



COMMERCIAL PROPERTY MARKET REPORT RIGA

4TH QUARTER 2013



OFFICE PREMISES

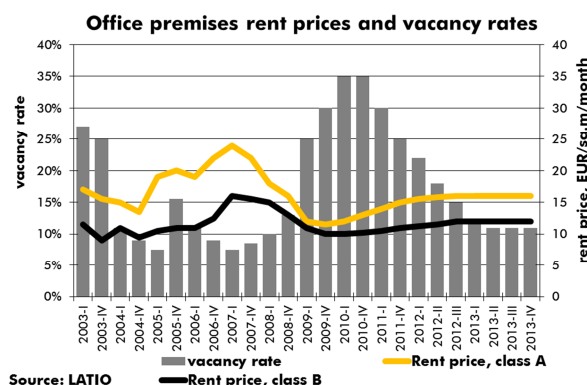
In the last quarter of 2013, in comparison with the preceding periods, significant changes were not observed and the previous trends were retained in Riga office space market – the specific weight of quality vacant space in locations strongly demanded by tenants continued shrinking gradually, while the lease rate for this type of premises increased slightly.

In the fourth quarter, there was less rotation of tenants as many companies no longer strive to seek for new premises aiming at more favourable contract terms; instead, they agree on mutually beneficial terms with the current landlords and extend the lease agreements.

Most often, new premises are sought after if a company grows and the current landlord is unable to offer the required extra space.

Office premises are in the strongest demand in the vibrant centre of Riga, and the quality office buildings along Dunties Street, Skanstes Street, and on the other bank of the river - in Pardaugava. About $\frac{3}{4}$ of the demand is built by the companies requiring offices up to 200 square metres large; there is some interest also in premises of about 350-400 square metres large.

Quite active premise hunters are the IT companies, legal, accounting and other service providers.



In the 4th quarter of 2013, Class A office transactions were completed at the lease rate ranging between 12–16 euro per square metre a month, Class B offices – 7–12 euro (in Riga centre – 9–12 euro, in Pardaugava and other areas outside the centre – 7–10 euro) per square metre a month, and Class C offices – 5.5–6 euro per square metre a month.

There is a minimum specific weight of vacant space in the Class A office segment. In the mid-2012, this index was ca.10%. There is a diverse volume of vacant Class B office space in different parts of Riga – there is less than 10% of vacant space in the city centre whereas it is about 15% in office buildings situated in Pardaugava and other areas outside the centre.

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 +	9 - 12	7%
Class B (downtown Riga)	7 - 10	15%
Class C (outside the center)	5,5 - 6	20 - 30%

Source: Latio

Provided that the previous trends continue, developers will start working on new office building development projects in 2014, thus supply of Class B office space might add 10,000–20,000 square metres in the nearest future.

Nevertheless, the lease rates will keep growing slightly for the existing premises in this class as owners of the buildings will review and sign new lease agreements with the current tenants.

At present, office construction boom is not likely since plans of developers are curbed by both the tight conditions for getting a bank loan, and the level of lease rate which is too low to ensure the expected yield of brand-new office buildings.

Giving the current costs related to development of such projects, construction of Class B office buildings would be profitable if lease rate reached 14 euro per square metre a month.

In 2014, premises leased by the State Revenue Service (SRS) in Riga will become vacant gradually as it is intended to complete the office building in the development Ezerparks. New tenants will occupy the high-quality premises within the total volume of the premises left by SRS. This rotation will result in vacancy of premises of lower quality.

RETAIL PREMISES

In the retail space market segment, the strongest demand is observed for the Old Town and Riga vibrant centre where vacant premises account for a small share.

Over a period of four years, the specific weight of vacant premises has dropped significantly in Riga centre – there were 25–30% of vacant retail premises in the end of 2009.

Good premises in the Old Town and the vibrant centre, in the locations providing circulation of people appropriate to the tenants' business activity are taken on lease in a short period. In the end of 2013, growing numbers of potential tenants propose to pay higher lease rates than the current tenants to the landlords of good Old Riga premises.

The demand breaks into more segments, and tenants try to choose premises in locations with better circulation of people and closer to other successful merchants. For instance, an increasingly stronger demand in premises around the cross-roads of Elizabetes Street and Tērbatas Street was observed recently.

