

LATVIA, RIGA

RESEARCH & FORECAST REPORT



MARKET INDICATORS

RENT RATES AND TENDENCIES

class	rates*	2012
A	9-14	↔ ↗
B1	6-10	↔ ↗
B2	5-7	↔ ↗

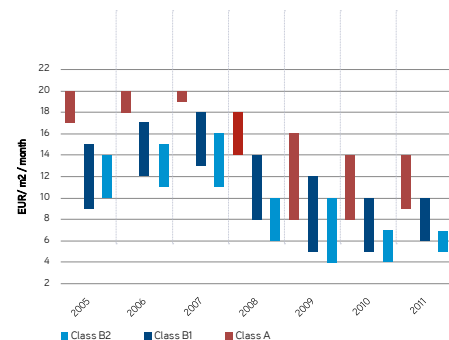
* - asking rent rate (EUR/m2/month) excluding service charges, taxes and tenant incentives.

TOTAL VACANCY AND TENDENCIES

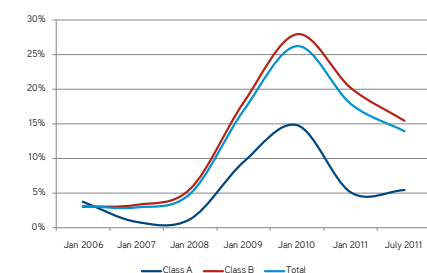
class	rates**	2012
A	5.4%	↔ ↘
B1	15.3%	↔ ↘
B2	15.7%	↔ ↘

↔ ↗ - slight increase
↔ ↘ - slight decrease

RENT RATES OF OFFICES IN RIGA



TOTAL VACANCY** IN OFFICE MARKET



** - vacancy including built-to-suit objects

1HY 2011: Office Sector Market in Riga on the Way to Recovery

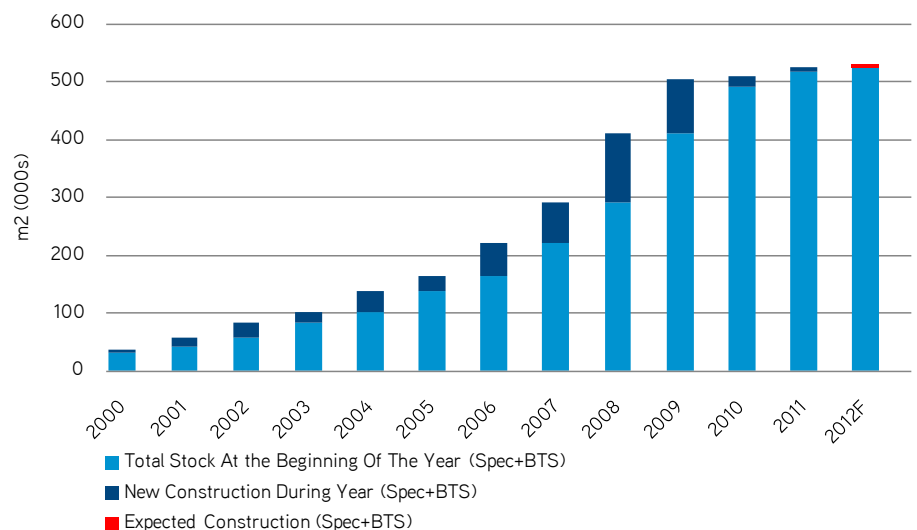
OVERVIEW

Commercial real estate markets were always tightly connected with general economic development. After 2010, a year of stabilization, the Latvian economy is showing the first signs of economic recovery: real GDP increased by 3.5 per cent and 5.6 per cent in 1Q-2Q2011 compared with 1Q-2Q2010, the Economic Sentiment Indicator has grown by 10 per cent since 1Q2011 and reached the average EU level, real net wages have stopped shrinking, while promising trends can be found in the manufacturing and retail trade. However, suppressing influences on the Latvian economy are imposed by high taxation plus inflation. Despite a general improvement, economic growth is not expected to be rapid during the next few years, as the economy suffered a severe decline in 2008-2009 and the global economic situation remains uncertain.

SUPPLY

In July 2011, total A and B class office stock in Riga comprised 525,000 m2. Supply of A and B class offices reached a factor of 373,000 m2 for the speculative sector and 152,000 m2 for the built-to-suit sector. During the first six months of 2011 no new objects were added to speculative stock and only one object was put into commission in the built-to-suit segment: the American Embassy administrative building on Remtes street. Only one office project Jupiter with GLA of 5700 m2 is expected to be commissioned in 2HY 2012. Developers and financial institutions are not eager to invest and provide debt financing for new construction of office projects since developments risks are too high. Long-term unbreakable lease contracts with potential tenants could mitigate development risks, though it is close to impossible to get them signed.

