LATVIA

REAL ESTATE MARKET REVIEW

ANNUAL REPORT, MARCH 2012

SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

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REAL ESTATE MARKET IS STABILIZING AND RECOVERING

DENISS KAIRANS

Partner, Managing Director
Colliers International, Latvia

Dear Friends,

It is our pleasure to present Colliers real estate market review for Latvia. We believe that our information will help You obtain the clearest picture of latest statistics, trends and forecasts.

2011 was a year of less negative news compared with the last 3-4 years. The economy was driven by exports where most indicators showed positive results and the real estate market was finally filled with real statistics. Activity allowed an increase in investment volumes in the real estate segment by at least twice compared with the previous year, with vacancies in all commercial real estate segments decreasing.

While specialized investment funds remain cautious towards acquisitions in Latvia, CIS countries dominated activity in the real estate market, where Russia, Ukraine, Armenia and Kazakhstan were the names of the top active market players last year.

2012 may change the accent and we are seeing more activity from institutional funds, which are targeting cash flow objects. The retail segment remains most in demand, with information about IKEA and H&M activities in the Baltics only adding to additional benefits of this segment.

The market is active within the segment of existing properties. However, the development pipeline still looks weak. At least one negative impact which we face from turbulence in old Europe economies is the fear of entering long term development projects locally. Existing developers and land owners are looking for exit scenarios, with even China considered as a potential target country.

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The cover page of our Annual Market Report shows a blooming apple tree covered in snow, which in our view reflects the current situation in the Latvian real estate market. For two consecutive years we have been witnessing market stabilization and revival since the severe crisis of 2009. Like the apple tree, the Latvian real estate market has started to bloom after a harsh winter season. However, considering the economic and financial instability in the EU, the further market outlook is one of caution. The risk is that spring has come too early and winter is not willing to let it go and the first fragile flowers may freeze under the snow...

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Economic Overview

SUMMARY

Recovery of real GDP levels started in the middle of 2010 and spread into 2011, with yoy GDP growth of 5.4 per cent for the first three quarters. During 2011 GDP rise stemmed from growth of exports and underlying expansion of the manufacturing sector, also from a rise in the wholesale trade and consequent inventory rebuilding. Significant segments of GDP calculated at current prices comprise the real estate (20.6 per cent), wholesale and retail trade (17.2 per cent), manufacturing (12.6 per cent) and transport sectors (12.5 per cent).

In view of uncertainty in the EU, forecasts on the growth of the Latvian economy are prudent and deliberate. According to these forecasts, GDP in Latvia during 2012 is forecast to grow by 1-2 per cent, but growth might be higher if no shocks and downfalls occur in the EU and on global markets

The Consumer price index (CPI) increased by 4.4 per cent in 2011 on the 2010 average, mostly due to price growth for food, housing and transport. The main firm external force that steadily underpins CPI growth in Latvia is the global commodity price level which has been climbing ever since 2HY2010: metals, food, agriculture and crude oil are becoming ever more expensive on global markets. CPI growth in Latvia is largely explained by supply-related factors, such as growing costs of business, enhanced import prices and rise in taxes. Price growth is expected to decelerate during 2012, mostly due to overall expected decline in economic growth.

Improvements in the labour market commenced at the beginning of 2011, in line with the recovery of the Latvian economy. In 3Q2011 the unemployment rate was 14.4 per cent, the same as the annual average during 2000. The main negative feature of the current Latvian labour market is structural unemployment, as skilled workforce is lacking in several sectors of the economy. The decline in the number of unemployed is expected to decelerate in 2012 due to forecast deceleration in growth of the economy.

INDICATORS/YEAR	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011F	2012F
GDP current prices, bln EUR	9,88	9,91	11,08	12,89	15,90	21,03	23,03	18,62	18,12	19,08	19,46
GDP growth (real), % yoy	6,50	7,20	8,70	10,60	12,20	10,00	-4,20	-18,00	-0,30	5,30	2,00
Industrial Production, % yoy	8,40	9,10	8,90	5,60	4,80	-1.0	-8.3	-17,70	14,00	8,00	7,50
Share of unemployed to the active popul	12,00	10,60	10,40	8,70	6,80	6,00	7,50	16,90	18,70	15,50	13,90
Total central government debt, % of GDF	0,13	0,15	0,15	0,12	0,11	0,09	0,20	0,37	0,44	49,80	47,70
PPI, % yoy	0,40	3,40	8,10	7,90	10,20	16,10	11,70	-4,20	2,90	n/a	n/a
CPI, % yoy	1,90	2,90	6,20	6,70	6,50	10,10	15,40	3,50	-1,10	4,40	3,10
Fiscal deficit, % of GDP	-2,30	-1,60	-1,00	-0,40	-0,50	-0,30	-4,20	-9,60	-7,60	-4,60	-2,50
Export change, % yoy	12,13	17,16	30,25	34,33	14,02	22,69	9,62	-18,67	30,33	38,29	n/a
Import change, % yoy	13,44	19,69	27,30	27,90	31,06	21,98	-3,25	-37,43	25,52	34,87	n/a
Current Account, % of GDP	-6,60	-8,20	-12,90	-12,50	-22,50	-22,30	-13,10	8,60	3,60	n/a	n/a
FDI, mln EUR	269,1	271,1	512,6	567,9	1326,3	1697,8	863,0	67,6	263,7	498,0	498,0
Cumulative FDI, mln EUR	2804,7	2748,5	3483,8	4159,1	5701,8	7466,4	8126,2	8072,6	8250,1	8935,7	9459,5
LVL/EUR, aop	0,58	0,65	0,67	0,70	0,70	0,70	0,70	0,70	0,70	0,70	0,70
LVL/USD, aop	0,62	0,57	0,54	0,56	0,56	0,51	0,48	0,51	0,53	0,50	0,50

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During 2011 real wages stopped shrinking and remained stable at 2006/2007 levels. As real wages highly depend on the number of unemployed persons, future growth is expected to depend on a decline in the unemployment rate. Apart from unemployment, inflation and tax policy will also be crucial for growth of consumer incomes. Real wages are expected to grow by 0.3-1.3 per cent during 2012 and 2013.

A rebound in the consumer confidence indicator started at the beginning of 2010, in line with the end of the worst period of the crisis and with the first signs of unemployment decline and real wage growth. Since 2Q2010 to the end of 2011 consumer confidence grew almost monotonously, with some decline in 2Q2011 due to lack of political stability.

Total stock of consumer and housing credit grew notably between 2004 and 2008, driven by domestic demand, construction and the housing boom. Since then housing credit stock has declined by 16 per cent (as of December 2011), but the debt burden remains a serious problem for debt holders and considerably restrains their expenditure. According to information announced by major banks in Latvia, approximately one third of the Latvian adult population have loans, one-third of whom is paying consumer loans and one-quarter mortgage loans. During the next 2-3 years the ability of the banking sector to provide financing for consumers and business will play a crucial role in economic development.

According to provisional data provided by Statistics Latvia on the population census held in 2010, currently there are 2.068 million inhabitants in Latvia. Since the population census held in 2000, when approx 2.4 million inhabitants were registered, the total natural decrease amounts to 157.6 thousand persons and population emigration comprised approx 150 thousand persons, which was previously underestimated.

Foreign direct investment flow into Latvia had been increasing rapidly on an exponential trend in 2003-2007, reaching 1600 million EUR in 2007. Market recession hindered further investment flow into the region, and this concern was fulfilled to the full extent, with FDI inflow decreasing for 2008-2009. Latvia saw the first improvements in 2010: FDI returned to the 2003 level, the Latvian investment rating was upgraded by Standard & Poor at the end of 2010 from BB to BB+. FDI is expected to return to the 2004 level in 2011.

TENDENCIES AND FORECASTS

◊ The economy has stabilized and started to grow, showing a 5.3 per cent increase in real Gross Domestic Product during 2011 according to provisional data.

◊ Forces to spur GDP growth were exports and manufacturing, household spending and rebuilding inventories.

◊ Real GDP is expected to grow by 1-2 per cent in 2012.

◊ CPI grew by 4.4 per cent yoy during 2011 and is expected to grow by 2 -3 per cent during 2012, as global inflation is decelerating.

◊ The number of employed persons has been decreasing at a constant rate since 2010 and this trend is expected to spread into 2012.

◊ Structural unemployment is one of the main and most serious factors that will restrain improvements in the Latvian labour market.

◊ During 2011, real wages stabilized at 2006/2007 levels. Future growth of real wages will depend on decline in the unemployment rate and growth of prices.

◊ According to provisional data of the population census held during 2010, currently there are 2.068 million inhabitants in Latvia. That is, during the last ten years Latvia lost 300,000 inhabitants, of which 150,000 emigrated. Weak demographics is a very serious problem for the Latvian economy.

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Office Market

OVERVIEW

2011 was marked by further office market stabilization and recovery underpinned by improvement of key economic indicators. According to a flash estimate of the Central Statistical Bureau, real Gross Domestic Product (GDP) grew by 5.3 per cent yoy, mostly due to growth of exports, stock rebuilding and increase in consumer consumption.

After two years of government austerity measures and falling retail turnover, companies from various sectors were able to stabilize or increase their incomes during 2011. The largest growth was recorded in the manufacturing and export-oriented sectors of the economy. In Riga along with financial stabilization, many companies started hiring new staff, expanding their existing premises or relocating to better ones, leading to increased demand for office space, a falling vacancy rate and slight upward pressure on rents.

Further development of the office market in Riga will depend largely on external factors, as financial performance of companies in Latvia is highly dependent on the economic situation in the EU and other export countries.

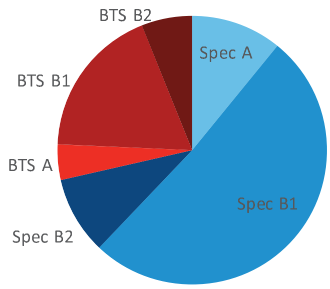
SUPPLY

At the beginning of 2012, the Colliers International database of business centres was revised and corrections to total stock were made. As a result, total A and B class office stock, including both speculative and built-to-suit (BTS) projects, comprised 527,755 sqm instead of the previously published 525,000 sqm.

KEY FIGURES	
Total Stock (Spec and BTS)	527,800 sqm
Absorption (Spec objects)	39,000 sqm
Vacancy	11.2%
Prime Headline Rent for A class premises	16 EUR/sqm/month

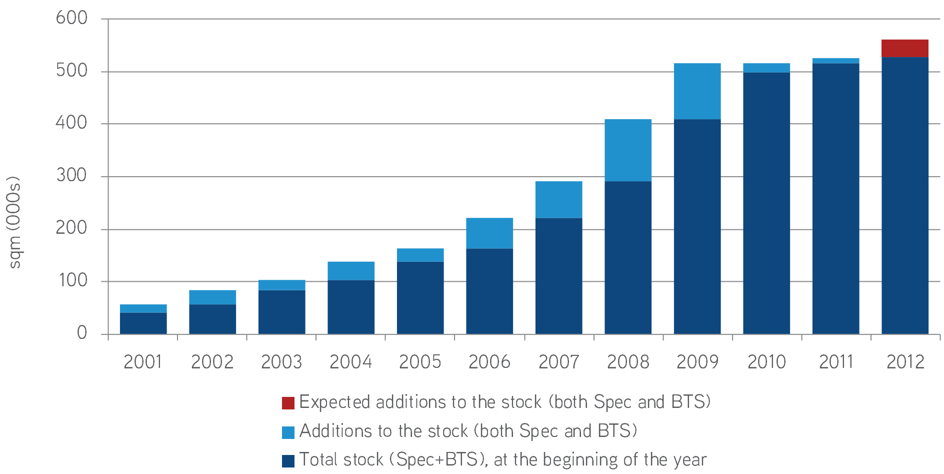
Source: Colliers International

DISTRIBUTION OF TOTAL OFFICE SPACE IN RIGA BY CLASS



Source: Colliers International

DYNAMICS OF OFFICE SPACE IN RIGA



Source: Colliers International

COMPLETED BUILT-TO-SUIT PROJECTS IN RIGA IN 2011

Project Name	Address	GLA, sqm	Developer	Bldg. status
American Embassy	Remtes street 1	8346	American International Contractors (Special Projects), Inc.	Existing
total		8346		

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After the severe economic crisis of 2008-2009, for two consecutive years increase in supply of office stock in Riga was negligible. Development of office buildings is still considered a high risk investment and thus no new speculative objects were commissioned in 2011. In the BTS segment, the American Embassy administrative building on Remtes street was added to the stock.

