

## Report of the Real Estate Fund for the 2<sup>nd</sup> half of the year 2005

### Base Data

Fund:	Closed-end Investment Fund "Real Estate Fund"
ISIN Code of the Fund:	LV 0000400075
Establishment of the Fund:	2002
NAV Establishment:	1 USD
Return Expectation, (IRR)	10%
Maturity Term:	31.12.2009
Custodian:	SEB Latvijas Unibanka
Number of Expert Commission Members:	6
Listed on:	Riga Stock Exchange
Frequency of Preparing Management Reports:	Semi-annual
Fund Assets (as of 31.12.2005)	2 753 274,37 USD
NAV (as of 31.12.2005)	1,21338 USD

### Goals & Policy

The aim of the Fund is to secure long-term capital growth with a 10% return, by investing in real estate in Latvia, as well as in other Baltic states and thereby taking advantage of real estate appreciation within these states. The Fund may invest in the following:

- property which provides immediate or mid term (up to 3 years) forecasted cash flow;
- property which, when being developed, can significantly increase in market value.
- property, which in the mid term (3-5 years) has growth potential.

In addition to real estate investment free cash can be invested in other financial instruments.

### Performance

	Performance (annualized) as of 31.12.2005
6 months	24.77%
12 months	13.37%
Since 15.07.2004	12.81%

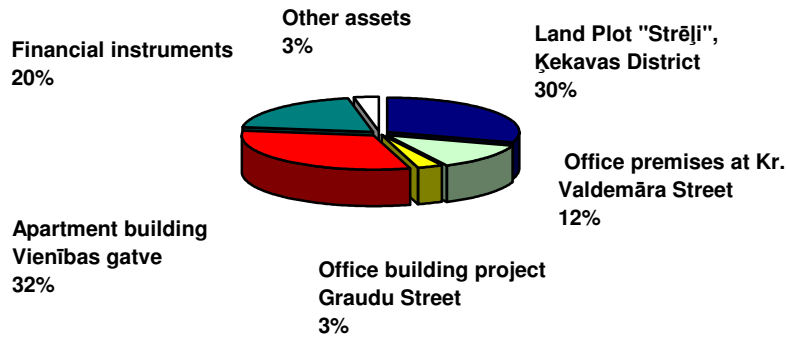
### Fees

Management fee:	1.50%
Custody fee:	0.27%
Front-end load:	Up to 4.5%
Performance fee:	10% of the return above 10%

### Largest Investments

	Investments	Market value (USD) as of 31.12.2005
 <p>Apartment house at Vienības gatve</p>	Apartment building project, Rīga, Vienības gatve	877 422, 90
	Land Plot "Strēļi", Ķekavas District	829 679, 60
	Office premises at 100 Kr. Valdemāra Street, Rīga	337 268, 13
	Office building project at 49 Graudu Street, Rīga	84 212, 88
	Financial instruments	543 485, 98
	Other assets	81 204, 89

## Structure of Investments as of 31.12.2005



## Manager's Report

### Fund Results in the 2<sup>nd</sup> half of 2005

In the 2<sup>nd</sup> half of 2005, tight cooperation was established with one of the leading and most professional real estate development companies in Latvia - LLC "Pilsētāju Institūts Urban Art". In cooperation with this company, the Fund has invested into two projects:

- Apartment building "Dienvidu Pakavs" at Vienības Gatve, Riga. Nine apartments of various sizes were purchased in the first stage building.
- "Ziedlejas" land plot in Riga, at Zaļenieku Street, between Valdeķu, Graudu and Irbenes Streets. At the end of 2005, a purchase agreement was reached about acquiring a land plot next to the future development project planned by LLC "Pilsētāju Institūts Urban Art". Growth of this property's value during the following year is forecast as at least 20%. (This transaction does not appear in the Fund's portfolio in this report, as it was not finally concluded by 31.12.2005.)

At the end of 2005, the sale of office at 100 Kr. Valdemāra Street was concluded. (This transaction does not appear in the Fund's portfolio in this report, as it was not finally concluded by 31.12.2005.)

Since reorganization (15.07.2004), the Fund has exceeded its projected goals by reaching a 12.81 % return.

### Investment Environment Forecast for 2006

In 2005 fast growth was observed in the residential market. In the apartment segment, price for 1 m<sup>2</sup> area in the second-hand market reached a critical level, approaching prices of new building. During 2006, about 15,000 m<sup>2</sup> of new apartments are planned to be built. With increasing competition, the quality and conception of a project will have a decisive significance. The growth of apartment prices in 2006 is forecast to vary between 5 and 15%.

In 2005 fast growth was also observed in the office market. In spite of the fact that in 2005 in total 10 new office buildings with a total area of 35,545 m<sup>2</sup> were built, the proportion of free space continues to decline: A class in December reaching 5%, B class - 6%. Non-leased offices often have insufficient parking, inappropriate planning or some other deficiency. It is known that during 2006 more new offices will become available. It is forecast a shortage of new and reconstructed office premises both in the city active center and in its vicinity will continue. The main factors in this segment are the location and design.

### Management Strategy for 2006

In 2006 the size of Fund investment in apartment projects is going to be reduced. The Fund will focus on development of commercial buildings – modern office premises, logistics centers or business parks and warehouses. Only a small part of the Fund will be invested in speculative projects.

Allocation for the next two years:

- 50% in development of commercial objects,
- 20% in development of residential projects,
- 20% in positive cash flow projects, i.e. "C" and "B" class offices for lease,
- 10% investment in property the value of which is expected to rise over the coming years.

Planned activities with current projects shall be:

- Land plot "Strēļi": In spite of the fact that its property value has doubled since purchase there are no plans to sell it but to develop a commercial building on this property. At present, there are several possible uses for this property under consideration.
- Project of developing the office building at Graudu Street: Development of this project has been a little delayed due to the postponement of the adoption of the City of Riga Development Plan. Work on this project is ongoing.
- Apartment building at Vienības Gatve: This project is developing as planned. Contracts have been signed for 4 of the 9 apartments owned by the Fund. According to forecasts, by spring 2006 contracts shall be signed also on sales of the remaining apartments, but the total amount of investment and the planned profit shall be received when the building is put into operation in summer 2006, or autumn at the latest.
- Land plot at Zaļenieku Street: This plot of land should be sold within a year.

**Investment certificates of the Real Estate Fund can be purchased at branches of *SEB Latvijas Unibanka*.**

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This report is only an informative material and is not drawn as recommendation for adopting specific decisions on real estate transactions.