

MARKET COMMENTARY

Economics

The Central Statistical Bureau (CSB) seasonal adjusted data of GDP in Latvia indicated that economic growth in 2010 was faster than it was forecasted from the beginning. Increase in the first quarters of the year exceeded 1% became slower in Q3 and reached 0.9% thus maintained stable development dynamics already third quarter in turn. GDP during Q3 2010 increased by 2.9% when compared with corresponding period in 2009. Unscheduled fast economic growth happened due to increasing exporting volume. Foreign trade turnover data presented in October increase by 24.9% whilst import increased by 27.9%. Main exporting products still were wood and woodworks, metals and hardware, agricultural and foodstuffs.

Based on data released by CSB in November 2010 compared with November of previous year, annual inflation reached 1.9%. Prices for goods increased by 3.7% however prices for services reduced for 2.6%. Consumer price index for last 12 months compared to the previous 12 months has reduced for 1.4%.

As shown by data from the State Employment Agency, registered unemployment rate in Latvia in November compared with October remained invariable and was 14,3% from the amount of economically active inhabitants. For comparison registered unemployment rate in Latvia in January 2010 reached 16.6% from the amount of economically active inhabitants.

Recent data in the construction industry shows that building volume in November 2010 compared with November 2009 increased by 0.5%. In resource basic groups construction worker salaries increased by 7.2% and construction costs increased by 0.3%.

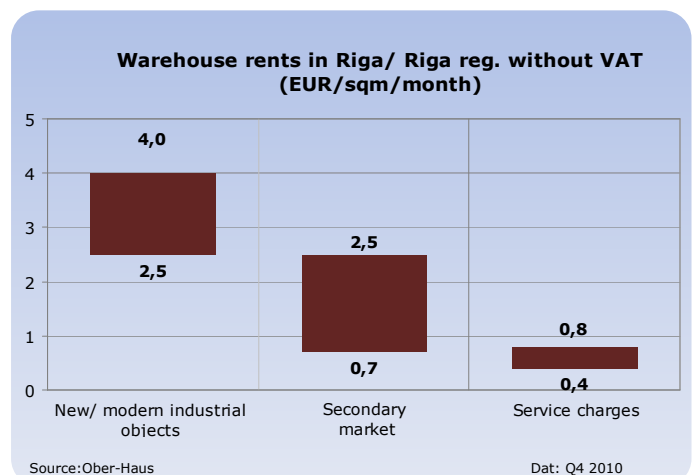
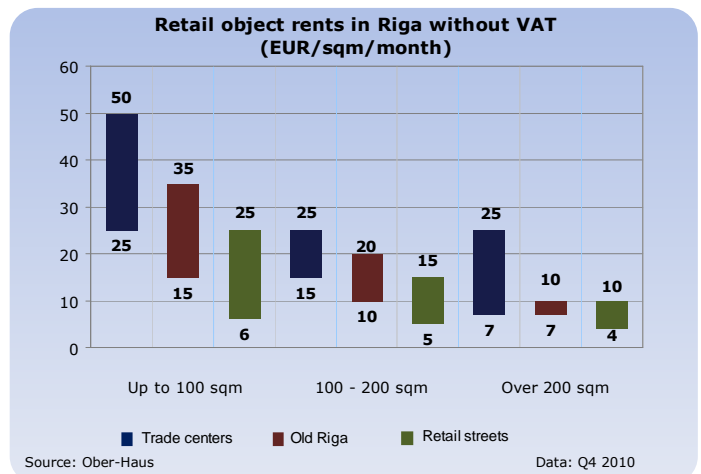
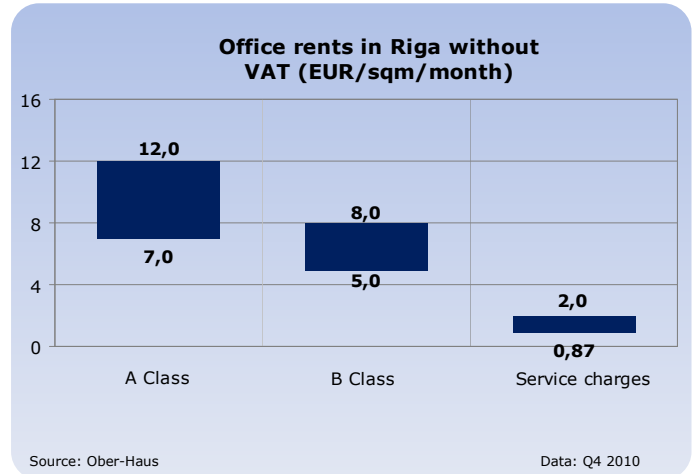
Office space