However, the situation will change in the next 2-3 years as a total of 140 800 sqm of office stock is expected to be added to Riga supply in 2012-2014; 39 100 sqm of this could already be commissioned in 2012, which corresponds to development activity in the market for the period 2005-2006.

Out of 140 thousand sqm of planned office construction 63 thousand or 45 per cent will be BTS. These are projects of the main headquarters of the State Revenue Service in the Ezerparks development project and the AB.LV bank headquarters at the New Hanza City development site. An estimated 77 800 sqm will be speculative office development. Considering the absorption speed of the previous two years, this increase of office supply should be taken up without negative effect of key indicators, given the rental rates in the market.

An interesting tendency observed in the market is the reconstruction of low class ex-industrial buildings into B class modern office centres. A total of 25 thousand sqm of office stock will be reconverted in 2012-2013. This may be due to easier procedures for obtaining debt financing for reconstruction of existing properties rather than for new development due to stronger collateral, shorter reconstruction periods and signed pre-let agreements.

Besides, Colliers' opinion is that an additional 32 thousand sqm of offices could be added to the market in the next 2-3 years, given a strong financial background and professional approach of developers.

INVESTMENT MARKET

Owners of several office centres (such as Astras Biroji with GLA of 6,700 sqm and Unity Business Centre with GLA of 17,637 sqm) changed, as these buildings were acquired.

DEMAND

In 2011 a total 39,000 sqm of speculative office space was absorbed. This is an increase of 4.5 per cent (37,300 in 2010). IT companies were the most active tenants that signed the largest number of deals and occupied the largest share of space taken up (approx 6600 sqm). Leisure/ Entertainment companies were the second largest occupier, as they sign lease contracts for more than 5900 sqm, that is approx 18 per cent of absorbed space.

LIST OF NEW SPECULATIVE PROJECTS UNDER CONSTRUCTION IN RIGA (2012)

Project Name	Address	GLA, sqm	Class for spec/ BTS	Developer	Bldg. status	Expected year of commission
Jupiter Centre	Skanstes 7, Riga	5700	B1	Development Projects, Ltd.	Under construction	2012
Energoefektiva biroju eka	Dzelzavas street 120	1100	B1	Riga Industrial Park, Ltd.	Under construction	2012
Z-towers	Daugavgrīvas iela 9, Rīga	26000	A	Towers Construction Management	Under construction	2014
HQ of State Revenue Service of Latvia	Talajas 1, Riga	43000	BTS	Biroju Centrs Ezerparks, Ltd.	Under construction	2014
Braslas centrs	Braslas iela 29a	18000	B2	Braslas centrs, Ltd.	Under reconstruction	2012 / 2013
Katlakalna 9	Katlakalna iela 9, Riga	7300	B2	BLRT Invest	Under reconstruction	2012
New Hanza City, 1st stage	Pulkveza Brieza street 24	32700	A/BTS	New Hanza City, Ltd	Technical planning	2014
Gunara Astras 1c	G.Astras Street 1c	7000	B2	Ektornet	Existing property, but not commissioned*	2012*
Total:		140800				
Origo retail and business centre	Stacijas laukums 1	8900		Linstow Center Management	Planning	n/a
Business Garden Latvija 1st stage	Marupe, between K.Ulmaņa, Liela and Daibes streets	22000		Larix Property, Ltd.	Technical planning	n/a
Hanzas 2a	Hanzas street 2a	900		LNK, Ltd.	Ready for reconstruction	n/a
Total:		31800				

*Gunara Astras 1c project is frozen before commissioning stage. Developer of the business centre is ready to commission building as soon as market will be ready to absorb new projects.

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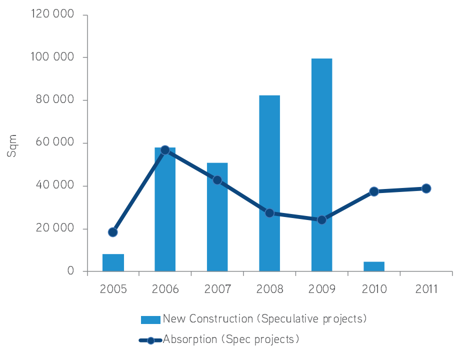
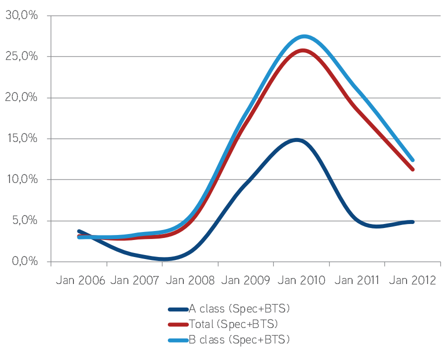
DYNAMICS OF ABSORPTION OF SPECULATIVE STOCK IN RIGA



Source: Colliers International

DYNAMICS OF TOTAL VACANCY RATES IN RIGA



Source: Colliers International

VACANCY RATES IN RIGA (DEC 2011)

Class	Rates	Tendencies for 2012
Class A	5%	→↘
Class B1	12%	→↘
Class B2	13%	→↘

Source: Colliers International

In line with growth in turnover and improvements in companies' financial performance in 2011, a tendency was evident for companies to improve their working environment and move to better quality premises. For instance, McDonald's signed a lease contract with Duntes Biroji, Johnson&Johnson leased premises in Upmalas Biroji.

Companies were also active in opening or expanding SSC/BPO offices, for instance Cytec (expanded existing premises with the help of Colliers), Runway (opened call-centre for Samsung in the SWH business centre) or Statoil (expanded premises in Duntes Biroji). Several companies are still negotiating a lease of SSC/BPO premises in Riga, which could result in creation of more than 1400 workplaces (the largest activity is by Scandinavian companies).

More than half of all deals in 2011 were signed for premises smaller than 300 sqm, 35 per cent of the total number of deals were signed for premises from 300 sqm up to 800 sqm but only 11 per cent of all deals for premises larger than 800 sqm. Strong demand exists for larger premises with a total area of more than 1,500 sqm located on one floor.

With the recovery of the office market, tenants are reluctant to relocate to less qualitative office premises and more attention is paid to the level of management services provided by the landlord. There is an increased number of requests for and growing interest from tenants in energy efficient office buildings that can provide green technology solutions.

Given concerns about the growth of the EU economy, prospects of an EU debt crisis and the overall global financial situation, the risk is that demand from tenants may go down during 2012, as companies may decide to postpone relocation/expansion plans. Future growth in demand will depend largely on external factors for the Latvian economy, such as foreign demand and commodity price levels on global markets.

VACANCY

Since the peak total vacancy rate of over 25 per cent in Riga at the end of 2009/beginning of 2010, the situation has significantly improved. For the past two years the vacancy rate has reduced more than twice. As of January 2012, the vacancy rate for both speculative and BTS projects comprised 11.2 per cent (Jan 2011: 18.5 per cent), vacancy calculated for only speculative projects is 15.8 per cent (Jan 2011: 25.6 per cent). Total vacancy levels in both speculative and BTS A class office buildings is 4.9 per cent (Jan 2011: 5.1 per cent), total vacancy in B class office buildings 12.4 per cent (Jan 2011: 21.0 per cent).

However, despite the overall decrease in the amount of vacant space, a few office buildings still have a vacancy level above 25 per cent. Examples of business centres that were able to significantly decrease the vacancy level in 2011 are Upmalas Biroji (vacancy decreased by more than 3000 sqm), Ziemelu varti (vacancy decreased by 2700 sqm), Duntes Nami (vacancy decreased by 1700 sqm).

Some negative news was caused by the insolvency of Snoras and Krajbanka, banks that occupy/own a significant real estate portfolio. Though disposal of the portfolio will take several years, this may influence tenant rotation and changes in office market key indicators.

Future decrease in the vacancy rate will depend largely on economic growth as well as Latvia's ability to attract newcomer companies from the IT/banking/finance and other sectors to enter the country and establish new offices and/or SSC/BPO centres.

Some negative impact on the rate at which premises will be absorbed during the following years could arise from the EU debt crisis and associated recession fears.

RENT RATES

In general, lower limits of asking rental rates in 2011 grew by approx EUR 1 for all office classes and average rents comprised EUR 9-14, EUR 6-10 and EUR 5-7 for A, B1 and B2 class offices respectively. The majority of brokerage deals (more than 90 per cent) were signed at rental rates lower than 10 euro/sqm. Of course each office centre has its own specifics and approach to pricing strategy.

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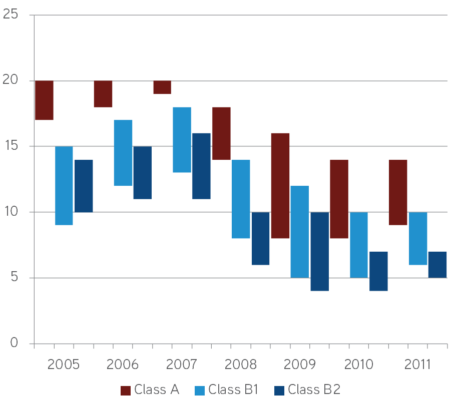
DYNAMICS OF RENTAL RATES* IN RIGA



Source: Colliers International
*asking rental rates

RENTAL RATES* IN RIGA (DEC 2011)

Class	Rates*	Tendencies for 2012
A existing	9-14	→↗
B1 existing	6-10	→↗
B2 existing	5-7	→↗

Source: Colliers International
*asking rental rates

As vacancy is decreasing and key market indicators are improving, landlords in the majority of office centres are reluctant to prolong lease agreements for existing tenants at discounted leasing conditions. Most likely during 2012 landlords will aim at increasing rental rates for new tenants and will consider the possibility to return to indexation for rental rates. However, a company's profile and its ability to generate steady income should be considered by landlords when negotiating leasing terms, as tenants with different profiles can afford to pay different rental rates.

TENDENCIES AND FORECASTS

- Total office stock is estimated to increase by almost 39 thousand in 2012 and 140 thousand in 2012-2014.
- 45 per cent of planned developments are BTS for specific tenants.
- Considering office space absorption rate for 2010-2011, future market trends and assuming no external economic shocks, new additions to office stock should not have a drastic effect on key office market indicators and should be taken up by the market.
- The most active tenants in terms of number of deals signed and leased space during 2011 were IT companies.
- Another active segment of tenants are companies in the entertainment/leisure/media businesses and consultancy companies.
- Several potential newcomer companies are negotiating a lease of premises in Riga office centres for opening SSC/BPO functions. Potential economic benefit if they choose Riga is creation of more than 1,400 new workplaces. Most active are Scandinavian companies, largely due to geographic proximity.
- Tenants are becoming more concerned about the quality of management services provided by landlords and "green" and energy efficient solutions in office centres.
- Total vacancy for both speculative and BTS projects is 11.2 per cent, average vacancy in speculative projects is 15.8 per cent, which is 59,000 sqm and is 38 per cent yoy decrease.
- Future decrease in the vacancy rate will depend largely on economic growth as well as Latvia's ability to attract newcomer companies from the IT/banking/finance and other sectors to enter the country and establish new offices and/or SSC/BPO centres.
- Some negative impact on the rate at which premises can be absorbed during upcoming years may arise from the EU debt crisis and associated recession fears.
- Rental rates for A class premises range from EUR 9 to 14 EUR/sqm, EUR 6-10 EUR/sqm for B1 class premises and EUR 5-7 EUR/sqm for B2 class premises. Lower limits of rental rates grew by one euro for all office classes during 2011.
- As vacancy is decreasing for the majority of office centres, landlords are sceptical about keeping discounts for existing tenants and are considering re-introducing indexation of rent rates.
- The majority of deals in the market are signed for rents lower than EUR 10 EUR/sqm, as the market is still unable to pay higher levels of rent.
- Future development of the office market in Riga will depend largely on external demand, as financial performance of companies in Latvia is highly dependent on the economic situation in the EU and other export countries.

