



COMMERCIAL PROPERTY MARKET REPORT RIGA

3RD QUARTER 2013



OFFICE PREMISES

In many ways the 3rd quarter of 2013 was similar to previous periods – vacancy rates continued to shrink in premises that are well located, while lease charges were gradually increasing.

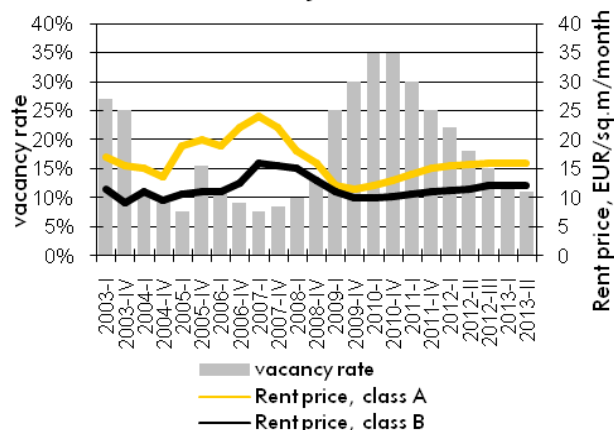
The overall activity of tenants has slightly increased from the beginning of the year. Demand is mainly generated by tenants that desire to move from their existing office premises to premises of higher quality that suit their needs better. Another reason for tenant turnover stems from owners increasing rent payments. The most demanded premises are located in downtown Riga and in the high-quality office buildings in the vicinity of Dantes and Skanstes Streets, as well as in Pardaugava. The supply of A and B Class offices of suitable size is insufficient. Three quarters of the demand comes from companies that require no more than 200 square meters, although the market is also active for 350-400 square meter offices.

In terms of the line of business 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 Q3 of 2013 was EUR 12–16 per square meter, for Class B premises: EUR 7–12 (in the centre of Riga: EUR 9–12, in Pardaugava and elsewhere beyond the centre: EUR 7–10) per square meter, and for Class C premises: EUR 5.5–6 per square meter.

The proportion of vacant space in Class A offices tends to zero, although in the middle of 2012, it was still around 10%. In the Class B segment, the proportion of vacant space differs in various parts of Riga: in the city centre, it is under 10%, while office buildings outside the centre are often around 15% vacant.

Office premises rent prices and vacancy rates



Source: LATIO

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 (down town Riga) | 9 - 12 | 7% |
| Class B (outside the center) | 7 - 10 | 15% |
| Class C | 5.5 - 6 | 20 – 30% |

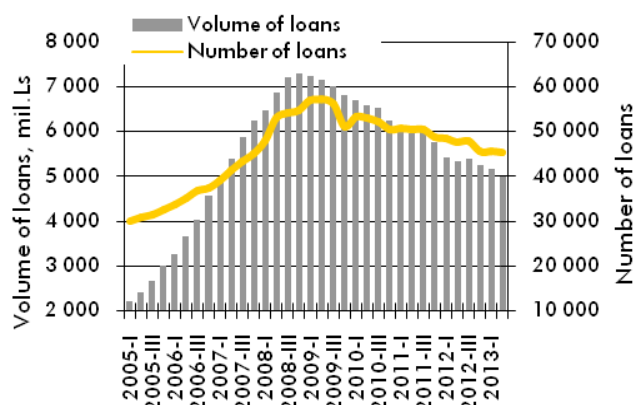
Source: LATIO

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

The plans of developers are delayed by the limited bank financing availability, 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 of the development of such projects, construction of Class B office buildings would be profitable if the monthly rent of such premises would reach EUR 14 per square meter.

There is interest from investors to purchase office buildings, however the different positions of buyers and sellers mostly see the value of the properties very differently. The prices set by office building owners are mostly at a yield of 4–6% at the existing rent level, while buyers wish to purchase properties yielding 6–8%.

Number and volume of loans granted to enterprises



Source: The Finance and Capital Market Commission, LATIO

RETAIL PREMISES

In the 3rd quarter of 2013, demand for retail premises was increasing. The highest activity was observed in the Old Town and the vibrant centre of Riga where the vacancy is already lowest.

Over the last three years, the vacancy of retail space in the centre 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 centre with pedestrian traffic delivering clients the particular tenant looks for 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 of around 50–100 square meters; catering companies are interested also in slightly larger premises.

In the active centre of Riga – for example, Elizabetes and Dzirnau Streets – multiple buildings are being renovated currently and new space will be added to the retail premise stock.