Office rental market during Q4 remained stable for both activity and prices. Rents for A-class office segment remained from 7 to 12 EUR/m². Prices for B-class office ranged from 5-8 EUR/m² while the C-class offices can be rented out for 3 - 4 EUR/m².

The average housing management costs also remained unchanged and for A-class offices was from 1.1 to 2.0 EUR/m², for B-class offices from 0.87 to 1.5 EUR/m² and C-class offices for up to 0.70 EUR/m².

Interest from international companies expanding their operations in Latvia maintained stability. Such companies are looking for 500 – 1000 m² large office space. A part of companies wanted to purchase office premises and were searching offices with total area from 300 to 800 m².

During Q4 several international companies have used services offered by 'Ober-Haus Real Estate Latvia' in search for a new office space. As an example we can mention the company 'DANONE' Ltd. and 'NUTRICIA' Ltd. recently expanding their operations. For their new central office each company chose



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premises with a total area of ~ 500 m² in the new building of joint-stock company 'DnB Nord Banka' on Skanstes Street 12.

Retail

As shown by the CSB data in November 2010 compared with October according to the seasonally adjusted data at constant prices the total retail sales turnover increased by 0.2%. The non-food retail sales turnover increased by 0.9%; while the total grocery retail sales turnover decreased by 1.3%. In November, the total retail sales turnover within a year has increased by 8.1%.

During Q4 continued tendency observed also in the end of Q3 when increasing of retail sales number was noticed. Buyers were mostly from former Soviet Republics however also local business persons were interested in possibility to invest in relatively smaller and safe properties.

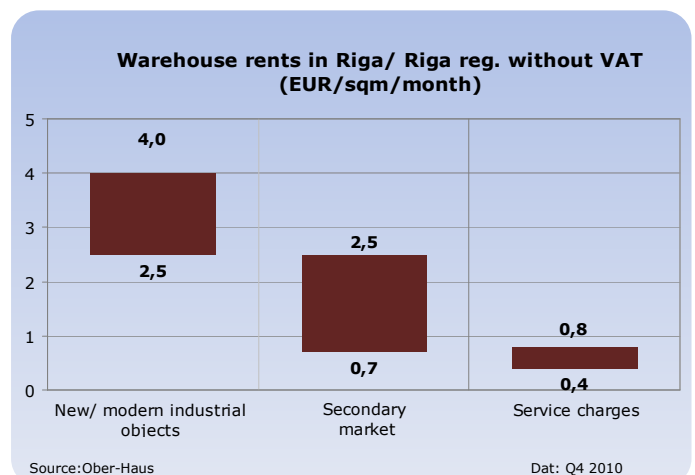
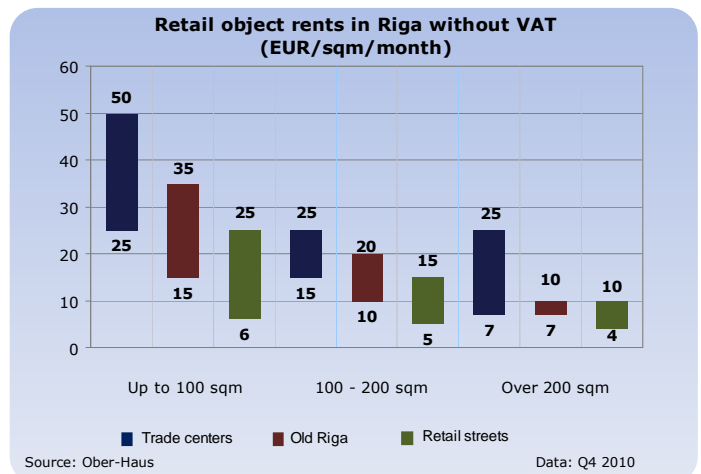
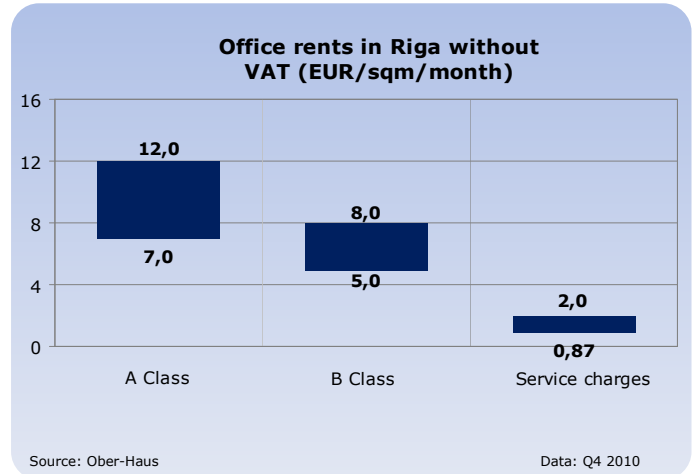
Demand for small commercial areas suitable for grocery shopping, restaurants and service facilities in the best retail streets as well as in Old Riga remained as in previous quarters. The proportion of vacancies in the retail streets remained in level reached in Q2 and was approximately 10 – 20%.