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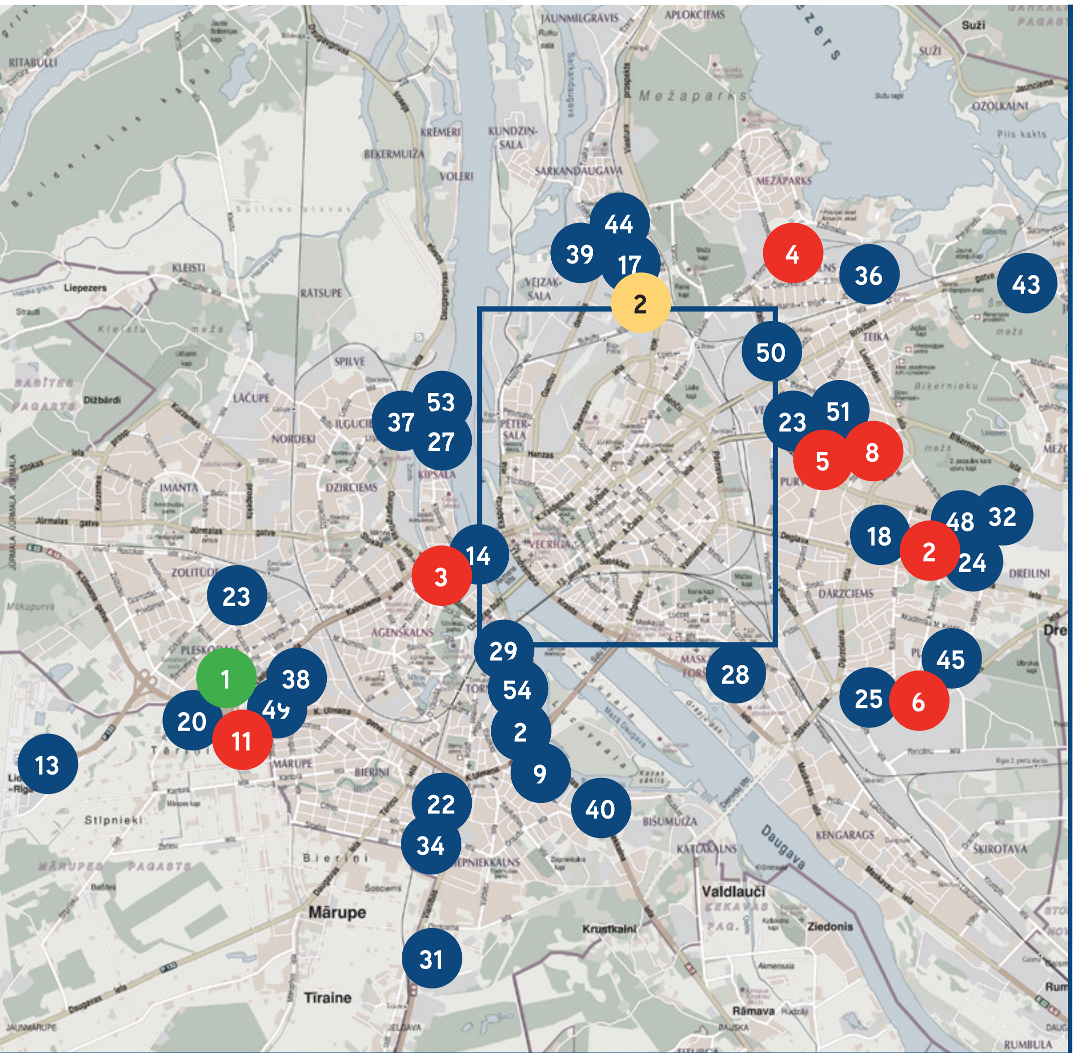
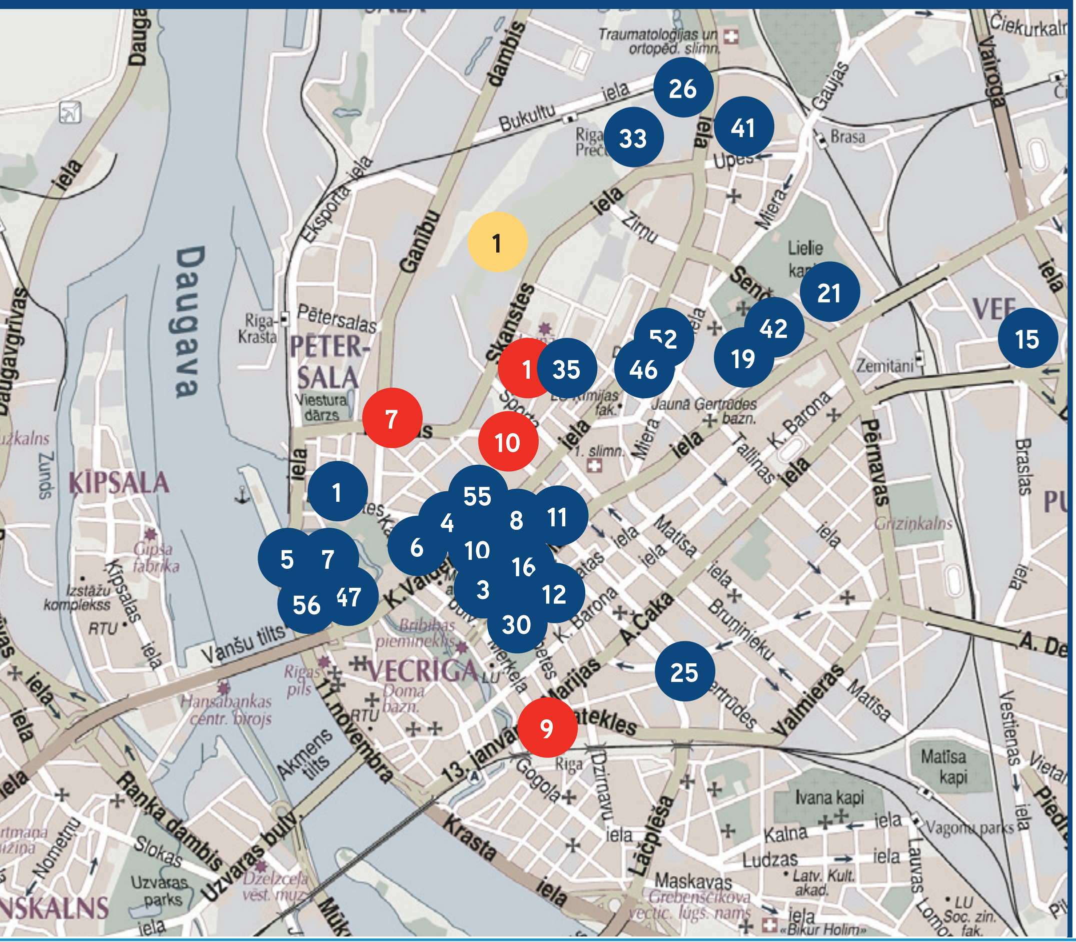


HIGH CLASS SPECULATIVE AND BUILT-TO-SUIT OFFICE CENTRES IN RIGA



Existing Developments

1. WTC „Rīga"
2. Business center "Mukusala"
3. Rietumu banka , Brivibas 54
4. Valdemara Centrs
5. Office centre at Citadeles St. 12
6. Eirkel BC
7. Kronvalda bulvaris 3
8. Gertrudes Centrs at Baznicas St. 20/22
9. Valdo Office Complex
10. Dominante Office Building
11. Gertrudes Centrs at Gertrudes St. 10/12
12. Terbatas Centrs, Terbatas 30
13. Helio Biroji
14. Swedbank HQ
15. Domina Office Centre
16. Terbatas BC
17. Marine BC
18. Astras Biroji
19. North Gate , 1st/2nd stage
20. Baltais Vējš
21. Brivibas 171 Office Building
22. Office Centre at Vienibas St. 87H
23. NTP BC
24. PBLC BC
25. Modern City
26. Duntes Nami
27. Office Complex "Ostas skati"
28. Gredu 4a BC
29. Mukusalas BC, 2nd stage
30. Office Centre at Terbatas St. 14
31. Torensberg
32. Dzelzavas Biroju Nams
33. SWH BC
34. Unity BC
35. Rietumu Capital Centre
36. Reaton Office Building
37. Magnat Business Centre
38. Panorama Plaza
39. Indi Centrs
40. Upmalas Biroji
41. Duntes Biroji
42. Barons Kvartals
43. ASU Centre
44. O'Live BC
45. Lubanas Centrs
46. Valdemāra Pasāža
47. Muitas 1 Office Complex
48. Dzelzavas 120 Office Building
49. Zuma Biroji
50. Europa BC
51. Tomo BC
52. Alojas BC
53. Office Complex "Ostas Skati", 3rd stage
54. Office Complex Mukusalas 41
55. Zaļā 1 Office Building
56. Parex HQ

Completed in 2010

1. DnB Nord HQ
2. Office Building of Riga Sanitary Transport Depot

Completed in 2011

1. American Embassy administrative building

New Speculative and BTS projects, Projects under construction / reconstruction and most realistic projects for development in Riga

1. Jupiter
2. Energoefektiva biroju eka
3. Z-towers
4. HQ of State Revenue Service of Latvia
5. Braslas centrs
6. Katlakalna 9 BC
7. New Hanza City, 1st stage
8. Gunara Astras 1c
9. Origo retail and business centre
10. Hanzas 2a
11. Business Garden Latvija 1st stage

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Industrial Market

OVERVIEW

In line with growth of exports and imports, improvements in manufacturing and growth of transit-related turnover, during 2011 the industrial market in Latvia experienced its first signs of improvement, but still lags behind other real estate markets. As the vacancy level for total stock is at the moderately high level of 19.4 per cent (92,000 sqm) and vacancy in several speculative properties is higher than 25 per cent, no firm upward pressure is imposed on rental rates. High vacancy levels and virtually no growth in rental rates are hampering development of new speculative projects and will continue to do so until vacancy in current inventory decreases to single digits. Only two industrial properties with gross leasable area of 3,000 sqm and 7,000 sqm are announced to enter the market during 2012/2013.

SUPPLY

As of January 2012 total stock of A and B class industrial stock is 477,000 sqm, including 338,000 sqm of speculative and 139,000 sqm of built-to-suit (BTS) stock. Approximately 60 per cent of total stock is located outside Riga, with the remaining 40 per cent within the borders of the city. Properties outside Riga are situated around or near it in such cities as Kekava, Olaine, Adazi, Marupe and Salaspils.

Since the vacancy level in industrial premises is still at a high level, no new major developments are taking place in this segment. Several large-scale projects such as VGP Park Kekava, Vecinku Logistics Park, Tiger Developments and NCC have been on hold since the beginning of the economic decline. Two projects are announced to be commissioned by the end of 2012 / beginning of 2013: Plienciema 16 project with GLA of 3,000 sqm and warehouses at Ulbrokas street 38, with GLA of 7000 sqm. Besides, some developers are considering BTS objects.

