

## COMMERCIAL PROPERTY MARKET REPORT

4th quarter 2011

### Office premises

The trends of the previous periods continued in the fourth quarter of 2011 – the proportion of vacant premises in the most popular locations was decreasing, and rent was gradually increasing. Like before, the highest activity and demand of tenants were observed for premises in the center of Riga and in the new high-quality office buildings.

The interest of tenants was greatest in B-class office premises. Companies which require offices with area up to 200 square meters made up approximately three quarters of the total demand.

Some companies are expanding, recently leading to several lease transactions for premises over 1000 square meters. Some tenants have also increased the leased space in their current buildings. There are also companies that move to premises more suitable for their demands at a better location, with a similar or higher rent costs. These are some of the factors contributing to the declining amount of vacant premises.

The proportion of vacant office premises differs, depending on the category. In the *Prime* office space segment the amount of available space has fallen from 15–20% in Q3 2011 to a minimum in the last three months of the year. In the A-class segment, the proportion of vacant premises has dropped from 15% to 10%.

In the segment of B-class offices, the average amount of available premises has fallen from 30% to 20–25%. However, the proportion of free B-class space differs depending on the location of the office building. About 10% of B-class premises in the central part of Riga and about 30% in the Pārdaugava area have not been leased.

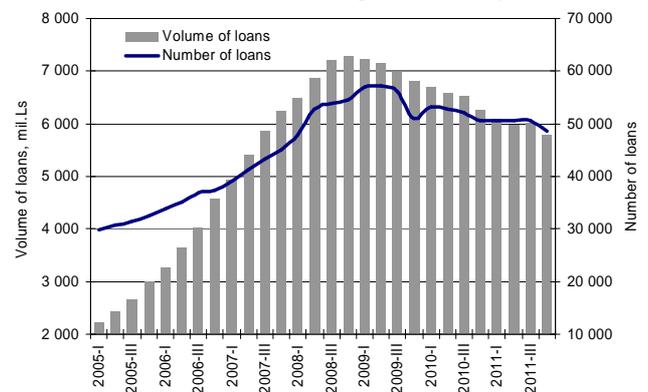
In the *Prime* segment of office premises, the average rent in the last quarter of 2011 was 12–14 euros per square meter per month. The monthly rent of A-class office premises was 9–16 euros per square meter. In the best A-class office buildings with a high occupancy rate, the rent increase over the past two years is 10–14%. The rent of B-class premises in Q4 was 7–12 euros; C-class premises – 4–6 euros.

The agreed rent depends on the size of the premises – it can be higher than the average when renting smaller areas, while a lower rent can be negotiated for a large office. Rent costs can also be affected by other factors.

If rent costs at the most popular locations continue slightly increasing this year, while the amount of vacant premises declines, developers may more seriously consider carrying out new projects. There may be situations where existing office buildings are unable to satisfy the tenants' demand for additional premises, for example, with an area of 1000 square meters. However, for development of projects to start up again, in addition to economic viability, an important factor is the presence of a stable, safe, sufficiently large anchor tenant that would lease several thousand square meters of space.

In the near future, turnover of tenants will also continue, with the owners of the most in-demand buildings trying to attract better tenants.

Number and volume of loans granted to enterprises



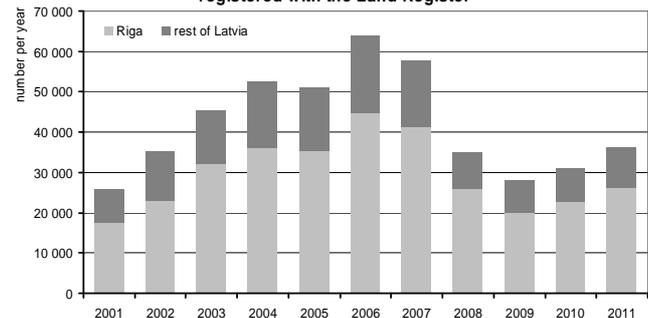
Source: The Finance and Capital Market Commission, LATIO