Demand for large retail space as well as for retail space out from the active city centre is still decreasing.

In large shopping centers such as *Spice, Alfa, Galerija Centrs, Olimpia* and *Origo* vacant are only 10 or even less percent of retail space. In other large shopping centers like *Domina* and *Riga Plaza* percentage of vacant retail space has decreased till 10%.

New shopping centre GALLERIA RIGA was developed by Patollo Ltd and was opened on 22 October 2010. In development of this shopping center Patollo invested around 100 milj. EUR. The authors of Galleria Riga are association of architects Poga, Sarma&Norde whilst the construction contractor is Re&Re Ltd. The total area is more than 41 000 sqm including shopping area of 29 700 sqm. All together there will be more than 170 shops and restaurants plus entertainment area in the roof (on 8th floor) where summer lounge garden and winter ice-skating rink will be located. Under the shopping center there is 2 level underground parking for 150 parking spaces. At the end of Q4 vacancy in Galleria Riga was approximately 18%. From 82% of leased area only 65% were opened. It is planned that the rest of leased shopping areas will be opened till spring 2011.

Rents for retail space remained stable if compared with previous quarters. Rents in Old Riga as well as in the active centre for small commercial space were on average 15-35 EUR/m², rents for larger premises ranged from 7 to 15 EUR/m². Rents for commercial space situated further from the centre were from 6 to 8 EUR/m² for small areas and from 4 to 6 EUR/m² for larger premises.



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Rents for retail space in shopping centers also maintained stability and ranged from 7 to 50 EUR/m².

Warehouse and Industrial space

During Q4 activity in warehouse and industrial space segment remained stable, however the number of transactions compared with the interest of customers was small. There was a demand for small up to 500 m² large satisfactory quality warehouses and industrial spaces for lease and purchase. Clients also were considering and expressed interest for large-scale investments in perspective and cheap industrial area within Riga and surroundings. Investors investigated comparatively safest possibilities to invest in Baltic States, as well as strategically most favorable location from the point of logistics, by analyzing market of Latvia, Lithuania, Estonia and Poland.

The average price level remained stable since Q2. Rents for old commercial hangars without heating starts from 0.7 EUR/m², prices for renewed shops in old industrial areas were 1 – 2.5 EUR/m² and for A-Class complexes with adequate quality equipment in all locations within Riga from 2.5 to 4 EUR/m². Within factories dominated secondary offers mostly unsatisfactory or satisfactory quality with area up to 500 m².

Selling prices for small secondary warehouses, industrial and service constructions with total area up to 500 m² were approximately 400 EUR/m². Prices for sheds with the total area starting from 500 m² were from 70 to 250 EUR/m², the price depended from shed condition and specific features. Prices for land plots suitable for commercial building were from 10 to 20 EUR/m².

Increase of the proportion of large warehouse parks was observed in the territory of Riga whilst the capacity of premise within Riga district decreased. Since Q2 logistics companies are re-orienting closer to the client.