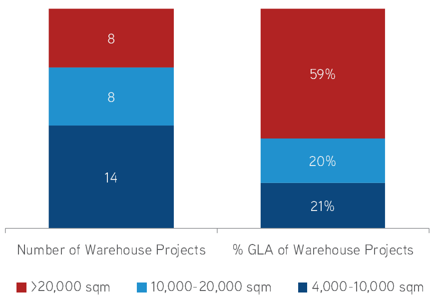
KEY FIGURES	
Total Stock	477,000 sqm
Absorption	23,000 sqm
Vacancy fot total stock	19.5%
Prime Headline Rent for A class warehouses	3.5 EUR/sqm/ month

Source: Colliers International

DEMAND

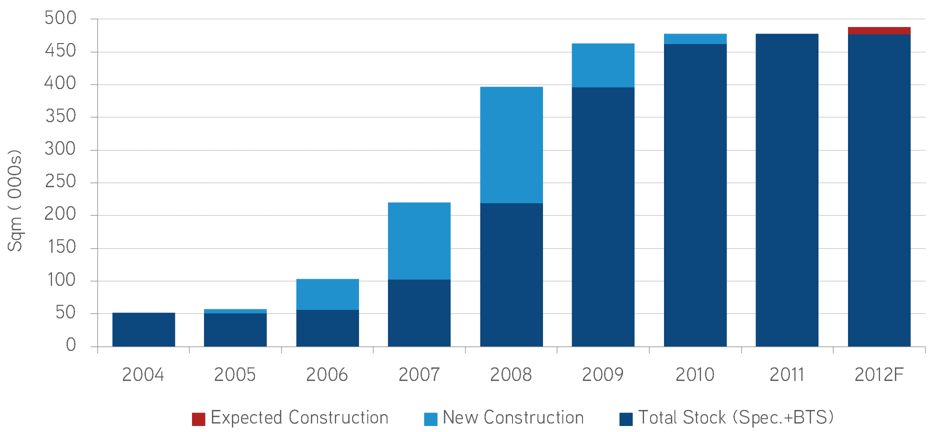
During 2011 more than 23,000 sqm were leased in the industrial sector, with almost half of all premises (11,500 sqm) leased by logistic/transport companies and 3500 sqm leased by grocery chains/companies from the food industry. For instance, transport and logistics company DSV signed a lease contract with Karsten logistic centre for 4000 sqm, which was the largest deal in the industrial sector during 2011. Demand from logistic companies is growing in line with growth of transit turnover in Latvia and overall economic improvements. Demand from foreign companies for industrial premises in Latvia is largely determined by price advantages caused by the relatively

DISTRIBUTION OF WAREHOUSE PROJECTS IN RIGA REGION BY SIZE



Source: Colliers International

DYNAMICS OF WAREHOUSE SPACE IN RIGA



Source: Colliers International

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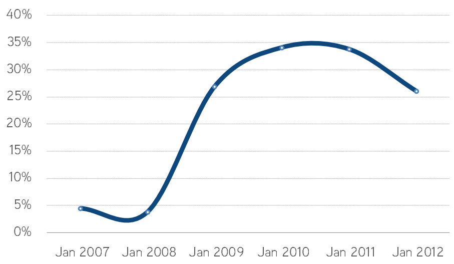
DYNAMICS OF SPECULATIVE VACANCY RATES IN RIGA REGION



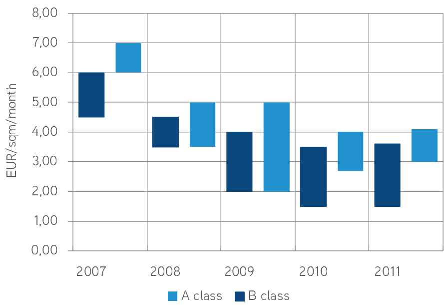
Source: Colliers International

RENTAL RATES* IN RIGA REGION

Region: Riga and Riga district	Rental rates*, 2010	Rental rates*, 2011	Tendencies for 2012
A class	2.7 – 4.0	3.0 – 4.0	→→
B class	1.5 - 3.5	1.5 – 3.6	→→

Source: Colliers International
*Asking rental rates

DYNAMICS OF RENTAL RATES* IN RIGA REGION



Source: Colliers International
*Asking rental rates

high level of vacant stock in Latvia compared to neighbouring countries. Consequently, a number of foreign companies (mostly Russian) in the import-export business are using Latvia as a hub between Russia and China/EU. During 2011 several tenants used the possibility to relocate to better premises (for instance, food industry company Nordic sugar and pharmaceutical company Forans). During 2011 several western European manufacturers considered the possibility to shift their production facilities from Western to Eastern Europe. If no shocks and downfalls appear during 2012 and external demand remains steady, these companies could also consider the possibility to relocate their production to Latvia.

With the market still flexible, companies are continuing to take over distressed as well as advantageous industrial objects. For instance, BLRT Invest acquired Katlakalna 9 in 2011 with the help of Colliers (total GBA of the property is 28,783 sqm of which 21,239 sqm warehouses and 7,544 offices). Future possible relocation of production facilities could increase activity on the market, especially if the export and manufacturing industries continue to grow.

VACANCY

The vacancy rate for total industrial stock (including both speculative and BTS objects) decreased by 5 percentage points to reach 19.5 per cent. Vacancy for speculative projects decreased from 33.1 to 26.1 per cent, equal to 88,000 sqm. Distribution of vacant space among industrial objects is highly biased; some objects have 28-30 per cent vacancy and others zero vacancy. Performance and vacancy levels in industrial properties in Latvia depend on location, management and construction quality. In future, the vacancy level is expected to decrease but at a slow pace.

RENT RENTS

Rental rates for lease of B class warehouse premises remained stable during 2011 given moderate-low tenant activity and no significant vacancy decrease. The lower limit of rent rates for A class premises has slightly increased. Average rent rates spread from 3.0 to 4.0 for A class and from 1.5 to 3.6 for B class space

TENDENCIES AND FORECASTS

◊ Insufficient demand and low level of rent rates are hampering development of the Latvian industrial market. Unless current inventory is partly absorbed and clear reasons for market development emerge, construction of new objects will be highly risky.

◊ During 2011 several western European manufacturers considered the possibility to shift their production facilities situated in Western Europe to Eastern Europe. If no shocks and downfalls occur during 2012 and external demand remains steady, these companies could also consider the possibility to relocate their production to Latvia.

◊ Due to insufficient demand and considerable vacant stock, rent rates for both A and B class warehouse premises are expected to remain stable.

◊ The vacancy rate for total stock has decreased by 5 percentage points since January 2011 to reach the 19.5 per cent level. Distribution of vacant space is biased towards less popular premises. No significant decrease in vacancy is expected during the next 12 months.

◊ Vacancy for speculative stock is 26 per cent, that is, a 7 per cent or 23,000 sqm decrease since the end of 2009.

◊ Given relatively low rent rates and suitable premises, Russian companies are using Latvian warehouses as a transshipment point for the goods traffic between the Russia and EU/China. Companies continue to acquire distressed and competitive industrial properties.

◊ No significant decrease in vacancy is expected during the next 12 months.

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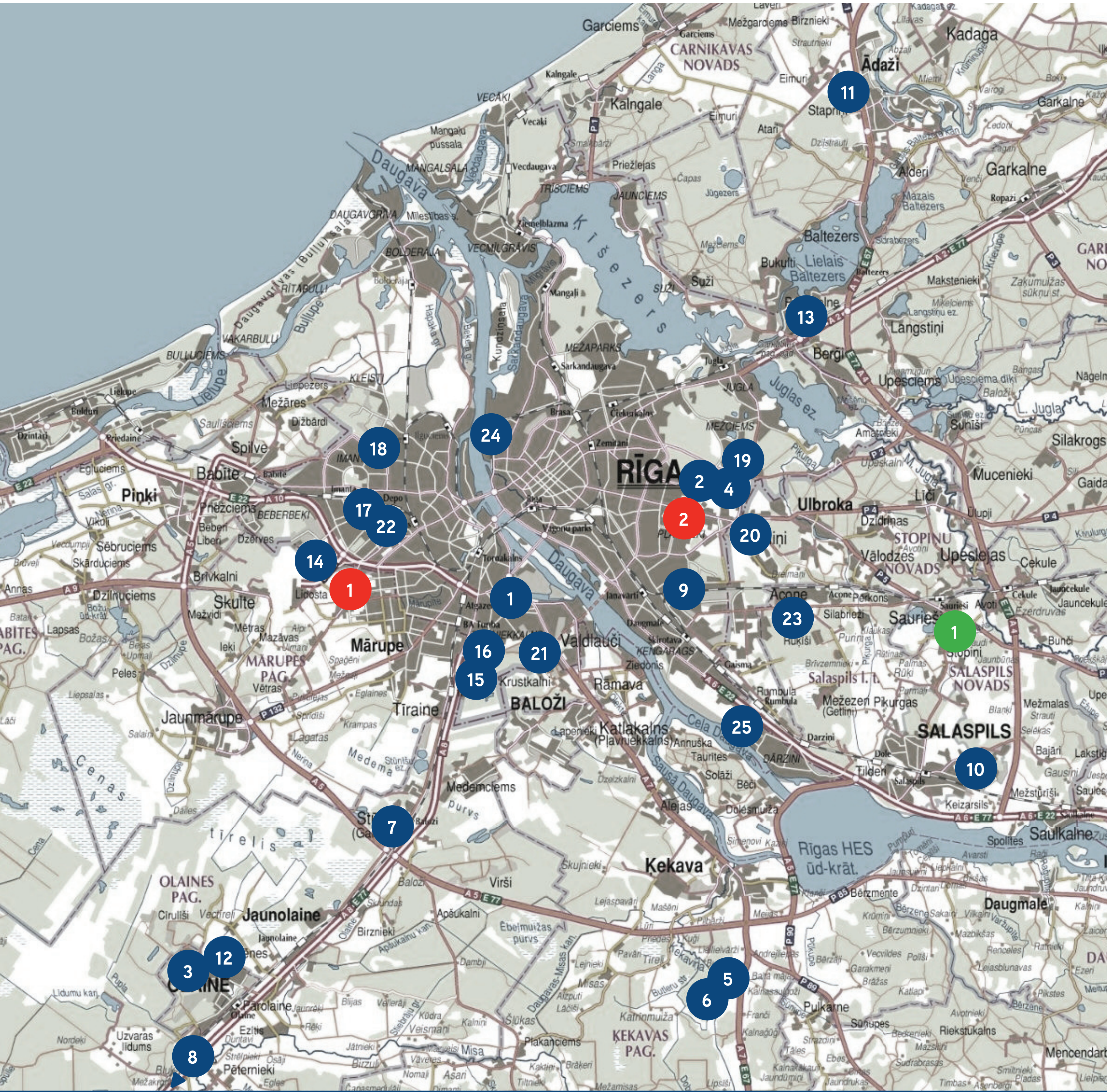

HIGH CLASS SPECULATIVE AND BUILT-TO-SUIT PROJECTS IN RIGA DISTRICT

Existing Developments

1. Valdo Logistikas Komplekss
2. Riga Industrial Park, 1st and 2nd phase
3. Nordic Industrial Park in Olaine
4. Riga Industrial Park - PBLC Bussines Center
5. Dominante Park
6. Roņu ielēja 2
7. Dommo biznesa parks, 1st stage, 1st building
8. Eirkel Bussines Park, 1st & 2nd phase
9. Rolands S Warehouse Complex, 1st and 2nd stages
10. Wellman Logistics Center, 1st stage
11. Lauki Warehouse Complex, new building
12. Olaines Logistic Park, 1st phase
13. Logistics Center Bergi
14. Elipse-BLC Logistic and Distribution Center
15. Ritausmas St. 23 Industrial and Office Building
16. Business and Logistics Centre Ritausmas Centrs
17. Nordic Technology Park
18. Biznesa parks ABAVA
19. B&S Warehouse
20. Izoterms
21. DLW
22. NP Business Center
23. LE/ROM Business Center
24. Man Tess
25. Maskavas iela 462 Warehouse Complex, 1st and 2nd phases

Completed in 2010

1. Maykel Business Park

Declared for Completion in 2012/2013

1. Project at Plienciema 16
2. Project at Ulbrokas street 38

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Retail Market

OVERVIEW

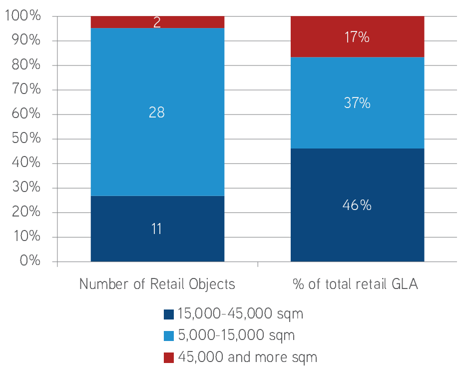
During 2011 retail trade turnover stabilized and started to grow, supported by recovery of domestic demand. Annual increase in retail sales at constant prices for the whole year was 7 per cent, but varied significantly for different commodity groups. For instance, retail sales of computers and software increased by 26.8 per cent yoy, retail sales of clothes and footwear increased by 2.5 per cent, while sales of books and newspapers declined by 55.6 per cent. Domestic demand recovered largely due to a decline in the unemployment rate (from 18.2 per cent in 3Q2010 to 14.4 per cent in 3Q2011) and stabilization of real wages. In line with stabilization and growth of retail sales for a number of groups of goods, tenants were able to improve their financial situation resulting in opening of additional stores or at least starting to consider the possibility. At the same time, landlords of successful shopping centres became reluctant to provide discounts for tenants and are slowly starting to increase rental rates.

SUPPLY

In 2011 the most active players in retail market development in Riga were the grocery chains (such as Rimi, Maxima, Prisma, IKI etc.). Due to strong competition among grocery chains to attract customers and increase market share as well as to perfect timing for new construction, they have been the major drivers of new development activity. During 2011, total retail stock in Riga increased by 27,249 sqm and amounted to 642,050 sqm (0.98 sqm per capita).