### Office premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Prime	12 - 14	0%
Class A	9 - 16	10%
Class B	7 - 12	20-25%

Source: Latio

Real Estate sales transactions in Latvia and Riga registered with the Land Register



Source: Land Register, LATIO

## COMMERCIAL PROPERTY MARKET REPORT

4th quarter 2011

### Retail premises

In the segment of retail premises, the activity of tenants in the fourth quarter of 2011, like in previous periods, was greatest in Old Riga and downtown Riga, where the amount of vacant premises is very low. The proportion of available space in downtown Riga has fallen rapidly over the past two years – at the end of 2009, the vacancy rate of retail premises was 25–30%.

However, tenant turnover is ongoing both in Old Riga and the downtown. The turnover of tenants in Old Riga is affected by changes in the tourist stream, while in the best shopping streets of the city center it is often connected with the desire of the owners to find tenants willing to pay bigger rent and conclude a lease agreement for a longer period than the current tenants. Premises in Old Riga and downtown Riga that are made available are rented out very quickly.

The biggest demand for retail premises in downtown Riga is still generated by restaurants.

The rent for premises in Old Riga and in the active center of the city in the last quarter of 2011 has remained at the level of the previous quarter. In streets of Old Riga such as Kaļķu, Vaļņu and Audēju, the monthly rent of premises with an area of 50–100 square meters was 40–70 euros per square meter in Q4. The rent for retail premises with an area of 150 square meters in the best streets for shopping in Riga – in Tērbatas and Kr. Barona streets, 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 near the train station – was 15–25 euros per square meter.

Still in the central part of the city, but farther away from the active center, the vacancy rates of retail premises are gradually dropping. The monthly rent in these areas is within the range of 4–15 euros per square meter. The monthly rent of premises in locations of residential neighborhoods with good pedestrian flow is also 4–15 euros per square meter.

Q4 2011 saw an increase of the interest of foreign buyers in purchasing retail premises in downtown Riga. Not many transactions have been completed yet, but there is intense competition for very good premises that are made available. This encourages sellers to raise the prices. The price for retail space in Old Riga or in the active center of the city at the end of the year was 4,000–5,000 euros per square meter; in other areas of the center – 1,200–2,300 euros per square meter. Premises in less profitable locations are cheaper.

Those foreign buyers who show interest in acquisition of commercial premises are ready to buy at a price which, taking into account the current level of rent, provides profitability in the amount of 6–8%.

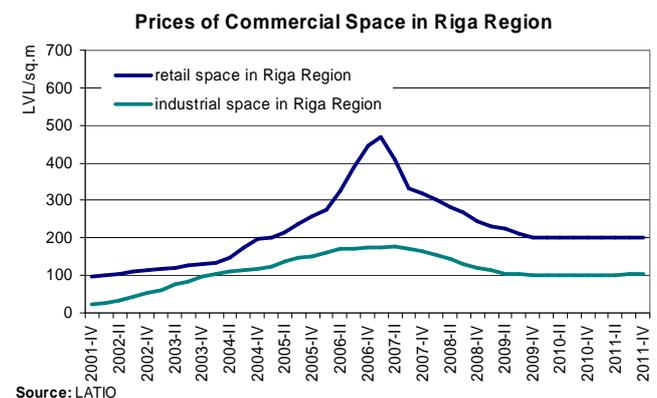
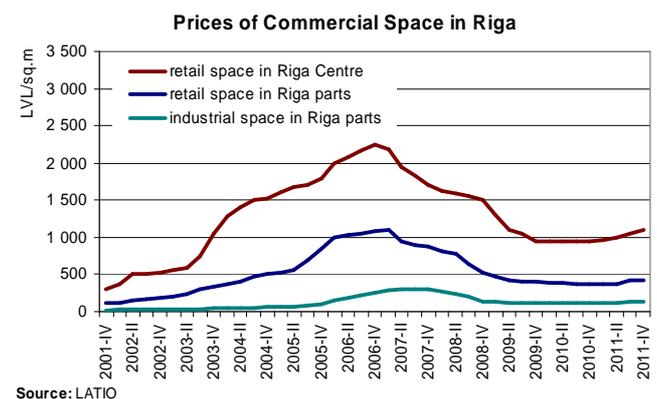
### Warehouse and industrial premises

The activity of tenants in the segment of warehouse and industrial premises remained at the level of previous months in Q4 2011, and was lower than in the beginning of the year. There have not been significant changes in terms of rent and vacancy rates.

