

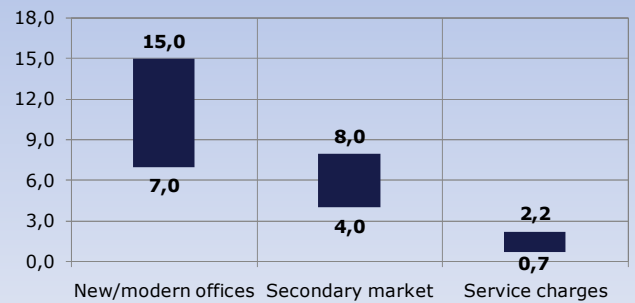
# MARKET COMMENTARY

The second quarter of 2009 in office field in comparison with first quarter supply keep growing and prices falling. Nevertheless price reduction is not so rapid and reached the level when we can prognose stability in prices and possibility of corrections we see just in particular cases but not us a market tendency. The most active prospectors still are companies which are looking for smaller prices and are in the process of join or demerge of companies. The biggest quantity of prospectors are in range till 150 sqm, but II quarter shows that also big tenants (over 500 sqm) become more active. This activity is stimulated optimization needs and existing lease contract drawing to a close. Such activities from the one hand increase demand but from the other hand also increase because by leaving previous premises and entered new premises which in 90% are smaller supply still stays the same or even become more. In II quarter we can talk about little movement in office sales if we compare with year 2008 and I quarter of 2009. However about tendency we could talk only if these activities will prolonged for next 6 month. The activity level in office and retail have raised but we suspend our judgment about commercial lease resuscitate and increasing of lease agreement numbers as other our vocational brothers predict, because in Latvia we don't have precise facts where we can see the number of signed lease agreements. That's why all speculations and numbers about such information are only assumption or facts which are based on ones companies monthly/quarter results and don't show market situation in general.

Retail turnover keep falling in II quarter and this directly have influence to retail real estate segment. Decrease in retail turnover is closely connected with economical situation, fall in purchasing power and seasonality – in summer time historically people are making less purchases. The supply is still relatively high in Old city as well as on main retail streets (Terbatas, Kr. Barona). However the prices reached such level that potential tenant can pay for spaces in good location and have successful business results. Also many tenants are ready to move from poorer spaces to better located spaces because they can increase turnover and keep rent payments in the same level. This is the time when it is very important for separate object owners to be elastic in thinking and price levels because competition between shopping centres and individual owner will become more and tougher. Managers of shopping centres have reduced rental prices and correct rental conditions and the margin between shopping centre prices and prices in main retail streets have become smaller.

Industrial sector in II quarter have very low activity. Mainly demand is for small warehouses with office spaces and exposed fields in strategically place with good infrastructure and access possibilities. Also the potential investors are not making any overt moves because of economical situation and Latvian government passivity in making strict directions and regulations of economical pump-priming. Even profitability ratios rising for 3-5% this year is not enough to attract investors. It is therefore most likely that in the near future potential investors will only observe our market and will wait for at least some signs of stability in the economy.

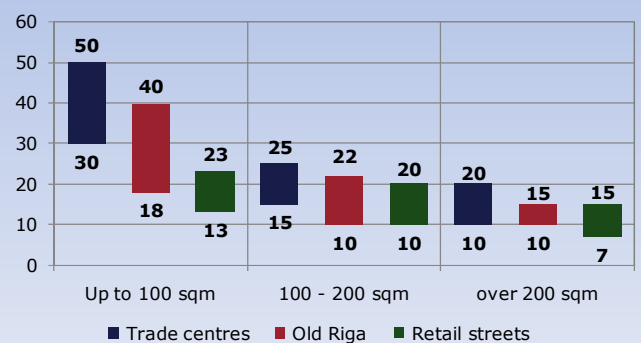
**Office rents in Riga without VAT (EUR/sqm/month)**



Source: Ober-Haus

Data: Q2 2009

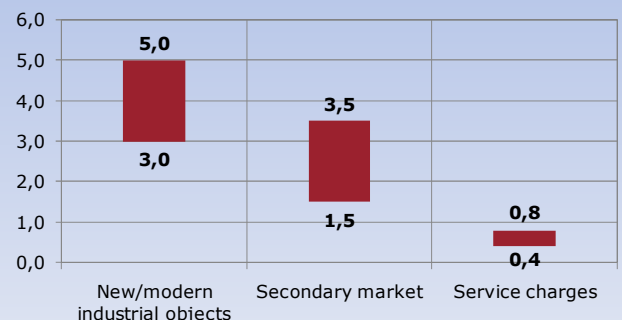
**Retail object rents in Riga without VAT (EUR/sqm/month)**



Source: Ober-Haus

Data: Q2 2009

**Warehouse rents in Riga without VAT (EUR/sqm/month)**



Source: Ober-Haus

Data: Q2 2009