



COMMERCIAL PROPERTY MARKET REPORT RIGA

2ND QUARTER 2013



OFFICE PREMISES

The office premises market of Riga in Q2 2013 saw a continuation of the earlier trends: the proportion of vacant high-quality premises in locations demanded by tenants is continuing to decrease, thereby facilitating a small increase of the rent of such premises.

The overall activity of tenants has slightly increased compared to the beginning of the year. Demand is mainly generated by tenants desiring to replace their existing office premises for premises of higher quality and better suited to their needs. Another reason for tenant turnover is the wish of the owners to increase the rent.

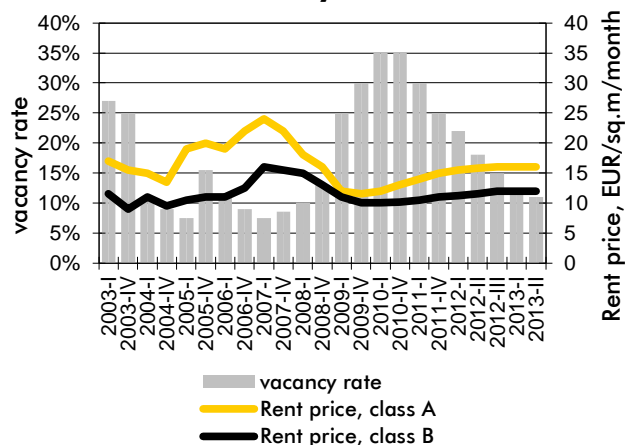
The most in-demand premises are located in downtown Riga and in the high-quality office buildings in the vicinity of Dunties and Skanstes Streets, as well as in Pārdaugava. The offer Class A and B premises of suitable size is insufficient. Approximately three quarters of the demand is generated by companies requiring offices up to 200 square meters; there is also interest in premises with an area of 350–400 square meters.

In terms of the field of activity of tenants, active seekers of premises are various providers of legal services, IT companies and medical service providers.

The monthly rent range for Class A office premises in Q2 2013 was 12–16 euros per square meter, for Class B premises: 7–12 euros (in the center of Riga: 9–12 euros, in Pārdaugava and elsewhere beyond the center: 7–10 euros) per square meter, and for Class C premises: 5.5–6 euros per square meter.

In specific transactions, the rent depends on the amount of space – when renting smaller premises, it can be higher than average, while when renting larger offices, it is possible to agree on a lower rent. The rent may be affected also by other factors.

Office premises rent prices and vacancy rates



Source: LATIO

The proportion of vacant space in the Class A office segment is minimal. In the middle of 2012, it was around 10%. In the Class B segment, the proportion of vacant space differs in various parts of Riga: in the city center, it is under 10%, while in office buildings in Pārdaugava and elsewhere beyond the center: around 15%.

Office premises rent prices and vacancy rates

	Rent price, EUR/sq.m./ month	Vacancy rate
Prime	16	0%
Class A	12 - 16	4%
Class B (downtown Riga)	9 - 12	7%
Class B (outside the center)	7 - 10	15%
Class C	5.5 - 6	20 – 30%

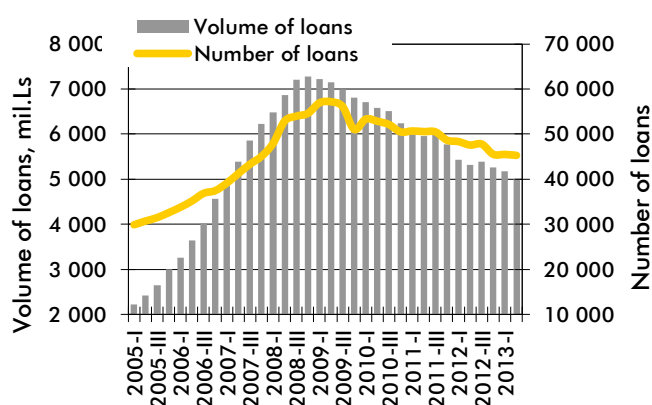
Source: LATIO

Although the offer of good Class A and B premises is falling, active construction of new office buildings is not yet expected.