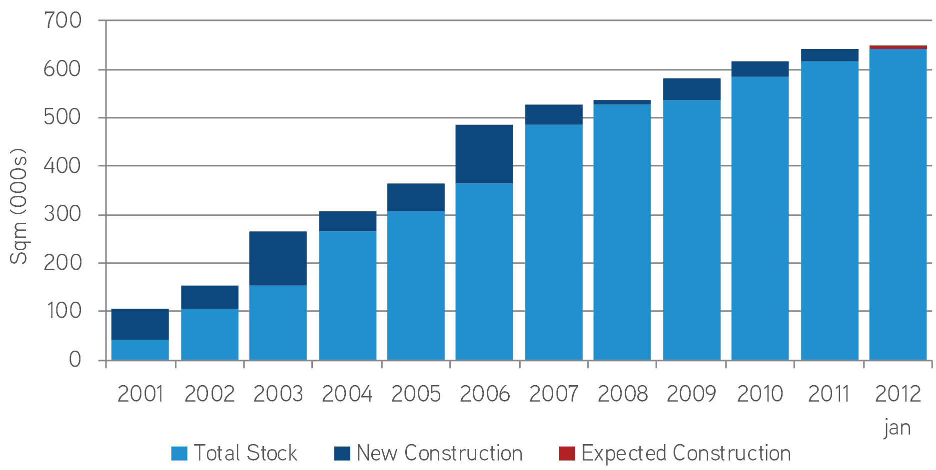
KEY FIGURES	
Shopping Centre Stock	421,000 sqm
Prime Headline SC Rent	25 EUR/sqm/month
Prime Headline High Street Rent	35 EUR/sqm/month

DISTRIBUTION OF RETAIL PROJECTS IN RIGA BY SIZE



Source: Colliers International

DYNAMICS OF RETAIL SPACE IN RIGA



Source: Colliers International

COMPLETED RETAIL PROJECTS IN RIGA IN 2011

Project Name	Address	GLA, sqm	Developer
Rimi shopping Centre	Riga, Imanta, Kurzemes prospekts 1a	15000	Rimi Latvia
Homburg Group Shopping centre, 1st stage	Riga, Zolitude, Priedaines 20	4549	Homburg group
Prisma	Riga, Imanta, Kurzemes prospekts 3	7700	Imanta Retail park
Total		27249	

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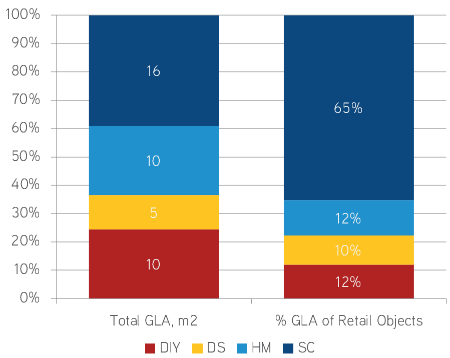
DISTRIBUTION OF RETAIL PROJECTS IN RIGA REGION BY TYPE



Source: Colliers International

Maxima XX was commissioned in Zolitude, at Priedaines street 20 with GLA of 4550 sqm. It is the first Maxima store in the Baltic States with a completely new concept: lighting, shelves, weighing product showcases and other decorative materials were upgraded, and new staff uniforms created. Prisma shopping centre was commissioned in Imanta, at Kurzemes prospect 3 (GLA 7700 sqm, as the first stage of the major Imanta Retail Park shopping area). Rimi shopping centre Damme was also commissioned in Imanta, next to Prisma, at Kurzemes prospect 1a. Rimi Damme shopping centre has a total leasable area of 15,000 sqm, the tenant mix including an anchor grocery tenant (Rimi), Jysk (DIY), Dino Zoo (goods for pets, veterinary chemists, hairdressing salon for dogs), Cili pica (restaurant), Jana Rozes Gramatnica (books and stationery), Amaija (goods for children), Douglas (miscellaneous goods), RD Electronics, Dzintars and others.

Along with activity in Riga, grocery chains (incl. IKI, Elvi, Top!) opened and reconstructed stores (basically neighbourhood stores) in many smaller cities in Latvia. Among the largest developments outside Riga are the Rimi hypermarket in Daugavpils (sales area 2000 sqm), the Maxima XX hypermarket in Rezekne (sales area 2700 sqm), Maxima XX in Tukums (sales area 2100 sqm) and IKI in Daugavpils (GLA 3000 sqm).

Further development in the near future will also be largely affected by grocery chain expansion plans. For instance, Maxima have plans for development of new stores in Jekabpils and Salaspils, as well as in Riga at Bikernieku Street 121. Prisma has plans for development of a hypermarket at Saharova Street 30. Future development in the longer-term period is vague, largely due to the weak demographic situation, prudent forecasts on growth of purchasing power, and fears of economic recession in the EU.

DEMAND

Following stabilization of the economy and improvement in consumer purchasing power, demand for retail space from the tenant side has increased in most popular shopping centres. In those shopping centres that historically had larger vacancies, the situation is also improving, but at a slower pace. Landlords of these shopping centres have to implement interesting marketing campaigns and put considerable effort into increasing footfall.

Two general tendencies in the retail market segment have been notable in the past year. The first is the overall shift towards less expensive brands from the customer side, which can be explained by the fact that the crisis years made consumers more attentive to prices and quality. As supply follows demand, second-hand clothing chain Humana opened three new outlets in Latvia during 2011, continuing its expansion plans and will be doing so in 2012.

The second tendency is that some retailers that face falling or stable demand for their goods, such as books or grocery chains, remain very active and continue opening new stores, as they compete to attract new customers and increase market share. For example, book sellers Apgads Zvaigzne ABC and Jana Rozes Gramatnica have new stores in Riga Plaza and Galleria Azur shopping centres as well as several new street retail locations.

Catering businesses were also very dynamic in 2011, in both street retail and shopping centres and this became a distinctive feature of the Riga retail market over the past year. According to Colliers estimates, more than 50 new restaurants, cafes and pizzerias opened in Riga during 2011 (some replacing ones that had closed). For instance fast-food chain McDonald's opened the largest McDrive in Latvia, Cili Pica launched three restaurants in Olimpia, Origo and Damme shopping centres while Lithuanian catering chain Viciunai group introduced the new Charlie Pizza brand by opening a pizzeria in Old Riga. Moreover, many new eating places were opened in shopping centres Spice, Riga Plaza, Olimpia, e.g. Lavazza, Manhatan, Harry Morgan, Cinnabon café, Yo-Yo frozen yoghurt, Pastarella, Green Cafe.

NEW AND POTENTIAL RETAIL DEVELOPMENTS IN RIGA, 2012-2013

Project Name	Address	GLA, sqm	Developer
Prizma hypermarket	A.Saharova street 30	app 7000 sqm	Castor Construction
Maxima XX	Bikernieku 121	n/a	Homburg group
Total		n/a	

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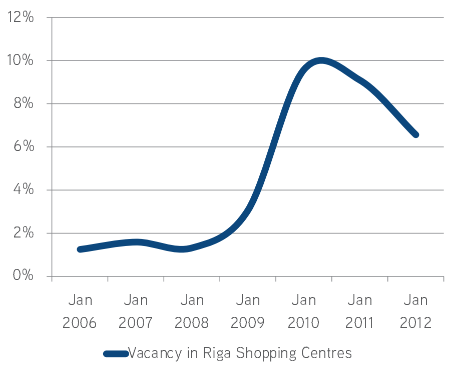
DYNAMICS OF VACANCY RATE IN RIGA SHOPPING CENTRES



Source: Colliers International

RENT* AND VACANCY RATES AND TRENDS IN RIGA

Unit Size	Rates in 2010	Rates in 2011	Tendencies for 2012
Large retail unit (anchor tenants)	3-9	4-9	→↑
Medium retail unit (150–350 sqm)	15-25	15-25	→→
Small retail unit (up to100 sqm)	20-40	20-40	→→
Vacancy (major shopping centres)	2%	1%	→→

Source: Colliers International
*asking rental rates

STREET RETAIL RENT RATES* AND TRENDS IN RIGA

City	Location, street names	Rates 2010	Rates 2011	Tendencies for 2012
Riga	Kr. Barona, Raina Bvld, Brivibas, Gertrudes, Elizabetes	10–30	12-30	↑→
Riga	Old Riga	7–25	10-25	↑→

Source: Colliers International
*asking rental rates

Traditionally stores selling clothes and shoes comprise almost one third of the trading area in regional shopping centres. During 2011, 30 per cent of all new leases in regional shopping centres were signed by this category of tenants. Very notable during 2011 was Ogres Trikotaza, selling made-in-Latvia knitted clothes, as they opened four new stores - in Galleria Riga, Domina, Riga Plaza and Homburg SC at Priedaines 20.

A highly significant upcoming event in the Riga retail market has been announced: Swedish clothes brand H&M is entering the market. H&M stores will open in Galleria Centrs and Alfa shopping centre and will occupy 2150 and 2430 sqm of space respectively. Other upcoming brands are Massimo Dutti and NEXT, whose outlets will open during 2012. Additionally, Viciunai group has plans for further expansion in Latvia and two new restaurants (Carskoe Selo and La Crepe) are planned to open in Riga during 2012.

VACANCY

Diverse trends were evident in vacancy dynamics in Riga shopping centres during 2010-2011. While the vacancy rate did not exceed the 1 per cent level for shopping centres most in demand, many properties faced considerable challenges. As of January 2012 the vacancy level in these shopping centres has declined, but still the average level did not fall below 9-12 per cent. Average vacancy for the whole market declined by approx 3 percentage points during 2011 and reached a level of 6.56 per cent. However, average vacancy calculated for the whole stock of shopping centres reflects the situation in the market imprecisely.

Examples of shopping centres where many premises were leased during last year are Spice Home (more than 4000 sqm leased) and Galleria Azur (more than 4000 sqm leased). Later the property situation markedly improved after the new overpass from the Southern Bridge was commissioned, which led to both an increase of footfall (by 28 per cent yoy) and turnover (by 31 per cent yoy).

Future dynamics of vacancy rates will depend on the ability of less competitive shopping centres to attract new tenants and to implement additional services plus marketing campaigns that could increase footfall. Unless these extra-measures are brought to life, vacancy will decrease quite slowly, given cautious forecasts on growth of consumer disposable incomes.

RENT RATES

As already discussed above, Riga shopping centres can be divided into two distinct groups: successful centres with low vacancy levels and less successful centres with average vacancy levels higher than 9-12 per cent. As a result, diverse trends can be found in tenant demand for different properties reflected in levels of rental rates.

During 2011 rental rates stabilised in prime shopping centres, with a tendency for growth. Landlords of most popular shopping centres are reluctant to offer discounts on leases, as was the practice during 2009-2010, and are trying to slowly increase rental rates for both new and old tenants. However, the level of rental rates is still below the level reached during the boom years of 2006-2008.

On the other hand, requirements of landlords in less popular shopping centres are more flexible and lease agreements are advantageous for tenants. For instance, in some shopping centres, the rental rate is turnover based with a small or no base rent rate (usually this is equal to 7-10 per cent of turnover).

Future development of rental rates will depend on location of properties: while rates are expected to grow in prime properties for both medium and anchor tenants, rates in locations less in demand are expected to remain stable.

Rates for small tenants are expected to remain stable; main changes are expected in rent levels for medium size retail units and for anchor tenants.

Further increase in level of rent rates will depend on tenant performance linked to domestic demand growth and supply of new premises.

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STREET RETAIL

An upward trend was evident in rental rates for high street retail locations during 2011. The rising number of tourists and positive changes in the local economic situation brought demand for high street retail premises.

The highest growth in rental rates was seen for street retail premises located in Old Riga; rents in top locations there have increased by an estimated 20 per cent. Rental rates in the active city centre ranged from EUR 5 to 10 sqm/month in streets with less pedestrian traffic, from EUR 12 to 25 sqm/month for most of the central streets, and from EUR 30 to 60 sqm/month for prime locations in Riga centre.

As mentioned above, catering stores were very active during 2011, with e.g. fast-food cafes, pizzerias, luxury restaurants, and ice-cream stores opening new outlets and expanding existing chains.

INVESTMENT

The retail investment segment was one of the most active and in demand from the investor side. Colliers had a number of inquiries from potential investors for acquisition of cash flow generating retail properties anchored by reliable grocery tenants with a long term unbreakable lease agreement at market rent level. The yield level investors were ready to pay was from 8%. Unfortunately, few properties are available that match these criteria and most important deals were in the "buy-back" category when grocery chains acquire the premises or objects they were leasing. For instance, Rimi bought Valdemara Centrs property at Valdemara Street 112 and Maxima bought retail premises at Rītupes iela 2 and A.Deglava 160A.

