and the price per square metre.
- However, the prices of assets, where no prestige factor is present in valuation, are quite stable and depend strictly on the rent income and the building quality.

Common sales prices of office buildings in Q2 2015, EUR/m²



Source: *Latio*

OFFICE BUILDINGS IN REGIONAL CITIES

MARKET ACTIVITY

- The office premises market in regions is least active of all the commercial property segments. Just a few purchase transactions of office centres have taken place during the last year, and the demand is also very low on the rent market. Traditionally the tenants of the biggest premises are banks, state institutions and branch offices of big companies.

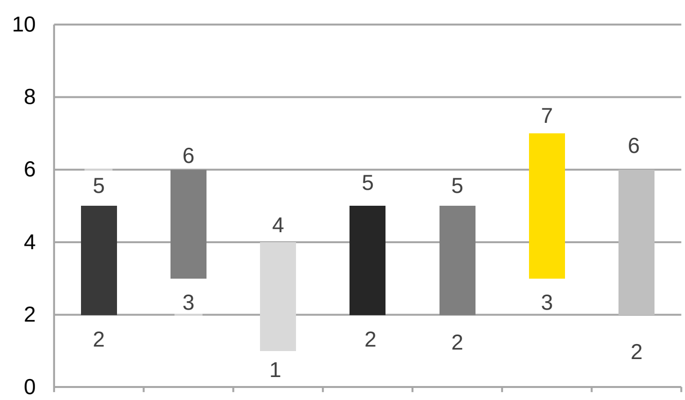
SUPPLY

- Given the low demand, supply is significantly higher in almost all regions and a price increase is not expected in the near future.
- Thanks to the balanced city economics and the office premises market, the situation slightly differs in Valmiera where there are few compliant vacancies, slightly bigger premises are demanded and the standard price is higher.
- There are mostly sufficient vacant office premises in all the biggest regional cities, and in some cases, for example, in Jēkabpils, there is a shortage in the central part of the city where the demand for a certain type of premises contributes to the increase of the rent rate.
- New office centres are not built because at the current rent prices and weak demand deems it unviable in financial terms. At present there is more focus on the arrangement and upgrading of the existing premises.

DEMAND

- Premises with the area of 20 - 40 m^2 intended for two or three employees usually comply with the needs of local companies.
- The big office premises with the area of 100 square metres and above are not demanded, in this segment there are more vacancies and less rent transactions; owners try to adapt premises for the needs of smaller tenants.

Common rent rates demanded by office landlords in regional cities in Q2 2015, EUR/m² per month



Source: *Latio*

Addresses of Latio branch offices

Riga region

Riga/ Central Office
K. Valdemāra iela 8,
Riga, LV-1010
Tel.+371 67032300
e-mail:latio@latio.lv

Riga/Purvciems branch office
Madonas iela 27,
Rīga, LV-1035
Tel.+371 67549355
e-mail:purvciems@latio.lv

Tukums branch office
Katrīnas laukums 1,
Tukums, LV-3101
Tel.+371 63125319
e-mail:tukums@latio.lv

Limbaži branch office
SIA Latio vērtētāji & konsultanti Vidzemē
Rīgas iela 7,
Limbaži, LV-4001
Tel.+371 26334584
e-mail:limbazi@lvkv.sia.lv

Riga/Centre branch office Elizabete
Elizabetes iela 20,
Rīga, LV-1050
Tel.+371 67201929
e-mail:nodaļaelizabetes@latio.lv

Jūrmala branch office Majori
Jomas iela 30, Majori,
Jūrmala, LV-2015
Tel.+371 67755506
e-mail:jurmala@latio.lv

Ogre branch office
Brīvības iela 22,
Ogre, LV-5001
Tel.+371 65035733
e-mail:ogre@latio.lv

Riga/Imanta branch office
Anniņmuižas bulvāris 88,
Rīga, LV-1029
Tel.+371 67440000
e-mail:imanta@latio.lv

Jūrmala branch office Kauguri
Nometņu iela 4, Kauguri,
Jūrmala, LV-2016
Tel.+371 67740777
e-mail:kauguri@latio.lv

Sigulda branch office
Pils iela 2,
Sigulda, LV-2150
Tel.+371 67976723
e-mail:sigulda@latio.lv

Kurzemes reģions

Liepāja branch office
Graudu iela 27/29,
Liepāja, LV-3401
Tel.+371 63422190
e-mail:liepaja@latio.lv

Ventspils branch office
Kuldīgas iela 11,
Ventspils, LV-3601
Tel.+371 63629566
e-mail:ventspils@latio.lv

Talsi branch office
K. Valdemāra iela 17,
Talsi, LV-3201
Tel.+371 63221922
e-mail:talsi@latio.lv

Latgales reģions

Daugavpils branch office
Ģimnāzijas iela 34/36-13,
Daugavpils, LV-5400
Tel.+371 65429515
e-mail:daugavpils@latio.lv

Rēzekne branch office
18. novembra iela 16,
Rēzekne, LV-4600
Tel.+371 64628277
e-mail:rezekne@latio.lv

Preiļi branch office
Raiņa bulvāris 24,
Preiļi, LV-5301
Tel.+371 65307407
e-mail:latio@latio.lv

Vidzemes reģions

Valmiera branch office
SIA Latio vērtētāji & konsultanti Vidzemē
Rīgas iela 39,
Valmiera, LV-4201
Tel.+371 64207022
e-mail:lvkv@lvkv.sia.lv

Gulbene branch office
SIA Latio vērtētāji & konsultanti Vidzemē
O.Kalpaka iela 62,
Gulbene, LV-4401
Tel.+371 26544881
e-mail:ita@lvkv.sia.lv

Cēsis branch office
SIA Latio vērtētāji & konsultanti Vidzemē
Raunas iela 15,
Cēsis, LV-4101
Tel.+371 64127447
e-mail:cesis@lvkv.sia.lv

Alūksne branch office
SIA Latio vērtētāji & konsultanti Vidzemē
Pils iela 27,
Alūksne, LV-4301
Tel.+371 64322452
e-mail:ita@lvkv.sia.lv

Valka branch office
SIA Latio vērtētāji & konsultanti Vidzemē
Rīgas iela 11
Valka, LV-4701
Tel.+371 64725346
e-mail:valka@lvkv.sia.lv

Zemgales reģions

Jelgava branch office
Lielā iela 15,
Jelgava, LV-3001
Tel.+371 63046480
e-mail: jelgava@latio.lv

Jēkabpils branch office
Katoļu iela 6,
Jēkabpils, LV-5202
Tel.+371 65237177
e-mail:jekabpils@latio.lv

Latio

Property trading, lease, rent, assessment, consultations, services to corporate customers, market analysis
Central Office
K. Valdemāra iela 8,
Riga, LV-1010
Tel.+371 67032300
fax +371 67032302
e-mail:latio@latio.lv
www.latio.lv

Metrum

Surveying, territory planning, photogrammetry, GIS processing
Ģertrūdes iela 47,
Riga LV-1011
info +371 80008100
Tel.+371 67860311
fax +371 67609044
e-mail:metrum@metrum.lv
www.metrum.lv

Latio Namsaimnieks

Management, administration, renovation of buildings, heat insulation
Elizabetes iela 20,
Rīga LV-1050
Tel.+371 67357700
Mob. Tel.. +371 22120000
fax +371 67218092
e-mail:namsaimnieks@latio.lv
www.lationamsaimnieks.lv