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% |

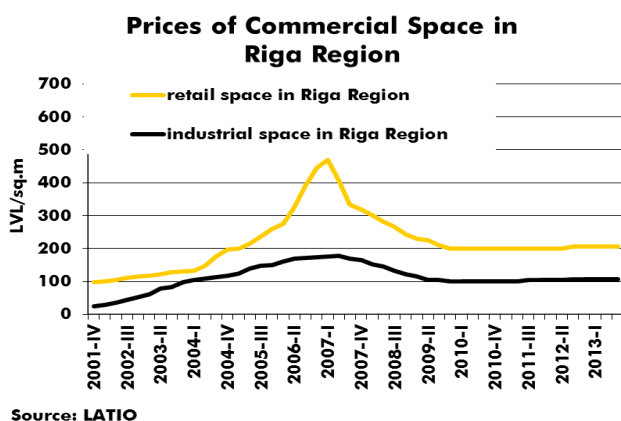
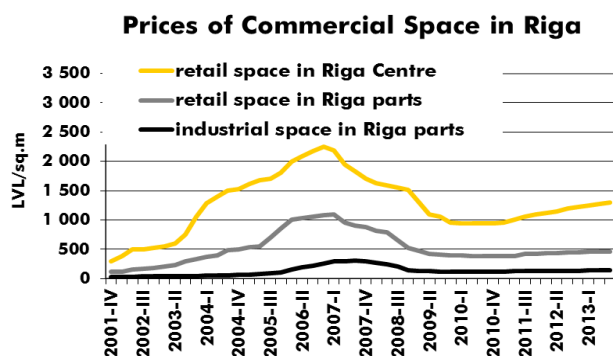
Source: LATIO

In Old Riga, in streets such as Kalku, Valnu and Audeju, as well as particular parts of several streets in the active centre, rent for premises with an area of 50–100 square meters in Q3 of 2013 reached EUR 40–70 per square meter. In the best retail streets of downtown Riga – Terbatas, K. Barona and Elizabetes Street, as well as in the vicinity of the train station – the rent of premises with an area of 150 square meters in Q3 of 2013 was EUR 15–25 per square meter.

In the outer part of the city centre, the proportion of vacant retail space is also gradually falling, but the rent in these areas is still low at EUR 4–15 per square meter. In the residential neighbourhoods with good foot

traffic, the rent for retail premises is also EUR 4–15 per square meter.

The sale price of retail premises in prime locations of Old Riga or downtown Riga is EUR 4,000–7,000 per square meter; elsewhere in the city center: EUR 1,200–2,300 per square meter. Investors that consider such properties are still looking for a yield of 7–8% at the rent payments in the existing agreements.



WAREHOUSE AND INDUSTRIAL PREMISES

The activity of tenants in the segment of warehouse and industrial premises has also been on the increase during 2013.

The supply 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 500–1,000 square meters, but the supply is insufficient and potential tenants often cannot fulfil their needs.

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% |

For the best warehouse premises in Riga, the rent is EUR 4–4.5 per square meter and vacancy in this category is around 5%. Class A premises are rented out at EUR 3–4 and in this category, the proportion of vacant premises 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

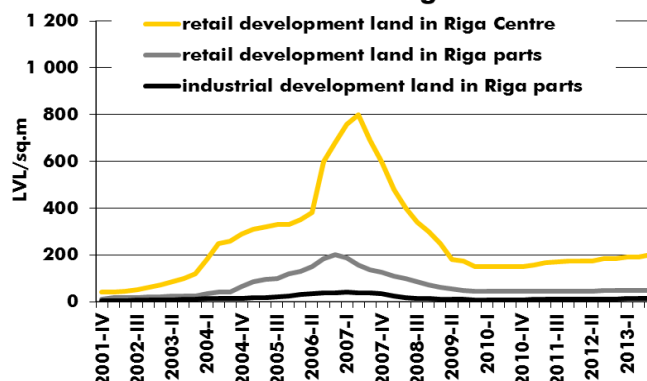
Investors are showing great interest in the hotel segment of Riga, which is becoming more and more attractive due to the growing tourist streams and high capacity utilization of hotels operating currently. Both parameters are due to increase in 2014, when Riga be the European Capital of Culture.

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

New hotel projects are also being developed and the competition between hotels is expected to intensify in the near future. The hotel room stock will increase by around 500-1,000 new rooms in 2014.

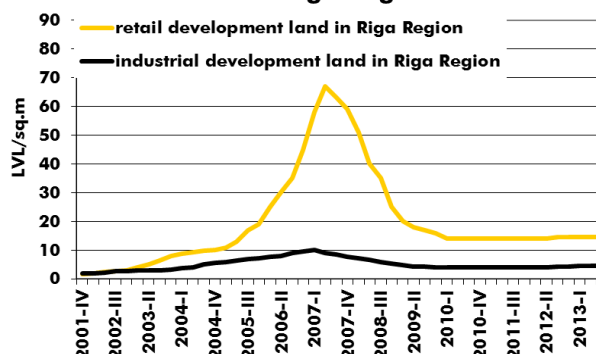
In the centre of Riga, with demand for apartments increasing, investors are also purchasing residential building development project, but the projects are still limited in their size. Investors are purchasing residential buildings to sell apartments after renovation or to create rental buildings. Activity 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



LATIO HEAD OFFICE

8 K.Valdemāra street, Riga

Latvia, LV 1010

Ph: +371 67032300

latio@latio.lv

www.latio.eu