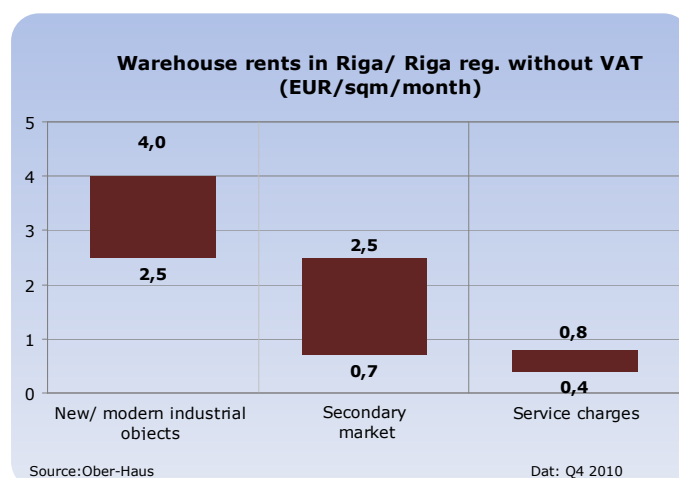
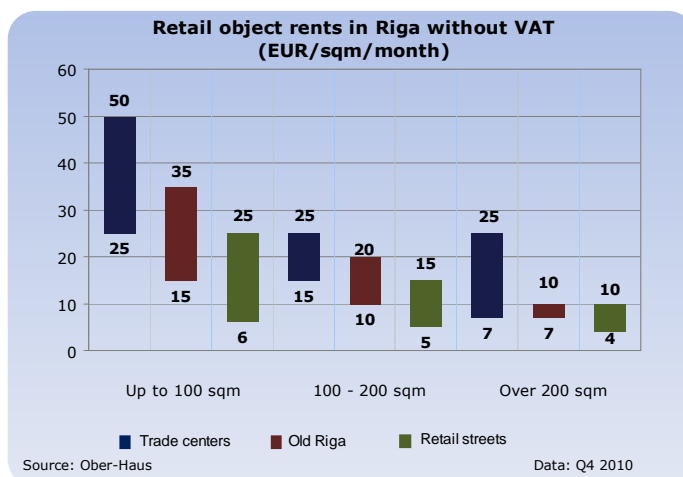
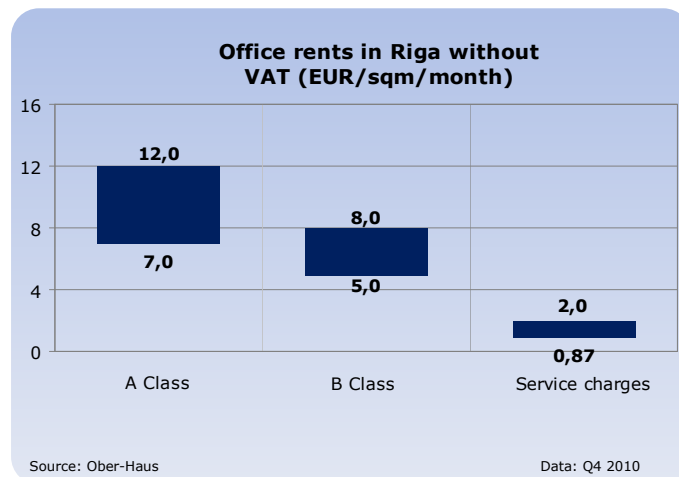
In general during Q4 filling of warehouses spaces increased based on dry cargo loads. Some companies expressed willing to expand their activity in the period of half a year or year and to enlarge warehouse/industrial premises up to 10 times.

Forecast for the next year

During 2010 commercial property market has been active if compared with 2009. After 2009 when rental cost decreased by 40-50%, during 2010 prices stayed stable and within the year kept its prior level.

In the first half of 2010 increased demand for retail premises and offices therefore in during the second half of the year increased also demand for warehouses and industrial space.

Current market conditions are favourable for sourcing new office space hence there is a tendency for international companies to expand their operations in Latvia and move to a larger office



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spaces or move to new, modern building with favourable terms. Interest from international companies willing to make Latvia as the country of their basic residence is growing; there are already several companies which have done that.

Current real estate market price, qualified labour and developed business environment offer advantages which make Latvia attractive to foreign investors.

