

Riga Residential Update

Prices Climb as Residential Boom Builds

Economy

Latvia's GDP soared 8.6% in 2004. This follows a stunning 7.5% in 2003, and 6.1% in 2002. Corporate income taxes were slashed from 25% to only 15%.

Prices

The prices of newly developed flats in the suburbs increased 15% in 2004 to an average of 720 EUR per sqm, with the very cheapest beginning at 500 EUR per sqm and the modern - 1370 EUR per sqm. The most expensive new flats are in the centre and cost 1,500-3,000 EUR per sqm.

New units are sold mostly prime shell, without interior works, flooring, bath or kitchen. Finishing usually cost 150-300 EUR per sqm.

In 2004 prices in the city centre and old town grew 25-150%. Flats in the old town now cost from 2,000 to 5,000 EUR per sqm. Unrenovated apartments in the city centre are offered for 900 to 1,800 EUR per sqm, and renovated flats generally cost 1,400 to 3,000 EUR per sqm.

Prices for suburban secondary market flats grew 30% annually to 440-1050 EUR per sqm.

Supply and Demand

The most sought area is in the city centre from the old town to the so-called quiet area. The Art Nouveaux treasures on Gertrudes Street are the most sought after for foreign investors. In 2005 Ober-Haus sees 4,000 new flats to be offered in Riga and its environs, a significant increase over the 1,500 built in 2003.

The largest offers are in following residential areas in Riga – Imanta, Dreilini, Purvciems and Plavnieki. Most important projects include 700 flats to be built by municipality in **Dreilini**. A 240-flat house on **Upenu Street** (developer Budimex), and a 250-flat house on **Stirnu Street**, (developer NCC Konstrukcija).

The strongest demand is for cheaper one or two room units starting at 520 EUR per sqm without interior works. Sites outside soviet suburbs, but close to Riga, like Marupe and Balozi grow in popularity. Also developers prefer less expensive land price outside soviet suburbs (around 20 EUR per sqm) then in suburbs (around 80 EUR per sqm).

In the single-family house segment, the largest supply is for 180-240 sqm houses. Prices for such houses within the city area are from 800 EUR per sqm without finishing and central heating boiler to 900-1300 EUR per sqm for completed house. In the most prestige areas (Kipsala, Mezaparks) prices are around 1500 EUR per sqm without finishing, and 1650-2500 EUR per sqm for completed house. Those outside city limits cost 700-1000 EUR per sqm for completed house.

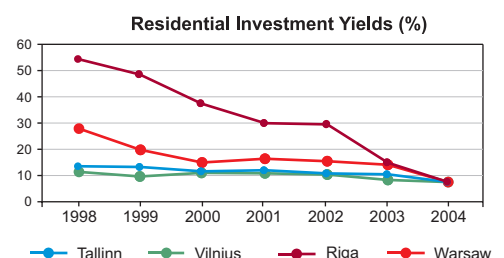
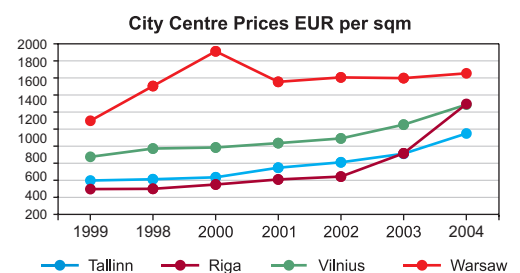
The number of newly built homes doubles each year. In 2004 there were over 1,000 newly built homes, compared to 500 in 2003. We expect at least 1,500 in 2005. The



Araisu Nams – modern 69 apartment building in prestige suburb, Riga. Partially pre-sold. Completion in middle of 2005.



Dzimtā sēta – 72 apartment building in Purvciems suburb, Riga. Completion in second half of 2005.



average sized land plot inside the borders of Riga city is 600-1,200 sqm and in villages outside Riga up to 1,300-2,000 sqm.

Land prices jumped up to 50% last year in some areas. Land plots for single-family homes inside Riga's borders cost 40-120 EUR per sqm, and in villages with full communications package and facilitated territory they cost 13-50 EUR per sqm.

Saliena – a town in creation – on a way from Riga near to resort city Jurmala, on a land plot of 600 ha. Currently first 28 private houses under construction. Developer – “Saliena real”. According to a plan besides housing/residential areas to develop business park and sports, retail and entertainment, health park, science and technology park, and light industrial areas.

The Mortgage Market

Interest rates are among the lowest starting at 4%. The maximum credit period is 40 years and credit may be granted for up to 100% of a property value (new buildings without finishing).

Outstanding mortgage loans in Latvia total only 4.5% of annual GDP compared to the EU average of 48% of GDP. We see over 650 million EUR of increased lending coming to the Latvian housing market over the next four years.

Yields and Taxes

The rental market (mostly to foreign workers) can be divided into three price segments: the Old Town for 10-12 EUR per sqm monthly, the “Quiet Area” for 8-10 EUR per sqm monthly, and the City Centre for 6-8 EUR per sqm monthly. Apartment rents have not significantly changed from beginning of 2004.

Strongest demand is for one and two bedroom apartments, 60-75 sqm, for 800-1,000 EUR monthly rent giving a yield of 7-10%.

Individuals must declare rent collected as income, and pay 25% income tax annually. Companies pay 15% income tax. Both loan interest and improvements are tax deductible for entrepreneurs.

Private owners pay no capital gains tax on the sale of their residence, if they hold the residence for longer than one year. Otherwise 25% from the gain must be paid. Companies, must declare any capital gain as income. Companies must charge VAT just on commercial rents, not apartment rent.

On purchase of property the buyer must pay a 2% property title transfer fee to the property register. The notary fee is a flat fee between 300-450 EUR.

Property tax is 1.5% annually of the cadastral value of the land plus the balance sheet or cadastral value of the buildings on it.

Foreigners can freely buy and sell residential property in Latvia. A foreigner can also buy land, but must get approval from the local municipality.



Dienvidu pakavs – 150 apartment building in Ziepniekkalns suburb, Riga. Completion in second half of 2005.