The plans of developers are delayed by the strict conditions of obtaining financing from banks, as well as by the rent level – although it is gradually increasing, it has not yet reached a level that would allow talking about profitability of new office building projects. Taking into consideration the costs connected with the development of such projects, construction of a Class B office building would be profitable if the monthly rent of such premises was to reach 14 euros per square meter.

There is interest of investors in purchasing office buildings, however the different positions of buyers and sellers are not conducive to conclusion of transactions. The sale prices set by office building owners are mostly at a level that would provide the buyer with annual profitability of 4–6% at the existing rent level, while buyers wish to purchase properties at a price that would provide profitability of 6–8%.

Number and volume of loans granted to enterprises



Source: The Finance and Capital Market Commission, LATIO

RETAIL PREMISES

In the retail space segment, the greatest activity is seen in Old Riga and downtown Riga, where the amount of vacant space is low.

Over the last three years, the proportion of vacant space in the center of Riga has fallen very rapidly: at the end of 2009, 25–30% of retail space was vacant.

Good premises in Old Riga and in the active center with pedestrian traffic corresponding to the tenant's field of business are rented out quickly.

The most active seekers of premises in Old Riga and downtown Riga are restaurants and other catering companies. Overall, demand is greatest for premises sized 50–100 square meters; catering companies are interested also in slightly larger premises.

In the active center of Riga – for example, in Elizabetes and Dzirnavu Streets – retail space in several buildings that are being renovated or are under construction will be made available in the near future. It is expected that the rent of these premises will be high.

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

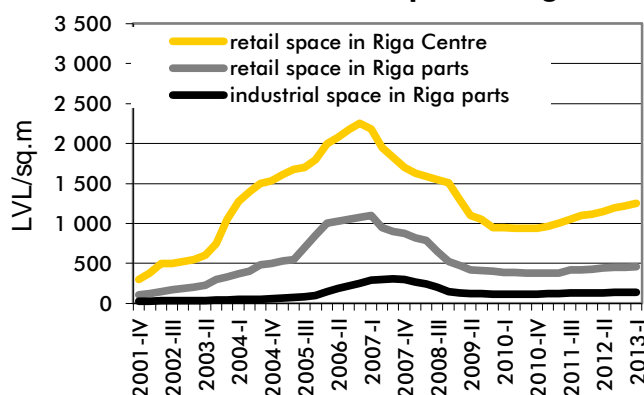
In Old Riga, in streets such as Kaļķu, Valņu and Audēju, as well as in individual segments of several streets of the active center, rent for premises with an area of 50–100 square meters in Q2 2013 was 40–70 euros per square meter per month. In the best retail streets of downtown Riga – in Tērbatas Street, in K. Barona Street in

the direction from the center to Ģertrūdes Street, in Brīvības Street to Lāčplēša Street, in the section of Elizabetes Street between Brīvības and A.Čaka Streets, and in the vicinity of the train station – the rent of premises with an area of 150 square meters in Q2 2013 was 15–25 euros per square meter per month.

In the outer part of the city center, the proportion of vacant retail space is gradually falling. The rent in these areas is 4–15 euros per square meter per month. In the residential neighborhoods with good foot traffic, the rent for retail premises is also 4–15 euros per square meter per month.

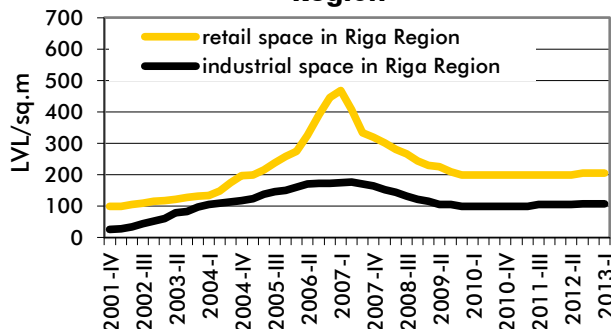
The sale price of retail premises in very good locations in Old Riga or downtown Riga is 4 000–7 000 euros per square meter; elsewhere in the city center: 1 200–2 300 euros per square meter. Several buyers of retail space are looking for premises that would provide annual profitability of 7–8% at the rent level established in the concluded lease agreements.