Premises are sought after most actively by restaurants and other public catering companies in the Old Town and Riga centre. During winter season, enterprises start looking for space in the Old Town hastily so as to manage outfitting

thereof by spring. The possibility to install an outdoor terrace is an important factor to public catering companies. Public caterers agree to take basement or semi-basement premises ever more rarely; premises on the ground floor are preferred for most part. On the whole, the strongest demand is fixed for premises 50–100 square metres large, the public catering companies have interest also in a bit larger premises.

Retail premises rent prices and vacancy rates

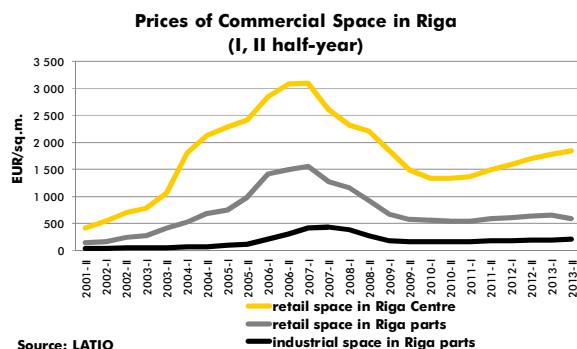
	Rent price, EUR/sq.m/ month	Vacancy rate
The best retail space in Old Riga	40 - 70	0%
Retail space in the best retailing streets	15 - 25	10%

Source: Latio

In the Old Town, along streets like Kalku, Valnu, Audeju Street, as well as in several street sections of the vibrant centre, lease rates ranged between 40–70 euro per square metre a month for premises 50–100 square metres large, in the 4th quarter of 2013. Lease rates fluctuated between 15–25 euro per square metre a month for 150 square metres large premises on the top shopping streets of Riga centre – Tērbatas, Kr.Barona Street in the direction out of the centre until Gertrudes Street, along Brīvības Street until Lacplesa Street, along the span of Elizabetes Street between Brīvības and A.Caka Street, and around the railway terminal.

The specific weight of vacant retail space continues shrinking in the central area of the city yet more distant from the vibrant centre. In these areas, lease rates are fixed at 4–15 euro per square metre a month. Lease rates also range between 4–15 euro per square metre a month for good retail premises in locations providing frequent circulation of people in other parts of the city outside the centre.

There are little sales of retail premises in the Old Riga or the vibrant centre. Given that lease rates grow for good premises, the landlords do not tend to sell them. Currently, there are no buyers either who - considering the lease rates fixed in the agreements - might wish to purchase the premises at a price generating 5% annual yield. In general, the prospective buyers of retail premises in the Old Town and the vibrant centre would expect a yield of 7–8%.



WAREHOUSE AND INDUSTRIAL PREMISES

In the segment of warehouse and industrial space, activity of lessees was retained at the level of previous periods in the end of 2013. There is a relatively little supply of the top-class premises, therefore, as soon as the premises become vacant, they are taken by new tenants quickly. Lease rates of good premises show a slight upward trend.

Good warehouse and industrial premises of 500–1,000 square metres are in the strongest demand. On the whole, there is a limited choice of premises meeting the requirements and needs of the tenants.

One can observe interest in purchase and reconstruction of industrial premises built during the Soviet period. The advantage of such units over building of new premises is the ready-made utilities and infrastructure.

Currently, there are hardly any new development projects in the warehouse segment. One of the reasons is the shortage of funds of developers.

Bank financing is available mainly when a developer has attracted the so called anchor tenant to the envisaged facility and has signed a long-term lease agreement.

When deciding on a possible construction site for new warehouses, developers seek for appropriate land plots as close to Riga residential areas as possible so as the labour force would be available and the prospective employees would not have to cover a long distance to their work place. This criterion has equal importance to tenants of warehouse and industrial premises as well.