TENDENCIES AND FORECASTS

- During 2011 retail trade turnover stabilized and started to grow, supported by recovery of domestic demand.
- Annual increase in retail sales at constant prices for the whole year was 7 per cent, but varied significantly for different commodity groups.
- In 2011 the most active players in retail market development in Riga were the grocery chains (such as Rimi, Maxima, Prisma, IKI etc.).
- There is a strong competition among grocery chains and they tend to attract customers and increase market share.
- Further development of retail objects in the near future will be largely affected by grocery chain expansion plans.
- Following stabilization of the economy and improvement in consumer purchasing power, demand for retail space from the tenant side has increased in most popular shopping centres.
- The overall shift towards less expensive brands from the customer side was notable during last two years.
- Some retailers that face falling or stable demand for their goods, such as books or grocery chains, remain very active and continue opening new stores, as they compete to attract new customers and increase market share.
- Catering businesses were very dynamic in 2011, in both street retail and shopping centres and this became a distinctive feature of the Riga retail market over the past year.
- A highly significant upcoming event in the Riga retail market has been announced: Swedish clothes brand H&M is entering the market. H&M stores will open in Galleria Centrs and Alfa shopping centre and will occupy 2150 and 2430 sqm of space respectively.
- Diverse trends were evident in vacancy dynamics in Riga shopping centres during 2010-2011. While the vacancy rate did not exceed the 1 per cent level for shopping centres most in demand, several properties faced considerable challenges.

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- Average vacancy for the whole market declined by approx 3 percentage points during 2011 and reached a level of 6.56 per cent.
- Future dynamics of vacancy rates will depend on the ability of less competitive shopping centres to attract new tenants and to implement additional services plus marketing campaigns that could increase footfall.
- Diverse trends can be found in tenant demand for different properties reflected in levels of rental rates.
- During 2011 rental rates stabilised in prime shopping centres, with a tendency for growth.
- Landlords of most popular shopping centres are reluctant to offer discounts on leases, as was the practice during 2009-2010, and are trying to slowly increase rental rates for both new and old tenants.
- Requirements of landlords in less popular shopping centres are more flexible and lease agreements are advantageous for tenants. For instance, in some shopping centres, the rental rate is turnover based with a small or no base rent rate (usually this is equal to 7-10 per cent of turnover).
- Future development of rental rates will depend on location of properties: while rates are expected to grow in prime properties for both medium and anchor tenants, rates in locations less in demand are expected to remain stable.
- Rates for small tenants are expected to remain stable; main changes are expected in rent levels for medium size retail units and for anchor tenants.
- Further increase in level of rent rates will depend on tenant performance linked to domestic demand growth and supply of new premises.
- An upward trend was evident in rental rates for high street retail locations during 2011. The rising number of tourists and positive changes in the local economic situation brought demand for high street retail premises.
- The highest growth in rental rates was seen for street retail premises located in Old Riga; rents in top locations there have increased by an estimated 20 per cent.
- The retail investment segment was one of the most active and in demand from the investor side. Colliers had a number of inquiries from potential investors for acquisition of cash flow generating retail properties anchored by reliable grocery tenants with a long term unbreakable lease agreement at market rent level.

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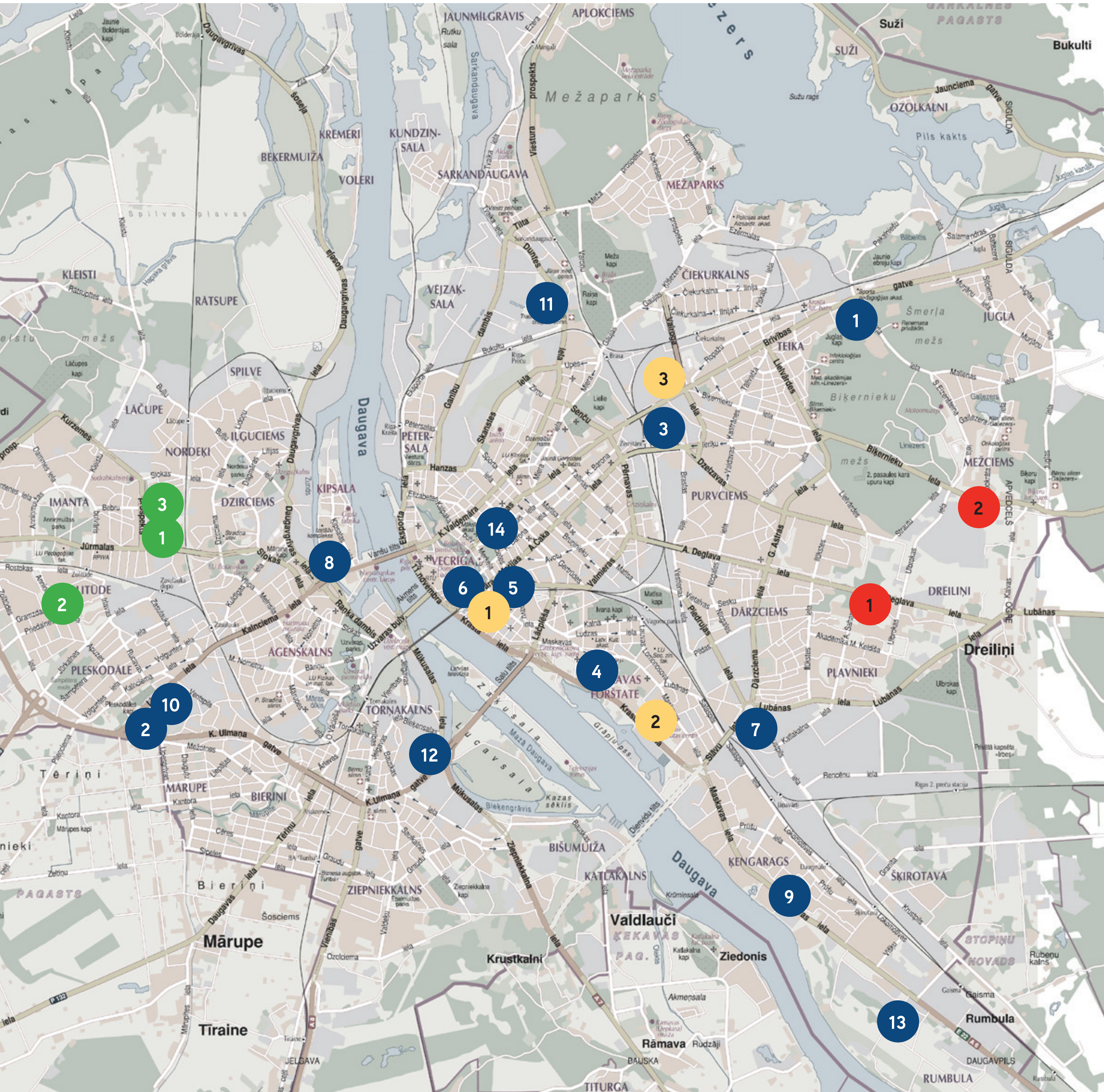

SHOPPING CENTRES IN RIGA

Existing Developments

1. Alfa
2. Spice
3. Domina Shopping
4. Mols
5. Origo
6. Galerija Centrs
7. Galerija Azur
8. Olimpia
9. Dole
10. Spice Home
11. Sky & More
12. Riga Plaza
13. Zoom
14. Galleria Riga

Completed in 2011

1. Rimi Shopping Centre DAMME
2. Shopping Centre of Homburg Group
3. Prisma Hypermarket

Existing Department Stores

1. Stockmann Riga
2. Mc2
3. Podium/Elkor

Declared for Completion in 2012

1. Prisma at A.Saharova street 30
2. Maxima XX at Bikernieku street 121

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Hotel Market

OVERVIEW

Almost all European countries observed growth in the number of international visitors in 2011 from a modest 3 per cent in the UK to a very noticeable ≈ 20 per cent in the Baltic States. Several reasons explain the sharp recovery of international tourism in the Baltic States that differ among Latvia, Lithuania and Estonia.

The main drivers of growth of international tourism in Estonia are tax policy changes and the opening of 10 new destinations by low-cost airline Ryanair to/from the Estonian capital. The transport infrastructure plays an important role for improving Latvian tourism as well. The national airline company AirBaltic that has been aggressively growing in recent years now connects Riga to 88 cities and airports in Europe. This strategy increased the number of Riga International Airport passengers in 2011 by 10 per cent compared to 2010 to a total of 5.1 million, setting a new record for Riga. Besides, Riga City council, the Riga Tourism Development Bureau, local tourism operators and the Latvian Hotels and Restaurants Association has put a major effort into attracting international tourists and promoting Latvia on a European scale. The noticeable increase of tourists in Lithuania during 2011 was mostly due to significant international events, such as International Hansa days and EuroBasket 2011.

Tourist volume in Latvian accommodation establishments in 2011 rose by 21 per cent compared to 2010 while the occupancy rate grew by 15 per cent on average. These positive trends brought hope and stabilization to Latvian hoteliers. However, Average Daily Room Rates in Riga are still among the lowest in Europe, making it one of the least expensive European capitals for travellers. The turnover of Latvia's biggest hotels increased by 7 per cent in 2010 compared to 2009. Though data on financial performance of hotels in Riga in 2011 will be available in May, annual growth of hotel turnover is expected to exceed 2010 levels. This is largely due to higher growth in visitor numbers in accommodation establishments.

2011 will stay in the history of the Latvian lodging industry as one of the most remarkable in terms of hotel investment. More than 65 million Euros were invested in acquisition of hotel properties in Riga, resort city Jurmala and seaside city Liepaja. These investments originate from Eastern parts, mostly from CIS countries. It is most likely that new international hotel brands and operators will be attracted to the properties acquired to improve their performance.

No new hotels were opened in Riga in 2011, so the supply has not changed.

All Baltic States joined the Hotelstars.eu union in 2011. Three three-star hotels and two four-star hotels received the Hotelstars.eu certificate in Latvia in 2011.

SUPPLY

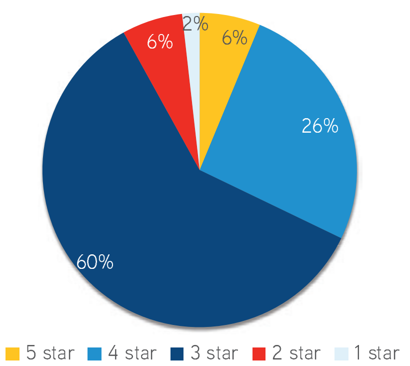
Hotel supply in Latvia did not change significantly during 2011 and will remain mostly unchanged during the forthcoming 2-3 years. As of January 2012, Latvia has 112 officially certified hotels with a total of 6,754 rooms (Jan 2011 – 110 hotels with a total of 6,712 rooms). However changes have occurred in distribution of stars: the number of five star hotels in Riga went down from 7 to 6 while the number of four-star hotels has increased from 16 to 20 and the number of three star hotels has dropped from 33 to 30. The 3-star hotel category is the most strongly represented hotel segment in Riga and comprises 60 per cent of the whole hotel market, whereas the leading position in Tallinn is taken by 4 star hotels.

No new hotels opened during 2011 except for the 3 star Karavella Hotel, re-launched in summer 2011 after renovation. The hotel now has fewer (76) rooms but more spacious plus improved conference and SPA facilities.

