

Riga Office Update

Banks build to suit, others wait

Economy

Latvia's GDP soared 7.2% in 2003, up from a healthy 6.1% in 2002. In 2004 GDP will likely grow by 6.1%. Inflation (CPI) grew 2.9% in 2003, up from 1.9% in 2002, and is projected at 3.9% this year.

Supply

Riga has only 15,300 sqm of modern, class A, office stock, a tiny number which will more than double with the opening of one new building, the 18,500 sqm landmark "Sunstone" this August. But while the economy stays strong, few have taken a chance on speculative office development.

Sunstone – a beautiful new landmark building constructed on the Daugava River overlooking the Riga Old Town on the opposite bank. Sunstone will open in August 2004 and will immediately be the most recognised building in Riga. The tower was developed by regional bank Hansabank mostly for its own use. With 18,500 sqm, 6,500 of which is reserved for rent at 20 EUR per sqm.

There is 50,000 sqm of what can be called class B space. The rest of the Riga office market consists of converted flats or unrenovated Soviet era construction.

Valdo Office Tower – Latvian developer Valdo opened a 12,600 sqm class B building on the bank of the Daugava River, just 10 minutes drive from Old Riga. The tower opened last October. Ober-Haus has found 35% of total attracted tenants.

North Gates – The second phase of the class A project will open in July 2004 with another 2,000 sqm of office space.

Unibanka headquarters – SEB group's subsidiary in Latvia, Unibanka, will open its new 9,500 sqm headquarters in Ramava which is 20 minutes driving distance from city centre. The new headquarters building will open in April 2004.

Two other office buildings to arrive in 2004 include the 1,800 sqm Tērbatas Centre, now under construction in the city centre, the leaseable area will be 2,000sqm. The Baltic construction firm Merks announced plans to build an 8,000 sqm office project in the CBD area by the end of 2005.

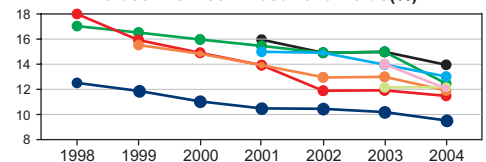
Demand

Although small, demand still outstrips the tiny amount of new supply on the market. The greatest demand is for out of centre sites with comfortable car access and parking facilities. As rent is the most important factor, most demand is still for class B premises.

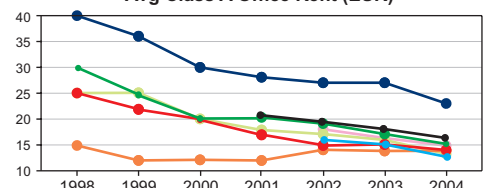


Sunstone – Hansabank's new HQ is Riga's first new class A tower in 15 years.

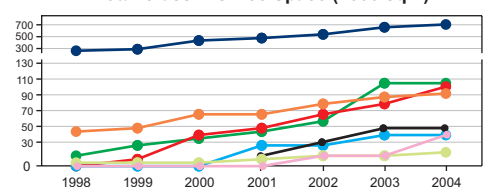
Class A Office Investment Yields(%)



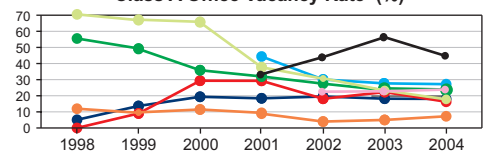
Avg Class A Office Rent (EUR)



Total Class A Office Space (1000 sqm)

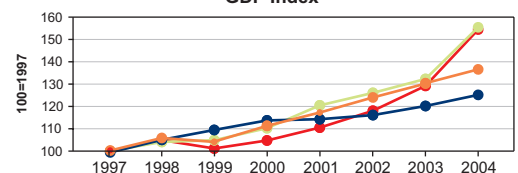


Class A Office Vacancy Rate (%)