Industrial premises rent prices and vacancy rates

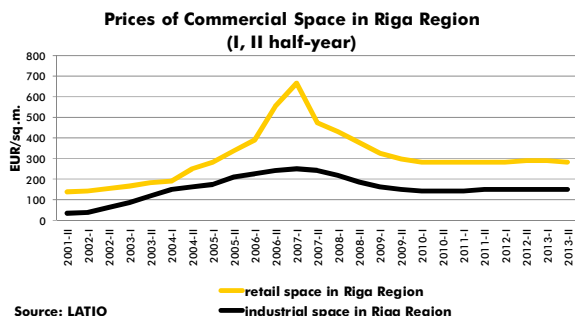
	Rent price, EUR/sq.m/ month	Vacancy rate
Prime	4 - 4,5	5%
Class A	3 - 4	10%
Class B	1,5 - 2,5	30%

Source: Latio

Lease rate is at 4–4.5 euro per square metre a month in the prime category warehouse segment in Riga. The specific weight of vacant space is around 5% in this space category.

The average lease rate is 3-4 euro per square metre a month for Class A warehouses including new and reconstructed premises meeting the latest demands. The specific weight of vacant space has decreased to 10% in this category.

The lease rates are fixed at 1.5–2.5 euro per square metre a month in Class B warehouse category comprising premises in good technical condition built in the Soviet period, while the specific weight of vacant space is nearly 30%.

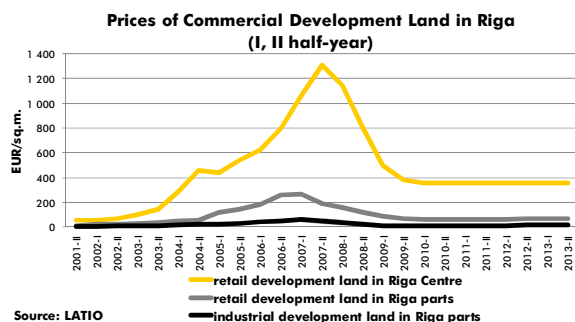


COMERCIAL DEVELOPMENT LAND

There was a growing demand in land parcels appropriate for development of multi-residential housing, office buildings, or other commercial facilities in Riga, its central area especially, in the second half-year of 2013. Investors and developers show strong interest in vacant land plots in the Old Town for the purpose of hotel and apartment building development.

Buyers prefer land plots with approved building blueprints attributed thereto.

It is expected that number of vacant land plots will reduce in Riga centre in 2014.



The biggest housing project developers purchase land in areas outside Riga centre for development of new multi-residential buildings.

Interest of these companies is associated with land plots where it is possible to build residential houses with total space of apartments of 5,000–10,000 square metres.

Development land for sale is looked after also by a range of trade companies like grocery chains searching for enlarging possibilities in the city areas where they are not present yet.

INVESTMENTS

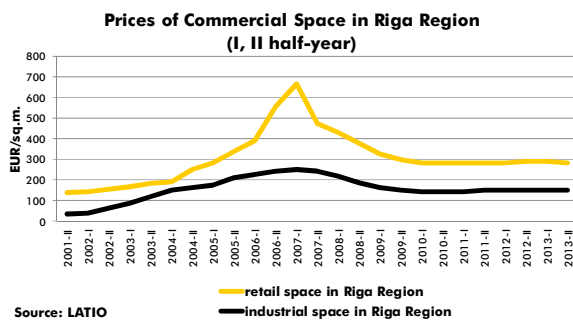
A stable interest of investors is sustained in Riga hotel segment. In 2013, several major hotel sales transactions have been completed, for example, in the middle of the year, foreign investors purchased the building of the former Hotel De Rome at price exceeding 13 million euro. In 2014, this process will go on, and several more hotel buildings might get new owners.

In 2014, the total amount of hotel rooms will grow as reconstruction of the existing hotel buildings and construction of new hotels is taking place.

Competition among hotels will become more severe in the nearest period of time. This fact may trigger selling of small hotel buildings or remodelling thereof into apartment buildings in Riga centre. Like in the segment of retail space, striving to be closer to the city centre and the Old Town is observed also in the hotel segment. As purchase or rent demand got stronger for good apartments in Riga centre, investors had a great interest in purchase of house ownerships in 2013. Investors purchased residential buildings for the purpose of selling apartments or making tenement houses after reconstruction of these buildings. Big interest was observed in properties at a price range between 0.5 and 2 million euro.

All in all, investors currently look for diverse property types in good locations of Riga centre. Nevertheless, closing a deal is hindered often due to different opinions of sellers and buyers

about the most adequate price. The prices the owners ask are most frequently at a level able to generate an annual yield of 4-5% to the buyer whereas the buyers wish to purchase a property at a price that would ensure a yield of 7-9%.





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