KEY INDICATORS OF HOTEL MARKET IN RIGA

Key Performance Indicators	2011	Change to previous years	Trends for 2012
Persons attended	943 671	21%	↑
Overnights	1 955 692	17%	↑
ADR	60	5%	↑
Occupancy	46	14%	↑
REVPAR	31	10%	↑

DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN LATVIA



Source: Latvian department of statistics

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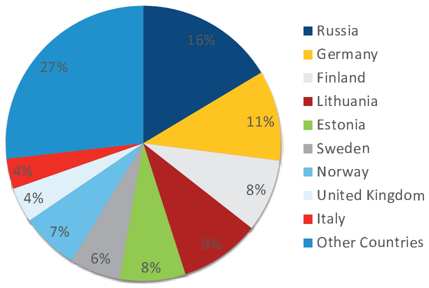
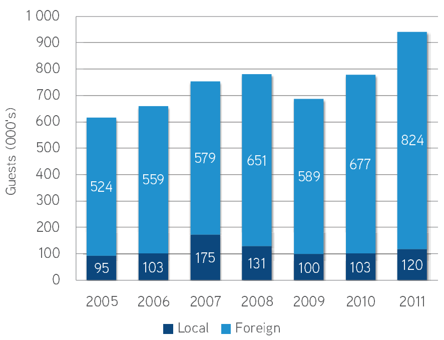
DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN ACCOMODATION ESTABLISHMENTS



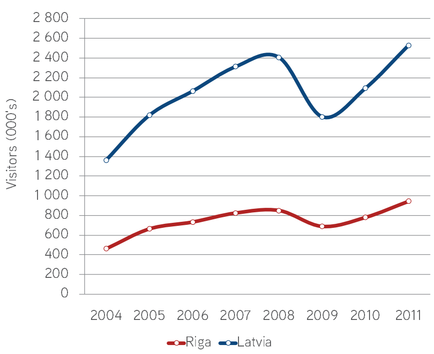
Source: Latvian department of statistics

DYNAMICS OF FOREIGN AND LOCAL GUESTS IN HOTELS IN RIGA



Source: Latvian department of statistics

DYNAMICS OF VISITORS IN ALL ACCOMODATION ESTABLISHMENTS



Source: Latvian department of statistics

In 1Q 2011 international hotel chain Wyndham Hotels Group signed an operational agreement with the owners of Europa City Riga three-star hotel. As a result of rebranding, the name of the hotel was changed to Days Hotel Riga VEF.

Riga tends to attract more business tourists, despite lack of supply of hotels that can provide conference and accommodation facilities for larger audiences (over one thousand participants). This significantly limits opportunities for hosting big conferences and congresses.

Supply of hotel rooms in the luxury segment is expected to increase by over 700 rooms in the next 3-5 years. The morally and physically outdated four-star Hotel Riga with 232 rooms changed ownership in 2011 and most likely will be converted into a five-star luxury hotel under a new international hotel operator. The Sheraton Hotel with approx 325 rooms will occupy one of the 30-storey towers in the Z-Towers development project, currently under construction with commissioning expected in January 2014. Another significant project in Riga, currently at the planning phase, is the Marriott Hotel with 200 rooms, to be located in Riga Old Town.

INVESTMENT

The hotel investment market was untypically active in Latvia during 2011. Total value of hotel investment amounted to over EUR 60 million, a record–setting achievement for this market segment. According to Colliers' knowledge, six hotel properties changed ownership during 2011, four of them in Riga and two hotels in the seaside city of Liepaja.

One of the most remarkable hotel transactions is the sale of the four-star Hotel Riga (232 rooms), acquired by an investor from Armenia. This out-of-date historic hotel located in a top prime location in Riga Old Town with remarkable views towards Riga Opera house desperately requires renovation and new life breathed into it. Reconversion of the property into a 5-star luxury hotel is the most obvious strategy for the new owner.

The 5 star Hotel De Rome was bought by Baltic Investment Group Ltd in 1HY2011 followed by a conflict situation between the new and previous hotel owner/operator Kolonna Ltd. The new hotel owners are planning to renovate and expand the existing hotel.

Quite noticeable investment activity took place in the seaside city of Liepaja. Two hotels in Liepaja, Promenada and Liva, were sold to local investors at insolvency auction.

DEMAND

2011 was another record year for Riga tourism with 1.9 million overnight stays; this represents an increase of 17 per cent yoy (2010: 1.665 m). According to the Central Statistical Bureau, the Latvian tourist market saw a 21 per cent increase in visitors staying in accommodation establishments during 2011 compared to 2010, a total of 1.58 million (1.312 million in 2010). A total of 943,000 visitors stayed in accommodation establishments in Riga in 2011 (780,000 in 2010) which also shows a 21 per cent increase. That is the highest figure for the last 10 years and indicates active development in Riga's lodging industry.

Foreigners make up the majority of hotel visitors, namely 67 per cent in Latvia and 87 per cent in Riga.

NUMBER OF RATED HOTELS AND ROOMS IN LATVIA AND RIGA

Stars	Latvia		Riga	
	Number of Hotels	Number of Rooms	Number of Hotels	Number of Rooms
5	7	300	6	258
4	29	3100	20	2772
3	65	2972	30	1584
2	6	237	2	117
1	2	45	2	45
Total certified	109	6654	60	4776
Non certified	111	2778	29	1192
Total	220	9432	89	5968

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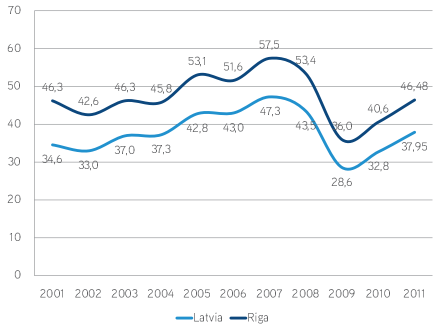
DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN ACCOMMODATION ESTABLISHMENTS



Source: Latvian department of statistics

PRICE RANGE FOR DOUBLE STANDARD HOTEL ROOMS IN RIGA

Number Of Stars	Average Room Rate, EUR	Maximum Room Rate During High season,
5	80 - 250	2 000
4	50 - 180	1 000
3	25- 150	500

The number of tourists from neighbouring Russia increased by 46 per cent in 2011 (65 per cent in 2010) reaching 16 per cent of the total tourist flow and thus making Russia the biggest tourist provider for Latvia for the second year in a row. This is due to improvement in the political relationship between the two countries and recent changes in the migration law, which now allows grant of a residence permit through investment. As a consequence of these legislative changes, foreign investors no longer need a visa when travelling to Latvia for business or private trips.

Traditionally Germany is the second biggest tourist provider with 11 per cent of total visitor flow, while Lithuania and Finland usually share third and fourth places with 9 per cent and 8 per cent respectively.

AVERAGE DAILY RATES

According to the annual survey conducted by City Costs Barometer, which compares costs for typical city break purchases including meals, drinks, accommodation, sightseeing and transport in European cities, in 2011 Riga became the least expensive European capital for tourism. Riga provides high quality service at the same time being very affordable. For example, in Riga the average price for three-star accommodation is EUR 61.98, compared with Prague and Budapest at EUR 79.87 and 77.50 respectively.

In Latvia hotel room prices strongly fluctuate depending on the season or significant international events. During the high season in summer prices in five-star hotels reached a maximum of EUR 2,000 EUR a night, caused by high demand from visitors to the New Wave international song contest.

OCCUPANCY

The average occupancy rate for Riga hotels increased by 14 per cent and amounted to 46.5 per cent in Riga 2011 and 37.6 per cent in Latvia. This is one of the lowest indicators in Europe, where the average occupancy rate is over 60 per cent. Nevertheless, hotel occupancy in Riga gained a further 14 per cent increase in 2011, a positive trend in evidence over the past two years.

London, Paris, Vienna, Berlin as the business and tourist centres of Europe enjoy hotel occupancy rates of 70 per cent and above throughout the year. London is the leader with a hotel occupancy rate of 83 per cent. At the end of the list stand the Baltic capitals, except Tallinn, which had an amazing year with an occupancy rate of 60 per cent.

The highest monthly room occupancy in Latvia was in August 2011 reaching 66.8 per cent. In some popular and well established hotels, the occupancy level is close to 95-100 per cent during the high season.

TENDENCIES AND FORECASTS

◊ No sharp increase in demand for accommodation services is expected in 2012 due to consumer confidence decline across Europe, as people are becoming more cautious about expenses and travel, though a positive trend is expected to continue in 2012.

◊ Average occupancy rate and other key indicators (ADR & RevPar) are expected to stay stable or go up slightly during 2012.

◊ The next noticeable wave of increase in the number of visitors is expected in 2014, when Riga will be European Capital of Culture.

◊ New international hotel brands will enter the Riga hotel market during the next couple of years as exiting hotel owners will see the advantages of joining international hotel networks.

◊ Supply of rooms in the luxury hotel segment is anticipated to increase by 700 rooms in the next 3-5 years.

◊ The hotel investment market will continue to be active, as interest from potential hotel investors remains high.

◊ No new significant hotel projects will be coming to the market in 2012. The next biggest addition to hotel supply is expected in 2014 when the Sheraton Hotel will be commissioned.

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Legal Overview

TITLE TO REAL ESTATE, LAND BOOK

Title to real estate is formally created upon registration with the Land Book. Before registration the transaction remains valid between the parties but is not binding on third parties and the buyer cannot exercise ownership rights or other property rights to the real estate.

Registration of title is carried out on the basis of an application signed by both seller and buyer in the presence of a notary. Payment of stamp and state duty on registration of title is also required. In addition to the registration application, the original purchase agreement and documents evidencing payment of state and stamp duties, other documents may have to be filed with the Land Book (eg, statement confirming payment of real estate tax, written consent of the seller's spouse approved by a notary). Registration of title generally takes ten days as of filing all the necessary documents with the Land Book.

All the information registered with the Land Book, including information on the legal status of the real estate and its encumbrances is binding on third parties and is publicly available (including via the electronic Land Book database) for a fee.

ACQUISITION OF REAL ESTATE

General

A building erected on land is considered to be a part of the land. However, as a result of land reform, situations occur where a land plot and a building situated on it are in different ownership.

Generally, transfer of title to a building or land separately from each other is not possible unless the land plot and the building are registered with the Land Book as separate property objects.

Change of Ownership

Transfer of title to real estate may be restricted by a number of factors, including restrictions on foreign ownership of land, rights of first refusal as well as encumbrances registered with the Land Book, eg, mortgages and prohibition notes. Moreover, before the title can be transferred, any real estate tax debt with regard to a particular real property needs to be paid, as well as real estate tax for the current year.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.

When considering a share transfer of a company holding target real estate the following should inter alia be taken into account:

◊ the buyer is considered to be the seller's legal successor, so that registration of the buyer's title to real estate (and payment of related expenses) is not required;

◊ ownership of shares is transferred to the buyer at the time of signing the agreement or on registration with the Registry of Enterprises, depending on the agreement. Registration of ownership of shares usually takes a few days;

◊ upon completion of share transfer, the buyer assumes responsibility for the whole company, including any matters that occurred before change of ownership;

◊ due diligence investigations are more extensive than in asset transfer as the entire company (with all its rights and liabilities irrespective of whether they were known to the buyer at the time of concluding the agreement) is transferred, as opposed to transfer of the target real estate only;

◊ applicability of financial assistance rules;

◊ deferred tax issues.

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Asset transfer involves the following main advantages and drawbacks:

◊ registration of title and thus payment of notary fees as well as state and stamp duty is required;

◊ limited scope of due diligence investigation is required since the review concerns the target asset only;

◊ agreements on supply of utilities and other services concluded by the seller must be assigned to the buyer or new agreements must be signed with utility and service providers;

◊ an asset transaction may in some cases be treated as sale of the entire company, in which case all obligations associated with the company may be transferred from the seller to the buyer.

FORM OF AGREEMENTS

Written form is required for transactions with real estate, as well as registration with the Land Book. Notarisation of the purchase agreement is not compulsory, while notarisation is required for registration applications to the Land Book.

LANGUAGE REQUIREMENTS

There is no specific requirement to use only the official state language (Latvian) in agreements on real estate. Parties to the agreement may choose the language of the agreement themselves. However, if the original language or the prevailing language of the agreement is not Latvian, a translation of the agreement approved by a notary and an original counterpart of the agreement must be filed with the Land Book for registration of the transaction. Registration applications to the Land Book are always drafted by a notary in Latvian and if necessary orally translated by the notary or another person to the person signing the application.

DUE DILIGENCE

Before carrying out any real estate transaction, it is advisable to research the legal status of the real estate, eg, information on the title holder, encumbrances, lease agreements, pollution and permitted use as set by the local authority. The results of research may be useful for settling the final purchase price that better reflects its value and for more accurate assessment of potential expenses that the buyer is likely to incur on acquisition.

RIGHTS OF FIRST REFUSAL

Before title to real estate may be transferred, all persons with a right of first refusal to purchase the particular real estate must be offered an opportunity to exercise their right. Only after all these persons have declined to exercise this right in writing or the term for using these rights has expired may the purchase agreement and the buyer's title be registered with the Land Book.

Certain entities' rights of first refusal are established by law. However, these rights may also be agreed on by the parties to the particular transaction. A local authority has right of first refusal in respect of acquisition of real estate (land and buildings) located in its territory if the real estate is necessary for performance by the local authority of its statutory functions, eg, operation of schools, kindergartens, certain types of social housing.