DYNAMICS OF OFFICE SPACE IN RIGA (F - forecast)



DEMAND

The office market is reviving and companies continue to gradually expand their existing premises or to search for better ones. In the period January to July tenants absorbed 18,000 m² of A and B class office premises, that is, 3000 m² monthly net absorption compared to 2750 m² in 2010. The most active tenants looking for expansion and relocation possibilities are pharmaceutical, IT and media companies. For instance, SUPER FM, the well-known Latvian radio station, and Cytec, the chemicals and materials technology company, have expanded their premises with the help of Colliers International. Most lease contracts were signed for 100-400 m² size office premises, though also popular were 600-800 m² premises. Vacant offices comprising more than 1500 m² located on one floor are in shortage. As opportunity still exists for relocation to better premises and companies continue to hire new staff, demand is expected to grow further in 2HY 2011.

VACANCY RATE

The vacancy rate calculated for the total stock, including built-to-suit projects, dropped by 3.9 percentage points from 17.8 per cent in Jan 2011 to 13.9 per cent in July 2011 or from 24.7 per cent to 19.6 per cent if calculated for speculative stock only. Vacant stock for B class office premises equals to 68,000 m² which is 15.4 per cent of total B class stock (22.7 per cent if calculated for speculative stock). The vacancy rate for total A class office buildings increased slightly from 5.1 per cent to 5.4 per cent level (from 5.7 per cent to 6.1 per cent for speculative stock). The increase in vacancy rate for A class offices was due to relocation of large tenants within A class segment.

RENTAL RATES

Rental rates have increased slightly and unevenly among office centres in 1HY 2011. The lower level of asking rent rates grew by 1 euro for all office classes and average asking rent rates comprised EUR 9-14, EUR 6-10 and EUR 5-7 for A, B1 and B2 class offices respectively. If the global economy recovers steadily and there are no new shocks and dropdowns, rental rates for all types of premises are expected to increase, as vacancies are expected to decrease further.

TRENDS AND FORECASTS

- High competitive advantage still exists in Riga for relocation or establishment of back offices and shared service functions of international companies.
- The most active tenants searching for new office premises are pharmaceutical, IT and media companies.
- The total vacancy rate decreased by 3.9 percentage points and reached a level of 13.9 per cent. Vacancy for speculative stock decreased from 24.7 per cent in January 2011 to 19.6 per cent in July 2011.
- The lower bound of average rent rates grew by 1 euro for all office classes. If the global economy recovers steadily and there are no new shocks and dropdowns, rental rates for all types of premises will gradually rise, as vacancies are expected to decrease further.
- One office centre with GLA of 5,700 m² is expected to be added to stock in 2HY 2012.

DEFINITIONS

- **Total stock** - Existing gross lettable office floor space (all classes) within the specified area.
- **Vacant stock** - Total stock currently vacant within the specified area, and available for immediate occupation within three months.
- **Net Absorption** - The net change in the amount of occupied space in the market.
- **Total vacancy** - Ratio of total vacant stock to total stock within the specified area.
- **BTS** - Built-to-Suit stock.
- **Spec** - Speculative stock.

512 offices in 61 countries on 6 continents

➤ Revenues:	€1.14 Billion
➤ Professionals & Staff:	12,509
➤ Brokers:	4,387
➤ Square Meters Managed:	90.9 Million
➤ Lease/Sale Transactions:	73,972
➤ Total Transaction Value:	€44.5 Billion

COLLIERS INTERNATIONAL ADVISORS LATVIA

J. Alunana St. 2, Riga
TEL +371 6 778 3333
FAX +371 6 778 3334

CONTACT US:

ERIKS BERGMANS
Associate Director
Commercial Real Estate Department
MOB +371 2643 0099
Eriks.Bergmans@colliers.com

MARIJA KAPELKA
Partner
Director, Research & Advisory Department
MOB +371 2632 1615
Marija.Kapelka@colliers.com

The information contained in this research report is for general information purposes only. The information is provided by Colliers International and while we endeavour to keep the information up to date and correct, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability with respect to the information, products, services, or related graphics contained in this brochure for any purpose. Any reliance you place on such information is therefore strictly at your own risk. In no event will we be liable for any loss or damage including without limitation, indirect or consequential loss or damage, or any loss or damage whatsoever arising from loss of data or profits arising out of, or in connection with, the use of this brochure.



Accelerating success.