### 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	0%

Source: Latio



## COMMERCIAL PROPERTY MARKET REPORT

4th quarter 2011

In the *Prime* warehouse segment in Riga, the rent is 4–5 euros per square meter in month. The vacancy rate in this category is 8–10%.

The average monthly rent of the A-class warehouse category – which includes new premises, as well as premises renovated to meet modern requirements – is 3 euros per square meter. The vacancy rate in this category is around 20%.

In the B-class warehouse category – composed of premises in good condition built during the Soviet period – the monthly rent is 1.5–2.5 euros per square meter, and the vacancy rate is approximately 30%.

Demand is greatest for warehouse premises with an area of 500–1000 square meters; about a fourth of all tenants require premises larger than 1000 square meters. The warehouse premises must come with small office premises.

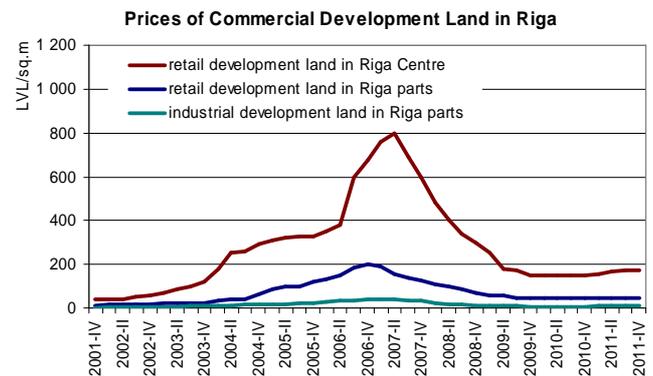
There are several manufacturing companies that have showed interest in purchasing land for construction of industrial facilities. The prices of suitable offers are high, so such transactions are currently being carried out.

In the first half of 2012, the activity of tenants in the warehouse and industrial premises segment will remain at the current level. The potential increase in demand will depend on various factors, such as export indicators, availability of resources from EU funds, etc.

### Industrial premises rent prices and vacancy rates

	Rent price, EUR/sq.m/month	Vacancy rate
Prime	4 - 5	8%-10%
Class A	3	20%
Class B	1,5 - 2,5	30%

Source: Latio



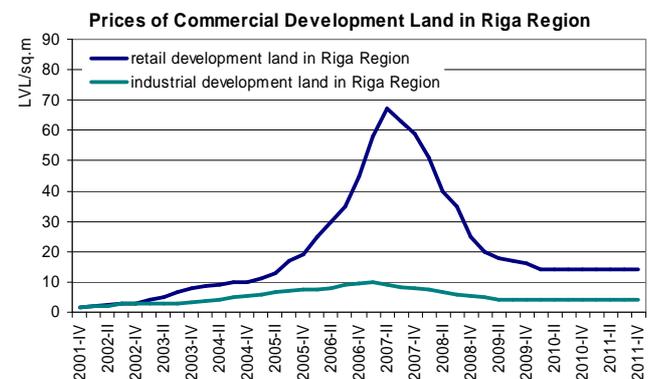
Source: LATIO

### Land for commercial construction

In the market of land for commercial construction, in the last quarter of 2011, there was still interest in plots of land in Jūrmala and Riga where it would be possible to quickly commence development of residential buildings; such land must come with harmonized building construction projects.

There is also interest in land on which it would be possible to build small office or shopping mall buildings.

Considering the current economic situation, current rent rates and the paying capacity of tenants, the prices demanded by sellers are often too high to make construction of commercial premises economically viable.



Source: LATIO