The state has a right of first refusal upon sale of cultural monuments of state importance, land plots in protection zones as well as in ports and special economic zones.

Rights of first refusal also exist in favour of co-owners of real estate if any of them transfers their notional part of the real estate to a person who is not a co-owner of the real estate. Additionally, where land and buildings (except buildings which have been divided into apartment properties) constructed on it are in different ownership, the owner of each property has a right of first refusal over the other owner's property if it is sold to a third party.

Rights of first refusal may generally be exercised within two months after the purchase agreement is delivered to persons with such rights. Depending on whether the real estate is or is not necessary for performance by the local authority of its statutory functions, the term for local government is 20 days or five days respectively.

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TYPICAL PURCHASE PRICE ARRANGEMENTS

In complex and long-term projects, part of the purchase price (up to 5-10%) might be paid by the buyer to the seller as an advance payment on signing the purchase agreement. Normally, the parties agree to use an escrow account with a bank for payment of the remaining purchase price, in which event an escrow account agreement is signed by the seller, the buyer and the bank. From conclusion of the purchase agreement and until registration of the buyer's title to the real estate none of the parties has access to the funds transferred to the escrow account. Generally, the parties agree on a list of documents that need to be submitted to the bank and/or actions that need to be performed by the seller as preconditions to the purchase price being transferred from the escrow account to the seller. A Land Book certificate evidencing the buyer's title to the real estate is usually the main document in the list.

RELATED COSTS

Sharing of costs related to the transaction is a matter for agreement between the parties. Usually, the buyer pays state and stamp duties, whilst notary fees are shared equally between the parties.

State duty for registration of title to real estate amounts to 2% of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. Nevertheless, state duty may not exceed LVL 30,000 (approx EUR 42,700). Stamp duty for registration of title and issue of a Land Book certificate is LVL 15 (approx EUR 21). Notary fees for drafting the registration application to the Land Book and approving the parties' signatures generally amount to LVL 65 (approx EUR 92).

RESTRICTIONS

Restrictions on Acquisition of Real Estate

Certain restrictions exist as to foreign ownership of land, while there are no such restrictions regarding ownership of buildings. However, since a building erected on land is generally considered to be a part of the land, in most cases ownership of buildings is subject to the same regulations (restrictions) as is the land. Few restrictions apply as to foreign ownership of land located in cities in Latvia, while the regulations are more stringent with regard to the ownership of land in rural areas.

Companies registered in Latvia or in another European Union (EU) Member State may acquire land in cities of Latvia, provided that:

◊ more than 50% of the company's share capital is owned by citizens of Latvia and/or citizens of another EU Member State, and/or Latvian state or local government; or

◊ more than 50% of the company's share capital is owned by individuals and/or legal entities from countries with whom Latvia has concluded an agreement on mutual protection of investments (Latvia has signed such agreements with most EU countries, Canada and the USA); or

◊ the company is a publicly traded joint stock company on the Latvian stock exchange.

Other companies may request a permit from local government to acquire particular real estate, which may or may not be granted. However, these companies are not entitled to acquire land in certain specific areas, eg, state border territories, special protection zones, agricultural and forest land pursuant to local territorial planning.

An additional requirement applicable to companies wishing to acquire land in rural areas is that companies registered in an EU Member State other than Latvia may not acquire agricultural or forest land. However, as of 1 May 2014 (expiry of the transitional period), companies registered in any EU Member State will be entitled to acquire land in the above mentioned areas on the same conditions as companies registered in Latvia.

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Merger Control

Real estate transfer may be subject to prior approval by the Latvian Competition Authority (LCA) if it constitutes part of a company merger. The merger may take the form of either a share transfer or an asset transfer and must be notified for approval to the LCA if at least one of the following criteria is satisfied:

- aggregate turnover of the companies involved in the transaction exceeds LVL 25 million (approx EUR 35.6 million) for the financial year preceding the merger; or
- joint market share of the companies exceeds 40% of the relevant market.

However, notification of a merger to the LCA is not necessary if there are only two parties (the seller and the buyer) to the transaction and the turnover of at least one of them does not exceed LVL 1.5 million (approx EUR 2.13 million).

If real estate is being acquired or leased as part of a grocery chain or a retail company, additional considerations should be taken into account.

ENCUMBRANCES

Real estate might be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Book, mortgages, protection zones and other encumbrances that should be taken into account when contemplating acquisition or lease of the real estate, in particular with respect to constructions on it.

MORTGAGE

Purchase of real estate is often financed by banks, which require security in the form of a mortgage in return for the bank loan. As any other encumbrance on the real estate, a mortgage agreement must be registered with the Land Book. State duty for registration amounts to 0.1% of the amount of the loan but may not exceed LVL 1,000 (approx EUR 1,423). The amount of stamp duty and notary fees is the same as for title registration.

PROPERTY MANAGEMENT

Maintenance of both commercial and residential real estate is usually carried out by the owner or by an entity contracted by the owner.

LEASE AGREEMENTS

General

Latvian Civil Law lays down the general terms for lease agreements. In residential law, the Law on Residential Tenancy grants extra protection to tenants in comparison with general Civil Law regulation. The reason for this difference is that the tenant is considered to be the weaker party to a residential lease agreement.

In order for a commercial lease agreement concluded by the seller of real estate with a tenant to be binding on the buyer, it needs to be registered with the Land Book. Without registration, the buyer may terminate the lease agreement, in which case the seller must compensate the tenant for all losses caused to the tenant by early termination. Residential lease agreements, in turn, are binding on the buyer, irrespective of registration with the Land Book.

Duration and Expiry of Lease Agreement

Lease agreements may be concluded for a definite or indefinite term. General rules on termination of lease agreements are laid down by law, while additional rights of each party to unilaterally terminate the agreement may be specifically agreed on by the parties. However, the landlord's rights to unilaterally terminate a residential lease agreement are limited to cases specifically provided for under the Law on Residential Tenancy.

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Lease Payment and Accessory Expenses (Utilities)

Pre-payment of lease payments (as a deposit or a guarantee) is usually required by the landlord. These deposits and guarantees as well as the payment procedure are not specifically regulated by law.

In addition to rent, accessory expenses are usually paid by the tenant. Accessory expenses include payments for maintenance of the real estate and utilities provided such as water, gas and electricity.

DISTRESSED ASSETS PURCHASE

Acquisition of distressed real estate can be performed on the basis of a voluntary agreement between the parties, in a procedure for compulsory enforcement or during insolvency proceedings of the owner of the real estate. In any case acquisition of distressed real estate is more complex. Therefore a thorough due diligence should be performed. The risk of the seller becoming insolvent has to be taken into account when planning distressed purchases, since a transaction made on conditions detrimental to the seller may be revoked during subsequent insolvency proceedings. This risk is at its highest during the first six months prior to beginning of insolvency proceedings. Therefore making any purchase price pre-payments to a potentially insolvent seller is not advisable and the transaction should be concluded on market terms.

Compulsory enforcement procedure is carried out by bailiffs and is executed through auction under the procedure set by the Civil Procedure Law. Sale of real estate during insolvency proceedings is also usually performed by auction and is regulated by the Insolvency Law and Civil Procedure Law.

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Tax Summary

RENTAL INCOME

Latvian corporate income tax, a flat 15% rate, applies to worldwide income, including rental income, earned by a taxable corporation or Latvian permanent establishment. Taxable income is based on annual financial profit or loss adjusted for taxation purposes. Individuals who earn rental income are subject to 25% personal income tax on their rental profit. However, individuals who have no or immaterial expenses can pay 10% on the gross rental income.

DEPRECIATION

For taxation purposes, land is not depreciable. Buildings and constructions are depreciated at a specified taxation rate of 10% using the reducing balance method.

THIN CAPITALISATION

Latvian law has thin capitalisation rules that can reduce the amount of tax-deductible interest. Two calculations are performed, with the highest amount of excess interest being non-deductible. The first calculation is based on a 4:1 debt-to-equity calculation while the second compares the interest rate paid with a rate of 1.2 times the statistical average of short-term loans by Latvian banks in the last month of the taxation period. Non-deductible interest cannot be carried forward and is lost as a deduction.

TAXATION LOSSES

Taxation losses which arose prior to and including 2007 tax year can be used for the following eight years. Tax losses arising in the 2008 and later tax years now have no limit as to when they can be used. Taxpayers registered in Special Economic Zones or Free Ports with losses that arose before 2005 may carry them forward for up to ten years, and losses that arose after 2005 may be carried forward indefinitely. Losses can be transferred between qualifying Group companies.

WITHHOLDING TAX

Latvia imposes withholding taxes on certain payments to non-residents, as follows:

- dividends (0% – mostly to qualifying EU-EEA and Latvian residents; in other cases – 10%); from 1 January 2013, all outgoing and incoming dividends will be exempt from Latvian tax unless associated with “Black list“ jurisdictions;
- interest (0% – on payments to unrelated parties; 10% – on payments to related parties; 5% – on payments to related EU residents (up to 30 June 2013, thereafter – 0%); from 1 January 2014, there will be no withholding tax on any outgoing interest payments unless paid to “Black list“ jurisdictions);
- management and consulting fees (10%, can be reduced to 0% under a tax treaty);
- royalties (15% on literature or art; 5% in other cases; from 1 January 2014, there will be no withholding tax on any outgoing royalty payments unless paid to “Black list“ jurisdictions);
- use of property located in Latvia (5%);
- total sale price of real estate located in Latvia or shares in “real estate companies” (2%);
- most payments to “Black list” jurisdictions (15%), though the tax authorities may grant relief;
- % for all payments to Lithuania.

A real estate company is a company more than 50% of whose assets comprise real estate directly or indirectly owned within Latvia. Latvia’s Double Taxation Treaties can reduce or eliminate payment of these withholding taxes, including that of 2% tax on transfer of shares in a “real estate company”.

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CAPITAL GAINS

Individual income tax and corporate income tax on capital gains applies to individual taxpayers and corporate taxpayers respectively, both being subject to a 15% rate. From 1 January 2013, there will be no corporate income tax on capital gains from sale of shares held by a Latvian company, unless held in a "Black list" jurisdiction.

PROPERTY TAX

Property tax is payable by corporate owners or entities having legal ownership or control over the use of Latvian real estate. Individuals, who were previously only liable for real estate tax on land, from 1 January 2010 commenced paying real estate tax on their residential homes and apartments.

Real estate tax applies at a rate of 1.5% of the real estate's cadastral value. A 1.5% rate is applicable to engineering structures and a 1.5% rate is also applied to uncultivated land usable for agriculture. Subject to municipal regulations, derelict or unsafe buildings may be subject to a 3% tax.

From 1 January 2013, local municipalities will be able to impose property tax ranging from 0.2% to 3% in accordance with regulations that must be issued by the municipality no later than 1 October of the prior tax year. If this is not done the rates of tax will remain as they are currently in the law.

Individual property owners pay the following progressive rates on their residential homes and apartments. A LVL 5 (approx EUR 7) minimum is payable for each registered piece of real estate.

- 0.2% – for cadastral value not exceeding LVL 40,000 (approx EUR 56,900);
- 0.4% – for cadastral value from LVL 40,000 to LVL 75,000 (approx EUR 106,700);
- 0.6% – for cadastral value exceeding LVL 75,000.

Local municipalities have power to grant taxation reductions to specific categories of individuals.

VALUE ADDED TAX

Sale of land is VAT-exempt, as is the sale of real estate in use. However, sale of unused real estate (buildings and constructions) and development land (land granted a building permit) is subject to VAT of 22%. The combined sale of unused real estate and all or part of the underlying land cannot be separated for VAT. Acquisition of real estate that has been subject to VAT should be registered with the taxation authorities and over the next ten years deducted input VAT corrections are made, if there are changes to the original percentage of taxable use of the property. Rental of residential premises to individuals is VAT-exempt, whereas rental payments for commercial property are subject to 22% VAT.

TRANSFER STAMP DUTY

A stamp duty of 2% normally applies to the sale price on transfer of title to real estate. Duty is capped at LVL 30,000 (approx EUR 42,700). The duty does not apply to mergers and other restructurings. A 1% duty applies to investments in kind of real estate in the share capital of a company; the duty is capped at LVL 1,000 (approx EUR 1,400). The duty for registering a mortgage is 0.1% of the loan amount and is capped at LVL 1,000.

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