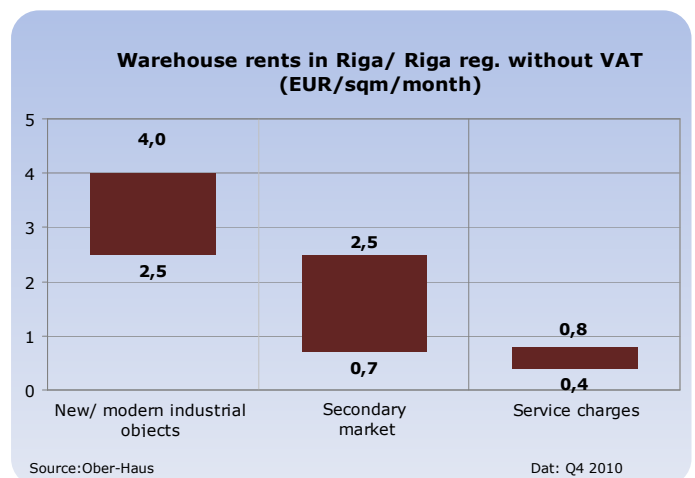
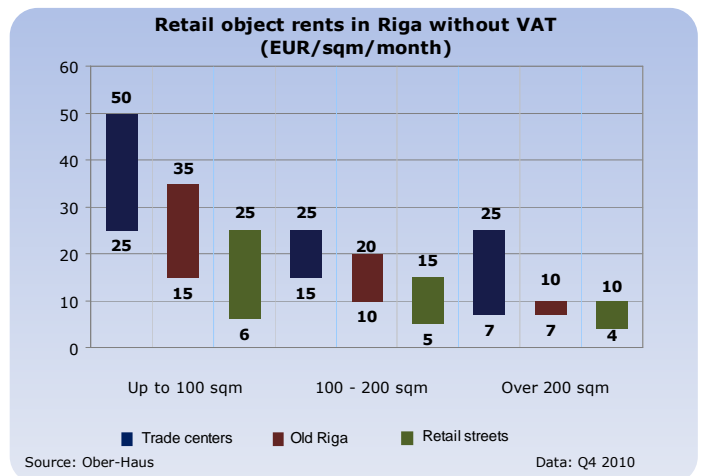
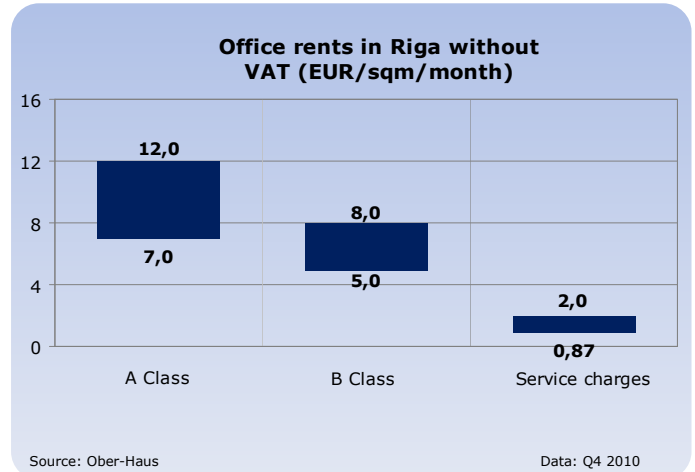
Within 2010 amount of concluded sales has increased. Buyers are residents as well as foreign clients, mainly from former Soviet Republics.

There is an active cooperation with various investment funds which have interest in investing in Latvia and also buying and developing various real estate objects.

Number of high quality commercial rental space which has high level service, good location and developed infrastructure has decreased during 2010. Therefore we can conclude that during 2011 this tendency will continue and supply of such premises will decrease; as a result we can predict that commercial rental space costs will slightly increase.

Taking into account that during 2010 commercial market has stabilized and demand for commercial properties has increased, we predict that during 2011 activity will remain as stable as it was in previous year. However, if economical situation in country will improve the activity may increase.

We will feel activities from companies starting new projects and planning to change something within first quarters of 2011. Part of companies which have started considering possibilities of broadening their activity already in 2010 may realize it during 2011 thus increasing the amount of deals.



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