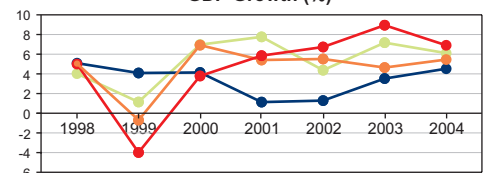


Legend: Tallinn (orange), Vilnius (red), Krakow (green), Katowice (blue), Riga (yellow), Warsaw (dark blue), Gdansk (pink), Poznan (black)

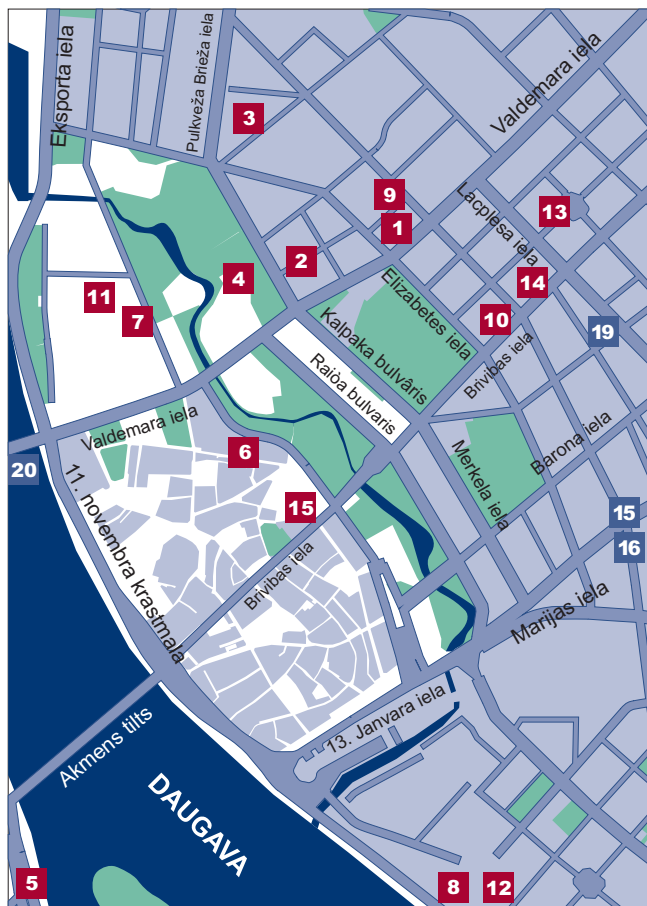
GDP Index



GDP Growth (%)



Legend: Estonia (orange), Latvia (yellow), Lithuania (red), Poland (blue)



Office sqm existing in Riga

Property name	sqm
1 Valdemara Centre	7 300
2 Felix Holding Business Centre	1500
3 Mid Baltic Office Building	3 000
4 Kongresu nams Office Centre	1 500
5 Valdo *	12 600
6 Jekaba kazarmas	7 500
7 Kronvalda bulv.	7 000
8 RD Centre	5 000
9 Jeruzalemes	4 000
10 Dominante	4 000
11 Citadele	2 000
12 Reaton *	540
13 Gertrudes Centre	1 820
14 Domuss (Brivibas Str.)	700
15 Basteja passage	2 000
TOTAL	57 760

Office sqm planned in Riga

Property name	sqm
16 Remarks offices (Zemitanu Str.)	5 000
17 Remarks offices (Darzauglu Str.)	4 000
18 Unibanka headquarters in Ramava *	9 500
19 Terbatas centre	1 800
20 Saules akmens	18 500
TOTAL	38 800

* Outside of map area

Clients mostly require qualitative premises equipped with appropriate communications and security systems necessary for work. The view through the office windows is also of certain importance. Decoration of the premises is considered to be of minor importance. Most companies wish that the premises be ready for painting but the choice of colours and material would remain up to the company itself to decide.

Rent

Class A space or expensive offices is still not a priority for Latvian companies. Lack of supply notwithstanding, rents for A class premises continued their steep slide, down 20% in one year to 15 EUR per sqm. In the beginning of 2004 A class office premise rent raised until 17 EUR per sqm. Rents for class B qualitative office premises fell less to 8-11EUR per sqm.

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