Prices of Commercial Space in Riga



Source: LATIO

Prices of Commercial Space in Riga Region



Source: LATIO

WAREHOUSE AND INDUSTRIAL PREMISES

The activity of tenants in the segment of warehouse and industrial premises has increased from the beginning of the year.

The offer of the highest class of premises is relatively small, so vacant premises find tenants quickly.

Demand is greatest for good warehouse and industrial premises with an area of 500–1000 square meters. Overall, offer suiting the tenants' requirements and needs is limited.

Warehouses 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%

In the *prime* or highest class of warehouse premises in Riga, the rent is 4–4.5 euros per square meter per month. The proportion of vacant premises in this category is around 5%.

In the Class A warehouse premise category, which includes new as well as renovated premises corresponding to modern requirements, the average monthly rent is 3–4 euros per square meter. The proportion of vacant premises in this category has fallen to 10%.

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

INVESTMENTS

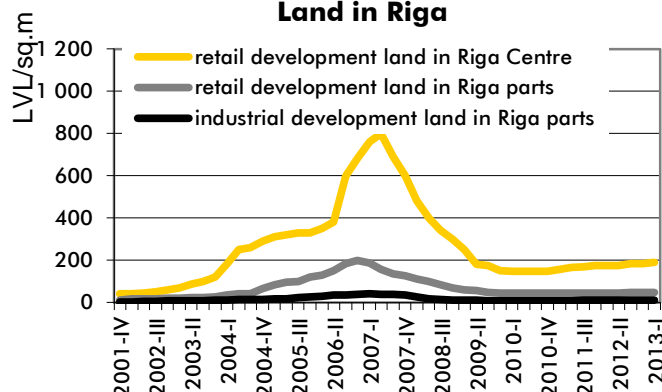
Investors are showing great interest in the hotel segment of Riga, which is becoming more and more attractive due to the growing tourist streams and utilized capacity of hotels. Increase of the utilized capacity of hotels is expected also in 2014, when Riga will become the European Capital of Culture.

In the last year and a half, several hotel buildings in Riga and Jūrmala have been sold to investors, and several more hotels could change owners in the near future.

New hotel projects are also being developed. Competition between hotels is expected to intensify in the near future.

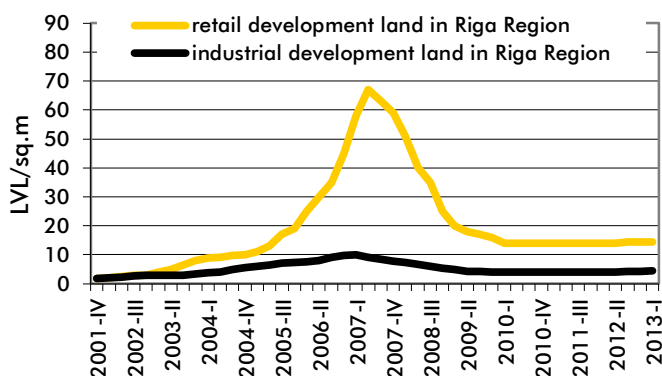
In the center of Riga, with demand for renting or purchasing good apartments growing, interest in purchasing building properties has also increased this year. Investors are purchasing residential buildings to sell apartments after renovation or to create rental buildings. Activity is shown by investors wishing to invest 200,000–500,000 euros in the purchase of small apartment buildings; investors are also purchasing building properties at a price of 500,000–1,500,000 euros.

Prices of Commercial Development Land in Riga



Source: LATIO

Prices of Commercial Development Land in Riga Region



Source: LATIO





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